



New Jersey Society of Certified Public Accountants

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December 10, 2013

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PCAOB
1666 K Street, N.W.
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Reference: Request for Public Comment: *Proposed Auditing Standards – The Auditor’s Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion; the Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report; and Related Amendments to PCAOB Standards*; PCAOB Release No. 2013-005; PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Board:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJSCPA) is pleased to provide its comments on the above referenced proposed standards. The NJSCPA 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 NJSCPA.

We commend the PCAOB’s effort to make improvements to reports on audited financial statements, and appreciate the opportunity to provide the following comments on the questions contained in the Proposed Auditing Standards.

As a result of our review of the proposed standards we have summarized our overall views in addition to addressing the Board’s specific questions below.

Overarching Comments

While we understand the difficulty facing the Board with balancing the need from investors for more information specific to the audit of the company’s financial statements with the practical concern of what is appropriate for the auditors to share that provide relevant and useful information to the investors, we have the following concerns regarding the proposed standards:

- We agree with the retention of the pass/fail model since it gives the clearest message to investors. Our concern with the inclusion of critical audit matters in the auditor’s report is the possible incorrect perception of investors that there are varying degrees of an unqualified opinion. An unqualified opinion that includes the disclosure of several

critical audit matters may be viewed as less unqualified than an unqualified opinion where only one or no critical audit matters are identified.

- Since there is no conclusive correlation between auditor tenure and audit quality, auditor tenure should not be included in the auditor's report as it may encourage investors to make incorrect assumptions. If an investor needs to know about the tenure of the current auditor, the information is readily available in EDGAR.
- Since the proposed standard may require that the auditor disclose a critical audit matter that the client is not required to disclose under existing financial reporting standards, the auditor could be faced with the dilemma of complying with auditing standards and violating client confidentiality laws and regulations if the client does not give the auditor permission to disclose such matter.
- The example report language included in the proposed standard indicates that the auditor evaluated all other information for material inconsistencies and material misstatements of fact when the proposed standard does not require it and the auditor is often in the position of not being qualified to make that evaluation. In addition, we do not understand what level of assurance is given by the auditor "evaluating" the other information and neither will the investors.
- It is inconsistent with current standards to require auditors to evaluate other information that was not available as of the audit report date after their audit report date.

APPENDIX 5 – Additional Discussion Related to the Proposed Auditor Reporting Standard

II. Objectives

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?

We do believe that the objectives assist the auditor in understanding the requirements of what would be communicated in an auditor's unqualified report since it highlights the overall context for the requirements of the standard. However, as we will discuss in more detail later, our concern is with the subjective nature of the term "critical audit matters". Though the term is later defined in the standard, we believe the identification of critical audit matters is highly subjective. With any new standard, it is critical that the PCAOB ensures that auditors can apply this standard consistently. Though the objective is clear, due to the subjective nature of critical audit matters, we do not believe there can be consistent application.

IV. Basic Elements

2. The proposed auditor reporting standard would require the auditor's report to be addressed at least to (1) investors in the company, such as shareholders, and (2) the board of directors or

equivalent body. Are there others to whom the auditor's report should be required to be addressed?

No, we believe that it is appropriate to address the auditor's report to the investors/ shareholders and the board of directors of the company.

3. The proposed auditor reporting standard retains the requirement for the auditor's report to contain a description of the nature of an audit, but revises that description to better align it with the requirements in the Board's risk assessment standards. Are there any additional auditor responsibilities that should be included to further describe the nature of an audit?

We believe it is appropriate to revise the description of the nature of an audit to better align it with the risk assessment standards and do not believe that any additional requirements are necessary.

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?

We do not believe that the additional independence statement is necessary but do not object to its inclusion in the auditor's report.

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?*

As discussed in the proposed standard, research related to the correlation between auditor tenure and audit quality has been inconclusive. Some research points to short-term tenure having an adverse impact on audit quality where other research indicates that long-term tenure has an adverse impact and other studies point to both as having detrimental effects on audit quality. In addition, the Board has not been able to reach a conclusion regarding the relationship between audit quality and auditor tenure after significant outreach. Considering that there are so many differing opinions on the topic and no conclusive evidence to support either opinion, we believe that the disclosure of auditor tenure will result in unintended consequences, such as users making inappropriate and inconsistent assumptions and/or conclusions based on the length of auditor tenure.

