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PCAOB Public Meeting on Auditor's Reporting Model
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Good morning, and thank you for inviting me to join this distinguished panel. I am delighted to be here today; it is a great honor to speak with you and share my perspectives on a topic as important as the auditor's role in financial reporting.

I'd like to, if I may, touch briefly on my background as I believe it will be helpful in understanding how my perspectives as a financial statement user have been framed. I have spent the last 17 years studying and analyzing companies who employ aggressive accounting and manipulative reporting tactics to embellish their financial performance. I am a CPA and CFA charterholder, and am Partner and Director of Research of a forensic accounting consultancy called Schilit Forensics. Our clients are large well-regarded investment firms who engage us to unravel complexities and uncover shenanigans in the accounting and financial reporting of their portfolio companies. I also co-authored the book *Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports* with Dr. Howard Schilit, a pioneer in the field of forensic accounting research. My past experiences include time on the buyside as a forensic analyst for Coatue Management, a large long/short equity hedge fund; as Director of Research for CFRA, a forensic accounting equity research boutique; and as an auditor for PwC. I also recently completed a four-year term on the Financial Accounting Standards Advisory Council to the FASB as a representative of the Investor Community.

Over the years, I have had the pleasure of working with and advising hundreds of asset managers on the accounting and reporting practices of their portfolio companies. My perspectives are based not just on being a power financial statement user myself, but on my daily conversations with these investors. From these interactions I gained a strong understanding of relevancy and how financial information is consumed and used in the investment decision-making process.

The topic of Other Information is an extremely important one, and I commend the Board for its efforts to increase auditor scrutiny to areas beyond the financial statements. It speaks to what is, to me, the biggest problem facing financial reporting today - the growing dissonance between audited financial results and the key performance metrics showcased by management. This is a weak spot in our financial reporting system that allows issuers to bypass the traditional audited financial statements and engage in an unscrutinized parallel conversation with investors. By not participating in this conversation, the audit function is weakened and investors are worse off.

Indeed, the traditional audited financial statements are becoming less relevant as investor communication tools. It has become commonplace for management to present self-made non-GAAP metrics as more-relevant proxies for earnings and cash flow performance. These metrics, delivered to investors in earnings releases and PowerPoint presentations, are also often found in the MD&A and other areas of the annual report outside the financial statements. And it is usually the case that these metrics are the most important data points to the investment community.

Often these metrics make sense and provide helpful insight into a company's operations, for example, same-store sales for a retailer, organic growth for an acquirer or earnings excluding a large litigation settlement. However, in many cases they don't, like something called "steady state free cash flow before special items" and the laughable "adjusted cash EBITDA less one-time items." However, in all cases, regardless of their legitimacy, these metrics are unaudited and susceptible to the whims of management discretion in definition and disclosure.

For example, when "EBITDA" is no longer flattering, it becomes "adjusted EBITDA", and then "adjusted cash EBITDA", and finally "adjusted cash EBITDA less one-time items." And if the "adjusted EBITDA" paradigm no longer suits, it is easily replaced by a completely different metric. Even in cases where the metrics seem commonplace and logical, they are very easy to redefine as needed. For example, determining which orders are included in backlog or which stores are included in same-store sales, both widely-used non-GAAP metrics, is rife with discretion.

Relying on management to self-police these important metrics is insufficient, just as it is insufficient for traditional GAAP metrics. To be clear, the issue here is not whether a company is honest or disingenuous about these disclosures; rather it is that these supremely important disclosures and data points are not being scrutinized by auditors.

This is where I believe the Board's proposals on Other Information are helpful. The current financial reporting paradigm promotes this environment in which many of the most important metrics to investors are widely unchecked. Enhancing auditor responsibility over this information by, as the Board proposes, requiring the evaluation of these disclosures with a focus on material inconsistencies and material misstatements is common sense and will no doubt strengthen and add robustness to our financial reporting system and ultimately lead to fewer cases of willful or negligent misrepresentation. I recognize that evaluative scrutiny likely means added procedures, however the benefits to investor protection and public disclosure far outweigh the costs.

Naturally, I would like to see more steps taken to rein in the mass promotion and dissemination of misleading unaudited information, but I recognize that many of these efforts would be beyond this Board's jurisdiction. However, I believe that this Board's proposal regarding Other Information shows leadership and is a very positive step that will have a powerful impact with regard to protecting investors and promoting more reliable and representative financial disclosures.

Thank you for the opportunity to participate in this conversation, and I look forward to our discussion.