



December 11, 2013

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

Re: Proposed Auditing Standards – *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report*

Eide Bailly LLP commends the Board’s ongoing commitment to the improvement of audit quality and appreciates the opportunity to provide our comments on these proposed auditing standards. Eide Bailly is a registered public accounting firm serving mid-sized and smaller issuer entities. We have provided general comments as noted below, followed by responses to certain of the detail questions for which the Board has sought specific comment.

General Comments

In our response to the Board’s 2011 Concept Release on possible revisions to the auditor reporting model, we expressed our concerns related to requiring the auditor to provide information about the entity to the users of the entity’s financial statements. We believe that the proposed standard achieves an appropriate balance between the responsibility of the auditor and the responsibility of management with respect to the nature of the information to be provided to users of financial statements, specifically in that auditor requirements will be focused on reporting related to the audit process and critical audit matters.

Acknowledging this, we are concerned about unintended consequences resulting from the implementation of the requirement for auditors to report on critical audit matters. As firms, and even individual engagement teams, perform assessments, arrive at conclusions, and prepare report language related to critical audit matters, invariably differences in reporting will result even when very similar circumstances exist for separate, but similar entities. A potential unintended consequence of these situations is that the same users of the separate entity financial statements arrive at different conclusions regarding the entities solely as a result of the differences in the respective auditor’s reporting of critical audit matters, rather than as a result of any substantive difference in the respective entities. A possible response to this potential consequence is “boilerplate” language that will be developed and applied by auditors and used in the reporting on the financial statements for similar entities and/or similar audit matters, which will not achieve the desired result of this reporting requirement.

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Lastly, we urge the Board to carefully consider and eliminate as many differences as possible between the Board's resulting standards on auditor reporting with those of the International Auditing and Assurance Standards Board (IAASB), even those appearing as simple as the difference in terminology of Critical Audit Matters versus Key Audit Matters. In consideration of this, we recommend that the Board specifically include as a part of its final adopted standards on Auditor Reporting and Other Information a summary of the differences between the Board's standards and the IAASB standards, and the reasons for those differences.

Following are our responses to certain of the specific questions for with the Board requested specific comment. We have not responded to all of the questions, rather only those for which we have comments for the Board to consider.

Proposed Standard - The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion

1. *Do the objectives assist the auditor in understanding the requirements of what would be communicated in an auditor's unqualified report? Why or why not?*

Although this will not likely be a source of misunderstanding to auditors in applying the proposed standard, we question whether the communication of critical audit matters, or to state that the auditor determined that there were not critical audit matters, is a separate objective of the proposed standard. Alternatively, we believe the objective as stated in proposed paragraph 4(a) is sufficient.

4. *The proposed auditor reporting standard would require the auditor to include a statement in the auditor's report relating to auditor independence. Would this statement provide useful information regarding the auditor's responsibilities to be independent? Why or why not?*

While we do not believe there will be negative consequences to the requirement to include such a statement, we question whether additional useful information will be provided as a result. We are not aware that this is an area that is currently misunderstood by users of the financial statements audited under the standards of the PCAOB.

5. *The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor.*
 - a. *Would information regarding auditor tenure in the auditor's report be useful to investors and other financial statement users? Why or why not? What other benefits, disadvantages, or unintended consequences, if any, are associated with including such information in the auditor's report?*
 - b. *Are there any additional challenges the auditor might face in determining or reporting the year the auditor began serving consecutively as the company's auditor?*
 - c. *Is information regarding auditor tenure more likely to be useful to investors and other financial statement users if included in the auditor's report in addition to EDGAR and other sources? Why or why not?*

We do not believe a requirement for the auditor to include a statement containing the year the auditor began serving consecutively as the company's auditor will result in significant challenges to the auditor in the reporting of this information.

However, we also believe that there is a potential unintended consequence related to the reporting of this information without additional context, as users may not consider other factors that are important to the consideration of auditor tenure. For example, the statement, as proposed, does not account for the existence and benefit of partner rotation, which is designed to allow for a “fresh look” in the audit of a company’s financial statements. Additionally, the statement, as proposed, would not provide any context with respect to changes in the company during the period of tenure being communicated. Accordingly, we believe that this information would be more appropriately communicated to users of the financial statements by the company’s Audit Committee, accompanied by a discussion of other factors considered by the Audit Committee in their decision to engage the auditor.

