Vanguard®

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December 11, 2013

*Submitted Electronically*

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. 2013-005 – Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments**

Dear Members of the Public Company Accounting Oversight Board:

Vanguard appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB") proposed auditing standards – *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* (together, the "Proposed Standards").

We appreciate the PCAOB's continued focus on the concerns of investors in relation to financial statements and the auditor's report, and we commend the PCAOB for seeking input from various stakeholders who participate in the audit and financial reporting process, including an issuer's management, independent auditors and investors. As discussed below, we support meaningful disclosures in an auditor's report that focus on matters of critical importance to investors and that the auditor is well-positioned to provide. Accordingly, we generally support those aspects of the Proposed Standards which would result in the meaningful disclosure of critical audit matters, the auditor's evaluation of financial information, and additional clarifying language in the auditor's report.

As both an *issuer* of hundreds of financial statements and as a *consumer* of financial information, we believe that Vanguard brings a special perspective to this area. Vanguard offers more than 180 U.S. mutual funds holding aggregate assets of approximately $2.4 trillion at October 31, 2013. Each of these mutual funds is registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, and their shares are registered with the SEC under the Securities Act of 1933. Investment companies, as issuers of securities, are required to file audited financial statements with the SEC and mail annual and semi-annual reports to their shareholders within designated time frames under SEC rules. In addition, in their capacities as investors in the securities markets, investment companies review and analyze companies' financial statements that are filed with the SEC when making investment decisions on behalf of their investors.

<u>Vanguard supports meaningful disclosure of critical audit matters in the auditor's report</u>

We generally support the idea of auditors communicating information about critical audit matters in the auditor's report *but only if applicable*. For example, disclosure of critical audit matters could be useful to investors when reviewing complex financial statements, where the identification of critical matters would allow investors to focus their attention on these areas in the financial statements and the accompanying notes. However, to be useful to investors, disclosure of critical audit matters should only be used to emphasize areas of the audit that were objectively difficult, subjective, or complex, and not 'over-used' to call out non-critical matters. In that regard, we note that the Proposed Standards state that in most audits the auditors would determine that there are in fact critical audit matters. We strongly recommend that the PCAOB revise the Proposed Standards to avoid suggesting that auditors essentially be required to identify and disclose critical audit matters. We believe that any sort of *de facto* requirement to include critical audit matters in the auditor's report could lessen the impact of such disclosures, inevitably resulting in unnecessary boilerplate language that could detract from, rather than enhance, a better understanding of the financial statements and the audit process. More, rather than better, runs the risk of not serving the best interests of investors.

To this end, we agree with comments submitted by the Independent Directors' Council and the Investment Company Institute on December 11, 2013 (the "IDC/ICI Letter") to the effect that requiring disclosure of critical audit matters in every investment company audit report generally would not result in meaningful disclosure for investors and therefore should not be required. In this regard we encourage the PCAOB to acknowledge that financial reporting for mutual funds is inherently less complex than for operating companies, principally because a fund's activities are limited primarily to issuing and redeeming capital shares and investing in securities. Further, as acknowledged by the PCAOB, disclosures of critical audit matters would necessarily increase audit costs as auditors, particularly more senior members of the audit team, would be required to spend more time documenting and reviewing critical audit matters. For fund complexes like Vanguard, these increased costs would be multiplied by the number of funds and their corresponding audits, with the additional costs ultimately passed on to investors in the form of higher operating costs - *i.e.*, fund expense ratios. In our view, any change that would impose additional costs on investors without meaningful benefits for investors is not in investors' best interests.

<u>Auditors should only be required to evaluate financial information</u>

While management is responsible for preparing the financial statements and other financial information, the audit process provides auditors information about a company's overall financial condition. During the course of the audit process, auditors may gain unique and relevant insight into the financial condition of a company that auditors could use to review financial information about the company outside of the financial statements. Accordingly, we support requiring auditors to evaluate *financial* information contained in an issuer's annual report that could reasonably be expected to relate to the financial statements. However, due to an auditor's role and specialized expertise, we recommend that the PCAOB limit an auditor's evaluation of "other information" to other *financial* information that could reasonably be expected to relate to an issuer's financial statements. We also encourage the PCAOB to provide additional guidance and specificity to auditors with respect to the particular types of financial information they should be evaluating.

As accountants and auditors of financial statements, auditors have unique insight into a company's financial condition; however auditors do not necessarily have either unique insight or expertise in evaluating non-financial information about a company. An audit requires the auditor to express an opinion on an issuer's financial statements by examining supporting evidence, including the issuer's accounting records, and considering the issuer's internal control over financial reporting. Based on the nature of audit work, auditors are not well-positioned to evaluate non-financial information in an annual report, and requiring them to evaluate such non-financial information would be requiring something outside the scope of their expertise. We do not believe it would benefit investors to have auditors review non-financial information; in fact, such a review could be misleading in suggesting that an auditor agreed with information that it was not positioned to properly evaluate.

<u>Additional clarifying information in the auditor's report</u>

Lastly, we support adding language to the auditor's report relating to an auditor's independence. We believe that this information could enhance an investor's understanding of the auditor's role. With respect to tenure, we would not object to adding information about an auditor's tenure; however we agree with the IDC/ICI Letter and recommend that the PCAOB clarify that, for investment companies and for the reasons cited in the letter, this disclosure requirement applies at the fund complex level. We also support enhancing certain standardized language relating to the auditor's responsibility with respect to the audit. We recognize that some investors may not fully understand what an audit represents or the related auditor responsibilities and that adding clarifying language could meaningfully increase financial statement users' understanding and knowledge of the audit process and the auditor's report.

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Vanguard appreciates the opportunity to provide these comments on the PCAOB's Proposed Standards. If you have any questions about Vanguard's comments or would like additional information, please contact Toai Chin, Director of Fund Accounting Policy, at 610-503-3043.

Sincerely,

/s/ Glenn W. Reed

Managing Director,
Strategy and Finance Group