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Office of the Secretary, PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803  
Sent via email to: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Regarding: PCAOB Release No. 2013-005 August 13, 2013  
PCAOB Rulemaking Docket Matter No. 034

Dear PCAOB Board Directors,

I attended the National Association of Corporate Directors annual conference in October 2013 and subsequently, at a private meeting, listened to Jeanette Franzel explain the work the PCAOB is doing. I thank you for your time and the desire to seek comments from members of board of directors. I would like to submit my views in response to your request for comments on your two recent proposals. I have served on corporate boards for 15 years and currently chair the audit committees for Viacom Inc. and LKQ Corporation. I was the audit committee chair for Accenture from 2001 to 2011 and currently serve as a committee member.

There are two parts of the proposal I find most troubling:

- The proposed requirement that an auditor report on "critical audit matters" that are specific to each audit. These matters are defined in the proposal as those that (1) involved the most difficult, subjective or complex auditor judgments; (2) posed the most difficulty for the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming an opinion on the financial statements.
- The proposal to enhance the auditor's responsibility with respect to other information outside the financial statements.

#### Critical Audit Matters ("CAMs")

As I understand the proposed standard, the auditor is being asked to report on many matters that are already extensively disclosed in Management's Discussion and Analysis (MD&A) and financial statement footnotes. Auditor reporting on CAMs would be expected to overlap with, but also could be different than, the critical accounting policies disclosed by management of the company in the MD&A.

Auditor disclosures would also include information on the execution of audit procedures. I do not believe that users of financial statements would benefit from this repetitive disclosure in the audit report, and the additional disclosures may create confusion or lead to a misinterpretation about what the auditor's assessment actually covers. As a result, this requirement will not improve the overall quality of available financial information included in annual reports.

In addition, I believe transparency and open communication between the auditors and an audit committee will be harmed if the auditors are required to report on CAMs (and to explain why they have not reported on potential CAMs). Audit committee members review critical accounting policies and procedures regularly. But, CAMs can be very different in that they relate to the execution of audit procedures, and should be addressed in an open and candid manner initially between the auditor and the company management, followed by a report to audit committee members. Inclusion of CAMs in the audit report suggests a usurping of the role of the audit committee, who are entrusted by shareholders of public companies with the fiduciary responsibility of overseeing the relationship with a company's external auditor. In order to be most effective, the participants in these discussions must not be distracted by or concerned with the possibility of public disclosure and the consequences of such disclosures. I think there is a danger that plaintiff attorneys, analysts and others would review CAMs and second guess complicated and nuanced decisions about how to explain financial results most clearly. As a result, I worry that in order to avoid being second-guessed in the future, auditors will either (1) not raise certain matters with management or the audit committee, or (2) begin to include more (rather than fewer) CAMs in their reports, leading reports to be too lengthy and complicated to be useful. Neither of these results is beneficial to stockholders.

The auditor can best serve the public by objectively verifying the information a company presents in its financial statements and working with the company management to craft disclosures that can be part of the MD&A as well as the extensive footnotes which are an integral part of the financial statements. As a senior lecturer at Harvard Business School, I teach the Financial Reporting and Control class to first year MBA students. This 30-session course covers many aspects of business, particularly using cases that may appear to have "gray" areas in accounting and management decisions. I teach my students to read financial statement footnotes to really understand what is occurring and may occur with a company's financial results. Having an auditor opine on, disclose and re-frame vaguely-defined issues such as CAMs may obfuscate the real purpose of a public company auditor: expressing an opinion as to whether the overall financial statements are fairly presented. Keep the responsibility of accurate disclosure with the CEO and CFO who have responsibility for public filings through their written certifications required by Sarbanes-Oxley, which are strong incentives already in place to discourage inappropriate behavior and give regulators the ability to hold individuals accountable for their actions.

#### Auditor's Responsibilities Regarding Other Information

The requirements of Sarbanes-Oxley, including Section 404, have served us well. However, auditors' costs have increased as they spend time evaluating and commenting on other information to more effectively comply with Sarbanes-Oxley. The auditor should continue to focus on the attest function, but we must conduct a realistic cost-benefit analysis of additional work being asked of auditors. I think expanding their role as suggested by the proposal will create extra costs without extra benefit to financial statement users. Auditors already have an obligation to read and consider other information included in a company's annual report. Creating additional procedures and reporting requirements around this information does not appear to be solving any identifiable problem that exists with the current standard and is not a cost-effective way of increasing the adequacy and transparency of

information included in annual reports. The responsibility for financial reporting, including this other information, should continue to be the responsibility of management. Auditors should continue to have the obligation to review the information for any material inconsistency; the existing standard already provides the auditor with procedures to respond to any material inconsistency. The last thing we should do is shift responsibility for financial reporting away from management and to the auditors.

Sincerely,

A handwritten signature in cursive script that reads "Blythe J. McGarvie". The signature is written in black ink and is positioned below the word "Sincerely,".

Blythe J. McGarvie