6. *The proposed auditor reporting standard would require the auditor to describe the auditor's responsibilities for other information and the results of the evaluation of other information. Would the proposed description make the auditor's report more informative and useful? Why or why not?*

We agree that reporting of a description of the auditor’s responsibilities with respect to other information is relevant to users when the other information is provided simultaneously with the financial statements and related auditor’s report thereon. We agree that absent such a description, there is a risk of confusion related to what responsibility the auditor has with respect to this information.

7. *Should the Board require a specific order for the presentation of the basic elements required in the auditor's report? Why or why not?*

We do not believe it is necessary for the Board to specify a specific order for the presentation of the basic elements required in the auditor’s report; however recommend that the Board be cognizant of the order of presentation included in illustrative examples, as the order of presentation in these examples will ultimately be what most auditors will follow in their implementation of the final standard.

9. *What are the potential costs or other considerations related to the proposed basic elements of the auditor's report? Are cost considerations the same for audits of all types of companies? If not, explain how they might differ.*

We believe that the only significant cost consideration related to the proposed basic elements of the auditor’s report is related to time that auditors will incur with respect to reporting on Other Information.

We do not believe that there will be significant cost considerations specifically related to the other proposed basic elements of the auditor’s report, as we do not consider them to be fundamentally different than what is included in current auditor’s reports, with the exception of the additional reporting related to the auditor’s tenure, which we do not expect to result in a significant amount of additional cost and/or work effort by auditors.

10. *Would the auditor's communication of critical audit matters be relevant and useful to investors and other financial statement users? If not, what other alternatives should the Board consider?*

Generally speaking, we believe that investors and other financial statement users will find the auditor’s communication of critical audit matters relevant and useful, as long as the reporting does not become boilerplate over time.

11. What benefits or unintended consequences would be associated with the auditor's communication of critical audit matters?

As noted in our general comments above, we believe a potential unintended consequence may be that investors or other financial statement users arrive at varying, and potentially erroneous, conclusions about similar entities solely as a result of differences in the reporting of critical audit matters by different auditors in similar audit situations, rather than as a result of any substantive differences in the entities.

We are also concerned about potential challenges resulting from the “negotiation” that will likely occur between auditors, Audit Committees, management, and potentially company legal counsel, related to the nature and language used in the auditor’s communication of critical audit matters, particularly for audits of large, more complex entities. These discussions will likely often take place toward the end of the engagement, a time in which significant time pressures already exist.

12. Is the definition of a critical audit matter sufficient for purposes of achieving the objectives of providing relevant and useful information to investors and other financial statement users in the auditor's report? Is the definition of a critical audit matter sufficiently clear for determining what would be a critical audit matter? Is the use of the word "most" understood as it relates to the definition of critical audit matters?

Although we believe the definition is sufficient for purposes of achieving the objectives of the proposed standard, we recommend that the final standard included examples of the communication of critical audit matters, as we believe this will assist in effective adoption of the final standard by auditors.

13. Could the additional time incurred regarding critical audit matters have an effect on the quality of the audit of the financial statements? What kind of an effect on quality of the audit can it have?

We do not believe that the additional time incurred will necessarily have a negative effect on the quality of the audit, inasmuch as the effect of the timing of these additional considerations, much of which will be incurred during the later stages of the audit. See our related response to question number 11.

14. Are the proposed requirements regarding the auditor's determination and communication of critical audit matters sufficiently clear in the proposed standard? Why or why not? If not, how should the proposed requirements be revised?

We believe that the proposed requirements are sufficiently clear, with the exception of the requirement to communicate critical audit matters relating to the audit of the current period financial statements. We believe that the proposed requirements could be made clearer with respect to the fact that there is no requirement to communicate on critical audit matters related to the audits of prior periods that are also being reported on, and there is no requirement to communicate the reasons for differences in the identification of critical audit matters between periods.

