



December 11, 2013

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

Re: PCAOB Rulemaking Docket Matter No. 034: *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*

Dear Office of the Secretary:

Wolf & Company, P.C. is a regional accounting Firm based in Boston, Massachusetts, with offices in Springfield, Massachusetts and Albany, New York. We are a PCAOB registered Firm providing audit and assurance services to public and private companies in diverse industries.

We welcome the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Proposed Auditing Standards – The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (proposed auditor reporting standard); *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report* (proposed other information standard); and *Related Amendments to PCAOB Standards* (collectively, the proposal).

We are supportive of the PCAOB's efforts to update and enhance the auditor's reporting model to provide additional information that is meaningful to stakeholders. We also recognize that any such efforts must balance many resultant issues related to, among others, (1) the clarity and source of information provided, (2) the qualitative and judgmental considerations involved, (3) litigation risk attributable to misinterpreted or inconsistent information, and (4) cost benefit analysis.

We recognize that change is needed to enhance the information communicated by the auditor. In commenting on the proposed standard, we focused on the following overarching principles that were included in the Center for Audit Quality's comment letters dated June 28, 2011 and September 30, 2011, and which we believe continue to be most relevant to the proposal:

- Auditors should not be an original source of disclosure about the entity; management's responsibility should be preserved with this regard.
- Any changes to the auditor's reporting model need to enhance, or at least maintain, audit quality.
- Any changes to the auditor's reporting model should narrow, or at least not expand, the expectation gap.
- Any changes to the reporting model should add value and not create investor misunderstanding. Specifically, any revisions should not require investors to sort through "dueling information" provided by management, the audit committee, and independent auditors.

I. Critical Audit Matters

We support the overall efforts of the PCAOB to improve the information communicated to financial statement users through the auditor's report. However, we believe the proposal presents important implementation issues that require further consideration, as follows:

CAM Determination

In the determination of matters that represent CAMs, we believe that the auditor should initially identify matters that were significant to the audit of the financial statements (significant audit matters). These matters should be derived from those matters communicated to the audit committee under PCAOB Auditing Standard No. 16, *Communications with Audit Committees* (AS 16).

We believe that the nature of the matters required to be communicated to the audit committee pursuant to AS 16 is the first step in the identification of any audit matter that would be significant enough to the audit to be a CAM.

We believe that the auditors consideration of the eight factors identified by the PCAOB in paragraph 9 of the proposed auditor reporting standard provides the criteria for the auditor to follow in determining which matters required to be communicated to the audit committee were significant audit matters. The auditor would then need to identify which of the significant audit matters are CAMs, by determining those matters that, in the auditor's judgment: a) were material to the financial statements; b) involved the most complex, subjective, or challenging auditor judgments or posed the greatest challenge to the auditor in obtaining sufficient appropriate audit evidence; and c) resulted in the most significant interaction (in terms of nature or extent) with the audit committee.

In addition, it is important that auditors communicate only the most important matters, as including too many areas would minimize the intended emphasis. We therefore recommend that the standard should provide an explicit requirement that if an auditor has initially identified a large number of CAMs for potential communication in the auditor's report, the auditor may consider reassessing whether each of these matters meets the definition of a CAM.

CAM Communication

The proposed auditor reporting standard requires the auditor to describe the considerations that led the auditor to determine that a particular matter is a CAM. The proposal's CAM examples lead one to believe that the auditor's descriptions of each CAM are expected to address each of the specific factors included in paragraph 9 that were present. If that is the PCAOB's intent, we believe several potential issues arise from this interpretation. First, having to describe each of the particular factors in paragraph 9 would obscure the more essential factors in the auditor's description of why the matter was critical to the audit and may contribute to user misunderstanding. Second, the example CAM reporting in the proposal could lead to an auditor providing original information that is currently not required to be disclosed by the company (e.g., control deficiencies less severe than a material weakness, or corrected and accumulated uncorrected misstatements). This would add confusion to the roles of management and the auditor, and potentially widen the expectation gap.

We believe that requiring the auditor to describe the *principal* consideration(s) that led the auditor to conclude the matter was a CAM would allow the auditor to utilize his or her professional judgment to describe the factors that were most important to the determination that a matter was a CAM, rather than each of the factors, in all cases relating to the specific matter.

We also note that while the proposed standard does not require the auditor to describe the CAM's effect on the audit, each of the PCAOB's three examples of CAM reporting include such descriptions. We believe that in some cases describing the CAM's effect on the audit may help to explain why a matter was a CAM. We believe the proposed auditor reporting standard should explicitly state that the auditor may provide a description of the CAM's effect on the audit if the auditor considers it necessary in describing why a matter is a CAM.

Because describing the CAM's effect on the audit could imply to financial statement users that the auditor is providing a separate level of assurance on specific accounts or balances referenced in the CAM (i.e., "piecemeal opinions") or, conversely, undermine the auditor's opinion on the financial statements taken as a whole, we recommend including an explicit requirement that the audit opinion must not convey that the auditor is providing a separate opinion or conclusion on the critical audit matters.

Consistent with the overarching principles articulated above, we believe that the auditor should not be the original source of information about the company. We do recognize, however, that in the auditor's judgment, there may be

rare situations where such information is necessary to the auditor's description of the CAM. In these situations, we believe that communication of such information would be appropriate, if otherwise not prohibited by law or regulation. In such circumstances, the auditor should encourage management to make relevant disclosures, to avoid the auditor being the source of such information.

CAM Documentation

We believe the auditor should document the auditor's basis for (a) identifying those matters that were communicated to the audit committee that were determined to be significant audit matters, and (b) determining which significant audit matters were CAMs. We believe this approach avoids the practical challenges associated with the proposal's requirement that audit documentation contain sufficient information to understand the auditor's determination that matters that "appear to be CAMs" were not CAMs."

II. Other Information

We support enhancements to the auditor's report that provide transparency regarding the auditor's responsibility with respect to other information. We are also supportive of enhancing the auditor's performance responsibilities related to information that is both directly related to the audited financial statements and meaningful to the user of the financial statements. However, we caution against expansion of the auditor's responsibilities without meaningful cost/benefit analysis. In this increasingly complex accounting and auditing environment, the enhancement of audit quality is paramount. We believe that any diversion of the auditor's efforts to procedures that have not been determined to create value would not be in the best interests of the stakeholders as a whole.

Performance Responsibilities

The proposed other information standard expands the auditor's performance responsibilities from "read and consider" under AU section 550, *Other Information in Documents Containing Audited Financial Statements* (AU 550), to "read . . . and, based on relevant audit evidence obtained and conclusions reached during the audit, evaluate" the other information for a material inconsistency, a material misstatement of fact, or both. The concept of evaluation appears to expand the auditor's performance responsibilities. It is uncertain to us, the degree of procedures and the level of documentation that would be required to support the evaluation concept. Accordingly, we believe the auditor's performance responsibilities regarding other information should be based on defined limited procedures.

Reference is made to AU 634, *Letters for Underwriters and Certain Other Requesting Parties* and AT 701, *Management's Discussion and Analysis*. These standards illustrate the concept of defined limited procedures that are applied to specified financial information. For example, AU 634 indicates that procedures may be performed on information (a) that is expressed in dollars (or percentages derived from such dollar amounts) and that has been obtained from accounting records that are subject to the entity's controls over financial reporting or (b) that has been derived directly from such accounting records by analysis or computation. Under AU 634, the auditor may also comment on quantitative information that has been obtained from an accounting record if the information is subject to the same controls over financial reporting as the dollar amounts. AT 701 indicates that when the auditors have conducted an examination or a review of MD&A in accordance with AT 701, they may agree to trace nonfinancial data presented outside MD&A to similar data included within MD&A.

