Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

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

15 August 2016

Re: Reproposed Auditing Standard on the Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments, PCAOB Rulemaking Docket Matter No. 034

Dear Ms. Brown:

Ernst & Young LLP (EY) is pleased to submit these comments to the Public Company Accounting Oversight Board (PCAOB or Board) on its Reproposed Auditing Standard — *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and the related amendments to other PCAOB standards (collectively, the Reproposal). We support the PCAOB's efforts to make the auditor's report more informative and relevant for investors and other users of the financial statements.

We appreciate the Board's efforts in considering the work in this area of other standard setters such as the International Auditing and Assurance Standards Board and the United Kingdom's Financial Reporting Council. We also support the Board's decision not to repropose, at this time, the auditor's responsibilities for other information in documents containing the audited financial statements, which was included in the 2013 proposal.

Overall observations

We recognize and appreciate the Board's efforts to address many of the comments and questions raised by stakeholders in response to its 2013 proposal to revise the auditor's reporting model, including concerns about the definition of a critical audit matter (CAM), what the auditor should communicate about CAMs and convergence with international standards. We believe the addition of certain clarifications and refinements will allow the standard to strike a balance between the needs and interests of investors and other users of the financial statements and the limitations under the securities laws and existing regulations around disclosure obligations of public companies and their independent auditors.

In the sections below, we recommend clarifications to the proposed definition of a CAM and the proposed communication requirements to reduce instances where the auditor will provide original information. We recommend that the PCAOB strengthen the language in the auditor's report to make clear to investors and other users of the financial statements that a discussion of a CAM is not a piecemeal audit opinion. We also discuss our concerns about increased liability for auditors and our perspective about associated legal issues.

We also refer the Board to the comment letter on the Reproposal from the Center for Audit Quality (CAQ), which identifies certain similar concerns and provides similar suggestions of how to address them.

Critical audit matters

Overview

We agree with the underlying objectives of the proposed requirements for determining, communicating and documenting CAMs. We also agree that the communication of CAMs would provide useful information to investors as focusing attention on CAMs could help investors better understand and analyze information available in a company's financial statements.

We support the objectives that the Reproposal is not intended to:

- Undermine management's role as the primary, if not the sole source of original information about the company
- Create a chilling effect on communications between the auditor and the audit committee
- Result in the auditor providing a separate opinion on the CAM or on the accounts or disclosures to which it relates

We believe that the Reproposal takes positive steps toward satisfying these objectives. To fully achieve these objectives, however, we suggest clarifying and refining the:

- Definition of a CAM
- Factors for determining whether a matter is a CAM
- CAM communication requirements

We discuss these suggestions and others in more detail below. We believe these changes, if adopted, would focus the discussion of CAMs on information that is most useful to investors.

Definition of a CAM

Paragraph 11 of the Reproposal defines a CAM as follows:

> *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 material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment.*

We recognize and appreciate that the Board's efforts to incorporate many of the suggestions raised by stakeholders about the CAM definition it proposed in 2013, including scoping in matters that were required to be communicated to the audit committee and also introducing the concept of materiality.

We have concerns that the Reproposal's definition of a CAM, when taken in conjunction with the factors listed in paragraph 12 of the Reproposal, could result in the auditor disclosing original information about a company, such as the existence of a significant deficiency. We continue to believe that the standard should not impose obligations that result in auditors serving as the original source of information about a company. We believe that any auditor reporting requirement that causes an auditor to report such original information would blur the roles of management and the auditor and may undermine the audit committee's role in governance of the company. We also note that any requirement that resulted in auditors being the original source of information about a company would be inconsistent with management's disclosure obligations under the Securities and Exchange Commission (SEC) rules and regulations, federal securities laws and applicable state laws to the extent they place strict limits on the ability of auditors to make disclosures of company-confidential information.

As an example of this concern, under the Reproposal, the auditor may be required to disclose original information if the auditor identifies a significant deficiency in information technology general controls (ITGC) supporting a material account. The following analysis illustrates how this situation could result in the auditor communicating original information:

- **Step 1** — Is the matter something that is communicated or required to be communicated to the audit committee?

  Yes. In accordance with Auditing Standard (AS) 1301, *Communications with Audit Committees*, a significant deficiency is a matter required to be communicated to the audit committee.

- **Step 2** — Does the matter relate to an account or disclosure that is material to the financial statements?

  This example assumes the significant deficiency relates to an account that is material because, based on our experience, most if not all significant deficiencies relate to material accounts.

- **Step 3** — Did the matter involve especially challenging, subjective or complex auditor judgment?

  In light of the importance of ITGCs to most internal control environments, it's likely these matters would involve the auditor's application of especially challenging, subjective or complex judgments, for example when determining a strategy to (1) test mitigating controls and (2) perform substantive audit procedures.

In this example, when describing the principal considerations that led the auditor to determine that the matter is a critical audit matter, the auditor would likely be required under the Reproposal to describe the existence of the significant deficiency. By contrast, Item 308(a)(3) of Regulation S-K does not include a requirement that registrants publicly disclose significant deficiencies.

As noted in our comment letter to the 2013 proposal, we believe the final standard should stress that the auditor should avoid identifying and describing a CAM that was principally due to a control deficiency because that would require the auditor to describe a matter that the company would not be required to disclose under SEC's rules and regulations.

Another example is in the context of the auditor's responsibilities when potential illegal acts come to the auditor's attention. Under Section 10A of the 1934 Act, the auditor has specific obligations to evaluate the matter and if the auditor detects or becomes aware of information indicating that an illegal act has or may have occurred and is not clearly inconsequential, the matter must be elevated within the company and ultimately must be reported to the company's audit committee or Board of Directors. If the company and the Board of Directors fail to take timely and appropriate to remediate a material matter, the auditor has obligations under Section 10A to notify the SEC about the matter. Notably, the auditor is neither required nor permitted to make a public disclosure of the nature of the auditor's findings. Also, as discussed further below, AS 2405 recognizes that "such disclosure [of an illegal act] would be precluded by the auditor's ethical or legal obligation of confidentiality, unless the matter affects his opinion on the financial statements." By contrast, we believe many matters leading to an auditor carrying out its obligations under Section 10A would, under the Reproposal, trigger public reporting by the auditor as a CAM, irrespective of the company's disclosing the matter first.

The contrast between the absence of a disclosure obligation for the registrant (e.g., for significant deficiencies) or the auditor (e.g., under Section 10A) and the creation of disclosure obligations for the auditor under the Reproposal (even if the company has not made its own disclosures first) raises important policy and related considerations with respect to the respective roles of the auditor, the company, and the applicable legal and regulatory disclosure frameworks that we respectfully urge be further considered.

To address these concerns, we believe several matters should be addressed in the PCAOB's final rule in this area: (a) narrowing the definition of a CAM to those that are material and therefore would require the company's disclosure; (b) limiting the auditor's disclosure obligation to those matters that are required to be disclosed to the audit committee and (c) eliminating any requirement that the auditor make disclosures relating to CAMs that have not previously been disclosed by the company. We address those matters in additional detail below.

We urge the definition of a CAM be clarified to state clearly that a CAM is a *material* matter arising from the audit of the financial statements taken as a whole. We believe such a clarification would eliminate the possibility of the auditor disclosing a significant deficiency, which by definition is not material, and would reduce the likelihood that the auditor would be the source of original information. If the definition of a CAM required a matter to be material to the financial statements taken as a whole, then the possibility the auditor might have to disclose original information about matters other than significant deficiencies (e.g., critical accounting estimates and to a certain extent illegal acts) should be mitigated as well. We offer other suggestions to guard against the risk of an auditor being the source of original information about the company in the *Communicating CAMs* section below.

We believe that the proposed requirement to consider all matters communicated to the audit committee in determining CAMs is overly broad and could have unintended consequences related to the nature of the communications between the auditor and audit committee as well as overall audit effort. In the Reproposal, the Board expressed the view that "it seems likely that especially challenging, subjective, or complex auditor judgments would relate to areas that are required to be communicated to the audit committee, either under a specific requirement or more broadly as a matter that is significant to the audit committee oversight of the financial reporting process."

We agree with this statement. Consistent with this view, we believe that required communications to the audit committee communication under AS 1301 provide the appropriate source for potential CAMs. Required communications under AS 1301 are appropriately broad and include significant and critical accounting policies, practices and estimates, significant unusual transactions, and other matters arising from the audit that are significant to the oversight of the company's financial reporting process.

Without limiting the source of potential CAMs to the communication requirements in AS 1301, a standard risks creating a need for auditors to consider and document every communication with the audit committee, which we believe could result in less dialogue with the audit committee, which would not be in investors' interests.

We believe robust and open conversation between auditors and audit committees is critical to audit quality and protecting investors' interests and should not be curbed. As a result, we believe investor interests will be best served if the standard narrows the source of CAMs to matters that are required to be communicated to the audit committee, rather than including any matter communicated.

Recommendation

We recommend that the proposed definition of a CAM be refined as follows:

- A critical audit matter is any matter arising from the audit of the financial statements that ~~was~~ is ~~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.

When incorporating "material" into the definition above, we recommend that it reference the Supreme Court's definition of materiality, consistent with the release to the Reproposal. Similarly, we believe it would be appropriate for an additional clarification that the matter be material to the financial statements "taken as a whole" given the nature of the materiality assessment articulated by the Supreme Court and the PCAOB's standards.

Determining whether a matter involved especially challenging, subjective or complex auditor judgment

Paragraph 12 of the proposed standard lists factors that the auditor should consider, in addition to other factors specific to the audit, in determining whether a matter involved especially challenging, subjective or complex auditor judgment. While we agree that most of these are appropriate factors auditors should consider when making this determination, we have some concerns with the following two factors:

- The degree of auditor subjectivity in determining or applying audit procedures to address the matter or in evaluating the results of those procedures [paragraph 12.b]

- The nature of audit evidence obtained regarding the matter [paragraph 12.f]

We believe that a discussion of CAMs would be most useful to investors if it helps them understand and derive value from a company's financial statements and disclosures. In our view, communicating matters that would rise to the level of a CAM because of the especially challenging, subjective or complex auditor judgment required in determining audit strategy or applying audit procedures would not necessarily accomplish this goal.

For example, in a multilocation engagement, the auditor often is required to use especially challenging, subjective or complex judgment in determining the locations or business units at which to perform audit procedures, as well as the nature, timing and extent of the procedures to be performed at individual locations or business units under AS 2101.11, *Audit Planning*. This complexity of judgment on the part of the auditor, however, may not be matched by a complex judgment made by management in the preparation of the financial statements and disclosures.

In general, we believe CAMs that focus on such matters (i.e., when the CAM definition is met due primarily to audit strategy considerations) would not provide investors with insights on matters that would be most relevant to their understanding of the financial statements. In addition, we believe auditors would be more likely to have to discuss original information in situations like this since in these situations, the underlying complexity related to the audit strategy judgments would be derived from underlying complexities in the company's system of internal control.

Similarly, in certain instances, an auditor might be required to comment on the company's process for making critical accounting estimates to the extent the auditor observed challenges in a company's method for making the estimate, but determined that the result of the method was reasonable based on the audit procedures employed to assess its reasonableness.

In contrast, we do agree that the degree of auditor subjectivity used in *evaluating* the results of audit procedures applied to address an accounting and reporting matter would be a factor to consider when evaluating whether a matter arising from the audit of the financial statements is a CAM.