15. *Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?*

While investors and other users of the financial statements may find information on specific audit procedures performed useful, we do not believe the potential benefit of such reporting exceeds its costs. Not only would such reporting add additional time to the audit, the communication of specific audit procedures, particularly those related to the most significant areas in the audit, may result in a reduction of audit quality as the auditor's audit plan with respect to those risk areas will become "public information".

16. *Are the factors helpful in assisting the auditor in determining which matters in the audit would be critical audit matters? Why or why not?*

We believe the factors included in the proposed standard are sufficient to assist the auditor in determining which matters would be considered to be critical audit matters.

18. *Is the proposed requirement regarding the auditor's documentation of critical audit matters sufficiently clear?*

Yes.

19. *Does the proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter achieve the Board's intent of encouraging auditors to consider in a thoughtful and careful manner whether audit matters are critical audit matters? If not, what changes should the Board make to the proposed documentation requirement to achieve the Board's intent?*

We believe that a specific documentation requirement related to non-reported audit matters is unnecessary and will place an undue burden on auditors. Appropriate documentation of those matters concluded to be critical audit matters, accompanied by other required engagement documentation, such as the engagement completion document, is sufficient to achieve the Board's objective of encouraging auditors to appropriately consider whether audit matters are critical audit matters.

21. *What are the additional costs, including indirect costs, or other considerations related to the auditor's determination, communication, and documentation of critical audit matters that the Board should take into account? Are these costs or other considerations the same for all types of audits?*

There will undoubtedly be additional costs related to the time incurred in the evaluation and determination of critical audit matters to be reported and the related documentation of those considerations and conclusions by the engagement team. Additional time will also be incurred by engagement quality reviewers to appropriately understand, question and concur with the conclusions of the engagement team. Also, there will likely be firms that will impose additional quality control requirements related to these considerations that will add additional time. These costs will be more significant for larger, more complex engagements.

22. *What are the additional costs, including indirect costs, or other considerations for companies, including their audit committees, related to critical audit matters that the Board should take into account? Are these costs or other considerations the same for audits of both large and small companies?*

As noted above, we believe that additional costs will be incurred in the audits of companies of all sizes, as additional time will be incurred in considering and documenting the auditor's conclusions with respect to critical audit matters. In addition, we believe that the audits of the financial statements of larger, more complex entities will result in additional costs related to the likelihood of these types of companies also having their legal counsel consider the auditor's reporting of critical audit matters.

23. *How will audit fees be affected by the requirement to determine, communicate, and document critical audit matters under the proposed auditor reporting standard?*

Audit fees will undoubtedly increase as a result of these requirements for the reasons we have noted above.

24. *Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, such as in an initial public offering or in a situation involving the issuance of an auditor's report on a prior period financial statement because the previously issued auditor's report could no longer be relied upon? If so, under what circumstances?*

We do not believe that auditor should be required to communicate critical audit matters for each period presented unless the auditor is reporting on those financial statements for the first time; i.e. an initial public offering, or if the audit of the financial statements for the period being reported on is a "reaudit", that either being a reaudit of financial statements that is the initial audit of the respective financial statements by the current auditor, or a reaudit of the financial statements if an audit report was previously issued but subsequently determined that it could not be relied upon.

25. *Do the illustrative examples in the Exhibit to this Appendix provide useful and relevant information of critical audit matters and at an appropriate level of detail? Why or why not?*

Yes.

26. *What challenges might be associated with the comparability of audit reports containing critical audit matters? Are these challenges the same for audits of all types of companies? If not, please explain how they might differ.*

Please see our comments above regarding concerns about the potential unintended consequences of the users of financial statements forming different conclusions in similar situations solely as a result of differences in the reporting of critical audit matters by different auditors.

33. Are the proposed amendments to PCAOB standards, as related to the proposed auditor reporting standard, appropriate? If not, why not? Are there additional amendments to PCAOB standards related to the proposed auditor reporting standard that the Board should consider?

We believe the Board needs to consider the requirements for reporting of critical audit matters when the auditor chooses to issue a separate report on internal controls over financial reporting, specifically, is the auditor required to communicate critical audit matters in both reports, or only in the auditor's report on the financial statements?

