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

**RE: Rulemaking Docket Matter No. 34
Proposed Auditing Standards – Auditor’s Report on an Audit of Financial Statements, Auditor’s Responsibilities Regarding Other Information in Certain Documents, and Amendments to PCAOB Standards**

Members of the Board,

I appreciate the opportunity to submit my comments to the Board with respect to the *Proposed Auditing Standards – Auditor’s Report on an Audit of Financial Statements and Auditor’s Responsibilities Regarding Other Information in Certain Documents*. I retired from public accounting in 2007 after 27 years at Deloitte & Touche LLP and am currently a full-time faculty member at the University of Notre Dame teaching undergraduate and graduate courses in accounting and auditing.

Introduction:

My impression is that this project has been driven largely by user comments most of which appear to me to reflect perceived inadequacies in the GAAP reporting model. Users appear to be asking the auditors to tell them more about what is going on inside the company because management will not. I continue to believe that the appropriate course of action here is for the Board to coordinate its efforts with the Securities & Exchange Commission (Commission). The Board is in a unique position; it has access to information about registrants that the Commission only has in the course of litigation.

The Board’s inspectors see the difference between what management discloses and what it could disclose as well as what audit committees do and don’t do. Rather than pushing for a surrogate for difficult financial reporting matters as testifying users want, work with the Commission to improve the quality of management’s reporting and the audit committee’s oversight. For example:

- Work with the Commission to have management expand its disclosures of critical accounting policies to include comments on controls over those areas.

- Suggest to the Commission that it require management's certificates to address errors identified by the auditors, both corrected and uncorrected, and require they be addressed in audit committee reports as well.
- Request the Commission to require management and the audit committee to report on Significant Deficiencies that have gone un-remediated for more than one year.

It seems likely that the Board and the Commission are not jointly working on this project. For example, historically the Commission has not asked auditors to report on matters not governed by Regulation S-X yet the Board is forcing that on the Commission by virtue of this reporting model.

As I noted in my letter of July 21, 2012, commenting on the concept release related to this topic,

“...the Board would better spend its time setting standards for the conduct of the audit rather than on reporting. I believe users, particularly those managing large investment portfolios, are intelligent business people who have the ability to fully understand what auditors do without an expanded auditors' report. PCAOB Standards are a matter of public record and available to any who want to understand the meaning of specific terminology or what auditors do in evaluating managements' assertions in the financial statements. The level of detail that should be added to the auditors' report would likely expand it to four or five pages, and yet the expanded report would be less comprehensive than the Center for Audit Quality's recently published “In-Depth Guide to Public Company Auditing: The Financial Statement Audit” (CAQ Guide). Any user who does not have the time or inclination to read the PCAOB standards but who reads the CAQ Guide once will have the information necessary to understand the auditors' report. Those who participated in the Board's outreach process would have invested much less time reading the introductory chapters to an undergraduate auditing textbook than they invested preparing to meet with the Board were they truly interested in understanding what auditors do...”

I believe the Board has exceeded its mission by focusing on perceived inadequacies in registrants' financial reporting and seeking to remedy this through the proposed changes to the independent auditors' report. I again suggest the Board work with the Commission to address users' concerns.

My specific comments are as follows:

Appendix 5 – Additional Discussion Related to the Proposed Auditor Reporting Standard

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?

The second objective is inappropriate. By focusing on the communication of Critical Audit Matters as an objective of auditor reporting, the Board is shifting the emphasis away from the overall fairness of the financial statements taken as a whole and toward these Critical Audit Matters as the primary aspects of the registrant's statements on which users should focus. As I noted in my previous comment letter in response to question 14:

“...this will cause investors and other users to rely on the auditors' report as a source to limit the extent to which they read financial statements and notes. This would also facilitate the development of software that would read the auditors' report, extract the related notes to the financial statements, and effectively eliminate the user's incentive to read the financial statements in their entirety. This implicitly places the auditor in the position of having to guess which areas are important to which users. The auditors' determination of what matters to emphasize would likely differ from those areas that would be emphasized by users and likely different from those areas the Board's inspectors would emphasize subjecting the auditors to additional litigation exposure from the former and criticism from the latter.”

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?

In comments I have made to the FASB on the Conceptual Framework I have expressed concern that the reporting model is too focused on capital providers – debt and equity holders – to the exclusion of other stakeholders. The Board is continuing that trend by having auditors address their reports to existing shareholders and debt holders. There are many other users of financial statements including prospective equity and debt holders, employees, vendors, customers, regulators, as well as state and local governments. The appropriate addressee is the Board of Directors which has a fiduciary duty to the Company and by extension to the various stakeholders existing and potential.

