



December 10, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: 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*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

After a thorough review of the contents of the above referenced proposed auditing standards we decided to focus our attention on the issues therein that we consider most germane to our membership. The auditor's standard report represents the most critical communication link between the auditor and those third parties who use the auditor's report as a basis for their reliance on a client's published financial statements. We believe any proposed changes to the wording of the standard auditor's report should be viewed and evaluated in the context of this all-important communication link.

Thus, our response to this proposed auditing standard is focused solely on the recommended changes in the content and wording of the auditor's report. Our primary concern was directed to Appendices 1 and 5, and the following 12 questions posed in the Exposure Draft: 4, 5, 10, 12, 14, 15, 16, 25, 26, 27, and 28. We hope the Board understands our reasons for the focus of our efforts in responding to this Exposure Draft.

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?

Based on the fact that the current auditing literature requires that the auditor's report have a title that includes the word "independent," we believe additional reference to the auditor's independence is

redundant. This requirement has been in effect for a number of years, and most knowledgeable and competent financial statement users are keenly aware of the importance of auditor independence. Thus, we see no reason for multiple references to this issue.

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 the 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 may 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?

The purpose of the auditor's report is to communicate the auditor's opinion on the client's financial statements. The auditing standards that apply to the performance of an audit engagement are basically the same for the auditor whether he or she has performed the audit for a number of years or only one or two. Thus, what important inferences does the Board see the user drawing from information regarding the tenure of an auditor? We believe the implementation of such a requirement could only lead to spurious inferences by a user resulting in irrelevant conclusions. Also, if such information is deemed to possess some relevance, wouldn't it be more appropriate to have it come from client management in the proxy statement or other related communication?

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?

Yes, the proposed auditor reporting standard would be beneficial to users of the financial statements, provided that the statement is qualified and indicates (a) the auditor evaluated the information based on evidence obtained in the normal course of the audit, and (b) no opinion is expressed on the other information.

Due to the fact that the following questions (10-16 and 25-28) focus exclusively on the "communication of critical audit matters," we have chosen to provide one combined response that addresses our opinion regarding the issues raised in these questions. The questions are listed below and our combined answer is provided after the listing of the questions.

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?

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

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 matter? Is the use of the word "most" understood as it relates to the definition of critical audit matters?
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?
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?
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?
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?
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?
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.
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 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?
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?

COMBINED RESPONSE TO QUESTIONS 10—16 & 25—28

We strongly believe, as have many others who have commented on the proposed guidance regarding “communication of critical audit matters,” that the required disclosure of critical audit matters (CAMs) be eliminated from any final standard that may evolve from this proposal. Our reasons for this position are presented below.

Summary

Under the federal securities laws, including The Sarbanes-Oxley Act (Section 302 (a)), the responsibility that the financial statements fairly present, in all material respects, the financial condition and position of the company rests exclusively with company management. This fair presentation extends to the disclosures required to render the financial statement not misleading. In addition, the SEC has required certain other disclosures and relevant and useful information such as specific footnote disclosures and in Management’s Discussion and Analysis (MD&A). The auditor is responsible for conducting the audit and issuing their opinion.

We believe that requiring the auditor to include in their report discussions of matters critical to the company and the audit supplants management’s responsibility to make full and fair disclosures. We further believe the proposed disclosure of CAMs in the audit report blurs the bright line between auditor and management responsibilities. These disclosures may also impinge on the auditor’s independence by putting them in the position of acting in the capacity of management in determining what information should be disclosed.

In addition, the communication of CAMs would put the auditor in a more adversarial rather than cooperative relationship with management. Such a situation would most likely confuse rather than educate financial statement users. The implementation issues associated with this proposal would surely add considerable cost to an audit engagement without a commensurate benefit to users. Thus, our conclusion regarding the issue of CAMs boils down to increased costs coupled with confusion and unintended consequences. The paragraphs below amplify on these conclusions.

Management’s Responsibilities vs. Auditor’s Responsibilities

The guidance in the proposed auditing standards is based on an attempt to alleviate the “information asymmetry” between company management and investors. The proposed auditing standard clearly states on page A5-23, “reducing the level of information asymmetry between company management and investors could result in more efficient capital allocation and, as academic research has shown, could lower the average cost of capital.” While we both understand and appreciate the indicated goal, we believe that compromising the auditor and the audit process to accomplish this goal is totally inappropriate. Isn’t management responsible for reducing the level of information asymmetry? We strongly question the Board’s decision to place this burden on the auditor and basically weaken the credibility of the audit process.

It is a well-recognized fact that management is responsible for preparation of an entity’s financial statements and related disclosures. In addition to the disclosures in the financial statements and

related footnotes, management discloses other relevant and useful information to investors in the form of "business risks" and "management's discussion and analysis." The auditor's responsibility is to attest to management's assertions in the financial statements and related disclosures. Additionally, the auditor is required to identify any material inconsistencies between the financial statements and other information communicated by management outside the financial statements. To change the auditor's role to that of originating the disclosure of company information is a complete reversal of the auditor's responsibility, as well as the model that capital markets have relied upon for nearly a century. This doesn't even address the impact such a change would have on the auditor's appearance of independence.

Management is currently aware of these critical matters as was noted in the proposed auditing standard. Thus, if the Board and the SEC feel that these disclosures are important, it appears that company management should make the disclosures. In those cases where such disclosures are being made by management, we feel it would serve no useful purpose for the auditor to also make such disclosures.