- 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?*

We are not aware of additional challenges.

- 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?*

Though we acknowledge that investors and other users can obtain auditor tenure information from EDGAR and other sources if that information is useful for them, we believe that by including that information in the auditor's report it is encouraging investors and other users to draw a conclusion on whether the tenure has a positive or negative impact on audit quality when there is inconclusive support for either opinion. As a result, we do not believe audit tenure should be included in the auditor's report.

- 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 do believe that it would be helpful to investors and other users to describe the auditor's responsibilities for other information outside the financial statements in the auditor's report so as to make the auditor's responsibilities clear and dispel incorrect assumptions and misconceptions. However, as we discuss more fully below, we disagree with the proposed standard since we believe it may lead to investors' incorrect assumptions and misconceptions instead of reducing them and significantly expands auditor's responsibility.

- 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 believe that the board should provide a specific order in order to facilitate comparability and consistency for users of financial statements. We also suggest that section titles be included in the standard auditor's report.

- 8. What other changes to the basic elements should the Board consider adding to the auditor's report to communicate the nature of an audit, the auditor's responsibilities, the results of the audit, or information about the auditor?*

We do not have any suggestions for other changes to the basic elements of the auditor's report.

- 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 do not believe that the proposed basic element changes related to auditor independence and auditor tenure will cause significant additional costs except for first year training and implementation costs that would not be material. However, due to the additional responsibilities created by the proposed changes to auditor's responsibilities regarding other information, we believe there will be significant incremental costs to comply with the new requirements.

V. Critical Audit Matters

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?

We do not believe that communication of critical audit matters in the auditor's report will be relevant or useful to the users of financial statements. Primarily this relates to the inability for such a standard to be appropriately applied on a consistent and comparable basis which is necessary for the information to be useful. The identification of critical audit matters is dependent on significant auditor judgment and the identification is not made in contemplation of the specific needs of individual investors. Investors are not familiar enough with auditing techniques, procedures and principles and the risk is that investors will only focus on the areas identified as critical audit matters and may overlook other important financial information that may be important to their investment decision. Finally, the proposal mentions that the communication of critical audit matters could lead to improved financial statement disclosures related to areas that give rise to critical audit matters because of increased attention to those areas by management and the audit committee after the communication in the draft auditor's report of the critical audit matters. However, these critical audit matters are already communicated as part of PCAOB Auditing Standard No. 16 so we don't agree that would be any incremental attention paid to these same areas just by their mention in the auditor's report. In addition, investors' need for additional disclosures should be addressed through changes to Generally Accepted Accounting Principles (GAAP) or SEC Regulation S-K and not through changes in the auditor's reporting model.

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

It is likely that auditors will broaden their critical audit areas if they will be communicated publically to avoid having their judgment questioned which could significantly increase audit time and fees to offset increased auditor's litigation liability. In addition it is likely that investors and users will form conclusions based on information that is not comparable or consistently applied and potentially incomplete if they only focus on the areas identified as critical audit areas and not all of the financial information available to them.

Another concern is that investors will only see the identification of the critical audit matter without the benefit of knowing how the auditor addressed that matter, the evidence they obtained, and how persuasive the evidence was. Therefore, it may appear to investors that an

issuer that has several critical audit matters in the auditor's report is riskier when that might not be the case.

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?

We believe that the definition of a critical audit matter is sufficiently clear to most experienced auditors to determine what would be a critical audit matter. Auditors currently determine critical audit areas in determining the nature, timing and extent of audit procedures, evaluating sufficient appropriate audit evidence and forming an opinion on the financial statements. However, what is not clear is if the definition is clear to investors that are not familiar with auditing standards and whether the identification of critical audit matters would provide relevant and useful information to investors and other users in making their investment decisions. In addition, we believe that the identification of critical audit matters is subject to substantial auditor judgment, therefore, the proposed standard would not be able to be applied consistently.

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?

