

December 9, 2013

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

Re: PCAOB Rulemaking Docket Matter No. 034

Proposed Auditing Standards

1. The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion;
2. The Auditor's Responsibility Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report.
3. Marcum LLP ("Marcum", the "Firm") respectfully submits its comments on the referenced proposal. Marcum is a national, PCAOB registered CPA firm with offices in New York, Connecticut, Massachusetts, New Jersey, Pennsylvania, Florida and California. The Firm primarily serves microcap public and mid-sized nonpublic business entities, as well as many non-commercial entities.

The Firm's Overall Comments

We appreciate the opportunity to comment on the PCAOB's (the "Board") proposal. The proposal is a very significant change in the auditor's reporting on financial statements. Whereas we agree with the Board that the "pass-fail" model remains valid, we believe that certain of the proposals will degrade the reporting process:

- We believe that requiring the auditor to report on auditor tenure information in the auditor's report injects data that does not provide useful information and may imply problems or difference in quality where none exists.

- We believe that requiring the auditor to report on critical audit matters could result in a perceived difference in audit quality where none exists. In any audit conducted in accordance with PCAOB Standards, the auditor assesses the business in which the entity operates and the control risk within the entity, and addresses the audit risks that result from such assessments. We believe that the users of the audit report will not learn from the reporting of critical audit matters, whether such assessments were properly carried out or adequately addressed, nor will they learn any more about the company's business or control risks than is currently reported in other information filed with the Securities and Exchange Commission (the "Commission") and made public to users. Because the assessment of critical audit matters ("CAMs") is subject to wide interpretation, comparability is likely to be impaired. It is unclear to us whether a user would infer that set of financial statements, or the audit thereon, were of better or worse quality based on the number of critical audit matters disclosed under the proposed new auditor's report. Additionally, the number of such matters would vary between how individual auditors assess and categorize such matters.
- Requiring the auditor to report on CAMs could create the risk, especially with untrained readers that such reporting is read as a de facto piecemeal opinion on specific attributes of the financial statements.
- We believe that in regard to reporting CAMs, the Board may be attempting to address certain perceived problems through the audit reporting process that are better addressed through financial reporting standards through the appropriate standard setters.
- We believe that requiring the auditor to report on other information associated with the filing, including identifying material misstatements of fact, requires the auditor to express a conclusion the auditor is not trained or equipped to reach, and is beyond the auditor's competence. The auditor is considered to be expert in accounting and financial reporting, not in technology, marketing or the law.
- We also believe that the addition of excessive additional information can weaken the report's main message.

Auditor's Report

Questions Related to Section II Objectives:

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?**

No. The objectives are understandable, but the guidance to implement the requirements is inherently too subjective to be useful. For example, the objective that critical audit matters be communicated is clear, but the supporting definition of CAM is widely open to various interpretations.

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?**

No. Addressing the report to the shareholders and the board of directors is sufficient as it is a publicly available document. Therefore, it is not necessary to require further addressees.

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?**

No.

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?**

No. The title of the report, displayed prominently, is "Report of Independent Registered Public Accounting Firm". To add a redundancy in the body of the report just adds clutter that detracts from the reports main objective, which is rendering an opinion on the financial statements taken as a whole.

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?**

No. We do not believe that the length of the auditor's tenure has been shown to have any bearing on the quality of an audit and we are not aware of any body of reliable research that supports a correlation, much less causation between longevity of the audit firm and audit quality. We also believe that the board may be confusing data with information, or that more is always better no matter the relevance. Including this information could falsely give an impression that auditor's tenure in some way coincides positively or negatively with quality.

- 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?**

No, however, the auditor's tenure should be explicitly defined to exclude predecessor firm tenure. When one firm acquires and merges with another firm, there may be inappropriate association of the pre-merged period with one of the pre-merged accounting firms or the combined accounting firm. By having the combined accounting firm associate with prior periods audited by one of the predecessor firms, it could increase the legal liability exposure of the combined accounting firm. Many transactions are structured as asset purchases, leaving the predecessor firm's legal existence intact, in order to mitigate exposure to historical liabilities of the predecessor. Additionally, there could be significant changes to the accounting firm's governance and quality control system subsequent to the merger, which would render the information useless, or worse, misleading.

Finally, should the Board decide to maintain the requirement to include the year the auditor began serving consecutively as the company's auditor, and should that requirement include firms that the auditor's firm has acquired or that have merged with the auditor's firm, some additional clarity is requested. For example, it is not uncommon for an individual audit partner of another firm to join a new accounting firm; that partner sometimes brings audit clients. Please provide guidance as to whether such a transaction would be considered a merger.

- 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?**

No. This information is not important or of significant use (Please see our response in 5.a. & 5.b. above). Inclusion in the audit report implies importance. In addition, the information is publicly available elsewhere. Excess information in the report make the report a less readable, and therefore less useful to the reader.

- 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?**

No. A requirement that the auditor provides, or appears to provide, assurance on Other Information, particularly misstatements of fact that can cover facts outside of the auditor's competence, is problematical.

The proposed standard by, among other things, requiring the auditor to state that there is no material misstatement of fact in the other information, expands the responsibility of the auditor to areas that we believe is beyond the competence of auditors and requires a conclusion that cannot be reached based on the proposed procedures (Paragraph 4, page A2 – 3). In addition, the inclusion of Other Information is often a legal matter; auditors are neither trained to nor licensed to practice law.

The proposed standard expands the auditor's responsibility from addressing consistency between the financial statements and other information to state that we are "evaluating" whether there are material misstatements of facts in the other information. This expanded requirement involves addressing legal matters and completeness of other information in addition to its accuracy. In particular, the requirements of paragraph 4.c. of the Proposed Other Information Standard should be deleted. Additionally, it is introducing a new term in the assurance lexicon, an "evaluation". We do not believe that it is clear what level of service or procedures would be performed by the auditor to qualify as an evaluation. We strongly recommend that these requirements be deleted from the proposal. However, should the Board decide to maintain the requirement to report on Other Information, we would suggest opinion language that would be similar to the following:

In addition to auditing the Company's financial statements in accordance with the standards of the PCAOB, we are required to read the other information, included in the annual report on [*SEC Exchange Act form type*] filed with the SEC that contains both the December 31, 20X2 financial statements and our audit report on those financial statements, to determine whether it contains a material inconsistency with the financial statements. Our evaluation was based on relevant audit evidence obtained and conclusions reached during the audit. We did not audit the other information and do not express an opinion on the other information. Based on our evaluation, we have not identified a material inconsistency in the other information.

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?

Yes. This could be helpful to the reader by aiding comparability between auditor's reports for different companies.

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?

None.

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.

The costs of a new requirement to report on a material misstatement of fact in Other Information that is not otherwise corrected by the reporting entity could be substantial, and would vary significantly between entities based on size and complexity. It is difficult to estimate such costs, but we estimate that it could be within 10% of total fees for small, non-complex engagements and as high as 25% for large complex engagements.

Questions Related to Section V Critical Audit Matters:

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. (1) Critical Audit Matters are too subjective. The inconsistency introduced in application by different accounting firms regarding what to disclose would make comparisons difficult between similar companies with similar issues, but different auditors. (2) The information would repeat much information that is already contained in the risk factors section of SEC filings; its inclusion would "crowd out" more relevant information and factors. (3) The additional factors would tend to either be short and formulaic, or excessively lengthy, and therefore unusable for the reader. (4) Disclosure of CAMs would likely be misunderstood by an inexperienced user that is not familiar with the audit process and does not have the context that both management and the company's audit committee possess.

Because the CAMs have been either resolved, or if not have been disclosed in a modification of the report or a scope restriction, it is uncertain what value is provided and to whom. We therefore believe it will not be useful. Although the information might be desired by a minority of users, and some investors would prefer as much additional data as possible, we do not believe such extra data would be relevant, or that the auditor's report would be the best place for it. It is not the auditor's responsibility to the reader to share the substance of the audit, especially if paired with responses and procedures, with the investor. We believe that management should be disclosing and discussing the critical aspects of a Company's business that would also be critical audit areas by nature and generally has more flexibility in doing so. The Board should not require the auditors to assume the responsibility of management.

We are not aware of other alternatives that should be considered.

