

August 15, 2016

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

Re: PCAOB Rulemaking Docket Matter No. 034, 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"

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) 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 or Proposed Amendments, as applicable).

As described in our letter to the Board, dated December 11, 2013, regarding the initial PCAOB Rulemaking Docket Matter No. 034, we support the Board's efforts to improve audit quality by enhancing existing auditing standards, and to provide additional information to investors for decision-making. We are pleased to provide our observations where the Proposed Standard could be modified to provide more clarity for investors and other users, and to address other matters.

Proposed Standard

Critical Audit Matters Definition

Appendix A of the Proposed Standard defines a critical audit matter as any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective or complex auditor judgment. We believe the definition of critical audit matters should be modified to avoid unintentional consequences.

The definition of critical audit matters continues to be broad and we recommend limiting it to only those matters which are material to the financial statements taken as a whole as opposed to **any** matter that relates to accounts or disclosures that are material. As defined, it is likely the auditor will be responsible for disclosing original information which is not required to be disclosed by management. For example, a schedule of uncorrected misstatements, which is other than clearly trivial but determined to be immaterial to the financial statements taken as a whole, is required to be communicated to the audit committee but are not required to be disclosed by management. Because the schedule of uncorrected misstatements can relate to accounts and disclosures which are material to the financial statements and can involve especially challenging, subjective, or complex auditor judgment, it would be considered a critical audit matter and would require disclosure. A second example relates to significant deficiencies. Significant deficiencies are required to be communicated to the audit committee but are not required to be disclosed by management.

Because significant deficiencies can relate to accounts and disclosures which are material to the financial statements and can involve especially challenging, subjective, or complex auditor judgment, it would also require disclosure. In both of these examples, the auditor would be required to report critical audit matters, but neither example would have been material to the financial statements taken as a whole.

To address the risk of the auditor disclosing original information or matters that are not thought to be critical audit matters, we recommend a two part solution. First, revise part one of the critical audit matter definition (noted below, new text in bold and deleted text in strikethrough), as follows:

11. The auditor must determine whether there are any critical audit matters in the audit of the current period's financial statements. A critical audit matter is any matter arising from the audit of the financial statements that was ~~communicated~~ or required to be communicated to the audit committee and that: (1) ~~relates to accounts or disclosures that~~ **are** is material to the financial statements **taken as a whole** and (2) involved especially challenging, subjective or complex auditor judgment.

The suggested edits above would reduce the risk of the auditor being required to disclose original information and align with management's requirement to disclose only matters that are material to the financial statements. We believe the revised definition will still capture those matters that are critical to the audit including those matters that require especially challenging, subjective, or complex auditor judgment.

Second, we recommend excluding the required auditor communication for uncorrected misstatements and significant deficiencies from evaluation as a critical audit matter. These exceptions would further mitigate the risk of the auditor disclosing original information. Limiting the critical audit matters to items required to be communicated, except for immaterial audit adjustments and significant deficiencies, will reduce inconsequential documentation in an audit file and is the basis for our suggestion to delete "communicated or" from paragraph 11.

It appears the Board's intent is to prevent the auditor from being required to provide original information about an entity. We strongly agree with this concept. It also appears it is the Board's intent to allow for the auditor to provide original information to be included in the description of the principle considerations that led the auditor to determine that a matter is a critical audit matter, if the situation arises. We agree, but this position should be an exception to the rule. To clarify the Board's intent, we propose the following revision (see deleted text in strikethrough) to Note 2 in paragraph 14 of the Proposed Standard:

Note 2: When describing critical audit matters in the auditor's report the auditor is not expected to provide information about the company that has not been made publicly available by the company ~~unless such information is necessary to describe the principal considerations that led the auditor to determine that a matter is a critical audit matter or how the matter was addressed in the audit.~~

Critical Audit Matters Documentation Requirements

Paragraph 17 of the Proposed Standard requires "the auditor to document the basis for the auditor's determination whether each matter that both a) was communicated or required to be communicated to the audit committee and b) relates to accounts or disclosures that are material to the financial statements involved especially challenging, subjective, or complex auditor judgment." We believe comparable changes are needed to this paragraph should the Board agree with our previous recommendation to paragraph 11.

Notwithstanding our prior recommendation, the broad definition of critical audit matters will result in a significant increase in audit documentation to capture any audit committee communication that relates to accounts or disclosures that are material. That documentation requirement will lead to describing all matters discussed at the audit committee, without regard to the significance of the matter, that relate to accounts

and disclosures that are material, in order to have an appropriate starting point for evaluation of potential critical audit matters. We believe this requirement will be more prevalent at smaller issuers resulting in disproportionate costs. In our experience, it is more common for audit committees of smaller issuers to request that the auditor provide information not currently required by PCAOB standards, for example: a list of all internal control deficiencies identified during the audit, regardless of the issuer's reporting requirements. These deficiencies, since communicated to the audit committee, will result in the auditor needing to evaluate each one as a potential critical audit matter since each deficiency might relate to an account or disclosure that is material to the financial statements. Additionally, in many smaller issuers, it is not uncommon for the auditor to discuss with the audit committee matters related to the audit of material accounts and disclosures. For example, a common matter discussed with the audit committee of a financial institution are the audit procedures performed on the growth of a loan portfolio. While loans are almost always considered to be an account that is material to the financial statements, audit procedures on a loan portfolio's existence generally does not involve especially challenging, subjective, or complex auditor judgment. These communications are not required nor are the specific matters required to be documented currently by PCAOB Auditing Standards, however, auditors would nevertheless be required to maintain a listing of these types of discussions and related matters and evaluate whether these matters involved especially challenging, subjective or complex auditor judgment.