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?

I suggest the following:

- Auditors have responsibilities to communicate with those charged with governance of the entity
- Auditors perform quarterly reviews which place them in contact with the entity throughout the year not just at the end

Auditors' responsibilities for internal control are noted in the current report, however for those with an integrated audit the standard should move to a combined report as this is all one, integrated audit not two separate audits with competing objectives

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?

Given that the title of the report includes the statement that the firm is independent, adding the expanded language in the body of the report adds no additional information. Excess wording in any written communication should be minimized so as not to detract from other, important information. A report that is excessively long will likely not be read by unsophisticated investors; sophisticated investors already understand the concept of auditor independence. It would certainly not remind the auditors that they must be independent; if that's necessary, they should not be performing audits.

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?*

Audit partners rotate every five to seven years; audit staff turnover in public accounting firms is such that most of the individuals working on any public company audit are not the same individuals who were working on that audit ten years ago. Does it really make a difference that PricewaterhouseCoopers and its predecessor have been serving IBM for over 60 years given that fact? However, there may be some individuals who do serve the registrant as non-partners for decades.

The impetus behind this aspect of the proposed change to the reporting model appears to me to be an attempt to push audit committees to rotate auditors more frequently. These concerns could be alleviated if the Board took a more direct approach to the real problem of familiarity – that at the lower levels of the audit team. If the Board extended the maximum tenure of seven years to all individual auditors serving the registrant, much of the familiarity concern could be alleviated.

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?

The Board must define who the ‘Company’ is. If Company B is acquired by a larger Company A but B’s management is the surviving management of the combined entity, does the service clock start over if B’s auditors are appointed to serve the new, combined entity? If A’s auditors are the surviving firm are they still auditors of “the same company” given the changeover to B’s management team? When companies go public by means of a reverse merger into a shell company, does the auditor service clock start over? Should consecutive years of service focus on continuity of the reporting entity and the audit firm or of the people involved? If an audit firm has been serving a registrant since 2002 and absorbed certain key Andersen professionals who previously served that entity has there truly been a change in auditors?

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?

I do not see how the information is useful to investors. The firm is not the significant bit of data here. When Andersen collapsed, WorldCom changed auditors – and the successor firm hired the former personnel from Andersen who continued to serve that entity. As noted above, the underlying concerns related to auditor tenure would be significantly addressed if the Board would adopt a rotation requirement that applied to all personnel on the audit not just the partners on the audit.

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?

As noted above, it seems highly likely that most users don’t invest the time to understand the responsibilities the auditors already have with respect to that other information; so while auditors already know they have responsibilities for all information in a document that contains an auditors’ report, no one other than the most sophisticated user has that knowledge. Accordingly, specifying an auditor’s responsibilities for that other information would be valuable only to those actually reading that other information and reading the auditors’

report. I do continue to express my concern that the users who testified before the Board won't read the expanded auditors' reports that will arise from this standard any more than they have read the CAQ Guide.

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?

The flow should mirror the sequence of the audit – from engagement acceptance to issuance of the report. The current flow of the report generally does that.

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; as noted above, the Board could require the complete CAQ Guide be reprinted in every set of financial statements, but I doubt any user would actually read that. The Board could require the auditors to include a link to a particular part of the Board's own website containing detailed descriptions of what auditors do and what standards they must follow, but again I do not believe users would actually follow that link to the Board's standards or read any other information describing what auditors do.

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.

Audit costs are correlated with the amount of effort the auditors must expend. This effort is dependent upon the complexity of the registrant's business, the competency of its management, and the skills of the auditors. As those combinations are unique for individual registrants, the costs should not be expected to be the same. I don't see how the inventory of basic elements in an auditors' report would impact those costs.

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?

I believe the users who testified before the Board want information about what is happening inside the registrant; not about what is happening inside the audit firm's conduct of the audit. To the extent users want additional information about areas that are critical for the registrant or difficult for management, they should request the Commission mandate that the Audit Committee make this communication as it has knowledge of what really is important from a risk standpoint. The auditors will report from the standpoint of what is critical to them – that which gets them sued or that which gets them criticized in PCAOB inspection reports – much of which is not critical to users. Investors do not want to know what the auditors find difficult; they want to know what management finds difficult. For example, the auditors have numerous specialists to help them evaluate Level 3 financial instruments; users would rather know whether the registrant has them. While the answer to this question will surface in a Critical Audit Matter, that answer should come from management, not the auditor.

