December 11, 2013

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Rulemaking Docket No. 34 - PCAOB Release No. 2013-005:
Proposed Auditing Standard - The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and The Related Auditor’s Report

Dear Secretary:

My General Comments on the above-mentioned proposal and my responses to the questions asked in Appendix 6 follow:

**General Comments**

**Auditor’s Report**

I support replacing AU 550 with a stronger and more robust auditing standard; however, for the reasons stated in this letter, I recommend reissuing the proposal after deleting the auditor’s external reporting requirements, making appropriate revisions as a result of the comment process, conferring with legal counsel concerning potential auditor liabilities, and field testing it.

Investors and other financial statement users believe that when auditors read and evaluate other information, they are in reality auditing such other information - despite the auditor’s report asserting “we did not audit the other information and do not express an opinion on the other information.” Considering that the auditor’s evaluation is based on relevant audit evidence gathered during the audit, it is not credible that investors and other financial statement users will conclude that the auditor’s “evaluation” is not an audit service; under this proposal, auditors are in appearance and fact auditing other information.

Since the auditor is not required to detail exactly which other information has been "evaluated" and which has not, investors and other financial statement users will believe that the auditors corroborated all the other information in the annual report and perhaps give such other information more credibility than is warranted.

Further, in that the audit report does not specify which other information has been evaluated, but nevertheless reports on it, it is expected that auditors will increase their litigation exposure to third parties for any material inconsistency or misstatement of fact either not (a) found and revised, or (b) disclosed in the audit report. In addition, given that the auditor’s “evaluation” must comply with professional standards; any failure to meet these standards would also be the basis for accounting malpractice and other potential claims.
If a significant number of registrants and their audit committees believe the benefits to their investors will clearly outweigh the additional costs of the audit; the Board should at that time consider meeting this perceived need by formulating a separate report from the auditor (possibly using a form of “negative assurance”) on other information.

Audit Guidance

Certain of the audit guidance in Appendix 6 is helpful in applying the proposed standard and should be incorporated into the final standard as a footnote, a Note to the applicable paragraph, or in a separate Appendix to the standard.

Other suggested revisions and comments are described below.

Responses to the Questions in Appendix 6

I have answered the following questions as though the Board will proceed with this proposal substantially as written; however, these responses are subject to my overall disagreement with the auditor reporting required by paragraphs 13 and 14.

1. Is the scope of the proposed other information standard clear and appropriate? Why or why not?

Yes, the proposal is clear regarding other information included in the scope; however, for increased clarity, I suggest the following additions:

a. That the 1934 Act annual reports listed on page A6-6 (“annual reports filed on Forms 10-K, 20-F, 40-F, and N-CSR, among others”) be included as examples in the final standard.

b. That the Note to paragraph 1 (which states, “information incorporated by reference … that is available to the auditor prior to the issuance of the auditor’s report”) specifically mention the incorporation by reference of the annual report to security holders (the “glossy”).

c. That the second sentence of footnote 4 be amended as follows:

When the company’s amended annual report contains (1) revisions to amounts or disclosures in the previously issued audited financial statements and (2) a related auditor’s report that affect the auditor’s report that was filed with the original Form 10-K, the auditor would apply all paragraphs of this standard.

d. The scope should state that the company’s auditor does not have any responsibilities regarding (i) the audited financial statements of another entity, or (ii) any related other information required to be filed in a company’s annual report under Article 3 of Regulation S-X – see Question 4.

e. The scope should be expanded to include the responsibilities of a predecessor auditor – see Question 23.

Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?

No other Exchange Act reports should be included in the scope.

2. Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not?
Yes. Information incorporated by reference, for example, under General Instruction G to Form 10-K (e.g., from the definitive proxy statement, or provided in an amended Form 10-K, or from the annual report to security holders (the “glossy”)), is properly included in the scope of the proposal. As mentioned on page A6-8, this information “is an essential part of the company’s annual report on Form 10-K and is necessary to make the document complete.”

