



August 15, 2016

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

RE: PCAOB Rulemaking Docket Matter No. 034

Dear Office of the Secretary:

We greatly appreciate 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 support enhancing the form and content of information available to investors and make information more relevant and informative to investors and other financial statement users.

However, we disagree with the incorporation of critical accounting matters (CAMs) into the audit report. We believe that to do so would dilute the current pass/fail model and diminish the value of an audit report. We believe that due to the litigation environment in the United States most if not all auditors are likely to be overly cautious and conservative and include an overabundance of matters and in a standardized way "mirroring" audit reports of similar companies. The numerous CAMs added to the majority of audit reports will make auditor reports overly voluminous and confusing to the users of financial statements adding no substantial benefit but significantly adding to the cost to investors.

The foregoing notwithstanding, we appreciate the opportunity to comment and contribute and have answered certain questions which we feel are particularly relevant to consider:

Questions:

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.

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

We do not believe that the source of CAMs should begin with those matters that are required to be communicated to the audit committee. We believe this because the audit committee's purpose is to oversee audit services, which includes both CAMs and non-CAMs. As highlighted in AS 16, the Audit Committee and the auditor should be working as a team, including timely two-way communications about matters critical to performing an effective audit such as risk assessment. In addition, the communication between auditor and audit committee is private.

The above points create an environment between auditor and audit committee designed to foster open communications which best services the investing public.

By starting the CAM decision with communications to the audit committee the Board would be creating an incentive counter to the goals of free and open, timely and two-way communications as prescribed in AS 16. This could result in matters which otherwise might be discussed and communicated from being communicated and thus counter-productive.

We recommend that if the Board is to follow through with introducing the concept of CAMs that the Board allow auditors to determine what are and are not CAMs. Auditor judgment has always been relied upon, whether in determining materiality, determining risks, designing audit procedures to address those risks or assessing the results of those procedures. Why would auditor judgment not be sufficient for determining what is and is not a CAM?

- d. 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?

We do not disagree with the inclusion of this as a component in determining CAMs. However, we are unsure how this component would relate to critical accounting estimates and significant accounting estimates as disclosed in Management's Discussion and Analysis and the footnotes to the financial statements. Would all critical accounting estimates also be CAMs? If an account or disclosure involves critical accounting estimates would it not also involve challenging, subjective, or complex auditor judgment? If not considered a CAM, would the omission increase the risk of litigation and be perceived as an inconsistency?

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 agree that there should be a list of factors to consider when making the CAM determinations.

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?

We recommend that the board remove the phrase "extent of audit effort" from any factors. We agree that the use of specialized skills and judgment should be considered because they address the degree of uncertainty that investors seek to understand through the concept of CAM. However, certain audit procedures might be extensive but require little or no judgment or uncertainty while other audit procedures might not require as much work but involve significant judgment and uncertainty.

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

- 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?

Given the definition of critical audit matters as "involving especially challenging, subjective or complex auditor judgment" it is impossible for a reader not to then interpret those balances and disclosures as being equal to balances and disclosure not deemed a CAM.

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 believe that the auditor should not reference any information outside of the financial statements because the auditor's responsibility over other information is limited to review for consistency with the financial statement and footnotes. The auditor is not and should not be responsible to audit the other such information.

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 that many audits, especially those performed by mid-sized or smaller accounting firms, are often less complex than those performed by larger firms. While risks are always present, audit areas with "challenging, subjective or complex auditor judgment" are not always present.

10. What effect, if any, could the auditor's communication of critical audit matters under the repropoed standard have on private litigation? Would this communication lead to an unwarranted increase in private liability?

We believe that the inclusion of CAMs to highlighting difficult audit areas will inherently increase the risk of litigation despite the Board's efforts to minimize the likelihood. Those seeking to bring litigation would point to the absence of a CAM disclosure as support for either the auditor's negligence in identifying a CAM or in disclosing it. We believe that this increased risk will likely result in over disclosure of CAMs in a broad and ambiguous way using standardized wording thus increasing the length of the auditor's report but making it equal or less useful to investors.

12. Are there other steps the Board could or should take to address the likelihood of increasing an auditor's or company's potential liability in private litigation through the requirement to communicate critical audit matters in the auditor's report?

Yes, similar to the inclusion of limiting language regarding and audit of internal control, we believe that there should be standardized language that limits the reliance on the auditor's communication of CAMs.

18. Should disclosure of auditor tenure be made on Form AP rather than in the auditor's report? Why or why not?

We believe that disclosure of auditor tenure would best be disclosed on Form AP because we believe that the auditor's pass/fail model is weakened whenever extraneous information is provided. For example, audit reports with differing auditor tenures could lead investors to weigh the opinions differently, whether it be because the auditor is inexperienced with auditing the client or has a long-standing relationship with the client. Having the information publicly available through the form AP but not presented along with the pass/fail opinion allows those investors who seek such information to obtain it.

29. Would critical audit matters be useful in assessing company financial performance? If so, how?

Identifying which account balances or disclosures are "especially challenging, subjective, or [require] complex auditor judgment" would aid in making investment decisions across industries which might have different CAMs. However, we believe it is likely that most audit reports within an industry would include the same CAMs both due to the nature of the operations and the evidence available to auditors. In addition, the fear of litigation will likely result in auditors "mirroring" their CAMs to other audit reports of different companies in the same industry.

Thank you for the opportunity to comment and contribute.

Sincerely,

Cheryl Bekkert LLP