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

This section of the auditors' report could become very lengthy and time consuming to prepare, adding to costs. It could also become too lengthy and needlessly technical and therefore become confusing. Complex audit engagements typically have various critical audit areas. To require a discussion of such matters in the auditors' report could transform the auditors' report into a version of the registrants' forepart. Any audit is subject to more than

one valid approach; such approaches could result in different critical audit areas or different definitions of those areas. Reporting has been down this road before with the “long form” audit report, which has long been discredited and dropped from use. It would be undesirable return to the “long form” audit report.

As noted above, if the CAMs have already been addressed and resolved, then we believe the relevance of the additional disclosure in the auditor’s report is doubtful. If the matter is resolved, it is unclear what inference a user should draw from the inclusion of resolved matters?

CAMs and their disclosures are the responsibility of the registrant. The auditors’ responsibility is to conduct their audit, address the critical audit matters and render their opinion. Inherent in the auditor’s opinion is the fact that their audit sufficiently addressed these matters. In addition, the presentation of the areas that the auditor determined to be critical is also subjective and would likely generate unwarranted criticism/second-guessing from others. The time required to complete an engagement would also be lengthened due to the proposed expanded content of the auditor’s report within the existing very tight filing deadlines.

As noted above, there is a difference between data and facts. Piling everything that any interest group believes would be useful into the auditor’s report makes the report longer, but not necessarily better.

The proposed requirement to disclose CAMs could be expected to result in a large increase in frivolous litigation.

The probability of such additional exposure could be expected to result in over-reporting of critical audit matters, which would make the report less user friendly and usable.

12. **(a) 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? (b) Is the definition of a critical audit matter sufficiently clear for determining what would be a critical audit matter? (c) Is the use of the word "most" understood as it relates to the definition of critical audit matters?**

(a) No. It is too subjective. The Board appears to have made a good faith effort to limit the disclosure to those CAMs that would be discussed with the audit committee, however, we believe that the additional exposure inherent in this proposal would lead to a much broader inclusion of matters. It is also unclear how inclusion of a critical audit matter in the audit opinion adds any relevant information that would not otherwise be provided by existing disclosure in the financial statements. (b) No. It is by nature subjective and subject to interpretation by the auditor and the user, which cannot easily be resolved through a standard, no matter how refined the definitions. For example, what poses the greatest difficulty will vary by individual and audit team. (c) No.

- 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?**

The time required in reviewing and drafting the additional disclosure, particularly if it needs to be addressed in a defensive manner (see comments on frivolous litigation above) will detract from time better spent addressing the procedures surrounding the audit. This additional time requirement would drain available resources, both of the auditor and the audited entity from the major focus of the audit.

- 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?**

Yes, although the CAMs themselves are highly subjective and subject to interpretation.

- 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. (a) We wish to remind the Board that audit reporting has been down this road before and the so-called "long-form report" was discontinued long ago. We do not believe this type of format would be considered to be any more useful today. (b) We can't see any benefit to the user; providing such detail could undermine the acceptance of the current "pass-fail" reporting model. (c) The audit procedures performed are proprietary information and do not belong in the auditor's report. Informing the reader of the auditors' procedures is circumventing the audit process. One area in particular that would be affected is the audit for fraud. We should not disclose to a company how we audit for fraud. (d) The individual consideration of specific elements of the audit process could also be construed as forming a de facto separate (or piecemeal) opinion on specific matters, which is prohibited.

- 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?**

Yes, but they are only helpful for internal purposes, in which governing boards have appropriate information and context. They are too subjective for meaningful disclosure to third parties.

- 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?**

No. These matters should be left to the professional judgment of the auditor, and attempts to codify them create more difficulty in allowing the auditor to apply such professional judgment.

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

It is sufficiently clear in that an auditor can understand the criteria to be used. It is not sufficiently clear for the purposes of this proposal in that its high subjectivity cannot by nature be overly defined and attempts to do so should be resisted.

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?

It may contribute to additional consideration, although it would more likely contribute to defensive over-reporting. Excessive disclosure might be added in order to avoid second-guessing in what is by nature a subjective field. Such over-reporting may actually defeat the intent by resulting in the disclosure of information of lesser importance. We are not aware of any further changes the board should make because we believe that the board's intent is already appropriately met under current standards.

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

Yes, it is sufficient.

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?