Auditors already focus their time on the critical audit areas during their audits so we do not believe that the additional time incurred to report on the critical audit matters will increase audit quality. However, we do believe there is the potential that the additional time needed to be spent on the reporting of the critical audit matters may take away from time spent on actual audit procedures which could decrease audit quality.

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?

The proposed requirements regarding the auditor's determination and communication of critical audit matters is clear but what remains unclear is how this standard can be applied consistently when there is significant auditor judgment involved.

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?

We do not believe that including the audit procedures performed on critical audit matters would be informative and useful to investors that are not sufficiently knowledgeable on auditing procedures and techniques. Independent auditors are professionals that are experts in accounting and auditing that are engaged to attest to information prepared by management. Investors should not need to know the specific audit procedures performed by the independent auditor to come to

the conclusion that the financial statements present fairly, in all material respects, the financial position of the company. Plus, including resolution of the critical audit matters in the auditor's report could be seen as concluding on specific areas instead of the financial statements as a whole. We also believe that including the audit procedures performed would jeopardize audit quality by reducing the element of unpredictability in an audit and providing a roadmap for potential management manipulation of those procedures.

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?

The factors are helpful but not sufficient to ensure consistent and comparable preparation and reporting of these items by auditors due to the professional judgment involved.

17. Are there other factors that the Board should consider adding to assist the auditor in determining which matters in the audit would be critical audit matters? Why or why not?

We do not believe any other factors are necessary.

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

The documentation requirement in the proposed standard is sufficiently clear.

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?

The proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter is consistent with the requirements of PCAOB Auditing Standard No. 3.

20. Is the proposed documentation requirement sufficient or is a broader documentation requirement needed?

The proposed documentation requirement is sufficient.

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?

We agree with the proposal that the auditor's determination, communication and documentation of critical audit matters will increase costs and time expended by auditors, companies and audit committees. These costs will include one-time and recurring costs.

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?

The development of the critical audit matters by the auditor and the drafting of the language to be included in the auditor's report will likely be completed towards the end of the audit engagement and will also need to be reviewed by management and the audit committee. This additional time incurred at the end of the engagement, which is already a busy time for all involved, may adversely impact the timeliness of filings.

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

We believe that audit fees will increase in order to compensate the auditing firms for expansion of their procedures, documentation and drafting of the language. In addition, there will be increased communication required with management and the audit committee.

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?

Though we disagree with the communication of critical audit matters in the auditor's report, if communication is required, we agree that it should only be required for the current period. We also agree that communication of critical audit matters for all periods presented should be limited to initial public offerings and re-audits when the predecessor's opinion can no longer 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?

The illustrative information is useful but we believe is insufficient to provide auditors with enough guidance to prepare this information on a consistent and comparable basis.

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.

We do not believe this information can be applied on a consistent and comparable basis, nor will it be useable or reliable for users of the financial statements.

27. What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise

would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?

The primary unintended consequence would be that any such disclosures may impair the auditor's independence and may violate existing client confidentiality laws and regulations of the PCAOB, SEC, AICPA, State Societies and State Boards of Accountancy. It is unclear how Certified Public Accountants can comply with these standards without changes to existing independence and ethics rules of these and other organizations.

28. What effect, if any, would the auditor's communication of critical audit matters under the proposed auditor reporting standard have on an auditor's potential liability in private litigation? Would this communication lead to an unwarranted increase in private liability? Are there other aspects of the proposed auditor reporting standard that could affect an auditor's potential liability in private litigation? Are there steps the Board could or should take to mitigate the likelihood of increasing an auditor's potential liability in private litigation?

We believe that by communicating critical audit matters in the audit report, it is changing the auditor's role of attesting on information prepared by management to the preparer of new information regarding the company that will ultimately be relied upon by investors and this will increase auditor's liability. It will open up additional avenues for investors to question the professional judgment of the auditor when they are looking to place blame for an incorrect investment decision.

VI. Explanatory Language

29. Is it appropriate for the Board to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard?

We believe it is appropriate for the Board to include a description of such circumstances.