Are there additional costs or practical issues with including information incorporated by reference in the scope of the proposed other information standard? If so, what are they?

Practical Issues

Appendix 6 states (in footnote 15) that any documents contained in the list of exhibits to the annual report are considered to be other information. Thus, under the proposal, the exhibits incorporated by reference and listed under Item 15(a)(3) of Form 10-K would be required to be read for material inconsistencies, material misstatements of fact, or both. As is often the case, many of these exhibits and their various amendments have been filed with the SEC over many years. The other information included in the Item 15(a)(3) exhibits may or may not be compared with or traceable to any audit evidence obtained during the current audit and reading and “evaluating” all of these exhibits will be a significant enlargement of the audit scope, especially in the initial year of implementation of this proposal, and for large or complex registrants.

Consequently, I recommend that the final standard clarify the auditor’s responsibilities regarding the exhibits filed under Item 601 of Regulation S-K.

Additional Audit Costs

AU 550 does not discuss incorporation by reference. Additional costs would be incurred to the extent auditors were not fully “reading and considering” the documents that are incorporated by reference (e.g., the exhibits, the definitive proxy statement, and amendments to other information in the annual report using Form 10-K/A).

Further, additional audit costs would include complying with AS 3 (Audit Documentation) which requires specific documentation of the information added to the audit working papers after “lock-down.”

3. Is it appropriate to apply the proposed other information standard to amended annual reports? Why or why not?

Yes, other information included in an amended annual report is properly included in the scope of the proposal.

Are there additional costs or practical issues with including amended annual reports in the scope of the proposed other information standard? If so, what are they?

See Question 2.

4. Should the company’s auditor, the other entity’s auditor, or both have responsibilities under the proposed other information standard regarding audited financial statements of another entity that are required to be filed in a company’s annual report under Article 3 of Regulation S-X? Why or why not? Are there practical issues with applying the proposed other information standard to the other entity’s audited financial statements?

The company’s auditor should not have any responsibilities regarding audited financial statements of another entity, or any related other information required to be filed in a company’s annual report under
Article 3 of Regulation S-X, since (as pointed out in Appendix 6) those financial statements were already subject to a separate audit.

I suggest this scope exception be clearly stated in the final standard – see Question 1.

There will be practical issues and related additional costs involved in coordinating and documenting the other auditor’s evaluation of the other information that is related to the other entity’s audited financial statements.

5. Do the objectives assist the auditor in performing the procedures required by the proposed other information standard to evaluate the other information and report on the results of the evaluation?

Paragraph 2

Concerning the overall Objectives, paragraph 12 addresses the auditor’s responses to the potential misstatements in the financial statements. Page A6-31 explains that “[t]hese procedures would provide an increased auditor focus on other information, which could improve the auditor’s identification of potential misstatements in the financial statements.” I believe this is as important an objective as those mentioned in paragraph 2, and should be included in the Objectives paragraph in the final standard.

Paragraph 2.a

Meaning of "evaluate"

What does “evaluate” mean to investors and other financial statement users?

a. The other information (i) is not audited, (ii) is not unaudited, and (iii) is not reviewed; it has been evaluated!

b. What meaning will investors and financial statement users attach to the term “evaluate”? How will non-accountants understand this verb? The proposal tells us that since the other information being “evaluated” is based on “relevant audit evidence obtained and conclusions reached during the audit” the other information is in appearance and fact “audited.”

I believe that investors and other financial statement users can come to no other conclusion – “evaluated = audited” – despite the auditor’s report saying “we did not audit the other information and do not express an opinion on the other information” (required by paragraph 13.d).

This “evaluated = audited” conclusion is further supported by –

a. Appendix 6 (page A6-15) which explains that “should evaluate” is used in PCAOB standards when the auditor is expected to “come to a conclusion based on the performance of certain [audit] procedures (the footnote cites AS 7 and AS 12).”

b. Paragraph 12 which states that the potential misstatement in the audited financial statements uncovered by the procedures (outlined in paragraphs 4 and 5) must be evaluated using the audit procedures found in AS 14 (Evaluating Audit Results), AU 508 and AU 561.

c. The procedures undertaken (under paragraphs 9 and 11), when there is an uncorrected material inconsistency or misstatement of fact (or both), indicates that “evaluate” is equivalent to “audit.”

Other comments

The word “fact” in paragraph 2.a should be footnoted and the audit guidance found on page A6-12 should be included in the final standard. This guidance suggests that the term fact “could relate to, among others, statements about the company's competitive environment, technological developments, or supplier relationships” and that “the auditor might have knowledge of such information as part of obtaining audit evidence or reaching conclusions during the audit.”
Paragraph 2.b

To circumscribe any possible auditor liability –

a. The auditor should detail exactly the other information that has been “evaluated.” This will also tell investors and other financial statement users that the auditor did not “evaluate” everything in the annual report (likely contrary to most investor and user expectations). In most cases, such a detailed listing would be impractical.

b. Require the specific identification of other information for which the auditor did not have relevant audit evidence (which other information may be considered to be “unevaluated/unaudited”). Such a listing would be substantially longer than that mentioned in a. above, overly cumbersome, and impractical to apply in practice.

Under this proposal, the auditor does not specifically detail the other information evaluated and not evaluated. The auditor’s report says nothing other than "we evaluated whether the other information ... contains a material inconsistency with the financial statements, a material misstatement of fact, or both." Here the audit report is misleading those investors and other financial statement users who may believe and expect that the auditor has "audited" all the other information in the annual report, despite any statement to the contrary in the auditor’s report – see paragraph 13 and Question 18.

c. Regarding the phrase “relevant audit evidence," AS 14 tells us that in forming an opinion on the financial statements, “the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements” (emphasis added). It would be helpful if the phrase "relevant audit evidence" be expanded to say that it should be used to corroborate or to contradict the assertions made by management in the annual report.

Paragraph 13.e.(1) requires the audit report to state that, based on the evaluation, the auditor has not identified a material inconsistency or a material misstatement of fact in the other information. This directive is contrary to the objective stated in paragraph 2.b.; accordingly, paragraph 2.b should be restated to insert the words “whether or not” and thus read –

When issuing an auditor’s report ... and conclusions reached during the audit, whether or not the other information contains a material inconsistency, a material misstatement of fact, or both.

Unless registrants believe the benefits to financial statement users clearly outweigh the additional audit costs, and are willing to pay for the additional auditing procedures required by this proposal, auditors should not be required to report on their “evaluation.” The additional costs would then pay for the procedures auditor’s deem needed as a result of the their assessment of the potential exposure to the increased risk of litigation involved in the reading, evaluating and reporting on other information.

6. Is it appropriate to require the auditor to evaluate the other information for both a material inconsistency and for a material misstatement of fact? If not, why not?

Yes, the objective regarding material inconsistencies of amounts or information, or the manner of their presentation, and material misstatements of facts (or both) is proper.

7. Would the evaluation of the other information increase the quality of information available to investors and other financial statement users and sufficiently contribute to greater confidence in the other information? If not, what additional procedures should the Board consider?
Quality of Information

I would anticipate that management would increase the accuracy and factual basis of other information in the annual report knowing that their auditors will be reading and “evaluating” such other information under an auditing standard.

Greater Confidence

As currently proposed, the auditor will evaluate the other information based on “relevant audit evidence” obtained during the audit. As discussed in Question 5, a detailed listing of the other information (both evaluated and not evaluated) is not required to be furnished by the auditor, nor in most circumstances is it practicable to do so. This lack of specificity generates the following questions –

a. How will investors determine what other information has been evaluated/audited vs. not evaluated/unaudited?

b. Will investors believe that the auditor read and “evaluated” all the other information in the annual report? Most or some of the other information? What percentage?

c. Should investors take any comfort in believing that some of the other information was evaluated even if a significant percentage of other information may not have been evaluated?

d. How can investors and users gain any confidence regarding such unevaluated other information?

As the proposal is now written, investors will believe that the auditors evaluated and corroborated all if not most of the other information and thus perhaps give such other information more credibility than is warranted.

While some may assume that investors and financial statement users will have greater confidence in other information, I have no information nor is there any direct evidence that the proposed auditor’s report would “contribute to greater confidence.” Assuming greater confidence posits the idea that investors confidence level would rise by some material and measureable degree – this is an entirely problematic inference and empirically unverified.

In sum, I do not believe that the proposed reporting will instill in investors and other financial statement users more confidence in the other information.

8. Is the federal securities laws’ definition of materiality the appropriate standard for the auditor’s responsibility to evaluate the other information?

Yes. I suggest that the term “material” be referenced to AS 14 (Evaluating Audit Results) and to TSC Industries, Inc. v Northway, Inc. in paragraph 2.

Would applying this definition represent a change to the materiality considerations auditors currently use under AU sec. 550?

Materiality under AU 550 is consistent with the requirements of SAB 99 (Materiality) and AS 14; both documents cite the Supreme Court’s decision in TSC Industries.

9. Are the proposed procedures with respect to evaluating the other information clear, appropriate, and sufficient? If not, why not?

Paragraph 4.b

The proposed procedures in paragraph 4.b mentions “[c]onsistency of any qualitative statement in the other information ....”
I recommend that the meaning of “qualitative statement” in the context of this proposal be clarified by incorporating into the final standard the discussion found on pages A6-12 and A6-19. This guidance explains qualitative statements as "the description of the company’s critical accounting policies, estimates, and related assumptions in the other information of an annual report … [that] would be directly related to accounts and disclosures in the financial statements …." This qualitative “other information might appear in the MD&A section … of Form 10-K and relate to, for example, accounting policies, practices, and estimates or the description of off-balance sheet arrangements."

Paragraph 4.c

Page A6-20 provides some additional guidance to paragraph 4.c observing that "[w]ith respect to other information that is not directly related to the financial statements … [this other information] might appear in the Business, Risk Factors, or Quantitative and Qualitative Disclosures about Market Risk sections … on Form 10-K or the MDFP section … on Form NCSR...."

This additional guidance continues saying that "management might state in the other information that the company has the largest market share in the company’s industry. This information could be material to an investor’s decision about the company. The auditor might be aware, based on relevant audit evidence obtained during the audit, that the company does not have the largest share in the relevant industry. The proposed other information standard would require the auditor to evaluate whether management’s statement represents a material misstatement of fact.”

I recommend that the above guidance regarding “other information not directly related to the financial statements” be incorporated into the final standard.

Paragraph 4.c should be reworded

So that it more closely relates to the objective in paragraph 2.a (which states, "To evaluate whether the other information contains … a material misstatement of fact ...."), paragraph 4.c should be amended as follows:

"Facts Other information not directly related to the financial statements as compared to relevant audit evidence obtained and conclusions reached during the audit ...."

Paragraph 5

Paragraph 5 requires the auditor “perform additional procedures, as necessary, to determine whether there is a material inconsistency, a material misstatement of fact, or both.” Page A6-21 says “[s]uch additional procedures might include (1) requests for additional documentation and (2) consultations outside of the engagement team, such as a national office or other parties with appropriate expertise. The procedures would vary based on the auditor's evaluation of the relevant facts and circumstances."

At a minimum, this guidance (regarding these additional audit procedures that either supplement, or are in addition to those undertaken during the audit to corroborate the amounts or disclosures in the financial statements and in other information) should be incorporated into the final standard.

10. Is it understood which amounts in the other information the auditor would be required to recalculate under paragraph 4.d? If not, why not?