If the Board ultimately adds these communications to the auditors' report, it must work with the Commission to mandate that management add its own comments in Item 9 on the registrant's controls over these areas and that the Audit Committee addresses in its report to shareholders in the annual proxy statement its oversight of the registrant's handling of these areas.

11. What benefits or unintended consequences would be associated with the auditor's communication of Critical Audit Matters?

I believe it will increase litigation exposure for auditors for anything that should have been a critical area and was not. The growth of critical areas will mirror the growth of risk factors in a registrant's filings. The report will be huge and no one will read it. A large corporation will likely have at least half a dozen Critical Audit Matters and commenting on those adequately should take three pages. Adding comments on controls over those areas will likely take more pages. Users will use key-word search software to focus only on those parts of the financial statements highlighted as Critical Audit Matters. They will ignore other parts which may not be critical for the auditors but would be critical for them.

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 Audit Matter? Is the use of the word "most" understood as it relates to the definition of Critical Audit Matters?

Critical audit matters should comprise all those matters communicated to the Audit Committee. Additionally, all items listed in management's critical accounting policies should be candidates for Critical Audit Matters; these are supposed to be the drivers of the financial statements.

The Board must also include significant deficiencies in internal control as a possible Critical Audit Matter. For example if the auditor has determined the existence of a continuing significant deficiency, then testing any area affected by that significant deficiency should also be evaluated as a potential Critical Audit Matter. This does not apply only to those registrants subject to reporting or being audited pursuant to Section 404; it would apply to all registrants.

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 reporting deadlines are already short. Auditor time will increase to document not only those matters that are critical but those that could be. Auditors will spend as much time documenting what they did not do as documenting what they did do so as to minimize second guessing. The additional time spent in quality control to manage exposure to second guessing will cause increased calls for extension of time to file. It is not clear that more time spent preparing documentation necessarily equates to a higher quality audit and therefore higher quality financial reporting.

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?

All of the indicators and examples for the determination of Critical Audit Matters are clear; more importantly they are all related to management's relative ability to handle difficult areas. Again, I suggest the Board work with the Commission to expand management's disclosures in the 10-K about controls over difficult areas and the audit committee's disclosures in the annual proxy statement as to how it exercises oversight of these areas. As I stated previously, users are looking for information about what goes on inside the registrant not what goes on inside the audit firm.

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?

As noted above, if users truly were interested, they would do their homework. Accordingly these changes to the report will not be useful other than for second guessing the auditors in the course of subsequent litigation. I do not believe users are sincerely interested in knowing about the procedures the auditors performed as much as they are interested in knowing about the procedures management performed or failed to perform.

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?

The factors listed are appropriate for determining what matters are Critical Audit Matters.

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?

- Matters identified by the PCAOB as Critical Audit Matters by virtue of its inspection focus.
- All areas identified as potential fraud risk – revenue, management override of controls, large transactions at the ends of reporting periods, and so on.
- Any matters identified as Critical Audit Matters in the course of discussion with the audit committee.
- All items listed by management as Critical Accounting Policies in the notes to the financial statements or in MD & A and all matters listed as Risk Factors in Item 1A in the form 10-K.

The above are among the drivers of financial reporting, and should be a focal point for the audit of internal control as well.

18. Is the proposed requirement regarding the auditor's documentation of Critical Audit Matters sufficiently clear?

Yes and the consequence will be that the inventory of critical matters increases. Inspectors will by nature look for other matters not included as Critical Audit Matters. Auditors by nature will want to avoid criticism so any matters that are close calls will end up being included so that nothing is left as a potential Critical Audit Matter.

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?

As stated above, the auditors will want to avoid being second guessed so that list of non-reported matters will likely be empty or populated with Straw Men to placate inspectors.

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

The Board's goal should be to improve the quality of the audit; it is not clear to me that more documentation automatically achieves that objective. What is clear is that the auditors will spend more time documenting matters for the purpose of passing inspections and that does not automatically lead to improved quality.

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?

The indirect costs include those that will arise as users focus on the auditors' lists of critical matters rather than on the financial statements taken as a whole and those matters that would be critical to them as users. The Board will incur increased inspection costs as inspectors search for unreported possible Critical Audit Matters. Litigation costs should also increase if for no other reason than that they can.

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?

Critical Audit Matters will drive financial reporting as management and the audit committee move to match the level of financial statement disclosure with auditors' report disclosure. Management knows more about what's critical in financial reporting than do the auditors. Accordingly, areas not identified by the auditors as critical will not receive prominent disclosure even if management is aware of particular critical matters that it should disclose. I believe this will be most pronounced in small companies. Again, as stated above, the Board should work closely with the Commission to expand management's and the audit committee's reporting on critical accounting and reporting matters.