We believe that a definition for other information directly related to the audited financial statements should be developed and focused on other information derived either (1) from the financial statements or (2) from accounting records subject to the audit.

We believe the auditor's performance responsibilities should apply only to material other information that is directly related to the audited financial statements. For other information that is not directly related to the audited financial statements, we believe the auditor's responsibilities should be consistent with AU 550, which requires the auditor to read the other information and, if the auditor becomes aware of a potential material misstatement of fact in the other information, to respond appropriately.

We recommend the PCAOB provide guidance within the other information standard on what limited procedures should be performed and how the auditor should document the procedures performed, to provide consistency in practice.

Reporting Responsibilities

Requiring the auditor to communicate in the auditor's report that the auditor has evaluated the other information and conclude whether the auditor has identified a material inconsistency, a material misstatement of fact, or both, would imply a level of assurance that is inconsistent with the proposed procedures. Users of the financial statements may perceive the auditor's "conclusion" on the entirety of other information as a form of reasonable assurance on such information, despite the auditor making an explicit statement in the auditor's report that he or she did not audit the other information and does not express an opinion on the other information. We believe this would widen the expectation gap. In addition, the requirement of the auditor to state whether he or she has identified a material inconsistency, a material misstatement of fact, or both, would most certainly create significant incremental litigation risk for auditors. We suggest reporting of the auditor's responsibilities with respect to other information and procedures performed, and, where applicable, describing any unresolved material inconsistencies or material misstatements of fact. This approach makes more explicit an auditor's current responsibilities and we believe will mitigate certain legal risks inherent in the proposed other information standard.

Scope of Other Information

The proposed other information standard defines other information broadly as information in the annual report, other than the audited financial statements and the related auditor's report, and includes documents contained in the list of exhibits to, and information incorporated by reference in, the annual report. We believe that exhibits to the annual report should be scoped out of other information due to both the volume and content of the exhibits. Exhibits that are relevant and significant to the issuer's financial reporting would have been subject to audit procedures due to their relevance to the audit of the financial statements. Exhibits that are not relevant and significant to the audit of the financial statements should not be the subject of extended procedures, as the auditor will not be in a position to assume any level of responsibility for such exhibits.

The proposed other information standard would require the auditor to evaluate other information that is incorporated by reference in the annual report, such as information included in the proxy statement. Proxy statements may not be filed until 120 days after year end. It is unclear how this requirement can be applied in practice, as this information may not be prepared or available until after the respective Form 10-K is filed. Accordingly, an auditor would be unable to apply procedures to, or conclude on, information that is not available. Such information should not be included in the scope of other information.

III. Auditor Tenure

As noted in the proposal, the PCAOB has not found a correlation between audit quality and auditor tenure. Including auditor tenure in the auditor's report would imply that such a correlation exists and may result in false conclusions being drawn. Accordingly, we do not believe that auditor tenure should be included in the auditor's report. However, we do support the provision of this information in the PCAOB's periodic filings and the transparency that provides.

IV. Auditor's Unqualified Report & Clarifying Language Changes

We support the "pass/fail" opinion in the auditor's report, and the use of standardized language to enhance the user's understanding of the auditor's role and responsibilities, the audit process, and the responsibilities of others in the financial reporting process.

We support proposed changes to enhance the wording of the auditor's report in relation to independence and the auditor's responsibilities regarding the notes to the financial statements and material misstatement, whether due to error or fraud. We also support proposed changes to better align the description of the nature of an audit with the Board's risk assessment standards.

We do not support addressing the auditor's report to parties other than shareholders and the board of directors (or an equivalent body). We believe this would create additional litigation risk and would not improve the communicative value of the auditor's report.

We appreciate the opportunity to comment on the proposal, and appreciate the Board's efforts with regard to the proposed standards.

Sincerely,

/s/ Wolf & Company, P.C.