We believe the cost of evaluating all matters discussed with the audit committee is an unintended consequences of paragraph 17 and can be significantly mitigated if corresponding changes are made to this paragraph consistent with our proposed change to paragraph 11.

With respect to the documentation requirements, limiting the identification of critical audit matters to only required communications, as well as our other proposed definitional changes, would:

- Likely remove the need to maintain a laundry list of any matter communicated to the audit committee that relates to a material account or disclosure, thus eliminating the documentation of inconsequential matters
- Better balance the effort and cost for smaller issuers
- Allow auditors to focus on other responsibilities during the critical wrap up stages of the audit
- Capture matters which required especially challenging, subjective, or complex auditor judgment.

Communication of Critical Audit Matters

Similar to the note in AS 1301, paragraph 9 that indicates "Note: This overview is intended to provide information about the audit, but not specific details that would compromise the effectiveness of the audit procedures." We suggest incorporating a note to paragraph 14c to indicate the purpose of the auditor describing audit responses to critical audit matters is intended to provide information about the audit but not specific details that would compromise the effectiveness of the audit procedures.

Auditor Tenure

As we have previously communicated, we continue to believe an unintended consequence of including auditor tenure in the auditor's report is incorrectly implying a correlation between auditor tenure and audit quality. The PCAOB's previous Concept Release on Auditor Independence and Audit Firm Rotation acknowledges that there is not a demonstrated relationship between the auditor's objectivity and professional skepticism and the tenure of the audit engagement. Further, the Proposed Standard acknowledges there continues to be a divided view on auditor tenure and audit quality. Accordingly, we believe that auditor tenure should not be included in the auditor's report. If deemed important by the audit committee, we suggest the audit committee to disclose auditor tenure.

Alternatively, if the Board continues to believe auditor tenure is a useful disclosure and the source of that disclosure should come from the auditor, Form AP, "Auditor Reporting of Certain Audit Participants," would be a more appropriate location.

The concept in paragraph 10 (page A1-6) provides data to the investor for which the relevance is unclear. The requirement is to report the year the auditor began serving consecutively as the company's auditor. The note below paragraph 10 requires the year to include situations in which a firm is acquired by another firm. We believe this confuses investors. If the Board believes there is a correlation between audit quality and a firm's tenure, then the tenure disclosure should be that of the firm currently signing the opinion. For example, Company A was audited by Firm 1 beginning in year 2000, and Firm 1 was acquired by Firm 2 in 2010 and Firm 2 was acquired by Firm 3 in 2015, therefore Firm 3 would report 15 consecutive years as the auditor for Company A. It is not clear how the investor should interpret the information as there is likely no correlation in audit quality or tenure by Firm 3. The auditor's relationship by Firms 1, 2 and 3 with Company A could be substantially different as each firm has its own audit methodology, quality control processes, etc. resulting in likely different audit quality. We believe the Board should reconsider this requirement on tenure.

Cost

The Board acknowledges a lack of specific quantitative data regarding costs. The Board also acknowledges recurring costs, such as drafting and documenting critical audit matters, and suggests senior members of engagements teams, such as partners and senior managers, would be involved in developing the language. In addition, other senior members, such as an engagement quality reviewer and national office partners, would be involved. We agree the aforementioned individuals would be involved in the reporting of the critical audit matters. We also envision these individuals will be reviewing the report multiple times, with costs increasing with each additional touch of the report. While the Board anticipates critical audit matters would be scalable based on the size, nature, and complexity of the audit, we believe there is limited scalability to the reporting requirement and the costs will be heavily disproportionate to smaller issuers. We expect the number of hours to report one critical audit matter will represent a larger percentage of the overall audit hours on a smaller issuer, as compared to the overall audit hours on a larger issuer. As such, we expect the costs would be disproportionate to smaller issuers. In addition to our recommendation in the effective date section below, we encourage the Board to study the disproportionate cost effect on smaller issuers and evaluate the cost benefit of reporting critical audit matters on smaller issuers.

Effective Date

The Proposed Standard does not include an effective date. Based on the need for audit firms to develop appropriate methodologies and training, we suggest the effective date should be a minimum of two years after a final Auditing Standard is adopted by the SEC. Also, in order to help manage the cost to smaller issuers, we encourage the PCAOB to delay the reporting requirement of critical audit matters for non-accelerated filers and smaller reporting companies until the SEC, PCAOB and industry can study the results of the initial implementation and evaluate whether the standard should apply more broadly.

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Crowe Horwath LLP supports the Board's efforts to improve its audit standards for the benefit of investors and other stakeholders. We appreciate the opportunity to comment, and would be pleased to respond to any questions. Should you have any questions, please contact Michael G. Yates at (574) 236-7644.

Sincerely,



Crowe Horwath LLP