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December 11, 2013

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. 034

Dear Ms. Brown:

PPL Corporation ("PPL") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") proposed auditing standards included in PCAOB Release No. 2013-005 ("the Release"), *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*. PPL is an energy and utility holding company that, through its subsidiaries, owns or controls nearly 19,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity and natural gas to about ten million end users in the United States and the United Kingdom.

PPL supports the PCAOB's initiative of developing standards that enhance audit quality and protect investors' interests. We also support the Board's intentions to increase the informational value, usefulness and relevance of the auditor's report. We do not support, however, auditing standards that require auditors to provide financial statement users with information that could be misinterpreted, is irrelevant or duplicative of information that is already contained in the financial statements, or whose benefits do not justify the additional costs of preparation. We, therefore, strongly disagree with aspects of both of the proposed auditing standards included in the Release. Specific observations related to each of the standards included in the Release are provided below.

### **Proposed Changes to the Auditor's Reporting Model**

#### ***Critical Audit Matters***

The proposal would require auditors to communicate "critical audit matters" ("CAMs") in the auditor's report to "help investors analyze any related financial statement accounts and disclosures more closely." CAMs are defined as those matters addressed during the audit of the financial statements 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.

Relevance / Usefulness of Proposed Disclosure

We do not believe that including a discussion of CAMs in the auditor's report would assist a financial statement user in making informed investment decisions. In fact, we believe such a discussion could potentially be misinterpreted by the reader as the auditor expressing reservations regarding the affected accounts or disclosures. In the example CAM disclosures included in Appendix B of the proposal, the auditor communicates the various challenges and complexities encountered while auditing certain accounts, but does not ultimately conclude on whether or not the amounts recorded and disclosures made related to those accounts were appropriate. We believe financial statement users would view this disclosure as a form of qualification of their opinion. If the auditor issues an unqualified opinion on the financial statements taken as a whole, we question the relevance and purpose of communicating in the auditor's report those matters that presented challenges to the auditor and the procedures that were performed to audit them.

The determination of what is considered a CAM is a matter of significant auditor judgment. We foresee a lack of consistency in the reporting of CAMs in auditor's reports for companies with similar accounts and transactions. This could lead to financial statement users believing one company contains more or less risk than another, simply due to different audit firms (or even different engagement teams from the same firm) making different determinations of what are CAMs.

In addition, most matters that would be considered a CAM because of subjective or complex accounting transactions would already be required to be disclosed within the financial statements due to standards established by the SEC and the FASB. We strongly support that such information should reside within the Company's disclosures and not the auditor's report, as described below.

Sufficiency of Current Accounting Standards

It is the responsibility of the SEC and the FASB to create standards to ensure transactions are appropriately recorded and disclosed by management in the financial statements in a manner that is most useful for financial statement users. If additional information is needed in order for financial statement users to analyze or understand financial statement accounts and disclosures, new accounting standards should be created, or existing standards amended, by the SEC and FASB.

We do not feel it is appropriate for the PCAOB to set audit standards that require auditors to communicate accounting related items that are the responsibility of management. As written, the proposal would likely result in auditors becoming an original source of disclosure about an entity. Independence rules prohibit the auditor from determining amounts and creating disclosures in the financial statements. We

believe that if it is inappropriate for an auditor to be an original source of disclosure in the financial statements under the premise that they would be functioning in the capacity of management, it would be inappropriate for an auditor to be the original source of disclosure in any document, including the auditor's report.

*Sufficiency of Current Auditing Standards*

Audits of publicly traded companies typically involve complex accounts, transactions or disclosures that are difficult to audit. It is the responsibility of the auditor to opine on whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable accounting standards.

We believe the current auditing standards related to CAMs are sufficient to ensure that the amounts recorded and disclosures made in the financial statements related to those matters are appropriate. These matters are of such importance that they (1) are included in the audit engagement team's engagement completion document, which summarizes the significant issues and findings from the audit, (2) are reviewed by the audit team's engagement quality reviewer and, (3) most importantly, in our view, are communicated by the auditor to the company's audit committee. The audit committee has the requisite knowledge, perspective and authority to ensure that significant judgments made by management are appropriate and complex transactions are properly reflected in the financial statements. We believe that such matters are thoroughly vetted by management, the auditor and the audit committee to ensure they comply with the applicable accounting standards. Communication of CAMs by the auditor in the auditor's report is, therefore, not necessary and would seem to undermine the role of the audit committee and management.

*Cost / Benefit Concerns*

The increased costs of compliance with this aspect of the proposal will outweigh any perceived benefits. A significant amount of additional time will be required by audit firms in order to develop, review and present CAMs, which will result in increased audit fees. Extensive discussion and consultation with Company management, legal and the audit committee would also be required, resulting in increased internal costs. Further, because some CAMs may not be identified until late in the audit process, this additional work will be required during an already busy period within the audit and financial reporting cycle which could impact the timing of SEC filings and, consequently, the ability of investors to obtain financial information in a timely manner.

***Amendments to the Basic Elements of the Auditor's Report***

We are not opposed to the Board's proposal to clarify the existing language in the auditor's report regarding auditor independence, audit tenure, the auditor's responsibilities related to fraud and the financial statement footnotes, and the auditor's responsibilities related to other information. The basis for requiring disclosure of an auditor's tenure, however, is unclear, as the Board has stated in the past that they have

not reached a conclusion as to whether a relationship exists between audit tenure and audit quality.

**Proposed Standard on Other Information**

Currently, under AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*, auditors are required to “read and consider” whether other information is consistent with the financial statements or contains a material misstatement of fact. The proposed standard would require the auditor “read and evaluate” other information on the basis of relevant audit evidence obtained and conclusions reached during the audit, and expands the definition of other information to include information incorporated by reference in the annual report that is available to the auditor before the issuance of the auditor’s report. The proposed standard would also require a separate section in the auditor’s report related to the auditor’s evaluation of other information.

We do not support expanding the auditor’s responsibilities regarding other information or including language in the auditor’s report that could be perceived as an expansion of the auditor’s responsibilities. The “read and evaluate” requirement in the standard will result in auditor’s performing additional procedures beyond those that are performed currently under AU sec. 550. We believe the procedures currently being performed by auditors are commensurate with the nature and purpose of that information and, therefore, do not believe financial statement users will benefit from auditor’s performing additional procedures on such information. Accordingly, we do not feel the additional costs and potential delays in the issuance of the financial statements, as a result of these additional procedures, would be justified.

As noted above, we do support clarifying in the auditor’s report the auditor’s responsibilities related to other information contained in audited financial statements.

We would be pleased to discuss our comments in further detail and provide any additional information that you may find helpful in addressing these important issues.

Very truly yours,  
  
Vincent Sorgi  
Vice President & Controller

cc: Mr. P. A. Farr  
Mr. M. A. Cunningham  
Mr. M. D. Woods