

**Yoobin Liang**

901 South 15<sup>th</sup> Street

Arlington, VA 22202

November 26, 2013

Public Accounting Oversight Board

**RE: PCAOB Rulemaking Docket Matter No. 034; Proposed Rule Under Release**

**No. 2013-005; Release Date August 13, 2013**

***Comments Related to Critical Audit Matters (Paragraphs 7 – 14 of the Proposed Auditor Reporting Standard)***

Members of the Board:

I am a member of the financial community and potential investor and am writing to comment on the recent proposal by PCAOB that requires auditors to discuss “Critical Audit Matters” (“CAM”) in the auditor’s report. I strongly support this meaningful and implementable change to enhance the usefulness of the Auditor’s report to the investors and external financial statement users given the reasons below:

**1. Alignment with the fundamental purpose of Auditors’ report**

The proposed auditor reporting CAM aligns with the fundamental purpose of Auditors’ report, which is to provide financial statement users an assurance that will help them

make decisions based on the results of the audit, and ultimately protect the interests of investors and further the public interest.

Auditor's report has been the primary means by which the auditor communicates with investors and other financial statement users information regarding his or her audit of the financial statements. By reporting CAM in the Auditors' report, investors and other financial statement users will potentially obtain valuable information that they have expressed interest in receiving but have not had access to in the past. As businesses become more and more complex and fast changing, auditors' report are getting more and more challenging for investors and external users to understand. Many of the statements, descriptions, calculations on the financial statements are based on management's subjective assumptions, which are highly susceptible to the rapid changing technology and economic environment today. Auditors who gain knowledge about the company's financial statements during the audit that is not known to the public can create added value to investors by sharing the CAM. As PCAOB indicated, "requiring auditors to communicate critical audit matters could help investors and other financial statement users focus on aspects of the company's financial statements that the auditor also found to be challenging. Ultimately, communicating CAM would improve the relevance of the auditor's report by providing more insight about the most significant matters that the auditor addressed in the audit and providing investors with previously unknown information about the audit that could enable them to analyze more closely any related financial statement accounts and disclosures. Reducing the level of information asymmetry between company management and investors could result in more efficient capital allocation and, as academic research has shown, could lower the average cost of capital.

## **2. Enhancing, or at least maintaining audit quality**

First of all, the Board's proposed auditor reporting standard would still retain the pass/fail model, including the basic elements of the current auditor's report, and would provide more information to investors and other financial statement users regarding the audit and the auditor. The proposal is not intended to create more tasks, obscure

auditors' work or expand the expectation gap, but rather to require that the auditor's communication would focus on those matters the auditor addressed during the audit of the financial statements that involved the most difficult, subjective, or complex auditor judgments or posed the most difficulty to the auditor in obtaining sufficient appropriate audit evidence or forming an opinion on the financial statements. If the auditor determines that there are no CAM, the auditor would state in the auditor's report that the auditor determined that there are no such matters to communicate.

Many people argue that reporting the CAM will have potential cost related implications to the auditor's report. While this may be true, the reporting standard could be scalable based on the size, nature, and complexity of the audit of the company. Moreover, the auditor's communication of CAM is actually based on information known to the auditor and procedures that the auditor has already performed as part of the audit. Thus, it does not modify the objective of the audit of the financial statements or impose new audit performance requirements, other than the determination, communication, and documentation of CAM. Nonetheless, PCAOB is still aware of the potential cost implications and unintended consequences. I believe any of these consequences could be addressed through field testing and future adjustments.

### **3. Strengthening auditors' responsibility and independence**

Reporting CAM would not alter the original source of disclosure about an entity or compromise auditors' independence. Auditors will maintain their current role from attesting on information prepared by management. Rather, the auditor would be communicating information about the audit, based on audit procedures the auditor performed. Moreover, the proposed reporting standard adds new elements that provide more information about the audit and the auditor, such as information regarding auditor tenure and the auditor's responsibilities regarding other information outside the audited financial statements, which will protect auditors' independence.

### **4. Implementable scope and standards**

The proposed reporting of CAM is highly implementable thanks to the clear scope and standard set by PCAOB. Firstly, the reporting is very specific to each audit. By PCAOB's guideline, critical audit matters are those matters addressed during the audit that (1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements. In addition, PCAOB also provide several sources for auditors to determine CAM, including those documented in the engagement completion document, reviewed by the engagement quality reviewer or communicated to the audit committee. These sources provide a cost-effective and efficient means for auditors to determine CAM.

**In conclusion**, I strongly support this meaningful and implementable change to the auditor's report, although it may require the auditors to provide original information about a company and could be perceived as providing a piecemeal opinion rather than in the context of the financial statements taken as a whole. Because this proposal is highly significant, I believe that robust field testing will be required. Such an effort would help identify unintended consequences, ambiguities or inconsistencies in application and improve the quality of any final standard.

\*\*\*\*\*

I appreciate the opportunity to share my viewpoint on the Proposed Standard, and I thank you for your time.

Sincerely,

Yoobin Liang