

December 11, 2013

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

Re: PCAOB Rulemaking Docket Matter No. 034, Proposed Auditing Standards

Dear Ms. Brown:

CohnReznick LLP (“CohnReznick”) appreciates the opportunity to comment on the proposed auditing standards, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (The Reporting Standard), and *The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report* (The Other Information Standard).

CohnReznick is the 11<sup>th</sup> largest accounting firm in the U.S., with its origins dating back to 1919. We are committed to serving clients that access the capital markets, and we recognize the significant role we have in facilitating efficient capital formation. We support the Board’s intent to increase the informational value of the auditor’s report in order to promote the usefulness and relevance of the audit and the related auditor’s report. We support making changes to the auditor report that preserve and enhance the important role auditors have in serving the users of financial statements. While our domestic and international capabilities (through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium size entities and their ability to attract capital.

Our comments in this letter are consistent with the messages we delivered to the IAASB in our letter dated November 22, 2013, responding to the Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*.

The observations and recommendations we are providing in the attachment to this letter are intended to help the Board arrive at changes to the auditor reporting model that achieve the objectives of the proposal, without impairing the understandability of the auditor’s report or changing the distinction between the roles of management and the auditor.

The Board proposed the performance of field studies of the proposed standard, and we recognize the importance of the results that would come out of such a study. We believe these efforts will generate useful insights about the how the proposed changes would impact companies that access capital markets, as well as alert us to any previously undiscovered benefits or consequences of the changes.

Our responses to specific questions on which the Board is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Kurtis Wolff at 770-330-1167.

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

CohnReznick LLP

## **BASIC ELEMENTS AND OTHER CHANGES**

We commend the Board on undertaking the effort to update the audit report to improve the informational value the report provides, and we recognize that the proposed changes to the basic elements and the format of the report are intended to further such improvements. We have the following comments and observations about the proposed changes to the basic elements of the audit report:

- We find the objectives of the proposed Reporting Standard to be clear, and agree that, as written, they would assist the auditor in understanding what would be communicated in the audit report under the standard.
- We believe it would not be appropriate to address the audit report to others than the shareholders and board of directors of the company or their equivalents.
- We support the alignment of the description of the nature of an audit with the Board's risk assessment standards, and there are no additional auditor responsibilities that we believe should be included to further describe the nature of an audit.
- We believe that the statement relating to the auditor's responsibility to be independent will clarify the meaning of independence for the understanding of users of the financial statements, and is a beneficial addition to the auditor's report.
- We believe that the emphasis of a matter paragraph has a different purpose than the intended objectives of critical audit matters, and the retention of the emphasis of a matter paragraph is valuable.

We believe that changes to the basic elements of the audit report do not have material incremental cost considerations. However, we are commenting on what we believe to be some of the more significant cost considerations pertaining to critical audit matters and other information where appropriate in this letter.

Evidence has not demonstrated that auditor tenure impacts audit quality, as acknowledged in the Board's proposal. In fact, as was commented on by Marty Bauman at the AICPA SEC and PCAOB conference in Washington D.C. on December 10, 2013, some believe there is a greater risk to audit quality in the initial years of a new client/auditor relationship as opposed to a long term relationship. Without empirical evidence regarding tenure (near term or long term), we believe that adding information about auditor tenure to the audit report would inevitably lead a user to draw a conclusion about audit quality, and such a conclusion would ultimately be based on the undemonstrated premise that tenure and audit quality are related. As such, we believe that including the proposed statement on the year the auditor began serving the entity would not be useful to the reader, and might in fact be contrary to the intent of the proposed standard. Similarly, we believe that auditor tenure could not be useful to investors or other financial statement users if included in EDGAR or other sources, and would lead to frivolous litigation based on tenure or the lack thereof, increasing the cost of the proposed standard and hindering the efficiency of capital formation.

We believe the Board should not consider a delayed compliance 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. Our viewpoint is informed by the history of the implementation of the requirements of the Sarbanes Oxley Act for SEC registrants, and the confusion that was created for all financial reporting

stakeholders, as well as the costs and other unintended consequences during the period when compliance was deferred.

## CRITICAL AUDIT MATTERS

We understand and agree with the benefits of critical audit matters. In particular, we believe the user having knowledge and comprehension of the significant risks and areas where auditor judgment must be applied will make the user more knowledgeable of the entity's business, and allow the user to make more informed decisions. Furthermore, we see this transition as a positive development in the effort to communicate the value that the audit provides to the public. We support efforts that will improve the perception by the public that the public company audit process is transparent. Ultimately, we agree that all of these benefits will be conveyed to capital markets.

## COMMUNICATIONS WITH THE AUDIT COMMITTEE

Our perspective is that the objectives and requirements for identification and communication of critical audit matters should align with the type of information that has demonstrable value to the users, should be material to the financial statements, and should avoid adding information to the report that either would be of no interest or that might lead to confusion for non auditors. We would particularly like to emphasize the point that excessive or unnecessary information provided through the critical audit matters section of the audit report would be contrary to the Board's intent in creating the standard. We refer you to comments made on October 15, 2013, by Mary Jo White, Chairwoman of the Securities and Exchange Commission:

*"When disclosure gets to be "too much" or strays from its core purpose, it could lead to what some have called "information overload" – a phenomenon in which ever-increasing amounts of disclosure make it difficult for an investor to wade through the volume of information she receives to ferret out the information that is most relevant."*

Having the observation above in mind, we believe that additional information provided through the reporting of critical audit matters is appropriate. However, our preferred approach to addressing the marketplace desire for more relevant and useful information from the audit would be to have the Audit Committee provide in their own disclosure more insight stemming from their communications with the auditor. Such an approach would preserve the distinction between the roles and maintain that the primary responsibility for reporting of original information regarding significant audit considerations rests with the company, not the auditor. We are concerned that there is the potential for the auditor to report original information about the company, which management has not shared, and that this will cause readers to increasingly look to the auditors for incremental information. The practice would further blur the roles between those charged with governance and the auditor. We believe that would be counter to the underlying premise of the objectivity of the independent auditor.

Recently, a group of nationally recognized U.S. corporate governance and policy organizations known as the Audit Committee Collaboration, released "Enhancing the Audit Committee Report, A Call to Action." The document emphasizes the opportunity that audit committees have in reporting on significant matters discussed with the auditor as part of the audit, indicating:

*“The audit committee should also consider whether additional disclosure about its general oversight of the external auditor – either through descriptions of processes or specific activities – would provide shareholders and potential investors with useful context. These might include discussions of the degree of the audit committee’s interaction with the external auditor (including the nature or number of meetings outside the presence of management), the types of issues discussed at those meetings, and other activities that are central to the audit committee’s oversight.”*

Under this approach that preserves the entity’s responsibility for disclosure of original information, the auditor might then acknowledge in the audit report the communications described in the audit committee’s disclosure, treated similarly to the auditor’s response in the proposed other information standard.

We believe that matters described in a critical audit matters section in the audit report should expand on matters discussed with the Audit Committee. Such disclosure should not introduce additional matters, which could call into question the completeness of the these communications. Making matters discussed with the audit committee the starting point for identification of critical audit matters aligns the proposed standard with the guidance provided through Auditing Standard No. 16. The definition of critical audit matters in paragraph 8 of the proposed Reporting Standard, i.e., *matters required to be (1) documented in the engagement completion document; (2) reviewed by the engagement quality reviewer; (3) communicated to the audit committee; or (4) any combination of the three*, is clear as the source for the selection of matters that might be considered critical audit matters. However, our view is that all critical audit matters should be those matters the auditor has communicated (or plans to communicate) to the audit committee. This is consistent with the proposal from the IAASB, which indicates key audit matters are from those matters communicated with those charged with governance. We would like to see congruence between what the SEC will require of audit committees in public company filings, and what the auditing standards require of the auditor. More transparency about communication between the audit committee and the auditor, we believe, will produce the best flow of relevant information to the capital markets.

## DEFINING CRITICAL AUDIT MATTERS AND CRITERIA

We believe that the inclusion of the illustrative examples provides substantial insight into the expectations of the Board, and helps the auditor interpret the requirements of the proposed standard. However, we noted that the illustrative examples make use of descriptions of the auditing procedures performed. Our view is that describing the audit procedures performed may in fact confuse users who are not familiar with the selection and application of audit procedures. For example, describing audit procedures performed specifically to address an increased risk of fraud for an account balance has the potential to cause a reader without an audit background to conclude fraud is likely occurring. For a small or medium size entity, auditing a particular area may require proportionally greater effort by the auditor through the selection of specific substantive procedures. However, we question whether such information is relevant or useful to a user. Some of the consideration factors described in paragraph 9 of the proposed standard, as depicted in the illustrative critical audit matters, would be problematic for an auditor to describe in the audit report without confusing a user who does not possess an audit background, especially corrected and accumulated uncorrected misstatements, the use of specialists, and consultations made outside the engagement team.

We are also concerned that communication of specific auditing procedures or responses to significant risks will lead to inconsistencies in reporting, which would likely lead to more user confusion. For example, auditors can respond to significant risks in various ways. Such responses can be influenced by matters that users may not understand, such as auditor or firm policies and preferences. Ultimately, the auditor is charged with responding to significant audit risks as necessary to reduce the risk of material misstatement to an appropriately low level; how the auditor accomplishes that objective varies. Communicating such information does not enhance the user's understanding of the entity being audited. Additionally, firms that focus on a given industry likely have developed proprietary approaches to auditing critical risk areas. Describing those procedures outside the context of the audit as a whole could be confusing even to those within the profession. A desire to protect such proprietary approaches would likely lead to "boiler plate" responses adding length, but no value, to the auditor's report.

Further, requiring disclosures related to increased audit difficulties resulting from other issues, such as internal control, mistakes, talent or competency levels of management, or the quality of oversight provided by those charged with governance could result in smaller entities suffering a market perception that they were riskier or more difficult to audit. While such a perception might be warranted, it would increase the risk profile of such entities when, in fact, such risk is an audit risk, not a company or operational risk. We believe that this is a probable outcome, that is audit risk and even financial reporting risk will be assumed to be indicators of operational risk for the entity. Even so, we continue to support the concept of disclosing critical audit matters in the audit report.

We are also concerned that reporting by auditors of areas where the application of extended auditing procedures was required as a result of deficiencies in internal controls over financial reporting could cause smaller entities to feel increased pressure to eliminate such deficiencies. Many smaller entities may not be able to afford more robust internal control systems, and such systems would not necessarily be warranted to accomplish reliable and transparent financial reporting, but rather would only be implemented in order to avoid emphasis of an area in the auditor's report. Such would be a costly unintended consequence of these proposed requirements. Likewise, requiring smaller entities to adopt and report on the effectiveness of their internal control systems was hotly debated in connection with implementation of section 404b of Sarbanes-Oxley. Ultimately, the requirement that the auditor's report on the effectiveness of the internal control systems of smaller entities under section 404b of Sarbanes-Oxley was not implemented. Such issues should not be reopened through the auditor's communication of audit difficulties arising from deficiencies in internal controls. We believe that companies should benefit from the lessons learned in placing such non-scalable reporting requirements on smaller and medium size entities, and the negative consequences and confusion that was created for all financial reporting stakeholders as a result.

The definition of a critical audit matter, as further explained in paragraph 9 of the proposed standard, is sufficiently clear. However, we have additional observations about the definition that we would like the Board to consider. The Board sought comment as to whether the use of the word "most" is understood as it pertains to the concept of judgments, and we believe that it is understood with respect to the use of auditor judgment. However, because "most difficult" is in our view a much more subjective concept, we are concerned the definition could lead to inconsistency about what matters are determined to be the critical audit matters. Furthermore, communication of matters that posed the most difficulty for the auditor to obtain sufficient appropriate evidence or that posed the most difficulty in forming an opinion may be inferred by the users of the financial statements as a separation of the audit opinion into matters in which the auditor is more and less confident. The information communicated in the auditor's report

should be reported in a manner which does not cast doubt on whether the audit was performed satisfactorily. The current auditor reporting model has always reflected a high standard of not implying piecemeal opinions (in fact such opinions are prohibited). Disclosing information regarding how difficult it was to achieve that standard could be viewed by users incorrectly as a qualification of whether that standard was achieved. Consequently, users could perceive an audit with reported difficulties as being indicative of a lower quality audit than an audit without reported difficulties. Such a perception would be misleading and could actually damage the entity being audited if a communicated audit difficulty is viewed by users as a perceived risk regarding the entity.

