



National Association of State Boards of Accountancy

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August 12, 2016

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

Via e-mail: comments@pcaobus.org

Re: *Proposed Auditing Standard – The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; PCAOB Rulemaking Docket Matter No. 034*

Dear Members of the Public Company Accounting Oversight Board:

We appreciate the opportunity to offer comments on the Proposed Auditing Standard referred to above. The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories.

As stated in our December 9, 2013 response letter, we support the Board’s efforts to modify the auditor’s report so that it is more useful to investors. The more information of value auditors are able to provide to the users of audited financial statements, the greater the worth and relevance auditors can provide to the capital markets. We also believe the revisions that the PCAOB made, based on its requests for comments, better align the proposed standard with other international regulatory bodies’ and provide a better framework for an independent auditor to serve the public interest.

Definition of a Critical Audit Matter

1. The Proposed Auditing Standard requires communication in the auditor’s report of any critical audit matter (CAM) which “was communicated or required to be communicated” to the audit committee. We suggest deleting “communicated or” from the definition of a critical audit matter.
2. The Proposed Auditing Standard requires communication in the auditor’s report of any CAM which relates to accounts or disclosures that are material to the financial statements.

We agree, but would add “and disclosed in” for the definition to require communication of CAMs which are related to accounts or disclosures that are material to as well as disclosed in the financial statements. We do have a concern that paragraph 11 of the proposed standard could require an auditor to provide information about the company that has not been made publicly available by the company.

3. We believe that illustrative examples of CAM included in the Proposed Auditing Standard should be clearer on whether a discussion of a CAM in the audit report should include the results of any findings related to the internal control over financial reporting (ICFR) that may have resulted in an adjustment to accounts or disclosures that are material to the financial statements. We suggest providing additional examples of CAM that include language describing such findings and their impact on the material accounts or disclosures.
4. The Proposed Auditing Standard currently does not outline the auditor’s responsibility in respect to other information that is not currently included in the financial statements (e.g. MD&A disclosures). We understand that the PCAOB is considering additional projects in relation to such other information and we would support the PCAOB’s efforts to further clarify the auditor’s responsibility in respect to such other information.

Independence

The Proposed Auditing Standard requires that the auditor’s report include the following statement:

“We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the...”

We believe that the auditor’s report should state that the auditor “is independent,” instead of “required to be independent.”

Auditor’s Tenure

1. The Proposed Auditing Standard requires the auditor’s report to include a statement regarding the auditor’s tenure. As noted in our December 9, 2013 response letter, State Boards have not found a relationship between the auditor’s tenure and the auditor’s independence. However if the PCAOB believes this is useful information, we would recommend that the information on the auditor’s tenure be reported in Form AP, *Auditor Reporting of Certain Audit Participants*, rather than in the auditor’s report.
2. There might be situations where, due to mergers, acquisitions or changes in ownership, there may be uncertainty as to the year the auditor began serving consecutively as the company’s auditor. We believe that the proposed standard should provide more clarification for disclosure related to these cases.

Additional Improvements to the Auditor's Report

The proposed auditing standard allows the auditors to retain the option to include additional addressees in the auditor's report (page 45). The current proposal invites third parties to ask to be included as addressees. We do not believe the PCAOB should have language in the final rule that has the potential to inadvertently result in increased auditor liability and costs. The SEC requires audited financial statements be provided by public companies to protect investors, both those investors that have invested and those that may invest. We would suggest that the best solution would be to require no addressees. The title "Report of Independent Registered Public Accountant" speaks for itself without the need for an addressee.

Explanatory Language and Emphasis of a Matter

We understand there may be situations where an auditor may wish to combine a critical matter into an emphasis of matter paragraph based on the discussion in the proposed standard. Unfortunately this might lead to public confusion and we therefore believe that CAM and explanatory paragraphs in the auditor's report should not be integrated. However, we do believe it would be appropriate to make reference to the CAM in the explanatory paragraph.

Conformity with International Standards

We understand that in developing the Proposed Auditing Standard the PCAOB has considered similar auditor's reporting initiatives undertaken by international regulators. Although there are similarities between the PCAOB's and IAASB's auditor's reporting models, the use of different terms and concepts such as "Critical Audit Matter" by the PCAOB vs "Key Audit Matters" by the IAASB may create confusion and lack of consistency for users of financial statements in the international markets. Therefore we believe wherever possible, especially where the meaning is the same, consistent terminology should be used.

Considerations Related to the Effective Date

We think the implementation of the standard will take at least a year from the date of approval of the Final Audit Standard by the Securities and Exchange Commission. We do not believe that there should be any additional delay in the adoption of the standard related to audits of smaller companies.

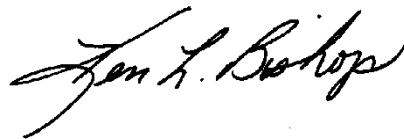
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Again, we appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



Donald H. Burkett, CPA



Ken L. Bishop