



August 18, 2017

Chair Jay Clayton  
Commissioners  
c/o Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

*Re: File Number PCAOB-2017-01, Release No. 34-81187*

*Proposed Rules on The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards*

On behalf of more than 400,000 members and supporters of Public Citizen, we support the proposal of the Public Company Accounting Oversight Board (PCAOB) to expand the auditor's report to include a discussion of critical audit matters.

Currently, the auditor's report is a simple pass/fail statement covering volumes of financial information provided by management and analyzed by the auditor. The auditor is paid for by shareholders and serves shareholders. Shareholders deserve more.

Accounting scandals at Enron, WorldCom, Adelphia, Tyco, and other major U.S. companies demonstrated the need for better policing of auditors and more robust auditing of companies. The financial crash of 2008, where institutions such as AIG, Lehman Brothers, Bear Stearns, Citigroup, and Washington Mutual all received clean opinions from their auditors despite reports they were on the verge of collapse, reemphasized the need for improved audits. More recently, the multiple allegations of fraud surrounding operations of Wells Fargo beg for more muscular oversight by independent agents charged with inspecting the reporting of publicly traded companies.

This proposal by the PCAOB represents a modest step to address some of these concerns.

This proposal establishes a standard whereby auditors must communicate in the audit report any "critical audit matters" arising from the current period's audit (or state that the auditor determined that there are no critical audit matters.) A critical audit matter is one that was required to be communicated to the audit committee and is both material and involved "challenging, subjective, or complex" issues. As PCAOB member Steven Harris explained, "We anticipate that critical audit matters will likely cover areas that have historically been of particular interest to investors,

such as significant management estimates and judgments, significant unusual transactions, and other areas that pose high financial statement and audit risk.”<sup>1</sup>

Shareholders will benefit from this expanded discussion. The proposal itself grew from work by the PCAOB Investor Advisory Group (IAG), which noted that current audit reports rarely communicate important information to the public. This has not always been the case. In fact, audit reports from the early 1900s included extensive discussion for investors.<sup>2</sup>

This new PCAOB proposal has already been proven workable in other developed markets. Audit firms in the United Kingdom have provided expanded information in their audit reports since 2013 as have audit firms in many other countries.<sup>3</sup>

Auditors themselves have welcomed the improvement. William Touche, senior audit partner of Deloitte's London audit practice, views the new discussion "as an opportunity to inform shareholders about important work we do on their behalf."<sup>4</sup>

The U.S. Chamber of Commerce opposes the proposal. It contends that the PCAOB has not established the need for this advancement.<sup>5</sup> We find this objection baseless given the many problems that have emerged at companies that more thorough audit communication to investors might have highlighted. The Chamber also contends that the disclosure contributes to “overload.” We find this specious. By nature, this expanded disclosure is likely to be one of the better-read portions of an annual report.

Public Citizen believes that though this PCAOB proposal is a great improvement to the status quo, it could be made stronger by requiring auditors to report more than what’s contained in the current proposal—simply communicating that these critical matters exist. For example, the auditor should explain the outcome of its investigation into these critical audit matters.

In conclusion, we applaud the PCAOB for its effort, and enthusiastically recommend that the Commission adopt it as a rule. For questions, please contact Bartlett Naylor at

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Sincerely,

Public Citizen

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<sup>1</sup> Statement, PCAOB Board Member Steven Harris, PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (June 1, 2017) <https://pcaobus.org/News/Speech/Pages/Harris-statement-auditors-report-standard-adoption-6-1-17.aspx>

<sup>2</sup> Improving the Auditor’s Report, Investor Advisor Group, PCAOB, (website viewed August 17, 2017) [https://pcaobus.org/News/Events/Documents/03162011\\_IAGMeeting/Role\\_Of\\_The\\_Auditor.pdf](https://pcaobus.org/News/Events/Documents/03162011_IAGMeeting/Role_Of_The_Auditor.pdf)

<sup>3</sup> Reforming EU audit services, EUROPEAN PARLIAMENT (April 3, 2014) <http://www.europarl.europa.eu/news/en/press-room/20140331IPR41179/reforming-eu-audit-services-to-restore-investors-confidence>

<sup>4</sup> Letter to PCAOB, William Touche, DELOITTE LLP (March 26, 2014) [https://pcaobus.org/Rulemaking/Docket034/ps\\_Touche.pdf](https://pcaobus.org/Rulemaking/Docket034/ps_Touche.pdf)

<sup>5</sup> Letter to SEC, from Center for Capital Markets, U.S CHAMBER OF COMMERCE, (August 11, 2017) <https://www.sec.gov/comments/pcaob-2017-01/pcaob201701-2214850-160612.pdf>