The amounts required to be recalculated are reasonably clear; however –

a. The audit guidance found on page A6-20 ("... the auditor would not be required to evaluate the appropriateness or sufficiency of the formula used in the calculation.") should be included in paragraph 4.d of the final statement.
b. The final standard should address those situations where the auditor believes (using professional judgment) a metric or formula used –

- Is not common (or standard) practice in the entity’s industry, or
- Produces a misleading result (though potential management bias, error or otherwise).

c. In that the SEC encourages the use of tables, schedules charts and graphic illustrations in annual reports to security holders (1934 Act Rule 14a-3); the final standard should address financial and “factual” information presented in the form of charts or graphs. Among other things, this guidance should comment on the consistency of the other information with the financial statements, the completeness of the information, the manner of presentation and the possible misstatements that may enter into such chart or graph presentations.

11. Are there additional costs beyond those described in this Appendix related to the proposed required procedures for the evaluation of the other information? If so, what would these costs be?

Appendix 6 deals with the additional costs of complying with this proposal very broadly. More specifically additional costs incurred would include for example: keeping the audit working papers “open” past their “lockdown” date to comply with AS 3; the review of multiple drafts of documents; coordinating the “evaluation” of other information by other auditors and predecessor auditors; and coordinating with audit teams involved with subsidiaries of the registrant located outside the United States whose working papers contain the appropriate audit evidence.

12. Are the proposed auditor responses under paragraph 5 appropriate when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If not, why not?

Yes, the responses under paragraph 5 requiring a discussion with management and the performance of additional procedures are appropriate.

13. Are there additional costs beyond those described in this Appendix related to responding when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If so, what would these costs be?

None beyond those broadly mentioned in Appendix 6

14. Are the proposed auditor’s responses under paragraphs 8 and 9 appropriate when the auditor determines that the other information that was available prior to the issuance of the auditor’s report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

Yes, the responses under paragraphs 8 and 9 are appropriate.

15. Is it appropriate for the auditor to issue an auditor’s 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? Under what circumstances would such a report be appropriate or not appropriate?

Yes, it is appropriate to identify and disclose in the auditor’s report (a) other information containing amounts or information that is materially inconsistent with the audited financial statements, (b) other
information whose presentation is materially inconsistent with the audited financial statements, and (c) a material misstatement of fact, that is not corrected by management.

Since it is left unstated, the proposal implies that the auditor has no responsibility to correct the other information that does not agree with the “relevant audit evidence obtained.” Nevertheless, to eliminate any uncertainty, the final standard should affirmatively state that the auditor has no duty to, nor should the auditor correct the other information in the audit report.

In addition to the auditor’s “evaluation” of other information incorporated by reference after the issuance of the audit report, paragraph 7 outlines the audit procedures to be followed when management does not revise the other information and the other information is not available to the auditor prior to the issuance of the auditor’s report. The final standard should address the impact, if any, of these procedures on the date of the audit report (AU 530, Dating of the Independent Auditor’s Report).

16. Are the proposed auditor’s responses under paragraphs 10 and 11 appropriate when the auditor determines that the other information that was not available prior to the issuance of the auditor’s report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

Yes, the responses under paragraphs 10 and 11 are appropriate

17. Are the proposed auditor’s responses appropriate when, as a result of the procedures performed under the proposed other information standard, the auditor determines that there is a potential misstatement in the financial statements? Why or why not?

Yes, they are appropriate. If the audit report has not been issued, I suggest that – in addition to AS 14 (to determine whether or not the auditor has obtained "sufficient appropriate audit evidence") – AS 12 (Identifying and Assessing Risks of Material Misstatement) should be referenced in the final statement so that auditors can determine that they had properly identified and appropriately assessed the risk of material misstatements, and had correctly considered the design and implementation of their responses to material misstatements.

18. Is the proposed reporting, including the illustrative language, appropriate and sufficiently clear? If not, why not?

Paragraph 13.d requires a "statement that the auditor did not audit the other information and does not express an opinion on the other information" be included in the auditor’s report. This reporting contradicts the requirement that the auditor evaluate the other information based on relevant audit evidence obtained and conclusions reached during the audit, which procedure is viewed as tantamount to auditing the other information.

