CIRO E. ADAMS, CPA, LLC
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August 15, 2016

James R. Doty, Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

Re: **Comments to PCAOB Release No. 2016-003, *The Auditor's Report***

Dear Chairman Doty and Distinguished Board Members:

Our firm appreciates this opportunity to comment on the proposed auditing standard. Our comments speak to the overall standard and its objective of changing the auditor's report. Our comments:

The new Auditor's Report

We agree that the auditor's report should continue to exist as a pass/fail model. To offer varying degrees of an opinion would input unneeded and confusing contrasts into the report.

We urge such pass/fail model continue.

Our agreement with the Board for a new audit report may end there. The reproposal, similar to the original proposal, endeavors to change the principal purpose of the auditor report: to give an opinion of financial statements presented by management. Since the audit report was conceived, its existence has always been to confirm (or not confirm by qualifying the report) management's presentation of the numbers. Simply stated, are the items fairly presented, yes or no? [Pass or fail.]

The Board's initiative is to now change that quest to offer a separate report to management's presentation in hope that an adversarial vetting of issues and matters may bring more clarity to the investor and financial statement user. This approach offers contrary views which never provides clarity in any matter presented. The reader is only left with, who's right? Could be the auditor, but then again, the Company is always more of an expert of its business than the auditor.

Along with such unresolved conflicts the reader may face, who is responsible to reconcile the differences? Again, the financial statement user can only be left more confused. Such a reconciliation has always been implied by what is presented in the financial statements. Management has presented the financial information and the auditor has opined on the presentation.

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We also note, financial reporting is distinctly different from the audit process. The mixing of such apples and oranges indicates the same objective. The two outcomes, financial statements and an audit opinion, are quite different.

We fundamentally disagree with the approach to change the principal purpose of the auditor's report.

We do agree that the clarity the financial statement user may be missing is an understanding of what information the auditor is responsible to oversee. Our report speaks only to the financial statements, however, we all read the entire filing, agreeing the numbers, as well as, analyzing and substantiating many amounts presented throughout the document. We are also responsible for understanding the client's business, reading material documents, such as loan documents and purchase agreements, critiquing the MD&A and other Items. All these parts of the filing are within our purview. Auditors also review 8-Ks, proxies, and other filings, but no mention is ever made.

We suggest that the auditor report be tailored to better define auditor responsibilities, so that the financial statement user knows he can rely on other parts of the filing in addition to the financial statements.

Lastly, the disclosure of all items that were disclosed to the audit committee. The PCAOB has for years moved to have qualified, well-functioning, audit committees to oversee the audit process. Now that the investor is reaping the fruits of the PCAOB's commendable push for good audit committees, why the change in course to discount the audit committee's mission and go directly to the shareholders and investors?

We say stay the course with the current approach to audit committees in allowing the audit committee to fulfill the role of representative of the investor. The PCAOB's work has been validated in this area.

In closing our general comments about the audit report itself, we note that the PCAOB made reference to the use of such audit reports as reproposed outside the United States. The PCAOB has resisted placing full reliance on the work of independent audit regulators in other countries, requiring the PCAOB to inspect such firms. The SEC has also resisted converging or changing to IFRS because the SEC considers current GAAP and auditing standards supreme. We are humored that the PCAOB now points to such audit reports outside the United States to support its position. The PCAOB has always been the leader in setting auditing standards. No reason for the Board to now look elsewhere.

Critical Audit Matters

We have read the Board's argument for the disclosure of critical audit matters (CAMs) in the auditor's report. We reiterate the same above comments to address the need for CAMs.

Two critical points: 1) Management runs the Company, so management will emphasize its course of action to lead the Company. The auditor has no authority, nor plays any role in corporate governance, in order to effect any outcome of any action taken by Company management. Absent such authority to change the course of the Company, the auditor's assertion of what is important and what is not important is arbitrary. The Company leadership will give significance to important items. 2) The Board is reproposing that the auditor identify in their report the challenging, subjective, or complex matters affecting auditor judgments, and how the auditor responded to those matters. What is important is the information presented to the shareholders and investors, not the process of assessing such information. So if the auditor does opine to the Company's assertions to the information presented, then the investor only needs to read the information. The awareness of audit procedures performed does not add value to the investor. And CAMs will not assist investors and analysts engaging management with targeted questions about Company information.

