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December 11, 2013

Ms. Phoebe W. Brown, Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Sent via email: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 034

Dear Ms. Brown:

FirstEnergy Corp. appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (PCAOB or the Board) on its proposed auditing standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (Proposal).

FirstEnergy is a diversified energy company in the United States with approximately \$50 billion of assets, \$15 billion in annual revenues, and \$14 billion in market capitalization. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Our 10 electric utility operating companies comprise one of the nation's largest investor-owned electric systems, serving approximately 6 million customers within 65,000 square miles of Ohio, Pennsylvania, West Virginia, Maryland, New York and New Jersey. Our regulated and unregulated subsidiaries control approximately 18,500 megawatts of capacity.

We support the PCAOB's efforts to continue to explore avenues to increase the usefulness of the auditor's report and are pleased that the Board's proposal retains the pass/fail model. We believe this model clearly articulates the auditor's opinion on the fair presentation of the financial statements and is well understood by the investing community. However, we do not support the inclusion of critical audit matters (CAMs) in the auditor's report.

The Proposal defines CAMs as those matters the auditor 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 an opinion on the financial statements.

Our primary concern is that CAMs contained in the auditor's report will alter the auditor's opinion in the eyes of investors. Although the Proposal states that "the auditor's communication of critical audit matters does not alter in any way the auditor's opinion on the financial statements taken as a whole", we are concerned that investors may question unqualified opinions nonetheless. Those of us who have been auditors understand that the responsibility in an audit engagement is to plan and perform the audit to obtain reasonable assurance that the financial statements, taken as a whole, are fairly presented in all material respects. Furthermore, we understand that the nature of an audit engagement often requires auditors to make judgments that are difficult, subjective or complex. For investors unfamiliar with the auditing profession, these challenges may be perceived as unique and unusual when in-fact, they are common and routine.

The Proposal discusses three elements that would be communicated in the auditor's report relative to issues identified as CAMs. These elements are:

- (1) Identify the CAM
- (2) Describe the considerations that led the auditor to determine that the matter is a CAM, and
- (3) Refer to the relevant financial statement accounts and disclosures that relate to the CAM, when applicable.

Of the three, the second element is the most troubling. Page A5-36 of the Proposal describes the second element, in-part, as follows: "To enhance investors' and other financial statement users' understanding of the audit, the proposed auditor reporting standard would require the auditor to describe the considerations that led the auditor to determine that the matter is a critical audit matter. The description of considerations that led the auditor to determine a matter is a critical audit matter may be derived from one or more of the factors; however, the auditor would not be limited to the factors listed in the proposed auditor reporting standard, which also could include other factors specific to the audit. Additionally, the auditor's description should be specific to the circumstances. Further, when communicating critical audit matters in the auditor's report, the proposed auditor reporting standard would not require the auditor to describe the audit procedures related to critical audit matters. It would, however, not preclude an auditor from doing so." The description of the matter and the determination of the matter as a CAM are based on the training, expertise and experience of auditors. Investors would need to determine how the auditor's procedures (if provided) and the auditor's determination of the identified CAM affect their analysis and ultimately, their investment decision. For investors with little or no auditing background, this information will not provide additional, useful insight for making those investment decisions.

We also reviewed the illustrative examples of CAMs provided by the Board on pages A5-65-78. During the review, we noted that in all three examples, the auditor's report states "the critical audit matters communicated below do not alter in any way our opinion on the financial statements, taken as a whole." In each of the examples, the auditor's report communicates the challenges the auditor encountered during the engagement including difficult and subjective judgments, difficulty in obtaining audit evidence, difficulty in designing audit procedures and the involvement of in-house and other third-party experts. What is absent from each of the example reports is an explanation of how the auditor resolved these challenges in order to issue an unqualified audit opinion. On the one hand, each report communicates that the CAM does not alter the opinion of the auditor, taken as a whole. On the other, the auditor is required to disclose challenges in issuing an unqualified opinion with no reconciliation between the challenges and the final opinion. We find it difficult to understand how investors with no real understanding of the auditing profession will glean useful information from such a contradictory report. Instead of providing useful information, we believe reporting CAMs in the auditor's report will likely lead to further confusion by investors around the quality of the financial statements, no matter the type of opinion issued by the auditor.

In addition, we are concerned about the number of matters that may be identified as CAMs and the additional time, effort and cost that will be borne by companies. The Proposal identifies the source of potential CAMs as being:

- (1) items documented in the engagement completion document;
- (2) items reviewed by the engagement quality reviewer
- (3) items communicated to the audit committee or,
- (4) any combination of the three.

The Proposal states that “the Board would not expect that each matter included in any one or more of these sources would be a critical audit matter.” We believe auditors would deem many of the items identified during the audit and noted above as CAMs in order to protect themselves from the scrutiny of PCAOB inspections. This will result in additional effort by the auditors and increased costs for companies while providing no additional benefit to readers of financial statements. Furthermore, the number of CAMs identified and included in auditor reports under this proposal could increase for all companies when new accounting standards are initially adopted and implemented. New accounting standards inevitably challenge audit teams requiring communication to the audit committee, consultation with national office personnel and other experts. Will investors be well-served by auditor reports communicating the challenges experienced during the adoption and implementation of the proposed lease and revenue recognition standards by the significant number of companies that will be affected by these standards? In our opinion, the answer is no.

Furthermore, given the level of judgment and subjectivity involved in identifying a CAM, we acknowledge, consistent with the Board’s acknowledgement, that companies in the same industry with a similar risk profile could result in differences in the type and number of CAMs reported in the auditor’s report. We are concerned by this lack of comparability and believe that similar audit matters between two different companies and two different audit firms could, and will likely, result in different conclusions surrounding the identification and reporting of certain matters as CAM. This lack of comparability and consistent reporting of CAMs will most likely inadvertently bias the decision of an investor, when in fact, the differences in the CAM reported in the auditor’s report is not representative of the different risk involved.

Again, we are pleased that the Board’s proposed auditing standard retains the pass/fail model but do not support the inclusion of CAMs in the auditor’s report. In our opinion, providing this information will increase the size of already voluminous financial reports while providing no additional useful information to investors.

Thank you for the opportunity to express our opinion on the Proposal. Please feel free to contact me if you have any questions or need further clarification regarding our response.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Jan K. Jan". The signature is fluid and cursive, with the first and last names being prominent.