We believe that the factors described in paragraph 9 of the proposed Reporting Standard are helpful in leading the auditor to consider what matters might be included in those matters communicated as critical audit matters. However, we are concerned these factors might be applied in such a way that could lead the auditor to communicate matters as critical that are not useful to the users of the financial statements. Put another way, the factors described in paragraph 9 make a good starting point for *identification*, but not good criteria for *determination*. Without clear guidance regarding which identified matters should rise to the level of being reported, we believe there will be an excessive number of critical audit matters identified, and the objective of the standard will not be achieved. We believe the determination of what will be communicated as critical audit matters should not alter the fundamental responsibility of the company's management to determine what should be disclosed about the entity, and the factors should be applied through that requirement. Users are ill-equipped to conclude on the impact any identified audit matters may have had in forming the basis for the auditor's opinion. Without correlation to the information reported by the audit committee, such users may infer incorrectly that auditor communications are an extension of entity communications, or somehow reflect operational insights.

With the above in mind, we believe the following criteria should also be a part of the determination of what matters are communicated as critical in the audit report:

- 1) Matters that would be clearly relevant for the users to have a clear understanding
- 2) Matters that are material to the audited financial statements
- 3) Matters that will not cause unintended confusion, especially where communication of such matters might harm the entity

We believe that the proposed requirement regarding documentation of critical audit matters is sufficiently clear, and is consistent with the requirements of Auditing Standard No. 3. We believe that the proposed requirement regarding documentation of critical audit matters is sufficiently broad, and that it can be adhered to in a scalable manner, appropriate to the circumstances of the engagement. However, we believe any documentation requirement for non-reported audit matters should be limited to matters discussed with the audit committee, but ultimately not included in the reported matters. We believe documentation of other matters not included in the critical audit matters would create a costly additional layer of effort that may potentially drive auditors to make inappropriate additions to what is included in the critical audit matters out of concern over their ability to defend why matters were not reported.

## COSTS

We have several considerations to present to the Board with respect to costs of the proposed standards. We view the considerations presented herein as ongoing and recurring cost matters, as opposed to one-time items. It was acknowledged in the proposal that significant audit matters

will be handled by the most experienced members of the audit firm and the more senior members of those charged with governance, and they will therefore generally consume the time of the most costly resources. There is a clear opportunity cost in time spent discussing the wording of critical audit matters communication that would otherwise be spent addressing audit and financial reporting risks, especially during the final time period of the audit and reporting period. This is one of the most compelling reasons to ensure that critical audit matters are defined in such a way to allow the auditor to avoid communicating information through the audit report that management would otherwise not discuss with outside parties, such as contingencies or internal control deficiencies less severe than a material weakness.

In a smaller engagement team and smaller company environment, those higher level resources are less likely to be able to leverage their time to other members of either of those parties. Therefore, the smaller environment will disproportionately bear a greater burden of the costs of this additional reporting. Also, because we expect a higher number of critical audit matters for small and medium sized entities, the exposure risk to public accounting firms of accepting and issuing opinions for those companies may turn cost-prohibitive, making audit partners less willing to perform audits, reducing those companies' access to auditing firms and result in higher fee models for such companies.

We believe the communication of critical audit matters in the audit report will significantly increase the frequency of involvement of the audit firm's legal counsel prior to audit issuance. Because we expect small and medium size entities will have a greater number of identified critical audit matters to be reported by the auditor, the costs of audit reports for those entities will therefore be disproportionately impacted by such additional reporting costs.

At the conclusion of our field testing process, we believe we will have a more complete evaluation of the significance of these cost considerations.

## LEGAL LIABILITY

We also have considerations for the Board with respect to the legal liability impact of the proposed standard regarding to the disclosure of critical audit matters. The proposed standard will require more information to be presented in the audit report than is currently required. This will inevitably serve to increase potential liability (and its corresponding costs), as there will be additional information in the audit report for private litigants to challenge. We believe that the auditor would be required to apply subjective judgments to determine what is useful to users of the financial statements in determining what should be communicated as critical audit matters. The communication about why matters were included in critical audit matters will raise questions about matters that were not included. We believe that there will be an increase in private litigation resulting from an auditor's decision to not include a matter in critical audit matters. In an effort to avoid potential litigation, the auditor could also decide that the proposed standard requires disclosure of additional non-essential information. The auditor may conclude that it is preferable to err on the side of excess in determining critical audit matters in order to meet the perceived level of risk tolerance. As such, a risk-averse auditor may choose to broadly interpret the definition of critical audit matters, resulting in an excessively detailed report. As previously indicated, the resulting audit report would effectively defeat one of the stated rationales behind the proposed standard by disclosing so much information as to be of minimal usefulness to all but the most sophisticated users of the financial statements.



## OTHER CONSEQUENCES

In its letter dated March 21, 2013 to the Chairman of the SEC, the Advisory Committee on Small and Emerging Companies wrote:

*“The Committee believes that current U.S. equity markets often fail to offer a satisfactory trading venue for the securities of small and emerging companies because they fail to provide sufficient liquidity for such securities and because the listing requirements are too onerous for such companies”.*

*“The frequent failure of U.S. equity markets to offer a satisfactory trading venue for small and emerging companies has discouraged initial public offerings of the securities of such companies, undermines entrepreneurship, and weakens the broader U.S. economy”*

We believe particular care should be taken to ensure that reporting of critical audit matters does not create an environment where discussions between management and the auditor are inhibited because of concerns about how such information might be communicated in the audit report.

More specifically, we believe that the introduction of the critical audit matters section to the report may make audit committees and management reluctant to discuss broader matters with the auditor, such as contingent liabilities, or activity within the entity’s fraud monitoring. Entities may be reluctant to work with the auditor’s internal specialists. We furthermore envision pushback when it becomes known that the auditor is consulting its national office on a matter. All of these potential consequences we believe should be addressed by carefully defining what is determined to be critical audit matters, striking a balance between improving the value of information provided through the audit with preserving the role of the auditor and the relationship of the auditor to the financial reporting stakeholders.

Comparability, a necessary part of making the audit report useful, ordinarily requires that audit reports should contain similar information for similar entities, especially for entities in the same industries. We believe small and medium size entities more likely lack the robust infrastructure for financial reporting we see in place at larger companies. Such a circumstance will undoubtedly impact the nature and frequency of the critical audit matters identified for small and medium size entities, especially in areas that would otherwise be considered significant risk areas in a company of any size. Therefore, we perceive an inverse relationship between the size of the entity and the frequency with which critical audit matters will be described under the proposed requirements. We note this relationship could put such smaller entities at a competitive disadvantage in attracting capital.

We believe that small and medium sized entities have a greater frequency of going concern matters, audit adjustments, and internal control deficiencies. Therefore, our expectation is that small to medium sized public entities will also have a greater frequency of critical audit matters. The result will be critical audit matters between two different sized entities in the same industry could be significantly different, without the reader necessarily having the appropriate context to understand why they are different. Furthermore, we believe there are critical audit matters that would likely be consistently identified and communicated by the same auditor for any company within specific industries. It would be difficult to prevent the auditor reporting of such critical audit matters from becoming boilerplate for the industry, which could lead to a potentially

erroneous conclusion by users that the audit was substandard or failed to address “expected” matters.

### **OTHER INFORMATION**

We support the Other Information Standard, but we have recommendations that we believe will help the proposed standard better achieve what we understand to be the Board’s intent. The recommendations are:

- Replace the term “evaluate” in the audit report with a description of the procedures required by the proposed standard
- Require a statement in the audit report that the auditor has not audited or reviewed the other information, and that the aforementioned described procedures do not provide the assurance of an audit
- Include an unambiguous description in the report of the other information on which the aforementioned described procedures were performed

Additional considerations about our recommendations and responses to specific questions asked by the Board are provided below.

Our overall view on the Other Information Standard is that it accomplishes the Board’s desire to increase the perceived transparency of the auditor’s responsibility with respect to other information. We see the intent of the proposed standard as more fully describing the auditor’s responsibility under the existing AU sec. 550, and reasonably specify and strengthen the auditor’s performance responsibilities, without extending a level of assurance to the other information. Continuing from that perspective, we believe that the audit report should not conclude on the other information, but should only state the auditor’s responsibilities, including the responsibility the auditor would have if a material inconsistency, a material misstatement of fact, or both were identified. However, if the Board has the view that a greater level of assurance over information included with the audited financial statements is needed, we would suggest exploring the use of procedures under the attestation standards on such other information.

We believe that a description of the auditor’s responsibility for other information would be most helpful to the user of the audit report when such a description is unambiguous about what defines other information, and clearly indicates what other information is not addressed by the limited procedures prescribed by the proposed standard. We believe the other information for which the auditor has responsibility should be discretely identified within the standard. We note that any ambiguity has the potential to increase the cost volatility associated with adopting the standard.