Recommendation

We propose that the factor in paragraph 12.b of the proposed standard be modified as follows:

- The degree of auditor subjectivity in ~~determining or applying audit procedures to address the matter or in~~ evaluating the results of ~~those~~ **audit** procedures **applied to address the matter arising from the audit of the financial statements**

Paragraph 12.f indicates that the auditor should consider the nature of audit evidence obtained regarding a matter in determining whether a matter is a CAM. The auditor is required to consider the relevance and reliability of evidence when evaluating whether sufficient appropriate audit evidence has been obtained.

When evaluating the reliability of evidence, AS 1105, *Audit Evidence,* notes that the auditor must consider both its nature and source. Given the number of considerations the auditor must evaluate when deciding whether he or she has obtained sufficient appropriate evidence, it wasn't clear to us how this factor was intended to be used when evaluating whether potential matters should be CAMs. Additionally, potentially requiring the auditor to disclose the nature of audit evidence obtained (as part of describing how the matter was addressed in the audit) might require the auditor to disclose original information about the company under audit.

Recommendation

We believe these auditor considerations could be more effectively captured by eliminating paragraph 12.f and amending paragraph 12.c of the Reproposal as follows:

- The nature and extent of audit effort required to **obtain sufficient appropriate audit evidence to** address the matter, including the extent of specialized skill or knowledge needed or the nature of consultations outside the engagement team regarding the matter

When combined with the remaining factors, we believe these proposed revisions to paragraph 12.c provide an appropriate framework for evaluating CAMs and as a result, would obviate the need for paragraph 12.f.

Communicating CAMs

We agree with the proposed requirement to describe the principal considerations that led the auditor to determine that the matter is a CAM. However, we found the statement included in Note 2 to paragraph 14 regarding the auditor being the source of original information to be a bit circular. While the auditor is not expected to provide original information, the Reproposal indicates that the auditor may need to do so in order to describe the principal considerations that led it to determine the item was a critical audit matter. As previously discussed, we do not believe that the standard should create obligations whereby the auditor would be the source of original information about the company.

Recommendation

We recommend the language in paragraph 14 (Note 2) of the proposed standard be modified as follows:

- When describing critical audit matters in the auditor's report the auditor **should** ~~is~~ not ~~expected to~~ provide information about the company that has not **previously** 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~~.

At a minimum, we believe any final standard should also include a statement that the auditor should not communicate original information about the company if law, regulation or applicable generally accepted accounting principles do not permit or otherwise require such disclosure. Auditors are required by their legal, ethical and contractual obligations to maintain client confidences. Some state confidentiality laws may not permit the auditor to breach confidentiality in order to comply with PCAOB standards. Additionally, some states recognize accountant-client privileges, which are held by the client. These privileges may preclude the auditor from disclosing privileged communications, in contradiction to what the Reproposal may require.

Some stakeholders, including the CAQ, have noted that the examples in the proposal appear to include communications of original information. If examples are included in the adopting release, we suggest that original information should not be included in the examples.

The Reproposal would also introduce a requirement to describe how the CAM was addressed in the audit. We agree that this information would be of interest to users and provide additional transparency about the audit. Similar to our concern about the auditor being the original source of information in describing the CAM, we also believe that the auditor should not be the original source of information in describing how the critical audit matter was discussed in the audit. We also respectfully request in its analysis of the costs and benefits of this information the Board consider that this additional information may increase the auditor’s liability to investors.

Piecemeal opinions and CAM introductory language in the auditor’s report

We agree with the Board that CAMs should not be considered piecemeal opinions. The Board's inclusion of the statement in paragraph 15 of the proposed standard is helpful in making the point more transparent to users of the financial statements, but we believe it could and should be strengthened.