Concerning paragraph 13.e.(1), there is no logical reason for auditors to affirmatively report that they have has not identified a material inconsistency or a material misstatement of fact in the other information. This reporting is merely a form of negative assurance (e.g., "we have not identified a material inconsistency etc.", or "we are not aware of any material modifications that should be made to the other information etc.") submerged in the audit report of the registered public accounting firm.

19. Should the Board consider permitting or requiring the auditor to identify in the auditor’s report information not directly related to the financial statements for which the auditor did not have relevant audit evidence to evaluate against? If so, provide examples.
The standard should neither require nor permit the auditor to identify in the auditor’s report information not directly related to the financial statements for which the auditor did not have relevant audit evidence.

20. What additional costs would the auditor or the company incur related to auditor reporting when the auditor identifies a material inconsistency, a material misstatement of fact, or both?

After the audit report has been issued, additional costs would be incurred in discussions with management and the audit committee, and audit procedures to comply with Section 10A, AS 3, AS 12, AS 14, AU 508, AU 561, and other auditing standards and procedures as considered necessary in the circumstances.

21. Would the proposed reporting, including the illustrative language, provide investors and other financial statement users with an appropriate understanding of the auditor’s responsibilities for, and the results of, the auditor’s evaluation of the other information? Why or why not?

No, see discussion under General Comments and Question 18.

22. Are there any practical considerations that the Board should consider when an auditor identifies a material inconsistency or a material misstatement of fact in the other information that management has appropriately revised prior to the issuance of the auditor’s report?

No practical considerations come to mind.

23. Are the proposed responsibilities of the predecessor auditor appropriate and sufficiently clear? If not, why not?

I recommend that the final standard expand footnote 6 to paragraph 2 by including the discussion on page A6-38. This additional guidance requires “the predecessor auditor to perform the procedures with respect to a material inconsistency based on relevant audit evidence obtained and conclusions reached during the predecessor auditor’s previous audit.” Consequently, the “predecessor auditor’s procedures would include reading and evaluating the other information in the current period annual report … for any material inconsistencies with the audited financial statements for the prior period.”

This guidance continues “[i]f the predecessor auditor concludes that there are no material inconsistencies, the predecessor auditor’s report may be reissued. If, after communication with management and the audit committee, the predecessor auditor determines that the other information contains a material inconsistency, the predecessor auditor would be required to determine his or her responsibilities under federal securities laws and PCAOB standards. The predecessor auditor also may withhold the use of the auditor’s report for the prior period.”

24. What effect, if any, would the reporting under the proposed other information standard have on an auditor’s potential liability in private litigation? Would this reporting lead to an unwarranted increase in private liability?

Notwithstanding the auditor’s report specifically states that “the auditor did not audit the other information and does not express an opinion on the other information,” it is not plausible for investors and other financial statement users to believe that the “evaluation” is a non-audit service, since (a) the auditor expresses an opinion based on their “evaluation” (i.e., there are no material inconsistencies or
misstatements of fact [a pass], or the contrary [a fail]), (b) the other information opinion is included in the basic auditor's report (under a separate section titled The Auditor's Responsibilities Regarding Other Information), and (c) that the evaluation was based on relevant audit evidence obtained and conclusions reached during the audit.

For these reasons, the auditor would increase their litigation exposure to third parties since they are in appearance and fact auditing such other information.

Further, the auditor's "evaluation" must comply with professional standards, i.e., due professional care, planning and supervision, sufficient relevant data, etc., and therefore a failure to meet these standards would be the basis for audit malpractice and other potential legal claims.

Are there steps the Board could or should take related to the other information requirements to mitigate the likelihood of increasing an accounting firm's potential liability in private litigation?

Yes, I recommend abandoning the reporting requirements in this proposal, but keeping the standard. A separate report on other information may then be formulated by the Board, possibly using a form of "negative assurance" saying, for example –

Based on our work, described in Note X of this report, nothing has come to our attention that causes us to believe that other information (denoted with the symbol ** in the annual report on Form 10-K filed on xx) is materially inconsistent with the financial statements audited by us (referred to above), or contains a material misstatement of fact, or both.

