Career Education Corporation™

August 11, 2016

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 34; PCAOB Release No. 2016-03; Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards

Dear Office of the Secretary:

Career Education ("CEC") is a for-profit provider of higher education. CEC's academic institutions offer a quality education to a diverse student population in a variety of disciplines through online, campus-based and hybrid learning programs. Career Education is committed to providing quality education that closes the gap between learners who seek to advance their careers and employers needing a qualified workforce. We appreciate the opportunity to provide comments on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* ("Proposal").

We support efforts to improve audit quality that will enhance investor confidence in and understanding of the audit process. We recognize and commend the Board's outreach to various stakeholders in order to receive feedback on the Proposal. However, we believe some of the types of changes outlined in the Proposal, in their current form, will have significant costs and negative unintended consequences which will far outweigh any potential benefits perceived.

Critical Audit Matters ("CAMs"):

We support retaining the existing pass/fail model of auditor reporting. Currently, the roles of auditors and management are clearly defined with management responsible for financial statement disclosures and auditors responsible for verifying management's disclosures and providing an opinion on those disclosures. We believe maintaining the current principle of all financial reporting disclosures stemming from management to be appropriate. Some specific concerns related to the Proposal are addressed in the following paragraphs.

Evaluation of CAMs

While the current Proposal has narrowed the scope of a CAM to 1) any matter that is communicated or required to be communicated to the audit committee, 2) relates to accounts or disclosures that are material to the financial statements and 3) involved especially challenging, subjective or complex auditor judgment, we believe that the range of matters that could meet the definition of a CAM remains quite broad and could lead to significant new disclosures in the audit report.

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This broad definition raises the potential for auditors to err on the side of caution when identifying which items meet the definition of a CAM. The risk would be greater to the auditor to not include an item that may not meet the definition of a CAM in their opinion but could be questioned in hindsight as there is no risk to the auditor to include more. This creates a potential for excessive disclosure. Additionally, the criteria of a CAM which states it should "relate to accounts or disclosures that are material to the financial statements" could also influence the erroneous inclusion of a CAM as the matter itself may not be material but could impact accounts or disclosures that are material to the financial statements in total.

An unintended consequence of CAMs is that it may provide a disincentive for topics to be brought to audit committees' attention. A company's management team may be inclined to discuss fewer items with the audit committee in order to reduce the number of CAMs disclosed in the audit report. This may result in additional audit procedures required as the auditors may have to find alternative procedures to test areas where management may be less forthcoming to discuss or provide information for.

Communication in the Auditor's Report

Additionally, we question whether the inclusion of CAMs will provide an investor with any additional information that is not already provided for in the financial statement disclosures. In fact, we believe that users may not fully understand the concept of a critical audit matter. Furthermore, they may not understand the context surrounding audit procedures related to a CAM versus any other work performed related to the financial statement audit. They may question the reliability of the financial statements as a whole due to the auditor specifically identifying areas which were more challenging to audit.

It was noted in the Proposal that the auditor language must be specific as the common user may not understand the technical language used in describing audit procedures surrounding CAMs. This suggests that the common user does not have the technical expertise to understand how the auditor gained comfort over the CAM. The potential for misperception can influence investors' decision-making processes. CAM disclosures may also raise additional questions on the part of investors to management if CAM disclosures reference forward-looking information such as future projected cash flows. As not all companies disclose forward-looking information or disclose only pieces of this type of information this could lead to problematic and inconsistent disclosures.

Under the Proposal, the auditor would be required to describe the principal considerations that led the auditor to determine that the matter is a critical audit matter, describe how it was addressed in the audit and refer to the relevant financial statement accounts and disclosures. We do not believe that this objective can be accomplished in a concise and straightforward manner. Given that readers of the financial statements are not experts in audit technique and procedures, an abbreviated description would not be prudent as this may lead to increased misunderstanding or items taken out of context. Therefore, we believe that expanded disclosure will be required in order to effectively provide the information required under the Proposal for each CAM disclosed. As a result, we believe excessive and duplicative disclosure will occur and overshadow the relevant audit opinion.

The potential for boilerplate language also increases with the introduction of CAMs to the auditor report. Auditors of companies will compare CAMs to benchmark against others within the industry. This could create boilerplate language and lose the objective of the Proposal. Investors also would make comparisons

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to auditors' disclosure of CAMs across companies. This comparison could lead to conclusions regarding audit quality and effectiveness. As there is significant judgment regarding identification of a CAM, this conclusion could irreparably harm companies and shareholders.

A key concern with the Proposal is the potential for the auditor to provide information about a company's financial statements that would typically be management's responsibility to disclose. The Proposal does note that when describing critical audit matters in the auditor's report, the auditor is not expected to provide information about the company that has not been made publicly available by the company. Yet, the guidance provides an exception to this statement which allows new information to be presented if it is necessary information to describe the principal considerations that led the auditor to determine that a matter is a critical audit matter or how the matter was addressed in the audit. We believe that this exception negates the statement that an auditor would not be expected to provide new information. This blurs the role of auditor and management and shifts responsibility from management to the auditor. Irreparable harm could be made to the company and its shareholders if some of this information impacts its competitive advantage and discloses new information about a company's operations and strategy.