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

This is not only a matter of increased time spent but increased risk. Users will focus on what has been reported to the exclusion of what should be important to them; when things go badly they will find fault with the auditors because matters critical to them were not listed. This exposure to increased risk will likely drive some increase in fees. However there should also be an increase fees due to the increase in time related to documentation.

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?

If the Board goes forward with this proposed standard, it should require this expanded reporting for the most recent audit in all '34 Act and in '33 Act filings which include or incorporate by reference audited financial statements. The conditions at the registrant during the most current period under audit are the relevant conditions on which users would focus; those conditions are what will impact the registrant in the immediate future. As stated above, I do not believe users are concerned about what the auditors find difficult, but what management finds difficult. Accordingly, they will be even less concerned about what the auditors found difficult in the last reporting period.

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?

I don't believe it provides useful and relevant information about the entity which is what the Board's users are asking for. It provides information about the auditors and their audits. For all these critical matters the reporting examples address how the auditors obtained competent audit evidence which really speaks to how the auditors assessed controls in these areas and management's competence. As stated above, the Board should work with the Commission to augment management and audit committee disclosures about tough areas and the controls over those areas.

If the Board continues with this project, the amendments need to extend to internal control reporting. Critical Audit Matters all appear to be control related; this should impact the conduct of the 404 audit and the content of that report.

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.

These reports may not be comparable because management strengths and weaknesses will not necessarily be comparable; however, some situations will be. For example, all Level 3 fair value applications must be Critical Audit Matters. Just as Risk Factors and Critical Accounting Policies have become somewhat standardized over time, Critical Audit Matters will as well. Revenue, fair value disclosures, de-recognition of transferred assets, consolidation of variable interest entities, uncertain tax positions, litigation, environmental and other contingencies are areas common to most large companies so these will all be listed as Critical Audit Matters; the auditors' report language will become standardized in response to PCAOB inspection comments initially, and litigation experience later.

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?

The items identified in Appendix 5 are already good examples of potential consequences of this process. We will end up with an "intermediate going concern opinion" – one in which the auditors discuss their struggle to issue an unmodified opinion but which none the less puts the user on notice that this was a close call. We'll have "intermediate scope exceptions" wherein auditors will discuss the difficulty of obtaining sufficient competent evidential matter but which doesn't really address the difficulty management had in documenting its position – the matter that is of most concern to users. Perhaps this tension will lead to improved disclosures by management and the audit committee, but I would prefer to see the Board and the Commission work on this together rather than hope for a satisfactory though unintended outcome.

For non-404 reporting companies the auditors must of necessity end up reporting on the existence of material weaknesses in internal control as those must certainly be associated with Critical Audit Matters.

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?

I'm not an attorney but in my experience the issue is not just about what is communicated but what is not communicated. Accordingly, Critical Audit Matters will likely put auditors in the same position as management is with Risk Factors – they grow and expand to include every possible risk that one could think of at the insistence of counsel who's trying to protect everyone from potential litigation. The same may happen here – Critical Audit Matters will expand to include things that are not critical to investors but are critical to the auditors' defense in litigation matters and in the face of PCAOB inspections. No published PCAOB inspection report will cite a firm for including too many Critical Audit Matters just as no published inspection report will ever cite an auditor for spending too much time in an area.

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?

It seems clear that every matter that could end up in an explanatory paragraph will be a Critical Audit Matter; it would also appear that we are destined for redundancy if the Board goes down this path. If the matter is discussed in Critical Audit Matters, no additional information will be provided by an explanatory paragraph.

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

If the Board insists on auditors reporting on Critical Audit Matters these emphasis of a matter paragraphs will no longer be necessary since each example would be a Critical Audit Matter. Even a change in accounting principle is not an easy matter as one would have to take a fresh look at any unrecorded adjustments in those prior financial statements and conclude that not correcting them was still appropriate; if the change/restatement merits an explanatory paragraph under current standards, it is likely a Critical Audit Matter.

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?

Those required now include Going Concern Uncertainty, Change in Accounting Principle, and Restatement for Correction of an Error. Each of these would likely result in the inclusion of a Critical Audit Matter discussion; I fail to see what the additional paragraph would accomplish. There is no scenario where an auditor would consider adding an explanatory paragraph but not a corresponding Critical Audit Matter. An auditor who does add an explanatory paragraph would certainly include a corresponding Critical Audit Matter so as to not be subject to second guessing.