30. Is retaining the auditor's ability to emphasize a matter in the financial statements valuable? Why or why not?

Yes. We believe that retaining the auditor's ability to emphasize a matter in the financial statements is valuable to users of financial statements.

31. Should certain matters be required to be emphasized in the auditor's report rather than left to the auditor's discretion? If so, which matters? If not, why not?

We agree that the proposed standard should retain the current list of circumstances in which the auditor is required to add explanatory language to the auditor's report required by other PCAOB standards related to going concern, reference to another auditor and consistency. The decision to emphasize any other matters should be left to the discretion of the auditor.

32. Should additional examples of matters be added to the list of possible matters that might be emphasized in the auditor's report? If so, what matters and why?

We would not object to the addition of additional examples of possible matters that might be emphasized in the auditor's report but do not have any suggestions.

VII. Amendments to Other PCAOB Standards

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?

Overall, we do not have objections to the proposed changes to other PCAOB standards that relate to the proposed auditor reporting standard except for the following:

- Consistent with our comments above, we do not believe that auditor tenure should be included in the auditor's report on internal control over financial reporting
- We do not believe that an auditor should be able to reference the use of a specialist in the auditor's report in connection with the auditor's communication of critical audit matters. Even though the communication of critical audit matters is not supposed to alter the auditor's unqualified opinion, we believe the perception of the investors would be that the auditor is dividing their responsibility.

34. What are the potential costs or other considerations related to the proposed amendments? Are these cost considerations the same for all types of audits? If not, explain how they might differ.

The potential costs related to the proposed amendments are consistent with what is discussed above.

VIII. Considerations Related to Audits of Specific Entities

We have no comments on the applicability of the proposed auditor reporting standard to the audits of specific entities, including brokers and dealers, investment companies, and employee stock purchase, savings, and similar plans.

IX. Consideration Related to Effective Date

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

We believe the effective date of any final proposal should provide a minimum of two years from the issuance date to allow auditors sufficient time to train staff, develop changes to quality control procedures, and educate clients and users of financial statements. We also believe sufficient time will be required for other regulatory bodies to potentially make changes to auditor independence and ethics rules and regulations which may need to be amended as a result of these standards in order for auditors to be permitted to comply.

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?

Yes, we believe that a delayed compliance date of at least one year should be adopted for smaller reporting companies.

APPENDIX 6 – Additional Discussion Related to the Proposed Other Information Standard

I. Introduction

1. Is the scope of the proposed other information standard clear and appropriate? Why or why not? Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?

The proposed scope is clear but as discussed more fully below, we have concerns about the significantly increased level of auditor responsibility proposed in the standard. There are no additional Exchange Act documents that the Board should consider including in the scope of the proposed other information standard.

2. Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not? 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?

We believe it is appropriate to apply the proposed other information standard to information incorporated by reference that is available to the auditor prior to the issuance of the auditor's report. However, we do not believe that the proposed other information standard should apply to information incorporated by reference that is not available to the auditor prior to the issuance of the auditor's report, such as information in the company's definitive proxy. Since neither the auditor's report nor a consent letter is required to be filed with the company's definitive proxy, the auditor may be unaware when the company files the proxy. In addition, there appears to be a conflict with performing the proposed procedures to the other information after the date of the auditor's report.

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

It is appropriate to apply the proposed other information standard to amended annual reports when the amended annual report contains revisions to the previously issued financial statements. When an amended annual report does not contain revisions to the previously issued financial statements, the proposed standard says that the auditor would treat the other information in the amended filing as not available prior to the issuance of the auditor's report. What is not clear is if that means that the auditor needs to perform the procedures under the proposed other information standard or if it is excluded.

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?*

We believe that if audited financial statements of another entity are required to be filed in a company's annual report, the other entity's auditor should have responsibilities under the proposed other information standard for the other information as it relates to the other entity.

II. Objectives

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?*

The addition of the objectives to the proposed standard is helpful to auditors applying the procedures required. However, as discussed more fully below, we are concerned about the additional procedure that has been added to the standard that requires the auditor to evaluate the other information for a material misstatement of fact.