Recommendation

The following modifications of the CAM introductory language reflect our recommendations that (1) the source of CAMs be limited to those matters that are required to be communicated to the audit committee and (2) a CAM should be a material matter arising from the audit of the financial statements. In addition, we believe these revisions further clarify the nature of CAM communications in relation to the auditor's opinion on the financial statements taken as a whole:

- The critical audit matters communicated below are matters arising from the current period audit that were ~~communicated or~~ required to be communicated to the audit committee and that (1) ~~relate to accounts or disclosures that~~ are material to the financial statements **taken as a whole** and (2) involved our especially challenging, subjective, or complex judgments. ~~Critical~~ **The discussion of critical** audit matters ~~do~~ **does** not alter in any way **the meaning of** our opinion on the financial statements taken as a whole, and we ~~do not provide~~ **are not, by communicating the critical audit matters below or otherwise, providing** separate opinions **or other audit conclusions beyond the information specifically communicated** on ~~the~~ critical audit matters ~~or on the accounts or disclosures to which they relate~~.

Recommendation

We also believe that the Board should reconsider the requirement to place the opinion paragraph first as well as the section headings in the auditor's report (i.e., Opinion on the Financial Statements, Basis for Opinion and Critical Audit Matters [if applicable]). While we agree that headings may help users navigate the expanded auditor report, the current ordering of the components of the opinion and the heading of the CAM section of the report may be misunderstood to imply that CAM communications are separate and distinct from the auditor's opinion, which could be misinterpreted as a piecemeal opinion.

Documentation

The Reproposal observes that the auditor's basis for the determination of a CAM may be so clear for some matters that a single sentence would be sufficient, while other matters may require more extensive documentation. Given this potential for a wide range of documentation, we believe that further clarity with respect to the Board's expectations regarding the application of the requirements of AS 1215, *Audit Documentation*, to the documentation of CAMs would be helpful.

Recommendation

We encourage the Board to consider providing additional guidance about when more extensive documentation would be necessary and provide some examples illustrating what this more extensive documentation might include. This additional guidance should help clarify the Board's requirements and hopefully lead to more consistent application of the standard by auditors.

Auditor tenure

The Reproposal observes that commenters' views and academic research are divided about whether there is a link between audit quality and auditor tenure. We have concerns that requiring the disclosure of auditor tenure in the auditor's report may inappropriately imply that such a correlation exists.

We believe that consideration of auditor tenure is most relevant and useful as one of multiple factors in the audit committee's assessment of the auditor's qualifications and retention considerations. We observe that companies increasingly voluntarily are disclosing information in their annual proxy statements about tenure and other factors impacting auditor retention considerations, indicating that boards are recognizing and responding to investor interest in this topic.[1]

We also note that the SEC has sought input on issue through its *Concept Release on Possible Revisions to Audit Committee Disclosures*, which asked questions about whether information about auditor tenure should be disclosed in the audit committee report. The SEC is currently monitoring such audit committee related disclosures, which we believe is the right approach at this time.

> Recommendation
>
> We believe the Board should not require audit tenure to be disclosed in the auditor's report. If the Board decides to require disclosure of auditor tenure, we believe it should be made in Form AP. Disclosure in Form AP would be a logical extension of the information already required within the form and would allow for explanatory discussion when necessary (for example, when the start date of tenure is not known). If the intent of the reproposed requirement is to require consistent reporting of auditor tenure in a consistent location, we believe that goal could still be achieved through disclosure in Form AP.

Other considerations

Liability concerns

We appreciate that the PCAOB has considered the potential costs of increased auditor liability in making the Reproposal and view the Reproposal as an improvement upon the 2013 proposal in this regard. However, auditor liability concerns will remain if the Reproposal is adopted as written.

