

August 3, 2016

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, D.C. 20006-2803

By e-mail: comments@pcaobus.org

Re: Proposed Auditing Standard—*The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

(Release No. 2016-003; Docket Matter No. 034)

Dear Mr. Secretary:

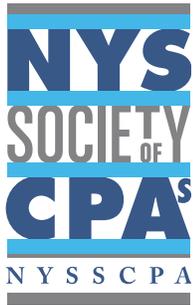
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned release.

The NYSSCPA's SEC and Auditing Standards Committees deliberated the proposed standard and prepared the attached comments. If you would like additional discussion with us, please contact Charles V. Abraham, Chair of the SEC Committee, at (516) 620-8526, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

F. Michael Zovistoski
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
PROPOSED AUDITING STANDARD—THE AUDITOR’S REPORT ON AN AUDIT OF
FINANCIAL STATEMENTS WHEN THE AUDITOR EXPRESSES AN UNQUALIFIED
OPINION
AND RELATED AMENDMENTS TO PCAOB STANDARDS**

(Release No. 2016-003; Docket Matter No. 034)

August 3, 2016

Principal Drafters

From the SEC Committee:

**Charles V. Abraham
Elliot L. Hendler
Mitchell J. Mertz
Joseph J. Puglisi**

From the Auditing Standards Committee:

**Julian E. Jacoby
Howard B. Levy
Jonathan Zuckerman**

NYSSCPA 2016–2017 Board of Directors

F. Michael Zovistoski,
President
Harold L. Deiters III,
President-elect
John J. Lauchert,
Secretary/Treasurer
Gregory J. Altman,
Vice President
Susan M. Barossi,
Vice President
Anthony S. Chan,
Vice President
John S. Shillingsford,
Vice President
Joanne S. Barry,
ex officio

Edward L. Arcara
Sol S. Basilyan
Paul E. Becht
Christopher G. Cahill
Jack M. Carr
Salvatore A. Collemi
Mitchell A. Davis
Edward F. Esposito
Joseph M. Falbo, Jr.
Rosemarie A. Giovinazzo-
Barnickel
Elizabeth A. Haynie
Elliot L. Hendler
Jan C. Herringer
Patricia A. Johnson
Jean G. Joseph

Barbara A. Marino
Kevin Matz
Mitchell J. Mertz
Jacqueline E. Miller
Tracey J. Niemotko
Kevin P. O’Leary
Iralma Pozo
Renee Rampulla
Brian M. Reese
M. Jacob Renick
Warren Ruppel
Steven A. Stanek
Denise M. Stefano
Janeen F. Sutryk
Michael M. Todres
David G. Young

NYSSCPA 2016–2017 Accounting and Auditing Oversight Committee

Robert M. Rollmann, *Chair*
Charles V. Abraham
Matthew T. Clohessy
Salvatore A. Collemi

Michael J. Corkery
Lourdes Eyer
Craig T. Goodman
Jan C. Herringer

Adam S. Lilling
Renee Mikalopas-Cassidy
Rita M. Piazza
William M. Stocker III

NYSSCPA 2016–2017 SEC Committee

Charles V. Abraham, *Chair*
Joseph J. Puglisi, *Vice Chair*
Michele B. Amato
Olga Bashkatova
John A. Basile
Douglas J. Beck
Jeffrey M. Brinn
Anthony S. Chan
Rekha Chatterjee
Sonia Chopra

Burgman E. Connolly
Neil W. Ehrenkrantz
Kenneth J. Gralak
Michael J. Halkias
Elliot L. Hendler
Matthew M. Jahrsdoerfer
David J. Lamb
Steven R. Leidenfrost
Moshe S. Levitin
Helen R. Liao
Robert P. Marggraf

Thomas P. Martin
Mitchell J. Mertz
Renee Mikalopas-Cassidy
Rita M. Piazza
Victoria L. Pitkin
John P. Rushford
Stephen A. Scarpati
Robert E. Sohr
Liren Wei
Philip H. Weiner

NYSSCPA 2016–2017 Auditing Standards Committee

Michael J. Corkery, *Chair*
Kamel W. Abouchacra
Robert S. Berliner
John W. Berry
Roberto Bolanos
Matthew Brescia
Sharon M. Campbell
Joseph Davi
J. Roger Donohue
William Epstein
Bonnie S. Falk
John F. Georger, Jr.

Fred R. Goldstein
Haren K. Gosar
Michael Halpert
Michael M. Harman
Caroline Harris
Julian E. Jacoby
Elliot A. Lesser
Moshe S. Levitin
Howard B. Levy
Leonard M. Nakrin
Bruce H. Nearon
Keith Peterka
William J. Prue

Brian J. Przedwiecki
Cindy E. Rosenberg
John M. Sacco
Barbara J. Sena
Mark Springer
Tammy E. Straus
Melissa Telesca
Stephen P. Tuffy
George I. Victor
Robert N. Waxman
Steven Wolpov
Jonathan Zuckerman

NYSSCPA Staff

Ernest J. Markezin

New York State Society of Certified Public Accountants

Comments on

Proposed Auditing Standard—*The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

(Release No. 2016-003; Docket Matter No. 034)

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (PCAOB or the Board) Release No. 2016-003, Proposed Auditing Standard—*The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* (Proposed Standard).

We understand that the Proposed Standard “seeks to enhance the form and content of the report to make it more relevant and informative to investors and other financial statement users. In particular, the auditor’s report would include a description of ‘critical audit matters’ (CAMs), which would provide audit-specific information about especially challenging, subjective, or complex aspects of the audit as they relate to the relevant financial statement accounts and disclosures.”

We disagreed with the incorporation of CAMs into the audit report in our previous letter to the Board regarding Release No. 2013-005, Docket Matter No. 034, dated December 10, 2013 (attached). While we acknowledge the additional outreach and research conducted by the Board, and we recognize certain improvements in the Proposed Standard to address concerns, our views remain unchanged. We continue to believe that the inclusion of CAMs in public reports would not help users in making investment, voting, or credit decisions or enhance transparency in a meaningful way, but would dilute the pass/fail message and diminish the value of an audit report. We note that while other regulators and standards setters (such as the IAASB, the EU and the FRC) have enacted similar audit reporting requirements for CAMs, the litigation environment in the United States is different from these other foreign jurisdictions. For details supporting our opposition to reporting CAMs, we refer you to our response to Question 10 in our December 10, 2013, letter.

The foregoing notwithstanding, assuming the Board proceeds with its proposal relative to CAMs, we have answered questions 1–8 of the Proposed Standard. In addition to our responses, we also offer this general comment about the disclosure of auditor tenure within the audit report. Although we do not believe it is relevant or appropriate to disclose information about auditor tenure in the audit report, if the Board does require public disclosure of such information, we

would suggest that it be incorporated into Form AP, or a similar reporting form, instead of the audit report. Inclusion of such information in audit reports would imply a relationship between the quality of the audit or independence and auditor tenure, which we believe does not and should not be presumed to exist.

Responses to Specific Questions from the Proposed Standard

Presented below are our responses to selected questions from the Proposed Standard.

1. Is the definition of “critical audit matter” appropriate for purposes of achieving the Board’s objective of providing relevant and useful information in the auditor’s report for investors and other financial statement users? Is the definition sufficiently clear to enable auditors to apply it consistently? If not, describe why the definition may not be clear, including examples demonstrating your concern.

The definition by itself is sufficiently clear; however, when used in the intended context, it is apparent it is subjective. As a result, the examples presented must be viewed as simply illustrative and the Board’s objective of consistent application will not likely be served. The decision as to what matters in the audit are “challenging, subjective, or complex” and will necessarily depend on the judgment, knowledge and experience of the engagement team, especially the engagement partner. An engagement partner with extensive knowledge and experience will not view certain matters as reportable CAMs, while another individual (or team) with different judgment, knowledge or experience might characterize those matters as CAMs. Any standard should provide for differences in good faith—professional judgments, specifically—as to such reporting decisions, to mitigate the risk of inquiries by regulators and adversaries.

On another level, individual firm policies could be a significant factor in the decision about CAMs. For example, if a firm maintains a policy of mandating the review of a client’s accounting for beneficial conversion features (“BCF”), we believe that the involvement of a national office or other central consultation might automatically trigger the characterization of the BCF as a CAM.

1a. Are matters communicated or required to be communicated to the audit committee the appropriate source for critical audit matters? Why or why not?

The decision to start with communications made or required to be made to the audit committee is an appropriate source for the stated objectives. However, as a practical reality, the detailed dialogue between auditors and audit committees is not available to the investors or other users, who will, invariably want more information on matters reported as a CAM in the auditor’s report.

We believe this reality will likely serve as a powerful incentive for auditors to include less detail, rather than more, when contemplating reporting a CAM. The ability to raise further questions on these matters is limited, and may affect a user’s decisions. Investors and other stakeholders rely on audit committees to discuss critical accounting and audit matters with the auditor and come to

appropriate conclusions regarding the registrant’s financial statements. If the investment community does not have sufficient confidence in audit committees to place such reliance on them, then we believe the SEC should take appropriate action to further regulate the conduct and qualifications of the audit committee, rather than place additional public reporting burdens on auditors.