III. Evaluating the 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?*

Overall, we agree with the addition in the proposed standard of performing procedures to help the auditor identify whether the other information contains material inconsistencies and material misstatements of fact. We believe in practice most auditors already perform specific procedures to the other information such as comparing numbers in the other information to the audited financial statements, recalculating amounts for mathematical accuracy and providing various input to management on the other information. Therefore, including these procedures in the proposed standard will increase consistency among auditors. However, it is not clear how auditors could evaluate if other information that is not directly related to the financial statements

contains a material misstatement of fact. There are many disclosures in the company's annual report that are not directly related to the financial statements or the relevant audit evidence obtained so an auditor would have no basis to evaluate that information. In addition, how will it be clear to an investor which other information was evaluated by the auditor and which other information was not evaluated since the auditor had no basis to evaluate that information. We believe the proposed standard should retain the existing responsibility that is conditioned on the auditor "becoming aware" of a material misstatement of fact related to information that is not directly related to the financial statements instead of being responsible for evaluating information that is not directly related to the financial statements for a material misstatement of fact.

We also have a concern with the term "evaluate". The existing standard requires that the auditor read and "consider" whether the other information is materially inconsistent with the financial statements. The proposed standards now require that the auditor "evaluate" the other information and report on that evaluation. It appears to us that "evaluate" is a higher level of assurance than "consider", however, we believe more explanation is needed in the standard about what "evaluate" means in the context of professional standards. It is clear in the proposed auditor's report language that the auditor did not "audit" the other information but it does say that the auditor "evaluated" the other information. What does that mean to an investor? We don't believe it will be clear to an investor what level of assurance that entails.

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?*

We believe that the addition of the required procedures to the proposed standard would increase the quality of information available to investors to the extent that those procedures are not already being performed by certain auditors, however, as mentioned above, we believe most auditors already perform most if not all of the required procedures in the proposed standard. Since we don't think it is clear to investors what "evaluate" means, we are unsure if it will sufficiently contribute to greater confidence in the other information. We are concerned that since we don't believe it is clear to an investor what "evaluate" means, they will interpret it to mean a higher level of assurance than the procedures performed warrant and will create undue reliance upon such information which will remain unaudited.

8. *Is the federal securities laws' definition of materiality the appropriate standard for the auditor's responsibility to evaluate the other information? Would applying this definition represent a change to the materiality considerations auditors currently use under AU sec. 550?*

It is unclear how any definition of materiality will be able to be applied to misstatements of fact in the same manner that it is applied to historical financial results.

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

The proposed procedures are clear and appropriate for evaluating consistency with the exception of paragraph 4.c. which says to evaluate other information that is not directly related to the financial statements by comparing it to relevant audit evidence obtained. Since it is highly likely that the auditor may not have any audit evidence with respect to other information that is not directly related to the financial statements, what does the auditor compare to be able to evaluate for consistency? We believe the standard should remain conditioned on the auditor “becoming aware” and not be required to “evaluate” other information that is not directly related to the financial statements since how can the auditor come to a conclusion on consistency based on the performance of the procedure when there may not be anything to compare.

We do not believe that the procedures are appropriate and sufficient in order for the auditor to evaluate whether there is a material misstatement of fact.

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?

Per paragraph 4.d. in the proposed standard, the auditor would be required to recalculate amounts in the other information for mathematical accuracy using amounts that are in the other information, in the audited financial statements or in the auditor’s audit evidence if the formula is described in the other information, there isn’t a need to refer to a formula or if the formula is generally understood. We believe that it would be clear to the auditor, which amounts in the other information that they would be required to recalculate as they performed the procedure. Our assumption from the proposed standard is that the auditor would not be required to recalculate certain amounts that don’t meet the requirements listed above, therefore, our conclusion is that some of the amounts may not be required to be recalculated. Since the language in the proposed auditor’s report only refers to “other information” how will it be understood by an investor/user which amounts have been recalculated and which ones have not been recalculated?

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?

We are not aware of any additional costs beyond those described in the Appendix.

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, it appears appropriate to discuss such matters with management and perform additional procedures, as necessary.

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?

We are not aware of any additional costs beyond those described in the Appendix.

