



July 28, 2016

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006
Via email to: comments@pcaobus.org

Re: **Proposed Auditing Standard: PCAOB Release No. 2016-003, *The Auditor's Report*
PCAOB Rulemaking Docket Matter No. 034**

Dear Chairman Doty, Distinguished Board Members, and others whom this may concern:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJCPA) appreciates this opportunity to comment on the proposed auditing standard. The NJCPA represents over 15,000 certified public accountants and prospective CPAs. The comments herein represent those of some of the individuals of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJCPA.

Our comments speak to the overall proposed changes and their objective of changing the auditor's report. Those proposed changes may be summarized as: the addition of critical audit matters (CAMs) to the auditor's report; and other changes to the auditor's report, consisting of an independence statement, an auditor tenure statement, the addressee, and other enhancements to basic elements.

Critical Audit Matters

We have read the Board's argument for the disclosure of critical audit matters (CAMs) in the auditor's report. We fundamentally disagree with the reproposal to incorporate CAMs, as we believe this will change the principal purpose of the auditor's report. We disagree that the presentation of CAMs adds value to the user or investor in reading and understanding the financial information.

The Board is reproposing that the auditor identify a CAM as any defined critical matters arising from the current audit, or include a statement that no CAMs were identified. These will include challenging, subjective, or complex matters affecting auditor judgments, and how the auditor responded to those matters. We believe that what is critically important is the total package of information presented to the shareholders and investors, not insights into the process of auditing such information. The awareness of how certain audit procedures were performed does not add value to the user or investor. We do not believe that CAMs would assist investors and analysts in engaging management with targeted questions about company information. No incremental



increase in the quality of financial information is gained by the user of the financial statement. If the intended consequence of incorporating CAMs is to drive improvements in audit quality, we believe that current measures, such as the PCAOB's inspection program and required communications with audit committees, are better ways of achieving that objective.

We do agree that the clarity the user may be missing is an improved understanding of what information the auditor is, and is not, responsible for. Our auditor's report speaks only to the financial statements; however, those are obviously contained in a filing with much additional information. The auditor's standard report as currently promulgated does not mention the footnotes. We agree that this should be added to the auditor's report. Further, the auditor has certain limited responsibilities with respect to the other accompanying information, for example, management's discussion and analysis, but no mention is made of what those responsibilities are, and are not.

We suggest that the auditor's report should better define auditor responsibilities for the additional information, so that the financial statement user has a clear understanding. The auditor's report can be expanded to include a brief statement about this responsibility. Disclosing this information in the audit report will enhance the investor's understanding of the auditor's role and responsibilities.

Additional Improvements

With respect to the proposed statement on independence, certain members of our group noted that the title to the auditor's report already contains the word "Independent". While they agreed that independence and objectivity are critical to the audit process, they believe that independence could not be given any more prominence than being included in the title to the report. Other members of our group were in agreement with adding this statement in the audit report.

With respect to the proposed statement on auditor tenure, we note the PCAOB now requires the disclosure of audit partners on Form AP, filed separately with the PCAOB. We agree with the proposed requirement to disclose the audit firm's tenure; however, we believe that it is better made as part of the Form AP rather than in the auditor's report. We agree that disclosure of auditor tenure should be available to present and prospective investors.

With respect to the proposal on the addressee, we agree that specifying the addressee in the audit report is appropriate.

With respect to the other proposed enhancements to basic elements, as stated in our above comments, we recommend that auditor responsibilities are better defined. However, certain members of our group do not support the addition of the phrase "whether due to error or fraud" because they believe that this will unintentionally confuse users regarding the auditor's responsibilities concerning fraud. Others in the group support the Board's proposed addition. They believe that the addition of "whether due to error or fraud" will improve the user's understanding of the auditor's responsibilities.



With respect to the other proposed enhancements regarding the standardized form of the auditor's report, we agree with the Board's proposal to position the opinion as the first paragraph, immediately followed by the subtitle "Basis for Opinion". This will add clarity and structure to the audit report. Further, we support this enhancement even though we do not support the addition of the Critical Audit Matters section. If the CAM reproposal becomes final, we believe this geography change is also important. The CAM reproposal, if approved, may significantly lengthen the audit report with potentially cumbersome and confusing additions. The reader of a repropounded audit report (including CAM), may no longer be able to easily navigate his or her way to clearly identifying the type of auditor's opinion rendered, as with the extant report. Positioning the opinion first addresses this.

Some members of our group believe that our above comments apply to Emerging Growth Companies, as defined. However, others believe that there should be some consideration or exemption for smaller reporting companies. The documentation required, as well as the increase in audit fees to comply with the proposals, may be burdensome to such companies. Therefore, some members suggest that the Board consider whether the proposed changes to the auditor's report should take into consideration the size of the entity being reported on. Those members would like the Board to consider providing smaller reporting companies relief from some of the documentation and disclosure requirements of this proposal.

We wish to thank the PCAOB for this opportunity to comment on the repropounded standard. Although we have taken different positions than the Board on some of the proposal's provisions, we trust that a high-quality dialog and the vetting of the proposal within the profession will yield an even better standard to implement.

Very truly yours,

Elizabeth Harper, CPA, Leader
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