We do not believe there is a practical way to reduce the “information asymmetry,” as suggested by the Board, nor do we believe that it is reasonable to expect information symmetry.

1b. Are there any audit committee communications that should be specifically excluded from consideration as a source of potential critical audit matters? If so, identify and explain the reason for the exclusion.

Yes, we believe matters such as independence considerations, competency issues of management or other professionals involved in the engagement, discussions with component auditors (especially regarding audit scope), and delays encountered in the current audit, should generally not be reported as CAMs. We believe that such matters are among those sensitive topics that should be reserved for extensive dialogue between the audit committee and the auditor, as it may not be understood clearly if presented in an audit report as a CAM.

1c. Is the “relates to accounts or disclosures that are material to the financial statements” component of the definition of a critical audit matter appropriate and clear? Why or why not?

We believe it is appropriate to include the above-quoted qualifier in the definition of CAMs, but we also believe that this question is more complicated, since its functional premise should be grounded in significant risk. Significant risks, such as going concern matters, may be mitigated by an entity that has adequately demonstrated its ability to meet liquidity requirements for at least a year. Notwithstanding how that circumstance plays out, the assumption here is that the disclosures would be adequate, the auditor would evaluate those disclosures, and the matter may be communicated in the audit report, such as in an emphasis-of-matter paragraph, thus making CAM disclosure unnecessary.

1d. Is the “involved especially challenging, subjective, or complex auditor judgment” component of the definition of a critical audit matter appropriate and clear? Why or why not?

See our response in Question 1.

2. Are factors helpful in assisting the auditor in determining which matters involved especially challenging, subjective, or complex auditor judgment? Why or why not?

We support the Board’s reasoning in citing the underlying factors that should be considered for an auditor in determining whether to classify a matter as a CAM.

3. Are there any factors that the Board should consider adding or removing to better assist the auditor in determining which matters involved especially challenging, subjective, or complex auditor judgment? If so, what are those factors?

In general, we believe that the factors provided in the Proposed Standard are adequate to help auditors determine which matters qualify for treatment as CAMs.

4. Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, rather than only the current period? For example, should communication be required in an IPO or in a reaudit? Why or why not?

The auditors' judgment should prevail as to the circumstances when CAMs should be reported, in addition to the overall requirement to provide CAMs in auditors' reports for the current year. The report on the financial statements of the entity's most current period provides the most relevant information for investors' or other users' decisions. We believe that auditors should be encouraged to use judgment as to whether to include CAMs for earlier periods when significant risks prevail in both the current and prior periods, but the final standard should be flexible in its requirements.

5. Are the repropoed requirements regarding the description of critical audit matters in the auditor's report, including the principal considerations and how the matter was addressed in the audit, sufficiently clear for consistent implementation by auditors? Why or why not? If not, how could the requirements be clarified?

We are concerned about the addition to the bulleted list of communication requirements in the Proposed Standard. For example, when the Proposed Standard states, "describe how the critical audit matter was addressed in the audit," we ask at what level(s), overall, is it referring to? Should the description be at the account level? At the assertion(s) level? Should the disclosure describe how the matter affected the planning, audit staffing, timing and review? The point here is that there are many decision points in the audit, and it is a process not easily described or understood. The primary purpose of the audit report should be to inform investors and provide them with reasonable assurance regarding the fair presentation of the financial statements, not to provide a reader with an avenue to speculate about auditor judgment.

For example, let us assume that the CAM relates to an estimate. Would a sufficient description be that the auditor developed its own estimate, compared it to the client's estimate, evaluated the client's estimation process (including the information gathering process), and that the entity's internal controls over the assertions related to the estimate were audited? We do not believe that such a description would serve to strengthen investors' or other users' confidence in the audit and the auditors. There are inherent uncertainties embedded in an estimate that are assessed and addressed by the auditor, and these uncertainties may not be appropriately addressed within the context of the audit report to investors.

6. Do the repropoed communication requirements appropriately address commenter concerns regarding auditor communication of critical audit matters, such as:

a. The auditor providing original information in describing the principal considerations for the determination that the matter is a critical audit matter or describing how the matter was addressed in the audit...

Commenters on the original draft proposal were concerned about confidentiality issues in situations where the auditor disclosed new information that was not previously disclosed in the entity's filings or was disclosed from a perspective differing from that of the auditor.

The Proposed Standard, which would confine required CAM disclosures to matters discussed with the audit committee, mitigates this issue. However, we believe that if the auditor would like to make further disclosure of a CAM, it should not be precluded from doing so, and to overcome the confidentiality question, we suggest that client permission be obtained.

Descriptions of how auditors addressed the CAMs can become limiting and self-serving. Many procedures that auditors use to obtain comfort as to financial statement assertions are often called "primary" procedures. In situations where significant risks are high, several primary or corroborative procedures may be needed or used. Complex interrelationships of the many audit procedures and techniques (even in addressing one CAM) would be very difficult to explain to the users in a succinct and coherent manner, especially if what are commonly called "extended" procedures are employed.

We see the discussion of audit scope as part of the proposed CAM as a throwback to the old—and similarly nonstandardized—"long-form" audit report about which auditors were cautioned in 1957 (see SAP 27) that "comments or other data contained in the long-form report lend themselves to a contention that they constitute exceptions or reservations, as distinguished from mere explanations." Apparently, largely as a result of such cautionary language which we believe remains applicable today, the long-form report gradually disappeared from use. Accordingly, when explaining the underlying complexity of performing an audit, we believe that the level of detail provided would be a source of confusion to users.

b. Investors and other financial statement users misinterpreting critical audit matters as undermining the auditor's pass/fail opinion or providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate?

We believe that in the first several years of use, a certain amount of misinterpretation of the content and purpose of CAMs by readers is probable. As users become acclimated to the new reporting, the risk of misinterpretation will diminish. If, in fact, CAMs become a required part of the audit report, illustrative non-authoritative examples or guidance, for example, through Staff Practice Alerts, would be helpful.

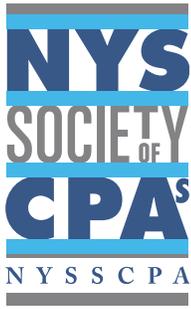
7. In addition to referring to the relevant financial statement accounts and disclosures, would it be appropriate for the auditor to refer to relevant disclosures outside the financial statements when communicating a critical audit matter? Why or why not?

We view the discussion of matters outside financial statements by the auditor as problematic at best and, at worst, likely to be viewed as a form of attestation. If there were no audit assurance provided on such information, the role, responsibility and objectives of the auditor would likely be unstated and misunderstood. A level of assurance on such information (on a disclosure attributable solely to the auditor) would give rise to independence concerns. Liability concerns, especially under the Federal securities laws, would be an issue, unless future regulation provides a safe harbor, and there would have to be sufficient caveats, depending on the source and content, to be able to provide this information.

We note that there is an attestation standard (PCAOB Interim Standard AT 701) under which auditors can either review or examine the content of the Management Discussion and Analysis, which is of course client-generated information and the attestation report is issued only when the auditor is engaged by the registrant. AT 701 was issued in 2001, but we believe it has been used infrequently. We surmise that there has been little or no demand for this service because the cost/benefit relationship perceived is questionable.

8. Is it appropriate for the repropoed standard to retain the possibility of the auditor determining that there are no critical audit matters and, if so, require a statement to that effect in the auditor’s report? Why or why not?

We believe it is appropriate for the Proposed Standard to retain the possibility of the auditor determining that there are no CAMs. We believe that this is a better option than being pressured to insert one when it is not warranted, although we do not expect that there will be many reports devoid of CAMs. If, however, the auditor does come to the conclusion that there are no CAMs, it is inappropriate to require a negative statement to that effect in the auditor’s report. The absence of a CAM in the auditor’s report should be sufficient, without having to make a definitive statement. We would compare this to the current use of “emphasis-of-a-matter” paragraphs, the absence of which is not commented on by the reporting auditor.



ATTACHMENT

December 10, 2013

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email: comments@pcaobus.org

**Re: Proposed Auditing Standards on the Auditor's Report and the Auditor's
Responsibilities Regarding Other Information and Related Amendments**

Release No. 2013-005, Docket No. 034

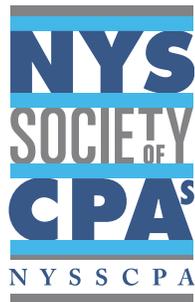
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned proposed auditing standard.