First, we are concerned that an unintended consequence of the Reproposal could be to increase the auditor's exposure to non-meritorious claims under the federal securities laws, specifically claims alleging strict liability under Section 11 of the Securities Act of 1933. Current federal case law recognizes that an audit opinion contained in a registration statement — because it is an "opinion" — is not actionably false unless the auditor did not believe the opinion. Under the Reproposal, the audit opinion will include much more information than the current form of report. While we are generally

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[1] The CAQ's *2015 Audit Committee Transparency Barometer* showed that 54% of the S&P 500 companies disclosed information about auditor tenure in 2015, up from 47% in 2014. In addition, the EY Center for Board Matters has conducted an annual survey of audit-related proxy disclosures of Fortune 100 companies over the past five years and found that 62% of those companies now disclose tenure, up from 24% in 2012.

supportive of providing additional information, there needs to be a balance between what is provided and potential increased cost. Additional information may serve as fodder for plaintiffs seeking to misapply the securities laws and bring non-meritorious actions. Increased claims will lead to increased costs to firms because it may be more difficult to obtain early dismissal of these claims, which plaintiffs may try to present as based on facts imbedded in the descriptions of CAMs even though the auditor's opinion is not actionable. If this comes to pass, audit firms will be forced to choose between settling non-meritorious claims and costly litigation. These costs, and the cost of expanded audit procedures to comply with the standard, will in all likelihood inevitably be passed onto registrants.

Second, the Reproposal may also expose auditors to liability to their own clients, to the extent it requires auditors to disclose original information about the audit client. Auditors are required to comply with professional obligations of confidentiality, state confidentiality laws, accountant-client privileges, as well as the auditor's responsibilities under Section 10A. For example, Section 10A does not authorize the auditor to publicly disclose an illegal act. Indeed, AS 2405.23 recognizes that "such disclosure [of an illegal act] would be precluded by the auditor's ethical or legal obligation of confidentiality, unless the matter affects his opinion on the financial statements."[2] If the auditor discloses original client information in the course of describing a CAM, the auditor may be exposed to additional liability from its client for breaching these confidentiality obligations.

If the PCAOB were to adopt the recommendations set out in our letter we believe these liability concerns would be significantly ameliorated.

Scope and exemptions from CAM communications

Communication of CAMs

We agree with the Board's proposal to exempt non-issuer brokers and dealers, investment companies (that are not business development companies) and employee benefit plans (i.e., employee stock purchase and savings and similar plans) from the proposed requirement to identify and communicate CAMs. Based on the ownership and reporting characteristics of these entities, communication of CAMs would be less beneficial to the primary users of these financial statements and would not justify the additional costs associated with such requirements.

Auditor tenure

The Reproposal observes that brokers and dealers are often controlled by an individual or entity that has direct access to the auditor. As a result, disclosure of auditor tenure arguably would not provide additional information to these users. Therefore, we believe that the Board should exclude non-issuer broker dealers from any such requirements for the same reasons they would be exempted from the proposed CAM communications.

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2 Appendix B to AS 1301: Communications with Audit Committees recognizes that AS 2405, Illegal Acts by Clients, also requires communications with audit committees. Thus, communications of illegal acts to the audit committee would presumably be included in the definition of a CAM.

Effective date

As discussed in the CAQ letter, audit firms would need to develop and implement effective quality control processes and conduct training of their professionals. As such, we believe that any final standard should be effective for audits of financial statements of large accelerated filers with fiscal years beginning no earlier than 12 months after the date of final SEC approval. All other filers should have an additional 12 months before being required to adopt the new standard. This phased approach would make implementation more manageable for even the largest audit firms while allowing smaller firms to benefit from lessons learned during the initial phase of implementation.

Conforming amendments

We have also included in Appendix comments on the conforming amendments included in the Reproposal.

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We would be pleased to discuss our comments with the Board or the PCAOB staff at your convenience.