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?

Any matter the Board comes up with will be a Critical Audit Matter; significant contingent liabilities, difficulty in obtaining evidence for fair value pricing, and so on are all Critical Audit Matters.

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?

The time the Board spends working on Qualified Opinions, Disclaimers and Adverse Opinions is necessary because of the regulation model the Board has adopted. As the Board is aware, the Commission will not accept an opinion modified in that fashion – hence those types of reports cannot be issued as they cannot be filed. Spending time on that aspect of the project is not productive.

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.

The Board is shifting disclosure determination to the auditor rather than to the Commission, the Audit Committee and Management which is where it belongs. Critical Audit Matters should lead to significant disclosure in the financials however, those matters not critical to the auditor but critical to users will get less disclosure than they merit. Any area that's a Critical Audit Matter is necessarily a key area for internal control testing and that is not adequately addressed in the Board's example reports. The example management disclosures do not go beyond what the auditors include in their report; what is critical from an audit perspective is not necessarily what's critical from management's perspective or the investors' perspective. For example, consider Hypothetical Scenario #3; this is the type of situation where management should provide disclosure not only in MD&A and in Critical Accounting Policies but in Item 9 as well. The hypothetical note disclosure appears to follow from the auditors' Critical Audit Matter but there is no disclosure by management of the control deficiency likely because it is not considered a material weakness. Again, there are matters that are not critical to the conduct of the audit itself but that are critical to the business and those will get pushed aside or buried if they are disclosed at all. This project will naturally cause readers and perhaps the audit committee as well to focus on Critical Audit Matters to the exclusion of other items.

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?

Critical Matters for Broker Dealers likely revolve around maintenance of minimum capital requirements and controls over customer accounts and assets. The Critical Audit Matters as structured will address the former but may not address the latter unless the Board incorporates those internal control matters into the standard.

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?

If the Board continues with this standard, it should be applied to all registrants regardless of size or industry. I believe information on controls over customer funds or the computation of capital for example may be more important for users of Broker Dealers' financial statements than the actual statements themselves. Accordingly, the consideration of Critical Audit Matters should contemplate those computations and controls.

37. Since a broker or dealer may elect to file with the Commission 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?

If the Board goes this route, then all Critical Audit Matters need to be included in the report on the Balance Sheet; any that would impact the income statement will impact equity and therefore required minimum capital. The Board needs to address Critical Audit Matters related to controls over customer funds, execution of orders and any other matters that could impact a customer's account even though they would not directly impact financial statement reporting.

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?

Unless the investment company is invested solely in Level 1 instruments, there would be a Critical Audit Matter related to fair value. That being said, the Board needs to address controls here too – over timing, use of derivative instruments between reporting dates, etc.

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?

Same comment on investments other than Level 1 instruments. Issues of diversification or control over employee funds, deposits and withdrawals, and so on, are all control items and those should be addressed as Critical Audit Matters even though the plan is not required to be audited for controls.

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?

No. If the Board determines to go forward with this proposed standard, it must do it for all registrants. There is no reason why investors in one type of company should receive expanded auditor reporting and another not as that would suggest the Board had determined that certain users or potential users are more worthy.

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

I believe the effective date needs to be at least one year – one full audit cycle – following issuance of the standard.

That being said, I strongly encourage the Board to field test this with some public accounting firms if it has not already done so, and also share the results of that field test with the Commission if it has not already done so. The Commission may determine that it is preferable to change the requirements of Regulations S-K and S-X instead.

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?

No; if the Board decides to do this, get it done and started for all registrants.

Appendix 6 – Other Information

1. *Is the scope of the proposed other information standard clear and appropriate? Why or why not? Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?*

First, the Board should consult with the Commission to determine whether there are other types of filings the Commission believes warrant increased auditor involvement. That being said, any Exchange Act filing that incorporates previously filed financial statements requires an auditors' consent. Auditors currently evaluate the information in those filings for consistency with the financial statements just as they do other information within a Form 10-K. Accordingly, if the Board goes forward with this proposed standard, auditors should report on other information in any Exchange Act filing that incorporates audited financial statements by reference by the inclusion of one or more additional paragraphs in their consent.

2. *Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not? 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?*

See my comment on the preceding question.

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?*

Yes it must apply to amended annual reports, especially if the other information is also amended. If the basic financial statements have changed, their relationship to the other information will also have changed. If the Board believes it appropriate to require the auditors in their reports to inform users of their association with the other information in a document, then the Board should require them to inform users that they are still willing to be associated with the other information in the amended document.