The NYSSCPA's Auditing Standards, SEC and Stock Brokerage Committees deliberated the proposed standard and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (646) 644-4482, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

J. Michael Kirkland
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
Article I.
PROPOSED AUDITING STANDARDS – THE AUDITOR'S REPORT ON AN AUDIT
OF FINANCIAL STATEMENTS WHEN THE AUDITOR EXPRESSES AN
UNQUALIFIED OPINION;
THE AUDITOR'S RESPONSIBILITIES REGARDING OTHER INFORMATION IN
CERTAIN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS AND
THE RELATED AUDITOR'S REPORT;
AND RELATED AMENDMENTS TO PCAOB STANDARDS
(PCAOB Release No. 2013-005, Docket Matter No. 034)**

December 10, 2013

Principal Drafters

From the Auditing Standards Committee:

**Jan C. Herringer
Julian Jacoby
Howard Levy
Melissa Telesca
Robert Waxman**

From the SEC Committee:

**Elliot L. Hendler
Mitchell Mertz
Arthur J. Radin**

From the Stock Brokerage Committee:

**David H. Grumer
Mark Levy
Gary Purwin**

NYSSCPA 2013 – 2014 Board of Directors

J. Michael Kirkland, <i>President</i>	Anthony T. Abboud	Kevin Matz
Scott M. Adair, <i>President-elect</i>	William Aiken	Michael E. Milisits
F. Michael Zovistoski, <i>Secretary/Treasurer</i>	Gregory J. Altman	Barbara L. Montour
Ian J. Benjamin, <i>Vice President</i>	Barbara E. Bel	Steven M. Morse
Adrian P. Fitzsimons, <i>Vice President</i>	Shari E. Berk	Michael F. Rosenblatt
Barbara A. Marino, <i>Vice President</i>	Christopher G. Cahill	Arthur J. Roth
Warren Ruppel, <i>Vice President</i>	Anthony S. Chan	Cynthia A. Scarinci
Joanne S. Barry, <i>ex officio</i>	John F. Craven	John S. Shillingsford
	Harold L. Deiters	Stephen T. Surace
	Timothy Hedley	Tracy D. Tarsio
	Douglas L. Hoffman	Yen D. Tran
	Scott D. Hosler	Mark Ulrich
	Scott Hotalen	Richard T. Van Osten
	Gail M. Kinsella	Beth van Bladel
	Eric M. Kramer	Mark Weg
	Elliot A. Lesser	

NYSSCPA 2013 – 2014 Accounting & Auditing Oversight Committee

William M. Stocker III, <i>Chair</i>	Sharon S. Fierstein	Rita M. Piazza
Joseph Caplan	Kenneth Gralak	Karina Pinch
Neil Ehrenkrantz	Julian E. Jacoby	Robert Rollmann
	Renee Mikalopas-Cassidy	

NYSSCPA 2013 – 2014 Auditing Standards Committee

Julian Jacoby, <i>Chair</i>	John Georger	Wayne Nast
Steven Wolpow, <i>Vice Chair</i>	Fred Goldstein	William Prue
Kamel Abouchacra	Menachem Halpert	John Sacco
Robert Berliner	Jan C. Herringer	Mark Springer
John Berry	Michael Kayser	Tammy Straus
Roberto Bolanos	Elliot Lesser	Melissa Telesca
Sharon Campbell	Moshe Levitin	Stephen Tuffy
Michael Corkery	Howard Levy	George Victor
J. Roger Donohue	Ralph Lucarello	Robert Waxman
	Mark Mycio	

NYSSCPA 2013 – 2014 SEC Committee

Neil W. Ehrenkrantz, <i>Chair</i>	Elliot L. Hendler	Arthur J. Radin
Charles Abraham	Matthew Jahrsdoerfer	Adam Ross
Michele B. Amato	Steven Kreit	John P. Rushford
Patricia Baldowski	David J. Lamb	Stephen A. Scarpati
John A. Basile	Steven R. Leidenfrost	Robert E. Sohr
Douglas J. Beck	Moshe S. Levitin	Tammy Straus
David Bender	Helen R. Liao	Theo Vermaak
Jeffrey M. Brinn	Robert P. Marggraf	George I. Victor
Anthony S. Chan	Thomas P. Martin	Liren Wei
Burgman E. Connolly	Mitchell J. Mertz	Philip H. Weiner
Christopher Gagliardi	Mark Mycio	Silvia S. Yehezkel
Michael J. Halkias	Rita M. Piazza	

NYSSCPA 2013 – 2014 Stock Brokerage Committee

Mark R. Levy, <i>Chair</i>	Chuck Fong	David Proskin
Mark Aaron	Robert A. Fortino	Gary R. Purwin
Jeffrey Abramczyk	Richard Fuchs	Martin Racek
Philip Antico	George Getz	Pamela Radoszycki
John Bambino	Howard Gluckman	Robert Radovich
Steven C. Bender	Mark K. Goodman	Robert E. Ransom
Dawn Bergen	David H. Grumer	Michael F. Rosenblatt
Maurice Berkower	Massamba Gueye	Jeffrey I. Rosenthal
Steven Berse	John C. Guttilla	Adam Ross
Naomi Bondoc-Carson	Barbara Halpern	John Sacco
John Byrne	Peter Heuzey	Marc H. Stoltz
Mark D. Carroll	Robert J. Kaufmann	Michael E. Stupay
John Cavallone	Philip C. Kempisty	Helen Tang
Wai-Mon Chan	Jay D. Levy	Jonathan Tomback
Scott D. Daniels	Leo Lo	Stephen Verrone
James Dempsey	Guy Miller	Brian Wallace
Mark Downey	John S. Miller	Patrick Yaghdjian
Norman Ellison	Brian Murphy	Cengiz Yagiz
Richard M. Feldman	Ryan Owen	Catherine Yung
	Charles J. Pagano	

NYSSCPA Staff

Ernest J. Markezin
William R. Lalli

New York State Society of Certified Public Accountants

Comments on

**Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements
When the Auditor Expresses an Unqualified Opinion;**

**The Auditor's Responsibilities Regarding Other Information in Certain Documents
Containing Audited Financial Statements and the Related Auditor's Report;**

and Related Amendments to PCAOB Standards

(PCAOB Release No. 2013-005, Docket Matter No. 034)

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on the above-captioned release (the Release) issued by the Public Company Accounting Oversight Board (PCAOB or the Board). Our responses to the questions contained in Appendices 5, 6 and 7 of the release are presented below.

Appendix 5 – Additional Discussion Related to the Proposed Auditor Reporting Standard

Question Related to Section II

1. Do the objectives assist the auditor in understanding the requirements of what would be communicated in an auditor's unqualified report? Why or why not?

We believe the first objective, as set forth in paragraph 4a of the proposed standard, has always been and continues to be implied and obvious and need not be expressly articulated. The second objective, as set forth in paragraph 4b of the proposed standard, refers to communicating critical audit matters, the benefits and advisability of which we have significant reservations that are expressed in our responses to Questions 10-28 of Section V of Appendix 5.

Questions Related to Section IV

2. The proposed auditor reporting standard would require the auditor's report to be addressed at least to (1) investors in the company, such as shareholders, and (2) the board of directors or equivalent body. Are there others to whom the auditor's report should be required to be addressed?

The Board, in its discussion of the proposed standard, states that the shareholders are the auditor's "ultimate customer." It is our preference that the Board should specify shareholders or stockholders rather than "investors." We believe that in addition to the Board of Directors or equivalent body, the proposed standard should require the report be addressed to current shareholders. The basis for the "Board of Directors" inclusion is that the engagement letter is

contractual and a legal obligation of the Board of Directors. The parties to the contract should be the parties issuing and receiving the report. We do not strongly oppose using “investors,” because investors in short sales, option holders, debenture holders, holders of mutual funds who hold the company’s securities, *etc.*, are all investors.

3. The proposed auditor reporting standard retains the requirement for the auditor's report to contain a description of the nature of an audit, but revises that description to better align it with the requirements in the Board's risk assessment standards. Are there any additional auditor responsibilities that should be included to further describe the nature of an audit?

We believe that the proposed language in paragraphs 6(j) through 6(n) captures the spirit of the auditor’s responsibility. We do not believe that every time the phrase “material misstatement” is used it needs to be followed by “whether due to error or fraud.” Material misstatement can only occur intentionally or unintentionally. The inclusion of “whether due to error or fraud” is a redundant statement and is not necessary in the same section.

In addition, while paragraph 6(m) states that an audit includes among other things, examining, on a test basis, appropriate evidence regarding the amounts and disclosures in the financial statements. The word “appropriate” may be unclear to readers. Audit evidence is required to be sufficient and appropriate with the former relating to the quantity of evidence and the latter related to the quality of evidence. Because audit evidence by definition must include elements of both characteristics, the paragraph should read “Examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.”

Finally, the standard should include a reference to the auditor’s responsibility to consider the company’s internal controls when assessing risk and designing procedures to address identified risks. Whether the company is subject to Section 404 of the Sarbanes-Oxley Act, the auditor is required at a minimum to consider the design and implementation of the company’s internal controls when designing an appropriate response to identified risks of material misstatement. This insert should be part of the auditor’s responsibilities section of the auditor’s report.