IV. Responding When the Auditor Determines That the Other Information Contains a Material Inconsistency, a Material Misstatement of Fact, or Both

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, we believe the proposed auditor's responses 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?

No, we believe all such material misstatements should be revised in the filing before an auditor's report is issued.

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?

We believe the proposed auditor's responses are appropriate except we need more clarification on why the auditor would be required to notify each member of the company's board of directors after the auditor communicated to the audit committee and the other information was not appropriately revised before deciding that the auditor's report must no longer be associated with the financial statements. We believe that communication with the

audit committee should be sufficient. As discussed above, we do not believe it is appropriate for auditors to evaluate other information that was not available prior to the issuance of the auditor's report. Application of AU sec. 561 *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* in this situation seems inconsistent with that standard since the material inconsistency or material misstatement of fact did not exist at the date of the auditor's report.

V. *Responding When the Auditor Determines That There is a Potential Misstatement in the Audited Financial Statements*

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?

If 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; the auditor should follow the same procedures they would follow if they identified the potential misstatement as a result of their audit procedures assuming the auditor's report has not been issued. If the auditor's report has already been issued, we agree that the auditor should refer to AU sec. 561, however, as stated above, we do not believe it is appropriate for auditors to evaluate other information that was not available prior to the issuance of the auditor's report.

VI. *Reporting in the Auditor's Report*

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

No, we do not believe that the proposed reporting is clear to investors since we don't believe investors understand what it means that the auditor "evaluated" the other information and the proposed reporting does not acknowledge that the auditor may not have obtained evidence or reached a conclusion regarding all of the other information.

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.

One of the concerns that we have with the proposed auditor's reporting language is that it refers to all other information and does not acknowledge that there is likely other information for which the auditor did not have relevant audit evidence to evaluate against. However, we don't know how the auditor could practically identify such information in the auditor's report. As anyone who has ever prepared a comfort letter and has dealt with the "circle ups" and numerous

tickmarks can attest to, it would be impossible to segregate the different procedures performed on the other information in a standard audit report paragraph.

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?

There would be increased costs associated with the additional communication with various members of management and the audit committee as well as review of any revised other information.

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?

We do not believe that the proposed reporting provides sufficient information to investors so that they have an appropriate understanding of the auditor's responsibilities. We like that the proposed reporting makes it clear to investors that the other information has not been audited, however, we do not believe that investors understand what it means that the auditor "evaluated" the other information and the proposed reporting does not acknowledge that the auditor may not have obtained evidence or reached a conclusion regarding all of the other information.

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.

VII. Responsibilities of a Predecessor Auditor

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

We believe the proposed responsibilities of the predecessor auditor are appropriate. Additional guidance on the auditor's reporting language is needed.

VIII. Other Considerations

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? 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?

These regulations will increase an auditor's potential liability because users of financial statements may assume that the auditor has evaluated all other information which is not true.

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?

Yes.

IX. Proposed Amendments to PCAOB Standards

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 amendments to PCAOB standards are appropriate.

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?

Yes, we believe that the Board should require the auditor to include 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.

X. Considerations Related to Audits of Broker Dealers

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

We do not have a comment on this question.

XI. Considerations Related to Effective Date

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

We believe the effective date of any final proposal should provide a minimum of two years from the issuance date to allow auditors sufficient time to train staff, develop changes to quality control procedures, and educate clients and users of financial statements. We also believe sufficient time will be required for other regulatory bodies to potentially make changes to auditor independence and ethics rules and regulations which may need to be amended as a result of these standards in order for auditors to be permitted to comply.

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?

Yes, we believe that a delayed compliance date of at least one year should be adopted for smaller reporting companies.

XII. Considerations Related to Securities Act Documents

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?

We do not believe that the Board should 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.

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?

No.

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?

We do not believe that the Board should consider extending any elements of the proposed other information standard to documents filed under the Securities Act.

Thank you for the opportunity to comment. We are available to discuss our comments at your convenience if you require additional information.

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Public Company Accounting Oversight Board
December 10, 2013
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Respectively submitted,

A handwritten signature in cursive script that reads "Renee Rampulla / ms".

Renee Rampulla, CPA, Leader
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