35. Are the proposed auditor reporting standard and amendments appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

We believe that the proposed requirements, including the communication of critical audit matters, are appropriate for audits of large brokers and dealers. However, we also believe that additional consideration by the Board is warranted with respect to the cost benefit relationship of these requirements for small broker/dealers and/or non-carrying broker/dealers, and if differential reporting requirements are determined to be appropriate, how a "small" broker/dealer would be defined.

39. Are the proposed auditor reporting standard and amendments appropriate for audits of benefit plans? If yes, are there any considerations that the Board should take into account with respect to audits of benefit plans?

We believe that the proposed standard is also appropriate for the audits of benefit plans, with the possible exception of the requirement to communicate critical audit matters for all audits of benefit plans. We believe that the communication of critical audit matters for the audits of benefit plans will likely be similar for virtually all plans, and thus will quickly evolve to boilerplate reporting that will be the same for every benefit plan audit.

40. Should audits of certain companies be exempted from being required to communicate critical audit matters in the auditor's report? Why or why not?

Despite our concerns about the cost benefit relationship of the requirement to communicate critical audit matters for smaller, less complex engagements, we do not believe that there should be an exemption for smaller public companies or Emerging Growth Companies. Such differential reporting will create a lack of consistency in reporting for public companies, thus creating possible confusion by the users of the financial statements, and/or a view that those audits are of lesser quality or relevance.

As audits of non-issuer financial statements conducted under the standards of the PCAOB are not uncommon, we believe that the Board needs to address whether or not it is necessary for the auditor to communicate critical audit matters in such engagements, and for the final standard to clearly communicate whether or not these requirements are applicable for such engagements. We recommend that the final standard allow for, but not require the communication of critical audit matters for audits of non-issuer financial statements, consistent with the approach taken by the proposed IAASB auditor reporting standards.

41. *Is the Board's effective date appropriate for the proposed auditor reporting standard? Why or why not?*

We believe the proposed effective date is appropriate and should allow auditors to effectively plan for the implementation of the standard.

42. *Should the Board consider a delayed compliance date 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? If so, what criteria should the Board use to classify companies, such as non-accelerated filer status? Are there other criteria that the Board should consider for a delayed compliance date?*

We do not support a delayed compliance date for audits of smaller companies. The reporting requirements will often be less burdensome to implement for the audits of smaller companies, and if they are not considered to be less burdensome as a result of the existence of critical audit matters, delaying these requirements in such situations is inconsistent with the objectives of the proposed standard.

Proposed Standard - The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report

We do not have specific concerns with respect to the proposed standard on Other Information; however do believe that it should be limited to information included in the company's annual report, as currently defined in paragraph 1 of the proposed standard.

In that regard, we do have the following questions and/or comments related to this proposed standard:

- The note following paragraph 1 of the proposed standard indicates that information incorporated by reference from the company's definitive proxy statement filed within 120 days after the end of the fiscal year covered by the Form 10-K is considered to be "other information" for purposes of this standard. Since in the proposed standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, the auditor is required to report on other information when reporting on the company's financial statements, it is unclear what the auditor's reporting responsibility is with respect to the information in a definitive proxy statement that will be subsequently filed. Accordingly, as this is a common situation, we believe that the standard needs to be more specific with respect to the auditor's reporting responsibilities in these situations.
- Paragraph 12(b) – it is unclear to us in what situations this provision would apply, as presumably the other information being reported on would have already been issued along with the financial statements as a part of the company's annual report filed with the SEC. We recommend that the final standard include an example of when such a situation would occur.
- As Other Information is defined with respect to a company's annual report filed with the SEC, it is unclear how this standard is to be applied in situations in which an audit of a non-issuer is conducted under the auditing standards of the PCAOB. For example, if such financial statements include supplementary information, is that information considered other information, or is the proposed standard essentially only applicable for audits of issuers that file an annual report with the SEC?

Once again, we appreciate the opportunity to comment on these proposed standards. We would be pleased to discuss our comments with the Board or its staff. Please direct any questions on our comments to Brian Bluhm, Director of Assurance Services, at 612.253.6590.

Sincerely,

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Eide Bailly LLP