4. The proposed auditor reporting standard would require the auditor to include a statement in the auditor's report relating to auditor independence. Would this statement provide useful information regarding the auditor's responsibilities to be independent? Why or why not?

Because independence is the prime tenet of auditing the fact that a separate statement that the auditor is public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the company in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities Exchange Commission (SEC) and PCAOB is additive. The general idea of this information is included in the title of the auditor’s report. We appreciate the Board’s overriding concern with independence but a boilerplate statement added to all reports will not affect or remedy concern for the quality of this matter.

5. The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor.

- a. Would information regarding auditor tenure in the auditor's report be useful to investors and other financial statement users? Why or why not? What other benefits, disadvantages, or unintended consequences, if any, are associated with including such information in the auditor's report?*
- b. Are there any additional challenges the auditor might face in determining or reporting the year the auditor began serving consecutively as the company's auditor?*
- c. Is information regarding auditor tenure more likely to be useful to investors and other financial statement users if included in the auditor's report in addition to EDGAR and other sources? Why or why not?*

As audit partners and engagement quality reviewers are required to rotate on each public company every five years (with limited exceptions for small audit firms), we do not believe that the length of time that firms have audited clients is relevant to the audit opinion on any given year's financial statements. This issue has surfaced and resurfaced from time to time. The PCAOB oversight regime and the firm's own quality controls would have more of an influence on poor audit quality than the premise that long-term tenure affects audit quality. Quality issues may be more influenced by personnel failure which we believe will always occur.

6. The proposed auditor reporting standard would require the auditor to describe the auditor's responsibilities for other information and the results of the evaluation of other information. Would the proposed description make the auditor's report more informative and useful? Why or why not?

Providing auditors with objectives links the procedures to what the auditor is trying to achieve; so we support this consideration.

Paragraph 2(b) should be revised as follows: When issuing an auditor's report on the other information and *when the other information includes* whether, based on relevant audit evidence obtained and conclusions reached during the audit, the other information contains a material inconsistency or material misstatement of fact, *or both to describe these in the auditor's report.* We disagree with the requirement for the auditor to make a positive statement or conclusion about the absence of any inconsistencies, material misstatements or both discussed in paragraph 13(e). Also see our response in Question 18 of Appendix IV).

7. Should the Board require a specific order for the presentation of the basic elements required in the auditor's report? Why or why not?

We believe this is not a substantive matter. If left out of the standard, firms may have more flexibility in highlighting or emphasizing specific matters for users to consider.

8. What other changes to the basic elements should the Board consider adding to the auditor's report to communicate the nature of an audit, the auditor's responsibilities, the results of the audit, or information about the auditor?

See our response in Question 3 above. The Board's discussion of the other elements of the report is satisfactory.

9. What are the potential costs or other considerations related to the proposed basic elements of the auditor's report? Are cost considerations the same for audits of all types of companies? If not, explain how they might differ.

We are uncertain if the drafters are categorizing critical audit matters as a basic element. That section will take the most time and effort relative to any other changes being proposed.

Section V

General Comment

We commend the Board for responding to the concerns expressed by many respondents to Release No. 2011-003 dated June 21, 2011, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (the Concept Release) by proposing a discussion of "critical audit matters" in audit reports in lieu of the "Auditor's Discussion and Analysis" (or AD & A) suggested in the earlier Concept Release. We responded to the Concept Release in a letter dated September 27, 2011, and understand those concerns to be rooted in a desire to preserve the purity of the attest function by not requiring auditors to speak about financial statement matters in a way that should be reserved for management. The critical audit matters discussion currently proposed is apparently intended to be limited to matters of auditor judgment which we believe (despite our reservations set forth in our responses to Questions 10-28 of Section V of Appendix 5 of the current Release) would be far more appropriate than the broader AD & A described in the Concept Release.

Questions Related to Section V

10. Would the auditor's communication of critical audit matters be relevant and useful to investors and other financial statement users? If not, what other alternatives should the Board consider?

No, the auditor's communication of critical audit matters would not be relevant and useful to investors and other financial statement users. Our view is that the expressions of demand for this kind of information by analysts and investor groups are largely exaggerated, lack credibility and are likely attributable to the "if you build it, they will come" syndrome. We believe that despite the perceived demand, there is little persuasive evidence that securities analysts and other investor groups will actually find such disclosures in audit reports useful or will rely on it for making or recommending investment decisions or that it will result in more informed and better investment decisions.

We do not believe it would be productive or appropriate for auditors to provide information in audit reports that is intended to help investors or other users to assess an audit. Auditing is a highly complex, professional discipline that requires years of education and training, experience, intimate knowledge of the issuer's business and seasoned professional judgment to enable appropriate audit scope (*i.e.*, the nature, timing and extent of auditing procedures) and related judgments (*e.g.*, those regarding risk assessment) as necessary to support an auditor's opinion. Moreover, as we have seen historically, there are numerous opportunities for legitimate disagreements on such judgmental matters between or among experienced and knowledgeable professionals (including, for example, regulators, expert witnesses and authors of non-authoritative professional guidance).

Accordingly, we believe that public disclosure of details of critical auditor judgments would not help users make investment or credit decisions or enhance transparency in any meaningful way or serve any other useful purpose but rather would negate or dilute the pass/fail message and, therefore, diminish the value of an audit report. Without the opportunity for two-way dialogue with auditors about such matters, (which is not practicable), such details would likely not contain enough information to help users to make meaningful assessments and useful judgments and quite probably would be misunderstood by many of them. We believe that financial statement users could never reasonably and meaningfully assess the effectiveness of such professional judgments, in relation to possible alternatives, without all the factual and technical knowledge that is available to the auditor.

Should the potential for misunderstanding be partially mitigated for institutional financial statement users by employing trained experienced audit advisors to assist in their analyses, we believe the inherent limitations on the extent of detailed information that could be communicated effectively in writing is likely to prevent the realization of any meaningful potential benefit, and the costs to such users would exceed the value thereof substantially.

Therefore, it is unreasonable to create expectations that any form of written report that is inherently limited, no matter how expanded it might be from the current model, would contain communications of sufficient factual and circumstantial details so as to help otherwise uninformed users, who do not have direct access to the auditors for two-way dialogue to make meaningful judgments as to such complex matters as risk assessments, audit scope and other auditor judgments.

Assessing audit quality is not the job of investors and other financial statement users; it is the job of the engagement quality reviewer, regulators such as the PCAOB (both its standard setters and inspectors) and licensing authorities (to a lesser extent). Additionally, and perhaps most significantly, audit committees upon whom investors should be able to place their reliance as to such matters. Although not the responsibility of the PCAOB, we see regulation of audit committees as the most relevant and, therefore, the best alternative way to assure that investor needs are served effectively.

11. *What benefits or unintended consequences would be associated with the auditor's communication of critical audit matters?*

We see little, if any, opportunity for user benefit from this additional verbiage in audit reports. The obvious risk to auditors of providing regulators and others, (*e.g.*, litigants and regulators such as the SEC or PCAOB inspectors) with additional opportunities for second-guessing critical auditor judgments is likely to lead to excessive self-protective, obtuse and unwieldy language in audit reports (see also our response to Question 28), as well as other unintended adverse consequences. These would include (1) increased audit fees, and (2) impairment of timely financial reporting due to delays in issuing audit reports (both resulting from cautious analysis to determine reportable critical audit matters) the documentation, communications, and additional layers of review, and of draft report language by audit firms and frequently by their attorneys.

In Appendix 5 of the Release (first paragraph, page A5-29), the Board suggests that the proposed requirement to report critical audit matters “could increase the auditor’s focus on critical audit matters which could result in enhancing the quality of auditing.” We firmly believe that other auditing and quality control standards already in place provide maximum assurance that such matters will be adequately addressed so that the achievement of any significant incremental assurance to be obtained from this proposal is highly unlikely. Accordingly, we see this statement as pure speculation, unsupported, and potentially misleading to investors and other users.

Nevertheless, we do believe there is considerable probability that non-standardized reporting of critical audit matters under this proposal would serve to pressure auditors to report more rather than less. At first, variability among audit reports would likely reduce their comparability and their understandability, and the added language would tend to contradict an unqualified opinion, confusing users and diluting the value of the opinion. As time goes on (if this proposed requirement were adopted), we believe a tendency for the critical audit matters language in reports would evolve to look more similar, diluting their value (if there ever were any).

We also foresee that there may be pressure on auditors to skew their procedures based on how they would affect readers’ perception of the description of the critical audit matter, rather than based on their own professional judgment as to what would minimize the risk of material misstatement.

12. Is the definition of a critical audit matter sufficient for purposes of achieving the objectives of providing relevant and useful information to investors and other financial statement users in the auditor's report? Is the definition of a critical audit matter sufficiently clear for determining what would be a critical audit matter? Is the use of the word "most" understood as it relates to the definition of critical audit matters?