As previously noted, the additional costs are going to be incurred at the higher level of the engagement team in identifying how to communicate the critical audit matters including the firms' quality control review function. More consideration is going to be focused on auditor exposure. This will include additional time at every level of review, consultation with technical reviewers and possibly with in-house counsel that would not provide additional audit quality. Yes, considerations will be similar in nature for all types of audits, however, more complex audits will be more costly.

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 believe additional time spent by management with the auditors regarding the reporting of CAMs could add to the company's cost, the amounts of which would vary depending on the size and complexity of the audit. Management will probably consider this a source of additional risk and unintended consequences.

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

Based on the responses to the matters discussed above, we believe audit fees will increase.

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?

Yes, If CAMs exist and have never been communicated before then communication for all periods presented is appropriate. We believe, generally for recurring audits, that critical audit matters will not vary from period to period. In the case of material non-recurring transactions, there would be a possibility to probability that CAMs might vary between periods.

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 are useful to the extent that they describe what the Board has in mind, however we believe that they have two flaws: (1) the examples are too "textbook" and do not provide usable guidance as to what level of disclosure should be made; (2) the examples appear to be de facto piecemeal opinions on specific matters.

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.

The CAMs are going to differ as they are going to be judgmentally written by different audit firms. There are different, equally valid approaches to any problem, which would result in either different CAMs or different methods of describing them. Audit firms internal policies and standards may also result in different styles of presentation. This would likely make it more difficult for a user to determine what inferences to draw from the additional disclosure. A user could draw inaccurate conclusions that they may not have otherwise drawn. The additional requirements might produce more unintended consequences than benefits. For example, users may derive inappropriate inferences from a long list as opposed to a short list of CAMs. If the CAM has been resolved, it is not relevant, but may be given unwarranted relevance through the added audit report disclosure.

Differences will also exist depending on the type of entity, i.e. industry and complexities, however, this source of difference would not be considered a negative.

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?**

Although we believe it is beneficial to report resolved disagreements to those involved in governance, we do not believe it is beneficial to the outside user, who can't put it into the context of the Company's internal operations and controls. We do not believe, for example, that auditors are professionally trained to determine when a "possible" illegal act is "possible"? Many of the Board's examples in the Appendix come close to being piecemeal audit opinions, detract from the "financial statements as a whole" and introduce clutter rather than needed information. If the Board believes its current proposal for reporting CAMs will resolve some undefined problems with the current financial disclosure model, the appropriate remedy is to improve accounting and reporting standards through the appropriate standard setters.

As noted in our responses to several of the Board's previous questions, we believe that reporting CAMs is by nature highly subjective and would be expected to detract from the comparability between similar companies. Since there is no standard or context by which to analyze what is essentially not relevant since the CAMs have been resolved, the effects of reporting such matters may have unintended consequences.

As also noted above, this standard also appears to open the parties to endless frivolous litigation, increasing costs and perhaps resulting in significant defensive over-reporting, resulting in a less usable report.

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?**

We would expect expanding the auditor's report to include CAMs will result not only in significant excess litigation that would increase costs without providing any offsetting benefit or protection to the investing public. We are unaware under what authority the Board could mitigate the likelihood of this consequence.

Questions Related to Section VI Explanatory Language:

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.

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

Yes. No standard can foresee every circumstance. Some scope for judgment should be retained for those cases in which the auditor believes something should be brought to the attention of the user. This is, and should be, used in limited circumstances, not as a normal course of action.

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?**

No. As noted above, this would be similar to discarding our successful common law tradition and trying to replace it with an inflexible legal code. No command and control solution can address a complex and changing landscape as well as allowing some scope for judgment.

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.

Questions Related to Section VII Conforming Amendments:

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?**

Amendments to Auditing Standard No. 5

The "statement that the auditor is a public accounting firm registered with the PCAOB 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 SEC and PCAOB" is not in and of itself inaccurate or harmful, we believe it is unnecessary and redundant, does not contribute any value and adds only clutter that detracts from the central message of the auditor's report.

The “statement containing the year the auditor began serving consecutively as the company’s auditor” does not contribute useful information given the lack of any apparent connection between longevity or lack thereof and quality of the audit.

Amendments to Auditing Standard No. 6

Appear appropriate

Amendments to Auditing Standard No. 7

Appear appropriate

Amendments to Auditing Standard No. 16

As noted above, we believe that these communications do not belong in the auditor’s report.