The Board sought comment as to whether it is appropriate to apply the standard to information incorporated by reference. We understand that the proposed requirement includes a note to the introduction of the standard which indicates information that does not become available to the auditor until after the issuance of the audit report when such information is included in the company’s definitive proxy statement filed within 120 days of the end of its fiscal year is in the scope of the proposed standard. We do not believe that it is appropriate to apply the proposed other information standard to information incorporated by reference in such circumstances, because we believe such a practice would devalue the public’s confidence in the auditor if the auditor were to comment on information on which he has not been able to apply the procedures described in the standard. Re-issuances of the auditor’s report may become necessary after

the information becomes available, and we believe such re-issuances would clearly undermine the public's trust in the audit profession.

We believe that the word "evaluate" does not correctly describe the objectives of the standard, because that term implies a level of assurance achieved similar to that when forming an opinion. A statement should be included in the text of the report that makes it clear these procedures are not the same as, nor do they provide the same level of assurance as an audit. The Board sought comment on whether the objectives assist the auditor in understanding the requirements of what would be communicated in an unqualified auditor's report. Our view is the objectives should be closely aligned with the specific procedures required by the proposed standard. We believe the proposed wording in the audit report should replace the concept of "evaluate" with a definition of the procedures performed with respect to other information, and that doing so will provide an appropriate understanding of the auditor's responsibilities.

However, we believe the objectives should also include providing a statement that the auditor has not audited or reviewed the other information. We further believe the objectives should clarify that the auditor's considerations are based upon audit evidence pertaining to the audited financial statements, and not on audit evidence gathered about the other information.

We believe the auditor should read and apply specific limited procedures to other information to identify a material inconsistency or a material misstatement of fact, or both. The proposed procedures are clear, appropriate, and sufficient. It is understood which amounts in the other information the auditor would be required to recalculate based on the proposed standard. For the reasons previously indicated, we do not believe the proposed standard should use the word "evaluate" in the description of the auditor's responsibilities.

We agree with the Board's assessment of the additional costs associated with the proposed required procedures. Beyond those described in the appendix, we do not believe there would be additional costs, provided the definition of what other information is clear and unambiguous. Also, beyond those described in the appendix, we believe there would not be additional costs when the auditor identifies a material inconsistency, a misstatement of fact or both. We believe there would be potentially recurring additional costs if it were left in doubt what information the auditor is required to perform the prescribed procedures on, or if the word "evaluate" is used to describe the auditor's responsibility with respect to the other information.

We believe the proposed auditor responses are appropriate when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both, in the scenarios described in the proposed standard. We do not believe there are circumstances where it would be appropriate for an auditor to issue a 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. While we believe it would be appropriate for the auditor to address uncorrected matters in other information, we cannot imagine such a situation remaining unresolved.

## **EMERGING GROWTH COMPANIES**

We believe that the Board should recommend to the SEC that the standards, as ultimately issued, should apply to Emerging Growth Companies (EGCs) without delayed implementation. We believe the changes will be unlikely to impact an EGC's financial position or results of

operations, and will add to the transparency of their financial reporting. We believe EGCs will, by their nature, have a higher frequency of matters of the sort that users of the financial statements would seek a better understanding of from the perspective of the independent auditor. Likewise, we believe the audit of an EGC would benefit from the performance of the procedures described in the Other Information Standard, because of the maturity stage of the EGC's financial reporting processes. It is important to note that our recommendation in this matter is not severable from the other recommendations we have made in our letter. We believe that without a narrower definition of critical audit matters focused on significant inherent risks and areas of auditor judgment, the proposed reporting standard would have the potential to make listing requirements onerous, hindering capital formation, and this is especially true for EGCs, as echoed in the aforementioned comments by the Advisory Committee on Small and Emerging Companies to the SEC.

### **BROKER DEALERS, INVESTMENT COMPANIES and BENEFIT PLANS**

We believe that the requirements in the proposed standards related to critical audit matters should not be required for audits of brokers and dealers, investment companies, or benefit plans. We believe the significant inherent risks and areas of auditor judgment for these entities would likely be the same. As a result, critical audit matters described for these types of entities would not meet the criteria of being useful and relevant to the users of the financial statements, and thus the costs of applying the proposed requirements would not be justified.