As noted in our responses to the foregoing Questions, we do not believe reporting critical audit matters would contribute in any meaningful way to achieving the objectives of providing relevant and useful information to investors and other financial statement users. However, in the event that the proposal for auditors to report critical audit matters is retained in a final standard (which we oppose), we believe the definition in paragraph A2 of Appendix A of the Proposed Auditor Reporting Standard (Appendix 1 of the Release), when considered in relation to the guidance contained in paragraphs 8 and 9 of the proposed standard (Exhibit 1 of the Release) is sufficiently clear for determining what would be reportable as a critical audit matter except for

the implication of a one-directional limitation in the “Note” appended to such definition (*i.e.*, that it suggests that the definition contemplates that there could be more but not less than one reportable critical audit matter). According to the Note to paragraph 7 of Appendix 1 of the Release and the examples in paragraphs 12 and 13 of Appendix 1 of (and illustrated on pages A5-68, 73 and 77 of Appendix 5), the one-directional limitation appended to the definition is not the intent of the Board. Therefore, in the event that the proposal to report critical audit matters is retained in a final standard, the Note to paragraph A2 of Appendix A should be clarified.

13. *Could the additional time incurred regarding critical audit matters have an effect on the quality of the audit of the financial statements? What kind of an effect on quality of the audit can it have?*

No, the additional time incurred regarding critical audit matters could not have an effect on the quality of the audit of the financial statements. We have seen no credible evidence or suggestion that audit quality would be affected, one way or the other, by adopting this proposed requirement. Conversely, as stated in our response to Question 11, we firmly believe the utility and the quality of the typical audit report would be substantially diminished if this requirement is adopted.

14. *Are the proposed requirements regarding the auditor's determination and communication of critical audit matters sufficiently clear in the proposed standard? Why or why not? If not, how should the proposed requirements be revised?*

Should the proposal for auditors to report critical audit matters be retained in a final standard (which we oppose), we would concur with the determination criteria set forth in paragraph 13 of Appendix 1.

15. *Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?*

No. See our response to Question 10.

16. *Are the factors helpful in assisting the auditor in determining which matters in the audit would be critical audit matters? Why or why not?*

Should the proposal for auditors to report critical audit matters be retained in a final standard (which we oppose), we would concur with the determination criteria set forth in paragraphs 8 and 9 of Appendix 1 of the Release except that we believe the expression “nature and amount of available and reliable evidence” in paragraph 9c should be revised to read “nature, quality (*i.e.*, relevance and reliability) and amount of available evidence.”

17. *Are there other factors that the Board should consider adding to assist the auditor in determining which matters in the audit would be critical audit matters? Why or why not?*

See our response to Question 14.

18. Is the proposed requirement regarding the auditor's documentation of critical audit matters sufficiently clear?

The documentation requirement set forth in paragraph 14 of Appendix 1 of the Release clearly reflects the applicable portion of the general documentation standard (AS No. 3). Accordingly, should the proposal for auditors to report critical audit matters be retained in a final standard, we would be in favor of retaining paragraph 14 substantially as written, with one exception. That is, so as not to overburden auditors, we believe more guidance than that afforded by Appendix 5 of the Release (Part E2, pages A5-39 to 40) is necessary as to the nature and extent of documentation necessary for “non-reported audit matters addressed in the audit that would appear to meet the definition of a critical audit matter were not critical audit matters.”

19. Does the proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter achieve the Board's intent of encouraging auditors to consider in a thoughtful and careful manner whether audit matters are critical audit matters? If not, what changes should the Board make to the proposed documentation requirement to achieve the Board's intent?

As indicated in our response to Question 18, we believe more guidance as to the nature and extent of documentation necessary for “non-reported audit matters addressed in the audit that would appear to meet the definition of a critical audit matter were not critical audit matters” than that afforded by Appendix 5 of the Release (Part E2, pages A5-39 to 40) is necessary. Nevertheless, we find these documentation requirements unnecessary because we are opposed to the inclusion of critical matters in an audit report and, as indicated in our response to Question 11, we believe that other auditing and quality control standards already in place provide maximum assurance that critical matters is likely to be adequately addressed in the audit scope.

20. Is the proposed documentation requirement sufficient or is a broader documentation requirement needed?

See our response to Question 18.

21. What are the additional costs, including indirect costs, or other considerations related to the auditor's determination, communication, and documentation of critical audit matters that the Board should take into account? Are these costs or other considerations the same for all types of audits?

See our response to Question 11.

22. What are the additional costs, including indirect costs, or other considerations for companies, including their audit committees, related to critical audit matters that the Board should take into account? Are these costs or other considerations the same for audits of both large and small companies?

We do not perceive any incremental costs for companies (other than audit costs, as discussed in our response to Question 11) or their audit committees that is likely to be incurred if this proposal were adopted. There could be costs associated with potential litigation.

23. How will audit fees be affected by the requirement to determine, communicate, and document critical audit matters under the proposed auditor reporting standard?

See our response to Question 11.

24. Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, such as in an initial public offering or in a situation involving the issuance of an auditor's report on a prior period financial statement because the previously issued auditor's report could no longer be relied upon? If so under what circumstances?

As indicated in our response to Question 10 and elsewhere, we are opposed to communicating critical audit matters in audit reports. However, should the proposal for auditors to report critical audit matters be retained in a final standard, we believe audit reports on comparative financial statements should be complete and should stand alone for all periods presented in all circumstances. Therefore, all critical audit matters included in the original audit report issued on prior period financial statements should be included when the statement is presented subsequently in comparative form. In the event prior period financial statements have been restated, we believe the subject matter of the restatement should be included in the discussion of critical audit matters for that period and should not be included in an emphasis paragraph as is the current practice.

25. Do the illustrative examples in the Exhibit to this Appendix provide useful and relevant information of critical audit matters and at an appropriate level of detail? Why or why not?

The examples presented in the Exhibit to Appendix 5 of the Release appear adequately responsive to the proposed requirements of Appendix 1 if adopted in a final standard. Nevertheless, we believe these brief examples serve to illustrate the inherent lack of utility of such limited discussions as to reinforce our views set forth in response to Question 10.

In addition, the first sentence of the illustrative introductory report language that would be mandated by paragraphs 12 and 13 of Appendix 1 (and also illustrated on pages A5-68, 73 and 77 of the Exhibit to Appendix 5) is unnecessary “boilerplate” and would only overburden the proposed standard report with excessive verbiage. Consequently, we believe this sentence should be removed from all examples presented in a final standard.

26. What challenges might be associated with the comparability of audit reports containing critical audit matters? Are these challenges the same for audits of all types of companies? If not, please explain how they might differ.

As previously stated and in our response to Question 11, we are opposed to the communication of critical audit matters. But should the proposal for auditors to report critical audit matters be

retained in a final standard, variability among audit reports is likely to reduce their comparability and their understandability at first, and the added language is likely to tend to appear contradictory to an unqualified opinion thus confusing users and diluting the value of the opinion. The reduction in comparability, in and of itself, might not inherently be dire except that users will likely be ill-equipped to make useful assessments of the significance (or lack thereof) of the differences. We see this challenge as equally applicable, more or less, without regard to the size or type of the reporting entity. In time, we believe a tendency for the critical audit matters language in reports would likely evolve to look more similar (especially for companies in similar industries or audited by the same firm) diluting their purported value.

27. What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?

See our response to Question 11.

28. What effect, if any, would the auditor's communication of critical audit matters under the proposed auditor reporting standard have on an auditor's potential liability in private litigation? Would this communication lead to an unwarranted increase in private liability? Are there other aspects of the proposed auditor reporting standard that could affect an auditor's potential liability in private litigation? Are there steps the Board could or should take to mitigate the likelihood of increasing an auditor's potential liability in private litigation?

The following paragraph expands our response in this regard to Question 11.

While we do not see the proposal as likely to lead to additional liability, *per se*, we do see the additional language in audit reports as likely to increase the number of incidents and the costs of litigation. This is because ultimately, audit quality will be attacked and defended largely on its performance merit rather than on the content of the report but for any material omissions or statements that are deemed to be knowingly false and/or misleading. In short, these disclosures are likely to inspire and provide new opportunities for assertions of omissions and inadequacies with respect to audit reports as well as affording additional avenues for plaintiffs to pursue in discovery that will add to an auditor's defense costs.

Questions Related to Section VI

29. Is it appropriate for the Board to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard?

Yes, it is appropriate for the Board to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard. It is helpful to bring the approximately ten

requirements into one standard; especially for auditors who do not have significant experience in auditing issuers or investors who need a basic understanding of the purpose of such disclosures in auditor's reports.