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.**

Audit fees would increase due to the additional requirements of Auditing Standard 16 and exposure to abusive litigation would increase.

Questions Related to Section VIII Specific Entities:

35. **Are the proposed auditor 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?**

No.

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

No. We do not believe that they are appropriate for any audit for the reasons described above.

In addition, the readers of an audit report on broker dealers are much more limited in number as they are generally privately held and therefore there would not be any extended benefits derived from such a requirement. Furthermore, it would be unduly burdensome on the time and cost perspective to the clients and their auditors of such entities.

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?**

No. There doesn't appear to be any difficulty or lack of understanding for the affected users here. There is no risk that requires mitigation.

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?**

No.

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?**

No.

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?**

Yes. Broker dealers that are not publicly held should be excluded. Otherwise, all public companies should be treated alike.

Questions Related to Section X Effective Date:

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

Generally, yes. However, as with most new PCAOB standards, effective dates should be stated as fiscal year ending dates. Occasionally companies change year-ends, or for other reasons report on short periods. For example, the audit of a SPAC for an inception period dated March 1, 2016 to March 15, 2016, would require application of these new standards. As a result, an audit firm's implementation of a new standard could be at different times during the year. When implementing new standards, an audit firm needs to modify its policies and procedures and train its staff on the new requirements. It would be more practical to set effective dates based on a company's fiscal period end, so there is more uniformity with the timing of the implementation.

- 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?**

Consideration should be given to an earlier date for accelerated filers to allow a lessons-learned year before the higher volume SRC audits come on line.

Other Information

The Firm is opposed to the proposed requirement that auditors report on other information as set forth in our response to Question 6 to the PCAOB's Auditor's Report section above.

Questions Related to Section I Introduction:

1. **(a) Is the scope of the proposed other information standard clear and appropriate? Why or why not? (b) Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?**
 - (a) The Firm believes the scope of the other information standard is unclear. Much data, including that filed with the SEC, are made available on company websites, in some cases directly, in other cases by a link to the EDGAR database; it appears the former is not covered by the proposed standard, but the latter is; we question whether this makes any sense. And if the "glossy" annual report is partially incorporated by reference, readers will have difficulty sorting out what is covered and what is not; this seems to make little sense.
 - (b) The Firm believes the proposed other information standard should be limited to annual reports.

2. **(a) Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not? (b) 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?**
 - (a) The Firm believes the proposed other information standard should be restricted to information that is expressly included in the document that includes the audited financial statements. In particular, there will be significant additional costs incorporating forward documents, such as a proxy, or an amended Form 10-K that includes the Part III information. It will be very difficult for auditors to control the process, as clients will not need their audit firm's opinion or consent to be included in the document. As such, it is possible that documents will get filed without the

auditor's authorization. Such a requirement should only be implemented with a corresponding amendment to SEC rules to require a formal auditor consent, so that there is a definitive process for documenting and reporting that the auditor has completed its required procedures. Additionally, while there will be added cost and burden on auditors to comply, the users of the financial statements will not likely understand the auditor's involvement with the other information when it is incorporated by reference, so there will be no perceived benefit by the user community.

- (b) The Firm believes there are substantial incremental costs associated with requiring the auditor to include other information incorporated by reference within the scope of the proposed other information standard, along with the practical difficulties of identifying such information, which may have changed since the date the auditor's report was issued.

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?

The Firm believes that unless the cause of the amendment requires the auditor to update their audit report for information that impacts the amended financial statements, it is not appropriate to apply the proposed other information standard to amended annual reports. To do so would require the auditor to continuously update their audit report which would be unduly expensive.

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?

The Firm believes the proposed requirement is unclear. If it means that audited financial statements furnished pursuant to Article 3 are considered "other information," the Firm disagrees with the requirement; audited financial statements should not be considered "other information". Further, reporting on those financial statements is the responsibility of the other entity's auditor; the company's auditor should have no responsibility for them.

In addition, if the "other information" concerning the other entity is interspersed in the document with that of the registrant, identifying which auditor has responsibility for what information could be impractical. Also, it would not be practical for the Article 3 auditor to give any level of assurance, even negative assurance, on information related to the company, and vice versa. Such information should be clearly and affirmatively scoped out of the proposed standards.