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?*

Again, this is an area in which the Board must work with the Commission on the latter's filing requirements. The Commission requires financial statements to be filed in these situations as it believes it is important for users of the registrant's financial statements to receive that information. Any financial statements filed that include the report of a registered public accounting firm should be audited in accordance with the Board's standards and, accordingly, be reported on in accordance with those standards. If the Board moves forward with this standard, it should apply to all reports of registered public accounting firms filed with the Commission and provided to users under the requirements of the '34 Act. The other auditors will have to agree/consent to the inclusion of their report and, accordingly, are associated with the other information in the document being filed.

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 objectives are incomplete; auditors should also address controls over other information in their audit of internal accounting controls over financial reporting.

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?

Yes, as auditors already do that as part of the audit; the only question is the extent to which that association gets reported in the auditors' opinion. Without some clear identification in the report as to the extent of the auditors' involvement, users will begin to expect that everything in the document has been "subjected to audit". I believe there needs to be some limit as to the extent of the auditors' reporting on other information and I believe that limit should be set by the Commission. It seems logical to include MD&A for example and the Management Compensation disclosures; reporting could be limited to that information by reference to page numbers. Blanket reference to other information is neither useful nor appropriate.

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?

I do not believe there would be any increase in the quality of other information as a result of this standard. As stated in my letter to the Board on the Concept Release on this matter:

"I do not believe reporting on MD&A would change either the form or content of those disclosures. Since it is included in the 10-K and auditors are therefore "associated" with that information, they already test those disclosures for consistency with the financial statements and underlying records; for 10-Ks incorporated by reference into registration statements, they are "comforted" in letters to underwriters. I have no expectation that the quality of MD&A would improve as a result of its inclusion in the financial statements and direct coverage by the auditors' report. The SEC has spent decades working to increase the quality of MD&A and the SEC certainly has all the leverage it needs in this area."

Again, I do not believe it would improve quality; it would however increase the visibility of the auditors' roles.

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 Commission's Staff Accounting Bulletin No. 99 is the appropriate source for materiality determination by auditors of registrants.

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

They are not clear and in some cases are not appropriate. The Board should refer to AU634 *Letters for Underwriters*. Much “other information” in ’33 Act filings, for example, is not comforted by auditors as it is not taken from the systems subject to the system of internal control that is the subject of the audit. Accordingly, the Board should not require auditors to report on anything they could not include in a letter to underwriters. As it says in that standard, auditors should not comment on matters just because they are present and can read or do arithmetic.

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?

Yes, but in a comfort letter process auditors report on those items individually so that it’s clear what items they are comforting and which they are not. Under the proposed standard, users will not know which items are covered and which are not. Additionally, users should be advised as to what information is covered by controls; they will likely believe it all is covered by control testing if it is covered by the auditors’ report. Auditors should not just be doing “simple math” as the proposed standard would imply.

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?

The significant costs for the auditors relate to quality assurance and documentation. This process will require even more documentation than a comfort letter. So look at the typical additional costs for comfort letters and just add these to the annual audit fee every year; that should be a starting point to estimate what this could cost.

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?

Yes; auditors currently have the same response to errors in other information identified in the process of issuing a comfort letter or any report for a registrant: get management to fix it or don’t issue the report.

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 Commission won’t accept the reports so the costs are related to the increased time associated with a delayed filing if management does not immediately make the necessary corrections and the auditors are unwilling to sign off. In these situations there are always additional meetings with the Audit Committee and additional consultations.

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?

Yes, except for the listed response option pertaining to the issuance of a report noting the presence of a material inconsistency. The Board knows the Commission will not accept a qualified auditors’ opinion. Accordingly, an auditors’ report as described cannot exist.

15. 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? Under what circumstances would such a report be appropriate or not appropriate?

This appears to be an inappropriate question. Again, the Board knows the Commission will not accept a filed document that is materially misstated nor will it accept a qualified auditors' opinion. Accordingly, an auditors' report as described cannot exist.

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?

Reporting to the audit committee appears to be the appropriate response. It is difficult to contemplate that auditors would withdraw their report on filed financial statements if, for example, overly aggressive marketing information is included in a documents subsequently incorporated by reference into the previously filed form. The issue will, however, surface in the event the auditors are called upon to provide a consent to incorporate filed financial statements into a current filing and the inappropriate information is now incorporated into the financial statements that are the subject of the current consent. It would seem that the auditors should be unwilling to provide that consent absent the correction of the offending 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?

Regardless of how the auditors learn of a material misstatement in the financial statements they need to require management to make the appropriate changes. The process is no different whether the error is detected looking at the President's Letter to Shareholders or in the audit of subsequent cash disbursements.