30. *Is retaining the auditor's ability to emphasize a matter in the financial statements valuable? Why or why not?*

Emphasis disclosures could be valuable to users, but less so if the critical audit matters section is included in the audit report, because as noted in the Release, these types of issues would most likely qualify for inclusion in both sections. [Note: We are using critical audit matters as a default here irrespective of our comments in another section of this letter.] This duplication may not be all negative; however, because what we believe will occur is that the critical auditing matters will reference back (perhaps in a single reference) to the emphasis section without complete reiteration. The auditor should always have the ability to discuss matters that are deemed important. This standard retains that option.

31. *Should certain matters be required to be emphasized in the auditor's report rather than left to the auditor's discretion? If so, which matters? If not, why not?*

Certain matters should not necessarily be required to be emphasized in the auditor's report but rather left to the auditor's discretion. As to the ten matters that are now required to be included when they are evident, they should continued to be required as they are significant for the achievement of the basic objectives of reporting. Other matters to be included at the auditor's discretion should be evaluated on a client specific basis. This is a subtle but important difference, and these other issues could be included by the auditor after review and analysis as needed. The latter evaluation would include the client's presentation and disclosure of these matters (the auditor perhaps having a different perception).

Because the language in the Release is open-ended about including other matters at the auditor's discretion through an emphasis paragraph (or explanatory language in another report paragraph), we do not believe it is necessary to add any recommendations to the examples listed as matters that could be considered as well.

32. *Should additional examples of matters be added to the list of possible matters that might be emphasized in the auditor's report? If so, what matters and why?*

No, see our discussion in Question 31.

Questions Related to Section VII

33. *Are the proposed amendments to PCAOB standards, as related to the proposed auditor reporting standard, appropriate? If not, why not? Are there additional amendments to PCAOB standards related to the proposed auditor reporting standard that the Board should consider?*

See our comments with regard to inclusion of firm's registration, independence, audit tenure, and our responses on reporting on other information.

We are in agreement with changes to AS No.6 and No.7, (although we are opposed to the inclusion of critical audit matters) and the changes in AS No. 7 which presupposes this change.

We agree that it would be in the purview of the audit committee to discuss the draft auditor's report, but the auditor should be wary of changes that might dilute positions taken by the auditor.

We are not opposed to referring to the work of a specialist(s) in resolution of matters discussed in critical audit matters.

Our views on other proposed amendments would be consistent with our responses on the basic elements discussed in this comment letter.

34. *What are the potential costs or other considerations related to the proposed amendments? Are these cost considerations the same for all types of audits? If not, explain how they might differ.*

Implementation costs would likely include training and audit methodology changes on a firmwide basis; and preparation time, added review and supervision time, as well as additional time for those in corporate governance. Additional costs could also be incurred in related litigation defense.

Overall, the time and effort involved would be relatively insignificant when measured against total audit fees.

Questions Related to Section VIII

35. *Are the proposed reporting standard and amendments appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?*

We believe it is worthwhile to draw attention to the following facts as considerations (some of which have been mentioned in the pages of the Release that precede this question).

- Per the PCAOB's Office of Research and Analysis, there are no issuers among the brokers and dealers that filed annual audited financial statements with the SEC for fiscal periods ended during 2012. Approximately 9% of the 4,230 brokers and dealers that file are subsidiaries of issuers. The remainder are not owned by issuers.
- Regulators such as the SEC and Financial Regulatory Authority (FINRA) have ongoing programs to monitor and examine the books and records of registered broker-dealers.
- Broker-dealers file Financial and Operation Combined Uniform Single (FOCUS) reports at least quarterly; many file monthly if their minimum net capital is at a high level. The level of minimum net capital is a reflection of perceived operational risk. FOCUS reports include balance sheets, income statements and other operational measurements of financial condition. In addition, all brokers and dealers have been filing quarterly Statements of Supplemental Income that include more details about results of operations. It is not unusual for responsible personnel at broker-dealers to receive inquiries from

regulators about the reasons for fluctuations and unusual amounts that are disclosed in these reports.

- There is public disclosure of the regulatory records of most brokers and dealers and of most individual registered representatives that deal with the public.
- The most recent amendment to SEC Rule 17a-5 requires that broker-dealers that are carrying brokers must provide permission to the SEC to see auditors' workpapers.

As a practical matter, the great majority of brokers and dealers are not issuers and have no public investors. Therefore, members of the public, when using the annual audited financial statements, are not making investment decisions, but rather are using the annual audited financial statements in considering whether to conduct transactions using the broker-dealer, and in some fewer cases, for the broker-dealer to have custody of its funds or securities.

In addition, there is a high level of interaction between brokers and dealers and the regulators and public disclosure about businesses and individuals that deal with the public.

Upon considering the above, we believe that the additional costs involved do not justify the additional reporting requested of auditors in the Release. However we believe that if the PCAOB decides that these standards be applied to brokers and dealers, that they should only be applied to those brokers and dealers that have custody of customer funds or securities.

36. Is the requirement of the proposed auditor reporting standard to communicate in the auditor's report critical audit matters appropriate for auditors of brokers and dealers? If not, why not.

For the reasons explained in our response to Question 35, we believe that the additional costs involved do not justify the additional reporting requested of auditors in the Release. However we believe that if the PCAOB decides that these standards shall be applied to brokers and dealers, that they should only be applied to those brokers and dealers that have custody of customer funds or securities.

37. Since a broker or dealer may elect to file with the SEC a balance sheet and related notes bound separately from the annual audited financial statements, should the Board address situations in which the auditor may issue two different reports for the same audit of a broker or dealer? Why or why not?

As we have discussed in our response to Question 35, we believe that the additional costs involved do not justify the additional reporting requested of auditors in the Release. However we believe that if the PCAOB decides that these standards shall be applied to brokers and dealers, that they should only be applied to those brokers and dealers that have custody of customer funds or securities. If the proposed reporting standard is adopted for broker-dealers, any additional reporting obligations of the auditor should be limited to the contents of the complete set of financial statements (as opposed to the separately bound balance sheet). As most users of the financial statements of brokers and dealers are primarily interested in the financial well-being of the broker or dealer, an audited statement of financial condition and notes are typically all that should be required to be made available to them.

38. Are the proposed auditor reporting standard and amendments appropriate for audits of investment companies? If yes, are there any considerations that the Board should take into account with respect to auditors' reports on affiliated investment companies, as well as companies that are part of master-feeder or fund of funds structures?

We have no response to this question at this time.

39. Are the proposed auditor reporting standard and amendments appropriate for audits of benefit plans? If yes, are there any considerations that the Board should take into account with respect to audits of benefit plans?

We have no response to this question at this time.

40. Should audits of certain companies be exempted from being required to communicate critical audit matters in the auditor's report? Why or why not?

As we previously stated, our position on this issue is that reporting of critical audit matters should not be required.

Questions Related to Section IX

41. Is the Board's effective date appropriate for the proposed auditor reporting standard? Why or why not?

Although a concerted effort would be needed to make all changes that are proposed in the Release, we believe the effective date is appropriate, provided that the PCAOB's efforts and adoption (including the SEC's approval) will not be unduly delayed.

42. Should the Board consider a delayed compliance date for the proposed auditor reporting standard and amendments or delayed compliance date for certain parts of the proposed auditor reporting standard and amendments for audits of smaller companies? If so, what criteria should the Board use to classify companies, such as non-accelerated filer status? Are there other criteria that the Board should consider for a delayed compliance date?

If the Board decides to extend the proposed standards and amendments to brokers and dealers we believe a year delay from the effective date used for issuers be implemented because an acclimation period for auditors of these entities using PCAOB auditing standards, and basic changes in several filing forms is now underway (under recent regulation changes).

Appendix 6 – Additional Discussion Related to the Proposed Other Information Standard

Questions Related to Section I

1. Is the scope of the proposed other information standard clear and appropriate? Why or why not? Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?

The Board should, in consultation with the SEC, extend the reporting and procedure standard for other information to other Exchange Act forms such as Form 10. It should also extend these proposed requirements to Exchange Act filings where audited information is contained by reference, for example proxy filings under Regulation 14A.

2. Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not? Are there additional costs or practical issues with including information incorporated by reference in the scope of the proposed other information standard? If so, what are they?

See response to Question 1 above.

3. Is it appropriate to apply the proposed other information standard to amended annual reports? Why or why not? Are there additional costs or practical issues with including amended annual reports in the scope of the proposed other information standard? If so, what are they?

If the standard was applied to a filing for which an annual report was filed or incorporated by reference and was subsequently amended, but the amendment did not affect the financial statement information content, the auditor should nevertheless evaluate whether it should or should not have changed. If no changes were needed, the auditor should not reperform original procedures and update the audit report for the other information content.

4. Should the company's auditor, the other entity's auditor, or both have responsibilities under the proposed other information standard regarding audited financial statements of another entity that are required to be filed in a company's annual report under Article 3 of Regulation S-X? Why or why not? Are there practical issues with applying the proposed other information standard to the other entity's audited financial statements?

For a number of practical reasons, the proposed “other information standard” should not be required for entities filing financial statements or condensed financial statements under Article 3 of Regulation S-X.