In addition, to now have the auditor state each and every challenging, subjective, or complex judgment serves no purpose when the reader is only looking for one number. For example, did the issuer meet the financial covenant or not? [Pass or fail?] Audit procedures can vary in complexity, but still be very important. For example, cash and debt confirmations are routine audit procedures, but just as critical as assessment of fair value calculations which can be challenging, subjective and complex. By stating such audit procedures implies to the reader the importance of those procedures, thus, routine procedures which may not be mentioned, may not be considered critical to the process. The reader making such an inference would be misled and not fully understand the process or financial information.

Lastly, the comparison of audit procedures between companies in the same industry may be done, but also lead to a wrong conclusion. For example, if there are six different companies in an industry being auditing and five firms use sampling techniques, but one firm uses big data, is the audit procedure of that firm now in question and thus the financial statements less reliable? Of course not! But such a conclusion can be drawn by comparing disclosed procedures. [If the objective of the PCAOB is to have standard audit procedures performed only one way of companies in a particular industry, then publish an audit standard. Having a financial statement reader compare procedures amongst firms may detract to their understanding of the financial statements.] No incremental increase in the quality of financial information is gained by the user of the financial statement. And the auditor's report will certainly not be easier to read.

We disagree with the Board that the presentation of CAMs adds value to the investor in reading the financial information.

In each financial statement, significant accounting policies are disclosed. In an annual filing, the issuer also discloses in its MD&A trends, ratios, comparables, non-GAAP indicators, critical accounting estimates, capital resources and liquidity, and other presentations. The reading of the MD&A provides much information for the investor. And the SEC has issued excellent interpretative guidance to write MD&As.

The auditor is responsible to review the MD&A and other Items in filings to assure the consistency with other financial information. The auditor's report can be expanded to include such responsibility.

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Defining such responsibility in the audit report will assure the investor that such areas are also covered by the auditor. Consideration can also be given to an auditor's report in quarterly and other filings that such information was reviewed.

We reiterate that the responsibilities of the auditor should be better defined in the auditor report.

In lieu of CAMs, renumbering footnotes in order of critical matters may accomplish a similar objective. Since the investor has to read the footnotes to glean information, having the footnotes in order of critical disclosures versus balance sheet and income statement order may provide the significance in matters that the investor is seeking.

In closing, we are not moved by the term "investor asymmetry". Regulation FD provides rules and procedures for disclosing information which assures the public information to all stakeholders is in the same time frame. For this reason, no additional regulation is needed to meet a wrongly perceived circumstance.

Additional Improvements

Clarifications of existing auditor responsibilities:

Independence – we note the title to the audit report already contains the word "Independent". We agree that independence and objectivity are critical to the audit process. Without belaboring the point, could independence be given any more prominence than being included in the title to the report?

Auditor tenure – we note the PCAOB now requires the disclosure of audit partners. This disclosure may be more important than the firm's tenure. We agree that the change in auditor, as well as a first-year auditor, may face challenges already overcome by an auditor retained for years. We agree that this disclosure does serve the financial statement reader. The PCAOB should require such disclosure on the same form as the audit partner.

Addressee – we understand that at times, firm individual offices may not all be the same. We agree that specific addresses identifying the office which performed the work should be disclosed. Again, the PCAOB should require such disclosure on the same form as the audit partner.

Enhancements to basic elements – as stated in our above comments, we agree wholeheartedly that auditor responsibilities should be better defined in the report. We do concede that the profession has danced around the phrase, "whether due to error or fraud" for decades. We agree that such wording will more exactly define the auditor's responsibilities. We also urge, as above noted, that the auditor's report better define the auditor's responsibilities.

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Standardized form of auditor's report – we close our comments smiling that the Board is suggesting the opinion paragraph now be first and all parts subtitled to add clarity to the audit report since the reproposal has added cumbersome and confusing additions to the report. The reader of a reproposed audit report can no longer navigate his way to understanding like he could with the previous three-paragraph report.

Other Notes

Our last comment - we believe that there should be some consideration or exemption for smaller reporting companies. The documentation required, as well as, the increase in audit fees may be burdensome to such companies. Although the PCAOB may not want to have small-company auditing standards and big-company auditing standards, this reproposed standard begs for such a consideration.

We urge that if the standard is implemented, smaller reporting companies be given relief from some of the documentation and disclosure requirements of this standard.

We wish to thank the Chairman and Board Members for this opportunity to comment on the reproposed standard. Although we have taken different positions than the Board on some of the standard's provisions, we trust through dialog and the vetting of the standard within the profession will yield an even better standard to implement.

Very truly yours,

Ciro E. Adams, CPA, LLC