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

I believe it is not sufficiently clear because there's no distinction between the information covered by the system of internal control and information not so covered. As noted in AU 634 *Letters to Underwriters*, auditors have no business commenting on matters outside the financial reporting process. Just because auditors are capable of re-computing formulae does not mean they should do so and report as such.

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 question relates not only to information not directly related to the financial statements but also to information for which there is no accounting standard. For example, Tenneco regularly discloses "non-recurring" items in an MD&A analysis of its earnings each quarter and many companies disclose comparisons of net income or operating cash flows to EBITDA. The former is a management judgment as to what constitutes "non-recurring" and the latter is a function of how EBITDA is defined in a particular entity's loan agreements.

Other examples include anything the auditors do not include in letters for underwriters such as backlog or the square footage of property owned and leased as well as any “forward looking information” included in the 10-K. The proposed standard will raise expectations that all this information is covered by the auditors’ report. Any listing of items that are not covered by the auditors’ report will be voluminous and will not be read by users.

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?

I don’t see a difference in costs from those they have now. When auditors identify a material inconsistency they would incur time costs for meetings, consultation, documentation, and so on related to the decisions of how to proceed. However, all involved, including the Commission, will likely lose any discretion to correct these things prospectively.

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?

No as I believe this will generate an expectations gap with respect to the auditors’ involvement with everything in the document. I think many users will come to believe that just about everything in the document has been audited regardless of how the opinion is worded. Users may not currently have expectations that auditors are reading the other information because they don’t know that professional standards require that; going forward they will have expectations because they won’t understand the practical limitations on what the auditors can do given the language in the opinion.

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?

Yes; the Board has to address how this material inconsistency or material misstatement of fact is to be handled from the standpoint of reporting on internal control. The situation described is indicative of a material weakness in financial reporting of the other information. That weakness should be communicated no differently than any other material weakness.

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

If the registrant corrects other information in a current document and the Commission does not require restatement of that information for prior periods how will the successor report? Even if the Commission would prefer to have the information corrected prospectively, the predecessor auditor will know the older information was materially misstated and be unable to reissue an unqualified report. This appears to restrict the Commission’s ability to exercise discretion; it may no longer be able to permit prospective correction.

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

All information in the document would be subject to testing by the auditor even that which is not related to the financial statements. For example, the Board can't say the auditor is not required to test or even understand a formula in order to prove that it is mathematically correct and expect the plaintiff's bar to accept that. Auditors will be exposed for the entire document even that which is clearly outside the auditors' expertise.

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?

As I am not an attorney, I cannot comment on the question, however the fact that this question has been raised suggests the Board has not consulted with the Commission with respect to the enforcement of the federal securities laws.

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

Reference to work of specialists – This amendment raises questions as to the extent of the Board's consultation with the Commission. The Commission expects experts to be named; it also expects reports of "other auditors" to be included in filings when the registrant's auditor refers to such others in its report on the financial statements. If auditors refer to specialists in their reports the Commission may require those specialists to provide consents. This will add significant cost and complexity to the filing process every time a registrant files a document incorporating a 10-K by reference as it will need to obtain consents from any such specialists.

The Board must also amend Auditing Standard No. 5 to specifically include requirements that auditors evaluate controls over other information particularly MD&A. It would seem logical that reading that other information for consistency without evaluating the controls over the processes that generate that information results in a very incomplete reporting process. I submit that reporting on management's controls over that information process is more valuable to users than the auditors' reading of that information.

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?

If the Board is changing the report, the auditors' responsibility for internal control should be addressed in the second paragraph of the opinion. Auditors should state what they have done with respect to internal control and by extension whether they have done an audit of controls or not. That reporting should also cover controls over other information.

That being said, any question about auditor reporting under AU Section 508 for registrants is an inappropriate question. As stated previously, the Commission will not accept a filing containing a Qualified, Adverse or Disclaimer of Opinion. Spending time with that reporting is not productive time.

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

If these entities file annual reports with the Commission that are available to users and contain such “other information” and if the Board determines it appropriate for auditors to report on such other information, there is no reason to exempt broker dealers or any other particular industry such as insurance companies, public utilities, government entities and so on.

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

All of this needs to go through the Commission so having an effective date be one full year audit cycle following approval by the Commission is the minimum. If the Board determines to expand the scope of controls understanding to include other information, then the effective date cannot be less than two year ends away – to allow for a full year of controls documentation and consideration at interim periods.

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?