- Auditors of acquired companies may not be the same as auditor of the acquirer. The acquiree’s auditors may not be registered with the PCAOB. We believe in this circumstance the acquiree’s auditor would not be able to satisfy the proposed reporting obligations.
- The purpose of several subsections of Article 3 are designed to provide information that is specific to a specific risk or concern—for example the guarantor financial statements requirements help investors determine if a guarantor is able to meet the guarantee obligation. In this scenario, there would be little or no added value based on the reporting objective stated.

Question Related to Section II

5. Do the objectives assist the auditor in performing the procedures required by the proposed other information standard to evaluate the other information and report on the results of the evaluation?

We are in favor of providing an objective within the proposed standard that would assist auditors in understanding what needs to be achieved through the performance of the proposed required procedures. However, we believe paragraph 2.b. should be revised as follows:

b. When issuing an auditor's report, to communicate in the auditor's report the auditor's responsibilities for the other information and *when the other information includes a material inconsistency, a material misstatement of fact, or both, to describe these in the auditor's report.*

Further, we disagree with proposed requirement for auditors to make positive statements or conclusions about the absence of any inconsistencies, material misstatements of fact or both, as contained in paragraph 13(e) (see our response to Question 18 of Section VI of this Appendix).

Questions Related to Section III

6. Is it appropriate to require the auditor to evaluate the other information for both a material inconsistency and for a material misstatement of fact? If not, why not?

We are concerned that the use of the term "evaluate" could imply a more in-depth level of analysis than should be required to enable a determination of whether other information contains a material inconsistency with amounts or information or the manner of their presentation or a material misstatement of fact exists. We believe that auditors' responsibility should be limited to reading the other information in the context of their understanding of the entity, its environment, activities and financial performance and condition, as acquired during the audit, and to consider whether there may be a material inconsistency, misstatement of fact, or both.

7. Would the evaluation of the other information increase the quality of information available to investors and other financial statement users and sufficiently contribute to greater confidence in the other information? If not, what additional procedures should the Board consider?

Notwithstanding our response to Question 6 above, we believe it is likely that that the overall quality of information available to investors and other financial statement users might improve—including an understanding and appreciation for the limitations on the auditor's procedures and responsibilities. It is important for investors and other users to understand that while overall quality of the other information may improve; little or no assurance is provided on the other information because of the limited procedures performed and responsibility taken.

8. Is the federal securities laws' definition of materiality the appropriate standard for the auditor's responsibility to evaluate the other information? Would applying this definition represent a change to the materiality considerations auditors currently use under AU Sec. 550?

We agree that the appropriate standard for the auditor's responsibility to "evaluate" other information would be that afforded by the federal securities laws' definition of materiality and that this is consistent with current practice under AU Sec. 550 and Staff Accounting Bulletin 99.

9. Are the proposed procedures with respect to evaluating the other information clear, appropriate, and sufficient? If not, why not?

We agree that the procedures set forth in paragraph 4 of the proposed standard, *i.e.*, to compare the amounts and qualitative statements in the other information to the financial statements and verify the mathematical accuracy of calculated amounts, are appropriate and consistent with the procedures many practitioners already perform. However, as stated in our response to Question 6 of Section III of this Appendix, we do not believe the use of the term "evaluate" is appropriate and suggest revising the requirement in paragraph 4 to delete that term and state instead that the "auditor should read the other information and perform the following procedures."

Additionally, we believe that paragraph 3 of the proposed standard, which sets out what would be the auditor's overall responsibilities, should be revised to delete the term "evaluate" so that the paragraph would state that "the auditor should read the other information and perform certain procedures to determine whether there appears to be a material inconsistency or misstatement of fact, or both."

We recommend that all references to "evaluate" be replaced with "to read" or "consider", in the standard due to all the possible interpretations of "evaluate."

10. Is it understood which amounts are in the other information the auditor would be required to recalculate under paragraph 4.d.? If not, why not?

We believe that the guidance in paragraph 4.d. along with the related Note provides an appropriate explanation about which amounts in the other information the auditor would be required to recalculate.

11. Are there additional costs beyond those described in this Appendix related to the proposed required procedures for the evaluation of the other information? If so, what would these costs be?

We believe the additional costs described in Appendix 6, including costs relating to (1) those incurred by some firms that might not currently be performing similar procedures as set out in paragraph 4, (2) strengthening the auditor's responsibilities from being "aware" to the performance of specific procedures relating to determining whether a material inconsistency or misstatement of fact appears to exist, and (3) one-time implementation costs that might be incurred by a few firms would, nevertheless, not likely be significant.

12. Are the proposed auditor responses under paragraph 5 appropriate when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If not why not?

The proposed auditor responses described in paragraph 5, which consist of inquiry of management and the performance of additional procedures, are appropriate. However, we suggest recognizing that the nature and extent of the additional procedures should be sufficient to resolve the apparent discrepancy as determined based on the auditor's professional judgment.

13. Are there additional costs beyond those described in this Appendix related to responding when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If so, what would these costs be?

We believe the incurrence of such costs invariably would be warranted in the circumstances. See our response to Question 11 of Section III of this Appendix.

Questions Related to Section IV

14. Are the proposed auditor's responses under paragraphs 8 and 9 appropriate when the auditor determines that the other information that was available prior to the issuance of the auditor's report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

We believe that the proposed auditor's responses are appropriate and consistent with current practice in circumstances in which the auditor determines that the other information that was available prior to the issuance of the auditor's report contains a material inconsistency, misstatement of fact, or both.

15. Is it appropriate for the auditor to issue an auditor's report that states that the auditor has identified in the other information a material inconsistency, a material misstatement of fact, or both, that has not been appropriately revised and describes the material inconsistency, the material misstatement of fact, or both? Under what circumstances would such a report be appropriate or not appropriate?

In certain circumstances, it may be appropriate for an auditor to issue an audit report that states the auditor identified a material inconsistency or a material misstatement of fact, or both, in the other information. However, we suggest providing additional guidance that explains that in determining the appropriate action, consideration should be given to the extent to which a material misstatement of fact in the other information could reasonably be expected to influence the economic decisions of the users for whom the auditor's report is prepared and the auditor's understanding of the rationale given by management and the audit committee for not making the correction.

16. Are the proposed auditor's responses under paragraphs 10 and 11 appropriate when the auditor determines that the other information that was not available prior to the issuance of

the auditor's report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

The proposed auditor's responses for those circumstances when the auditor determines that the other information that was not available prior to the issuance of the auditor's report contains a material inconsistency, misstatement of fact, or both, are appropriate.

We believe that in this circumstance consultation with counsel is a recommendation that should be added to paragraph 11 of the proposed statement.

Question Related to Section V

17. Are the proposed auditor's responses appropriate when, as a result of the procedures performed under the proposed information standard the auditor determines there is a potential misstatement in the financial statements? Why or why not?

We agree with the auditor's responses set out in the proposed standard that would require reference to Auditing Standard (AS) No. 14, *Evaluating Audit Results* and AU 508 *Departures from Unqualified Opinions and Other Reporting Circumstances*, when the auditor discovers that there is a potential misstatement in the financial statements. However, we also believe that the standard should refer to AS No. 12, *Identifying and Assessing Risks of Material Misstatement*, since there may be implications related to the auditor's understanding of the entity and its environment, indicating a need to revise the auditor's initial risk assessment and audit scope.

Questions Related to Section VI

18. Is the proposed reporting, including the illustrative language, appropriate and sufficiently clear? If not, why not?

We are in favor of expanding the standard audit report to include language in the discussion of auditor's responsibilities that would better inform investors and other users regarding auditor's limited responsibility for other information. However, we do not support requiring the auditor to make any positive statement or conclusion about the absence of any material inconsistencies or material misstatements of fact in the other information because we believe that such a statement is likely to mislead users to incorrectly believe that such information had been subjected to sufficient procedures to form a conclusion. We believe providing such a statement would have the undesired effect of widening the expectations gap.

19. Should the Board consider permitting or requiring the auditor to identify in the auditor's report information not directly related to the financial statements for which the auditor did not have relevant audit evidence to evaluate against? If so, provide examples.

We do not believe that the auditor should identify in the auditor's report other information not directly related to the financial statements for which the auditor did not have relevant audit evidence to evaluate against since such a statement would imply erroneously that the auditor had

an obligation to examine supporting evidence for such other information beyond what would be necessary to express an opinion on the financial statements.

20. *What additional costs would the auditor or the company incur related to auditor reporting when the auditor identifies a material inconsistency, a material misstatement of fact, or both?*

While we do not believe that there would be significant direct additional costs incurred related to reporting under this proposed standard, we believe that additional indirect costs (such as defense costs in disputes or litigation) might be incurred because investors misunderstand the scope and nature of the work performed by the auditor on the other information and adversely affect investment decisions.

21. *Would the proposed reporting, including the illustrative language, provide investors and other financial statement users with an appropriate understanding of the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information? Why or why not?*

See our responses to Questions 9 of Section III and 18 of Section VI of this Appendix.