Question Related to Section II Objectives:

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?**

The Firm believes the stated objectives are helpful, but we disagree with the auditor being held responsible for evaluating whether the other information has a material misstatement of fact. Please refer to the Firm's response to Question 6 under the proposed auditor reporting standard.

Questions Related to Section III Evaluating Other Information:

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?**

The Firm agrees with the proposed requirement to evaluate the other information for a material inconsistency with the financial statements, but we do not agree with evaluating it for a material misstatement of fact. Please refer to the Firm's response to Questions 6 under the proposed auditor reporting standard, and the Firm's response to Question 5 above.

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?**

The Firm agrees that providing an auditor evaluation may convey greater confidence in the other information. However, the Firm is doubtful the reporting requirement will have any impact on the content of the other information. No additional procedures are necessary or appropriate.

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?**

The Firm believes the appropriate standard of materiality to apply in the proposed other information standard is that currently stated in AU sec. 550. Auditors already consider the implications of the SEC's definition of materiality in evaluating the impact of any variances.

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

The Firm believes the proposed procedures are appropriate for evaluating inconsistency with the financial statements, but they are not appropriate for evaluating any material misstatement of fact. There may be no link between audit evidence obtained and conclusions reached during the audit with the facts included in the other information, so the auditor would have no basis for the negative assurance proposed by the PCAOB. Arguably, since the fact is not within the scope of the evaluation, there is no assurance given, but a reader would then have no way of knowing what facts are subject to assurance and what facts are not.

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

The requirements set forth in paragraph 4.d. appear clear. However, to the extent recalculation is based on “other audit evidence” a user will not know whether it has been recalculated because the user will not know the content of the “audit evidence.”

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?

If the auditors are required to deal with misstatements of fact in the manner proposed, they may feel forced to investigate the validity of facts not subject to audit evidence obtained and conclusions reached during the audit, and the cost of this could be substantial.

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 Firm believes the proposed auditor responses under paragraph are appropriate.

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?

The Firm believes the increased cost of implementing the proposed other information standard will be substantial. Also refer to the Firm’s response to Question 11. above.

Questions Related to Section IV Responding to Inconsistencies and Misstatements in Other Information

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?

The Firm believes the proposed auditor responses are appropriate.

15. **(a) 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? (b) Under what circumstances would such a report be appropriate or not appropriate?**

(a) No. A material inconsistency is a serious matter. If an auditor is unable to convince management and the audit committee that such inconsistent information be revised, then they should not be permitted to issue an audit report. By allowing the auditor the option of reporting the existence of a material inconsistency, it diminishes the seriousness of the issue. Auditors and management should be required to work out the issues, as is required with respect to an auditor's report (i.e. GAAP exceptions, disclaimers, adverse opinions are generally not acceptable in filings with the Commission).

(b) It should never be appropriate.

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 Firm believes the proposed responses are appropriate, but this situation creates a real problem. The auditor has no responsibility to investigate what occurs after its report is issued, and it is possible that a client may publish the other information without clearing it with the auditor; this is not unlikely if non-financial personnel are preparing the other information and controls over its release are not followed. As the time between the release of the auditor's report and the availability of the other information increase, the likelihood of inconsistencies increases.

Question Related to Section V Responding if there is a Misstatement of the Financial Statements Based on Other Information

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

The Firm believes the proposed responses are appropriate.

Questions Related to Section VI Reporting in the Auditor's Report:

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

As pointed out in the Firm's response under Auditor's Reports Question 6, the scope of assurance given by the auditor when saying they "have not identified any material inconsistency with the financial statements" is very unclear. Among other reasons discussed elsewhere in this letter, the Firm is opposed to the proposed requirement that auditors report on other information.

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.**

The Firm believes that if the auditor does not have relevant audit evidence against which to evaluate certain other information (which may be relatively frequent under the PCAOB's proposal), the auditor will need to say so in its report. However, such a statement, which may run to multiple pieces of information, is bound to create confusion to the reader, which is undesirable. This potential for confusion is yet one more reason that the Firm is opposed to the proposed requirement that auditors report on other information.

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?**

The Firm does not believe these costs will be significant, and only marginally greater than incurred under the current reporting standards.