No; those who invest in small businesses have just as much right to protection as those who invest in very large registrants so there should be no size exemption when it comes to auditing standards, audit quality or financial statement quality. Auditors of smaller registrants are already reading the other information for consistency/inconsistency so the only additional need is for appropriate documentation and a means to assess information that would be covered by their reports. That situation will be true for all auditors not just those who audit smaller businesses.

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?

If the Board expands reporting, it should extend that expanded reporting to Securities Act filings as well. Much of the other information is already “comforted” by auditors and reporting on that information would not require additional work other than preparation of additional documentation. Draft comfort letters are updated with each and every amendment; every time an auditor gives its consent it has read the document and considered whether there are inconsistencies in the information or the manner of its presentation. Accordingly, the procedures related to other information are in fact updated with each and every amendment to the registration statement. The auditors could easily add a paragraph on “other information” to their consents included in '33 Act filings.

However, the auditors are currently able to restrict their documentation and analysis to information that is rightly within the auditors’ expertise and therefore able to restrict comfort letter procedures and related reporting to specific, appropriate items in the document being filed. The Board’s standard is much more open-ended in its scope and would raise expectations on the part of users as to the breadth of the auditors’ analysis.

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?

Again, the proposed standard would expand the auditors' responsibilities to include evaluation of information that is clearly outside the auditors' expertise. The amount of analysis and documentation implicit in the Board's standard would exceed that currently done in the comfort letter process. The auditors would be less exposed by having the comfort letter included as an exhibit to the filing than they would be by having that same information covered by the "other information" opinion paragraph proposed to by the Board. At least the comfort letter spells out specifically what the auditors have done to which information – and therefore which information in the filing is left to the reader of that letter.

Auditors' responsibilities for the information in current filings are quite significant; so are the responsibilities of the underwriters and private placement agents. Expanding the auditors' report to cover other information in this manner establishes expectations about the auditors' role and raises new expectations about the auditors' involvement with marketing information or forward looking information; these expectations would likely increase as users/securities purchasers assume auditors' are implicitly providing assurance on that information.

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?

Requiring the auditors to report on the other information included in a '33 Act filing would not only convert a letter for the underwriter or private placement agent into a general use report, it would greatly expand the coverage of that letter to matters and information not currently subject to the comfort letter process. I submit that current fees for comfort letters would increase dramatically if that were to occur because, unlike the specific and detailed reporting in a comfort letter, the Board's proposed reporting on other information is broad if not all-encompassing; it would establish expectations in the minds of users that far exceed those of the underwriter or private placement agent.

Appendix 7 – Emerging Growth Companies - Comments on selected questions only:

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

Any changes the Board makes to auditors' reports should apply to EGCs as well. These entities are higher risk than existing registrants as evidenced by the Board's observations on going concern paragraphs for example. They should not be exempted from reporting standards.

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?

As the Board is aware, EGCs are more likely to have significant deficiencies/material weaknesses in internal control, are more likely to be candidates for "going concern opinions", and are in general more risky than their more established brethren. If there is any logic behind the Board's auditor reporting project, exempting EGCs flies in the face of that logic. The only reason to exempt them is that the analyst community does not care about

EGCs enough to want the additional disclosures it wants from the auditors of established companies. I would submit that such a stance is not beneficial to investors in EGCs who are exposed to more relative risk than those who invest in established registrants who are routinely covered by analysts.

4. Would audits of EGCs be more, less, or equally likely to have Critical Audit Matters?

As noted above, EGCs have fewer knowledgeable employees (e.g., those trained to handle areas such as financial instruments or fair value accounting), more control weaknesses, greater liquidity concerns, frequent going concern doubts, and largely uncertain futures. My expectation is that their auditors will report a proportionately greater number of critical matters than larger, more established entities.

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?

Again, I believe the costs are outside the audit. Investors will look to the auditors' report for a "road map" as to the parts of the financial statements on which they should focus and disregard other parts of those statements, or other aspects of that business that should be relevant to them as investors.

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?

They will incur the incremental time difference between what they do now and what they would do to provide comfort on that information in a letter to underwriters, plus the time it takes to test other information not currently covered in a comfort letter but included in "other information" described in the Board's proposed standard. They will also incur time documenting their basis for reporting on the information that is not directly related to the financial statements but now affirmatively subject to auditor consideration by action of this proposed standard and the expectations it will raise among users. I suggest that EGCs should expect annual fees to increase by an amount comparable to the cost of a comfort letter.

I appreciate the opportunity to offer my comments.

Sincerely,

s/ James L. Fuehrmeyer, Jr.

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