22. *Are there any practical considerations that the Board should consider when an auditor identifies a material inconsistency or a material misstatement of fact in the other information that management has appropriately revised prior to the issuance of the auditor's report?*

We are not aware of any practical considerations except for considering whether the detected inconsistency or misstatement, even though corrected, is indicative of a weakness in the issuer's internal controls over financial reporting or other disclosure controls that might also require revisions to management's statements made about such controls.

Question Related to Section VII

23. *Are the proposed responsibilities of the predecessor auditor appropriate and sufficiently clear? If not, why not?*

The requirements in the proposed other information standard with respect to a predecessor auditor are similar to extant guidance, and we believe the proposed responsibilities are appropriate and sufficiently clear.

Questions Related to Section VIII

24. *What effect, if any, would the reporting under the proposed other information standard have on an auditor's potential liability in private litigation? Would this reporting lead to an unwarranted increase in private liability? Are there steps the Board could or should take related to the other information requirements to mitigate the likelihood of increasing an accounting firm's potential liability in private litigation?*

We believe that if a contentious matter were to arise subsequent to report issuance which was not discussed in critical audit matters that the matter might be the subject of litigation, especially if there were other serious matters such as significant misstatements that were not identified, it is less likely that an issue that was not identified in other information or was misstated would become part of a securities litigation, unless it was listed as a matter that was included in a compendium of issues.

25. *Would reporting under the proposed other information standard affect an auditor's potential liability under provisions of the federal securities laws other than Section 10(b) of the Exchange Act, such as Section 11 of the Securities Act? Would it affect an auditor's potential liability under state law?*

We have no response to this question at this time.

Questions Related to Section IX

26. *Are the proposed amendments to PCAOB standards, as related to the proposed other information standard, appropriate? If not, why not? Are there additional amendments to PCAOB standards related to the proposed other information standard that the Board should consider?*

The proposed amendments appear appropriate.

27. *In the situations described in the proposed amendments to existing AU sec. 508, should the Board require, rather than allow, the auditor to include statements in the auditor's report that the auditor was not engaged to examine management's assertion on the effectiveness of internal control over financial reporting and that the auditor does not express an opinion on management's report?*

We believe that requiring the auditor to include a statement in the auditor's report that the auditor was not engaged to examine management's assertion on the effectiveness of internal control over financial reporting and that the auditor does not express an opinion on management's report is appropriate. Such reporting would improve consistency between auditor reports and provide clarity to users with respect to the auditor's responsibility.

Question Related to Section X

28. *Are the proposed other information standard and amendments appropriate for audits of brokers and dealers? If not, why not?*

Other information is not relevant to brokers and dealers that are not issuers.

Questions Related to Section XI

29. *Is the Board's effective date appropriate for the proposed other information standard? Why or why not?*

We believe that the effective date for the proposed information standard, audits of financial statements for fiscal years beginning on or after December 15, 2015, is appropriate.

30. Should the Board consider a delayed compliance date for the proposed other information standard and amendments for audits of smaller companies? If so, what criteria should the Board use to classify companies, such as non-accelerated filer status? Are there other criteria that the Board should consider for a delayed compliance date?

We support delayed compliance dates for any proposed standard on other information to provide auditors of smaller companies with sufficient time to incorporate the guidance into their methodologies and educate their clients about the proposed standard and its impact on the nature and timing of procedures relating to other information.

Questions Related to Section XII

31. Should the Board extend the application of the proposed other information standard to documents containing audited financial statements and the related auditor's report that are filed under the Securities Act? If so, are there obstacles other than those previously mentioned that the Board should consider before such a proposal is made? If not, why not?

Auditors have historically made a conscious attempt to have clients avoid cross-referencing content from “other information” (such as MD&A) directly into financial statements being filed. This was meant to avoid the implied direct responsibility which would attach to the integrated content. The risk increases under Securities Act filings as audited financial statements are “expertized” and the attendant liability concerns under Section 11 of this law.

One of the issues we discussed was that the report language dealing with required “supplemental” information and other language dealing with “other” information is much different in form and content. It is important that these terms be easily identified by making sure that each schedule or other supplementary information be listed, and that the same thing be done for other information.

The main issue we see is MD&A usually contains much forward looking information and does not lend itself to consistency with the underlying client financial statements on many levels. For instance, information may be based on cash flow management or budgeting analysis. Making a statement about not being inconsistent or that an omission of a material magnitude has occurred is problematical especially in a Securities Act filing.

32. Are there some elements of the proposed other information standard that the Board should consider requiring the auditor to perform related to other information contained in filings under the Securities Act, such as the auditor's responsibility to evaluate the other information? If so, which elements of the proposed other information standard should the Board consider including in the procedures currently required for Securities Act documents under AU sec. 711? If not, why not?

See our comment in Question 31, which suggests deletion of coverage for MD&A. We do not propose to add any other content.

33. What costs or other challenges should the Board consider when assessing whether to propose extending some elements of the proposed other information standard to other information contained in documents filed under the Securities Act?

We believe there will be time costs but we do not have estimates at this time.

Appendix 7 – Emerging Growth Companies

Questions

1. Should the proposed standards and amendments be applicable for audits of EGCs? Why or why not?

To the extent the proposed standards and amendments are retained in a final standard (which we oppose in many respects as noted above), we believe they should be applicable for audits of EGCs as a matter of consistency. As any standards, auditing standards should be consistently applied and comparable, in this case, for all audits. Although we do not believe the intended goals of the proposed standards and amendments will be achieved; excluding certain entities (other than non-issuers) from such requirements would be inconsistent and illogical.

2. Are there any other considerations related to competition, efficiency, and capital formation that the Board should take into account with respect to applying the proposed standards and amendments to audits of EGCs?

We do not believe special consideration should be given to EGCs related to competition, efficiency, and capital formation. As we have stated in Question 1 of this Appendix, despite our opposition to the proposed standards and amendments, application of auditing standards and amendments should be consistent and comparable for audits of all issuer entities.

3. Are there any special characteristics of EGCs that the Board should consider related to the proposed auditor reporting standard, including the communication of critical audit matters?

We do not believe special characteristics of EGCs should be considered in the applicability of such standards. As we have stated in our responses to various questions in Appendix 7 of the Release, despite our opposition to the proposed standards and amendments, application of auditing standards and amendments should be consistent and comparable for audits of all entities.

4. Would audits of EGCs be more, less, or equally likely to have critical audit matters?

Based on the characteristics of EGCs, they are equally or more likely to have critical audit matters than non-EGCs. For example, as noted in Appendix 7 of the Release, data suggests that

“EGCs are 10 times more likely than the population of companies in the Russell 3000 Index to have a management report on internal control over financial reporting stating that the company’s internal control over financial reporting was not effective.”

5. Are there any special characteristics of EGCs that the Board should consider related to the proposed other information standard and amendments?

No.

6. What costs would audit firms incur when implementing the proposed auditor reporting standard, including the communication of critical audit matters, for audits of EGCs? How will those costs differ from the costs for audits of larger and more established companies?

Related costs to prepare the necessary communications will vary and such costs could be significant. Audit firms would incur initial costs in developing new audit methodologies to address the requirements of the proposed auditor reporting standard. Costs would also be incurred to train staff regarding the new methodologies and in changing the presentation of the auditor’s report. With respect to communication of critical audit matters, implementation costs for audits of EGCs would not likely vary from that of larger and more established companies.

7. What costs would audit firms incur when implementing the proposed other information standard for audits of EGCs? How will those costs differ from the costs for audits of larger and more established companies?

Should the proposed standards and amendments be retained in a final standard (which we oppose), audit firms would incur additional and unnecessary costs in developing and maintaining separate audit methodologies for EGCs as opposed to other SEC registrants. In terms of costs specifically relating to implementing the proposed other information standards for audits of EGCs, it would be minimized as a result of the provisions in the Jumpstart Our Business Startups Act (the “JOBS Act”) which allow for reduced disclosure requirements in IPO registration statements and the gradual phase-in of certain post-IPO disclosures and other requirements.

8. Are there particular costs or burdens applicable to EGCs that the Board should consider when determining what recommendation to provide the Commission regarding the application of the proposed auditor reporting standard and amendments to EGCs?

See our response to Question 6

9. Are there particular costs or burdens applicable to EGCs that the Board should consider when determining what recommendation to provide the Commission regarding the application of the proposed other information standard and amendments to EGCs?

See our response to Question 7

10. For auditors of both EGCs and other SEC registrants, would it be more costly not to apply the proposed standards and amendments to audits of EGCs because the firms would need to develop and maintain two audit methodologies?

We believe the proposed standards should be applicable for audits of EGCs as a matter of consistency. As consistency is always the most efficient approach, it would be more costly to have to maintain different audit methodologies for EGCs and other SEC registrants. Costs of maintaining different audit methodologies could be significant.