Note: The use of a symbol is one mechanism to let financial statement users know exactly what has been read and the procedures that were followed by the auditor. This method would be impractical in most cases.

This separate report assumes registrants believe the benefits and value added to their investors will clearly outweigh the additional costs of the auditor's procedures.

25. Would reporting under the proposed other information standard affect an auditor's potential liability under provisions of the federal securities laws other than Section 10(b) of the Exchange Act, such as Section 11 of the Securities Act? Would it affect an auditor's potential liability under state law?

If the Board proceeds with this proposal substantially as written, I recommend that the Board seek legal advice from qualified counsel to determine the impact on the auditor's potential liability under the federal securities laws, as well as the laws in all jurisdictions.

26. Are the proposed amendments to PCAOB standards, as related to the proposed other information standard, appropriate? If not, why not? Are there additional amendments to PCAOB standards related to the proposed other information standard that the Board should consider?

The proposed amendment to AU 9634 (Auditing Interpretations of Section 634, page A4-8) is not appropriate for the reasons set forth under General Comments and the answers to the above Questions.

27. In the situations described in the proposed amendments to existing AU sec. 508, should the Board require, rather than allow, the auditor to include statements in the auditor's report that the auditor was not engaged to examine management's assertion on the effectiveness of internal control over financial reporting and that the auditor does not express an opinion on management's report?
I support the Boards requiring a statement in the auditor’s report that the auditor was not engaged to examine management’s assertion on the effectiveness of internal control over financial reporting and that the auditor does not express an opinion on management’s report.

28. Are the proposed other information standard and amendments appropriate for audits of brokers and dealers? If not, why not?

This proposal should apply only to broker-dealers who either are issuers (as defined in the 1934 Act), or are a subsidiary of an issuer; thus all of the above comments and responses are applicable to other information disclosed by such broker-dealers.

29. Is the Board’s effective date appropriate for the proposed other information standard? Why or why not?

Yes, the effective date of the standard (applicable to audits of financial statements for fiscal years beginning on or after December 15, 2015) is appropriate. See Question 30.

30. Should the Board consider a delayed compliance date for the proposed other information 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?

Notwithstanding the substantial expansion of the audit work and documentation, in that the obligation to read and consider is already required by AU 550, there is no reason why auditors of large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies cannot read and “evaluate” the other information in annual reports by the effective date of the proposed standard.

31. Should the Board extend the application of the proposed other information standard to documents containing audited financial statements and the related auditor’s report that are filed under the Securities Act? If so, are there obstacles other than those previously mentioned that the Board should consider before such a proposal is made? If not, why not?

The discussion in Appendix 6 of the difficulties involved and hurdles encountered in having the auditor report on other information in 1933 Act filings support a “no” answer to this question.

The perceived needs of investors are currently being met for certain 1933 Act filings since other identified information is read and reported on by the auditors in a letter addressed to the underwriter with a statutory due diligence defense under AU Section 634 (Letters for Underwriters and Certain Other Requesting Parties). In addition, 1933 Act filings are also subject to the requirements of AU 711.

32. Are there some elements of the proposed other information standard that the Board should consider requiring the auditor to perform related to other information contained in filings under the Securities Act, such as the auditor’s responsibility to evaluate the other information? If so, which elements of the proposed other information standard should the Board consider including in the procedures currently required for Securities Act documents under AU sec. 711? If not, why not?

At this time, no elements of the proposal should be extended to 1933 Act filings; however, a review of AU 711 and AU 9711 is warranted and should be added to the Board’s standard-setting agenda.
33. What costs or other challenges should the Board consider when assessing whether to propose extending some elements of the proposed other information standard to other information contained in documents filed under the Securities Act?

See Question 32.

* * * * *

I appreciate your consideration of my comments, suggestions and responses to the Appendix 6 Questions and would be pleased to answer any questions the Board or the Staff may have concerning this letter.

Sincerely,

Robert N. Waxman, CPA
(212) 755-3400
rwaxman@mindspring.com