Documentation of CAM determination

The auditor would be required to document the basis for their conclusion for each audit matter presented to the audit committee. This documentation would take time away from the auditor during a critical period as these matters would be discussed towards the end of an audit when key items are typically coming to resolution. An auditor will likely expend significant additional effort to document its conclusion regarding each matter in order to limit any potential risk to the auditor if questioned. This additional effort would impact the timeliness of the audit.

As CAMs by definition relate to accounts or disclosures that are material to the financial statements, disclosure around these items would already be contained within the financial statement disclosure as well as within the Management's Discussion and Analysis section. Currently, readers of financial statements have expressed that duplicative disclosures exist within Form 10-Q and 10-K filings as companies typically provide similar disclosures within different items of quarterly and annual filings. Layering on another area to disclose material items to the financial statements will cause excessive and duplicative disclosures. As auditors review a company's filing to ensure that appropriate disclosures are made in relation to material items, this would indicate that the disclosures management has made would be sufficient for a reader of the financial statement to understand the matter absent additional disclosure of the same item in the auditor's report.

Overall, the additional effort related to identification of CAMs, determination of appropriate disclosures to communicate each CAM and the documentation necessary within audit work papers will significantly increase the time associated with each audit on the part of the auditor, audit committee and management as each play a role in these discussions. The significant effort will increase the costs of the audit which will be passed along to companies and their shareholders. The perceived benefit of the addition of CAMs in an audit report for which disclosures should already be contained within the financial statement disclosures do not outweigh the real costs that will be incurred.

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Another unintended consequence that must be considered related to the inclusion of CAMs in an audit report relates to the litigious environment within the United States. This litigious environment including with respect to securities class action lawsuits plays a role in corporate governance. The addition of CAMs within the auditor's report will create a new exposure by encouraging frivolous lawsuits that have no real merit but will be able to be used by the plaintiffs' trial bar to force companies into settlements they would not normally settle given the inclusion of CAMs in the audit report. We believe the CAM disclosure proposal has the potential to change the nature of securities class action and other types of litigation and will not be a positive development for corporate governance.

Specific characteristics of the U.S.-issuer audit market, specifically the legal environment, have the potential to significantly increase the liability for audit firms and companies. Investors may conclude that the type of audit procedures related to a CAM may not be considered appropriate. Auditors may be held liable for either 1) not identifying or disclosing CAMs in the audit report or 2) excessive disclosure of CAMs which negatively impact shareholder value. Overall, mandating disclosure of CAMs increases the likelihood of lawsuits and provides investors with an additional pathway to bring lawsuits forward as the auditor is identifying and disclosing higher risk areas in the audit and challenges in gaining assurance over these areas.

A suggestion to the auditor's report that would address the Proposal would be to add a statement in the auditor's report indicating that the auditor has reviewed the Company's critical accounting policies disclosed within Management's Discussion and Analysis and agrees with the Company's identification of critical accounting matters.

Additional Improvements to the Auditor's Report:

Clarifications of Existing Auditor Responsibilities

We are supportive of the clarifications and proposed additions to the report language that would enhance standardized language by clarifying the nature and scope of the auditor's existing responsibilities, including statements regarding auditor independence and the addition of the phrase "whether due to error or fraud" when describing the auditor's responsibility under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatements. We are in agreement with the Board's Proposal to limit the required addressees of the report to the shareholders and the board of directors, or equivalents for companies not organized as corporations and to allow auditors to retain the option to include additional addresses, consistent with today's guidance.

Auditor Tenure

We are supportive of disclosures surrounding the year in which the auditor began serving consecutively as the company's auditor. While we understand the desire for consistency in placement of this disclosure, we do not agree that the disclosure should be included in the auditor's report. We believe that the inclusion of this disclosure in the audit report would be misinterpreted as having a direct correlation to audit quality. We believe that this disclosure should be required in other required filings, such as the audit firms' annual report on Form 2 or in the company's proxy disclosures.

Standardization Form of the Auditor's Report

We are supportive of the proposed changes to the order of the auditor's report. We believe that the requirement to place the opinion first and to require section titles to guide the reader supports an overall objective to provide more concise and user friendly information to shareholders.

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In summary, as discussed above, we believe that the overall costs associated with the additional disclosure of CAMs in the audit report outweigh the potential benefit. We believe that this additional disclosure would be duplicative to managements' disclosures, blur the roles between auditor and management and imply piecemeal opinions while distorting the overall audit opinion. We are concerned that the addition of CAM disclosures to the audit report would adversely affect audit quality, timeliness of financial reporting, increase audit costs and have negative implications to practical and legal applications. We are supportive of the proposed improvement to the auditor's report but recommend that auditor tenure be a required disclosure outside of the auditor's report.

Once again, we appreciate the opportunity to comment on these proposed standards. If you have any questions, please contact me at (847) 851-7119.

Sincerely,

Michele

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