Alternatives

We believe the Board could consider alternative measures to reduce or eliminate information asymmetry. One possible alternative would be to recommend to the SEC and/or FASB improvements in the Critical Accounting Policies and Estimates, or additional footnote disclosures regarding matters they consider beneficial to investors. Another alternative could involve increased disclosures or improvements to MD&A communications. While these recommendations involve actions by other organizations (SEC, FASB, etc.), we believe these organizations would be sympathetic to changes that benefit investors and their quest for relevant information.

While we are strongly in favor of enhancements in audit quality, we don't consider the disclosure of sensitive judgments made by an auditor or specific procedures performed by an auditor to represent such enhancements.

Management vs. Auditor

Company management and its legal counsel will always conduct a review of an audit report with the auditor prior to its issuance. Such a meeting to conduct this review is valuable in heading off any potential misunderstandings or misinterpretations that might have gone unnoticed. However, the inclusion of CAMs in an auditor's report would reduce this management/auditor meeting to a full-blown negotiation of the issues that should or should not be included.

Given the sensitive nature of such disclosures, it appears likely that the potential for an adversarial relationship between the parties involved is quite possible. There would obviously be concerns about confidentiality, relevance of an issue such as a CAM, and what constitutes "critical" in defining a critical audit matter. By its very nature, an audit engagement has the potential to be confrontational and contentious for many reasons. To propose an addition to the auditor's report which would most likely enhance this contentious relationship, without much benefit, seems to be an ill-advised decision.

Cost vs. Benefit

While most might contend that more is better than less, we are not willing to embrace that conclusion when it comes to the communication of critical audit matters. We believe the cost associated with providing this information far outweighs any benefits that may result. We anticipate the following should this proposed auditing standard gain acceptance.

We believe the proposal is not sufficiently clear as to what constitutes a CAM. In addition, we are troubled by references to "most," as the definition of this word is highly subjective and can be interpreted in a variety of ways. Auditors will naturally err on the side of disclosing more CAMs rather than fewer. This will, most likely, be done to head off circumstances where PCAOB inspectors and others ask why the auditor did not disclose what they feel (in their judgment) is a CAM when the auditor decided the issue did not rise to that level. As the auditor will document reasons why those issues were not CAMs, the inspectors will be able, with perfect hindsight, to argue the opposite conclusion. Thus, it would appear that the auditor is more likely to conclude that an item is a CAM rather than having to defend not identifying the item as a CAM.

A decrease in audit quality could be a possible unintended consequence as an auditor could also intentionally omit various issues from the engagement completion document, discussion with the engagement quality reviewer, or communicate with the audit committee to avoid having to document the decision regarding a CAM. As any matters subject to consultation may fall within CAM disclosure rules, auditors may be discouraged from consulting.

The required disclosure of CAMs will add many pages to the auditor's report. This added length has the potential to blur the intended message of the auditor's report, which is the auditor's opinion on the financial statements. CAMs may include items of discussion between management and the auditor that have been resolved. However, such disclosure may be interpreted as ongoing disagreements.

Matters identified as audit risks may not be significant investing risks. However, investors may interpret these issues as errors in the financial statements and consider them more significant than the unqualified opinion issued on the financial statements. Investors may question how an unqualified opinion could be issued with so many critical matters. Also, the more CAMs identified, the greater the potential for investors to question management reports citing no material weaknesses in internal controls.

Auditors will now be required to revisit all significant matters, first to determine risk and audit response, second to determine if disclosure in the audit report is required, and finally to document their conclusion as to required disclosure. This will add time to the audit process. Much of this time will occur during the critical wrap-up phase when an audit client is facing SEC filing deadlines.

Disclosure of Audit Procedures Performed

We believe the inclusion of audit procedures performed on any matters would not be beneficial to the users because knowing how the auditor tested certain accounts or assertions does not give the users any additional information regarding a registrant's financial position or results of operations. Adding information on the audit procedures performed would significantly increase the length of the auditor's

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report and decrease the clarity of its message. The negative impact on the reader's ability to understand the intended message of the report will be significant. Also, it is unlikely that the auditor will identify all the procedures performed or considerations of mitigating factors in the design of audit procedures, which will intensify the lack of understanding on the part of those to whom the audit report is intended. Further, we believe auditors will be prone to spend additional time performing procedures, not to assess the risks associated with the client but rather, to be compatible with audit procedures included in the audit reports issued by other auditors.

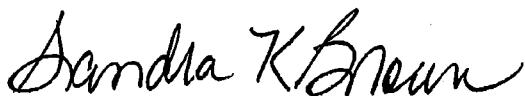
Auditor Liability

We believe the disclosure of CAMs could lead to increased litigation related to auditor judgment. Companies in similar industries could have significantly different CAMs. It is our belief that this would provide greater incentive to litigants to seek damages based on non-disclosed CAMs. Alternatively, if stock prices decline after disclosure of CAMs, litigants may look to the auditor for those potential damages.

Also, the existence of CAMs may result in the performance of an excessive amount of audit procedures that are not necessary under the risk assessment model. These procedures would be performed to avoid second guessing by investors who wonder why certain procedures performed by other auditors were not performed by the auditor in question. This kind of comparison could lead to unnecessary litigation.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

A handwritten signature in cursive script that reads "Sandra K. Brown".

Sandra K. Brown, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants