

August 15, 2016

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Subject: PCAOB Rulemaking Docket No. 034

Dear Board Members:

We are pleased to comment on the PCAOB's (the Board) repropose rule, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (the "reproposed Standard"). Northrop Grumman is a leading global security company with annual sales of \$24 billion and approximately 65,000 employees. We provide products, systems and solutions in unmanned systems; cyber; command, control, communications and computers, intelligence, surveillance, and reconnaissance; strike aircraft; and logistics and modernization to government and commercial customers worldwide.

We appreciate the Board's efforts to incorporate feedback received from preparers, accounting firms, and other constituents into the repropose Standard. We share the Board's desire to provide timely and relevant information to investors in the auditor's report and support the Board's proposals to retain the requirements for auditors to communicate the nature of an audit, the auditor's responsibilities, and results of the audit in the auditor's report. We also support the Board's proposals to limit the addressees of the audit report to shareholders and boards of directors as well as to require specific ordering of certain sections in the auditor's report to improve readability.

However, we do not agree with the Board's proposal that auditors be required to disclose critical audit matters (CAMs) in the auditor's report, for the following reasons:

- Information material to investors is required to be disclosed by management and key judgments and accounting assumptions (along with the related financial sensitivities) are provided for investors in the critical accounting estimates section of MD&A. Adding

a requirement for auditors to communicate CAMs would likely be duplicative to management's disclosure and could be confusing to investors. As evidenced by example disclosures in the reposed Standard, CAM disclosures could extend well beyond a page and likely would contribute to disclosure overload rather than facilitate disclosure effectiveness.

- Audit committees and the PCAOB provide oversight to preparers and auditors, respectively, which is designed to improve the quality of financial reporting. This oversight enhances investor confidence regarding management's preparation of the financial statements and the auditor's performance of the audit. We believe these governance elements support investor reliance on the information presented in the audited financial statements without the need for further elaboration by the auditor on the matters they considered in reaching their audit opinion.
- CAM disclosure in the auditor's report may result in the unintended consequence of changing the quantity and nature of information communicated by auditors to audit committees. In contemplation of the required disclosure in the auditor's report, auditor communications with audit committees may lack the depth of current communications and become more general or boilerplate in nature.
- Requiring CAMs to be included in the auditor's report will likely result in increased audit costs for companies due to the additional preparation activities for auditors and corresponding reviews by management and audit committees. We routinely communicate with investors and none have inquired about audit matters, so we question whether the benefits of this proposal outweigh these added costs.

Please contact us if you have any questions or if you would like to discuss these comments.

Respectfully,

A handwritten signature in blue ink that reads "Michael Hardesty". The signature is written in a cursive, flowing style.

Michael Hardesty
Corporate Vice President, Controller and Chief Accounting Officer