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?**

The Firm believes there is a real danger that financial statement users will consider any information that the auditor refers to in its report to be "verified," "certified," "approved" or similar terminology, regardless of what the auditor actually says in its report.

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?**

No, the presumption is reasonable that management will resolve the material inconsistency or material misstatement in the other information.

Question Related to Section VII Responsibilities of a Predecessor Auditor:

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

The Firm believes the proposed responsibilities are appropriate and sufficiently clear.

Questions Related to Section VIII Other Considerations:

24. **(a) What effect, if any, would the reporting under the proposed other information standard have on an auditor's potential liability in private litigation? (b) Would this reporting lead to an unwarranted increase in private liability? (c) 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?**

The Firm presents the following responses to the specific questions:

- (a) The expansion of the auditor's report to include other information is likely to expand the risk of the auditor being drawn into private litigation, although perhaps to a lesser degree than the proposed reporting of critical audit matters. Nevertheless, there is some increased risk.
 - (b) It could, consistent with our response to (a) above.
 - (c) Any steps the Board, or the SEC (possible safe harbor?), could take in considering ways to mitigate the likelihood of increasing the auditor's potential liability under the proposed other information standard ought to be considered.
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?**

The Other Information reporting requirements are stated to apply only to annual reports in Exchange Act filings. However, many of those filings are incorporated by reference into Securities Act filings. It is unclear how Section 11 liability can be avoided in this situation.

We suggest that the PCAOB, possibly with the assistance of the Commission's staff, carefully examine the potential effect on auditor's liabilities under the securities acts and state laws.

Questions Related to Section IX Conforming Amendments:

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

(a) Yes

(b) No

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?**

The Firm believes the Board should require such statements in order to remove a possible ambiguity.

Question Related to Section X Broker Dealers:

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

No, unless the broker/dealer is publicly held.

Questions Related to Section XI Effective Date:

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

The Firm recommends the Board establish a tiered effective date for accelerated and non-accelerated filers similar to our response in Question 42 related to the proposed auditor reporting standard. Also see our response to Question 41 regarding the use of fiscal years ending, instead of fiscal years beginning.

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?**

See the Firm's response to Question 29 above.

Questions Related to Section XII Securities Act Documents:

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?**

The Firm does not believe the application of the proposed other information standard should be extended to other securities act filings containing audited financial statements. For example, in an underwritten offering, the other information external to the financial statements is usually thoroughly vetted by the underwriter and further reporting by the auditor would not add any value.

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?**

The Firm does not believe the application of the proposed other information standard should be extended to other Securities Acts filings that do NOT contain audited financial statements, as the basis for reviewing such other information is the financial statements.

Further, the Firm does not believe any part of the proposal should be limited to Exchange Act filings and not extended to any Securities Act filings.

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?**

As we stated in our responses to several questions above, the Board should limit the required other information standard to securities filings that contain the annual report.

Emerging Growth Companies

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

The proposed standards and amendments should not be applied to EGC's until they are fully effective for accelerated and non-accelerated filers and they have been evaluated for effectiveness. Imposing these complex new reporting requirements on EGCs could make the capital raising process more difficult for them.

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?**

No.

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?**

No.

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

EGC's in a particular industry are no more or less likely to have critical audit matters than established companies.

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?**

The Firm cannot distinguish between the cost of implementing the proposed auditor reporting standard or the proposed other information standard between EGCs and established companies. However, it is likely the costs could be higher due to dealing with a newly formed company's need to establish its significant accounting policies and procedures, and may be disproportionately higher because of the relatively smaller size of EGCs.

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?**

See the response to Question 6 above.

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 the response to Question 6 above.

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 the response to Question 6 above.

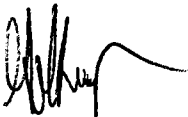
10. **For auditors of both EGCs and other SEC registrants, would it be more costly not to apply the proposed standards and amendments to audits of EGCs because the firms would need to develop and maintain two audit methodologies?**

This would not have a significant cost impact for audit firms, as PCAOB audit firms have been maintaining two audit methodologies since the formation of the PCAOB in 2003 (referring to PCAOB audit standards for publicly held clients and AICPA audit standards for non-public clients).

The Firm would be glad to discuss its comments further should the Board have any questions or require additional information.

Very truly yours,

Marcum LLP



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