Very truly yours,

Ernst + Young LLP

Copy to:

PCAOB

James R. Doty, Chair
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

Securities and Exchange Commission

Mary Jo White, Chair
Kara M. Stein, Commissioner
Michael S. Piwowar, Commissioner
Wesley R. Bricker, Interim Chief Accountant
Brian T. Croteau, Deputy Chief Accountant

Appendix — Comments on conforming amendments included in the Reproposal

Comment number	Reference	Observation
1	A1-8 AS 1301 12.d	The term *significant unusual transaction* is defined in paragraph 12.d of AS 1301. We recommend adding a footnote at the end of paragraph 12.e of the Reproposal that states: The term *significant unusual transaction* in this paragraph has the same meaning as the term *significant unusual transaction* in paragraph 12.d of AS 1301.
2	A1-11 AS 3101 paragraph 18	Existing AS 3101.10 specifies that the addition of an explanatory paragraph does not affect the auditor's unqualified opinion on the financial statements. We recommend that the Board include similar language in any final standard.
3	A1-17 AS 3101 Appendix B	Include the statement of comprehensive income in the example report.
4	A2-16 AS 3105 paragraph .9 A2-22 AS 3105 paragraph .22 A2-24 AS 3105 paragraph .25 A2-25 AS 3105 paragraph .27 A2-28 AS 3105 paragraph .34 A2-31 AS 3105 paragraph .43 A2-33 AS 3105 paragraph .47 A2-(36-37) AS 3105 paragraph .51 A2-39 AS 3105 paragraph .53 A2-42 AS 3105 paragraph .58 A2-46 AS 1205 paragraph .09	Include the statement of comprehensive income in the example report.

Comment number	Reference	Observation
	A2-75 AS 3315 paragraph .06 A2-78 AS 3315 paragraph .10 A2-82 AS 4105 paragraph .39 A2-92 AI 23 paragraph .36	
5	A2-19 AS 3105 paragraph 16	We recommend this paragraph be modified as follows: ***Limited reporting engagements.*** *The auditor may be asked to report on one basic financial statement and not on the others. For example, he or she may be asked to report on the balance sheet and not on the statements of income,* ***comprehensive income,*** *retained earnings or cash flows. These engagements do not involve scope limitations if the auditor's access to information underlying the basic financial statements is not limited and if the auditor applies all the procedures he considers necessary in the circumstances; rather, such engagements involve limited reporting objectives.*
6	A2-25 AS 3105 paragraph 26	We recommend this paragraph be modified as follows: *If a company issues financial statements that purport to present financial position and results of operations but omits the related statement****s*** *of* ***comprehensive income and*** *cash flows, the auditor will normally conclude that the omission requires qualification of his opinion.*
7	A2-18 AS 3105 paragraph .12 A2-27 AS 3105 paragraph .31 A2-85 AS 4105 paragraph.43	We recommend the Board update the references in these paragraphs to the current ASC guidance.
8	A2-35 AS 3105 footnote 13 (to .49)	The footnote references state and local governments and not-for-profit entities. As these entities are not issuers or broker-dealers required to comply with PCAOB standards, we recommend revising the examples provided in the footnote.

Comment number	Reference	Observation
9	A2-45 AS 3105 paragraph .62	We suggest removing the reference to "explanatory" as uncertainties are not required to be disclosed in an explanatory paragraph.
10	A2-53 AS 2201 paragraph .85Eb	We recommend the Board remove the requirement to disclose auditor tenure in the auditor's report on ICFR for the reasons discussed above. If the PCAOB decides to require disclosure of auditor tenure either in the auditor's report or Form AP, we also recommend the Board remove the requirement to discuss tenure in the auditor's report on ICFR as it would be redundant with the disclosure to disclose it elsewhere.
11	A2-57 AS 2201 paragraph .B16	We suggest the references to "explanatory" paragraphs be removed from this paragraph as these would not be explanatory paragraphs as required by AS 3101.18.
12	A2-62 AS 2705 paragraph .08	The requirements in this paragraph for when an explanatory paragraph would be necessary are not consistent with the requirements in AS 3105.18j.
13	A2-73 AS 3305 paragraph .31d	It isn't clear why "explanatory" is deleted from this paragraph given it is an example of a matter that would require the use of explanatory language or an explanatory paragraph.