



Radin, Glass & Co., LLP

Certified Public Accountants

360 Lexington Avenue
New York, NY 10017
www.radinglass.com
212.557.7505
Fax: 212.557.7591

September 19, 2011

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

Re: PCAOB Rulemaking Docket Matter No. 34

I am strongly opposed to these proposals. I believe the acceptance of these proposals would be expensive, useless to investors, and potentially damaging to client/auditor relations as we now understand them.

I believe that a major issue of our public security markets is the excessive expense incurred by being a public company. Over the last few years there has been a substantial expansion of the disclosure requirements of public companies and an increase in the cost of such disclosures, without a demonstrated value of the disclosure to the investing public.

The method used by the IAG to survey was to contact investors and their representatives as to information that could be requested. Not surprisingly, these individuals consistently asked for more information, although the information requested was not consistent. I have not seen a discussion as to whether any of the information is actually helpful to readers/users.

My article in the November 2007 issue of *The CPA Journal*, *Have We Created Financial Statement Disclosure Overload?*, discussed the huge increase in disclosure requirements, the equally huge increase of the size of annual reports and proxies, and the lack of evidence that anyone is actually using the information. It contained a plea to rationalize disclosures. Things have gotten worse.

I believe that before any new standard requiring additional disclosure is enacted, all of the following criteria should be met:

- The information is believed to be useful based on criteria other than someone would like it;
- The information is not available or reported elsewhere;

- The cost of preparing and reviewing the information must justify the requirement;
- The information is likely to be used by users of financial statements.

I do not believe that the suggested disclosures in the Concept Release meet these criteria. I will discuss the alternative suggestions from the Concept Release.

Auditors Discussion & Analysis (“AD&A”)

The Concept Release states “The intent of an AD&A would be to provide the auditor with the ability to discuss in a narrative format his or her views regarding significant matters. “ An alternative proposed approach is publication of the lead auditor’s summary audit memorandum.

In evaluating these proposals, it is important to understand that documents written for an audit firm’s internal use would be written entirely differently if their intended distribution was to the entire investment community. What if the lead partner’s summary memorandum was to be included in AD&A? This document which may have taken originally an hour or two to produce, would require review by various levels first at the accounting firm, then by client management, and of course by the client’s counsel, before it could be released to the public. A memorandum that was once useful would become a watered down document, committee produced, with a primary intent of not raising unwanted questions. Anyone suggesting that this document would not undergo such an evolution has not been in the loop of drafting a document for public distribution.

Much of the additional disclosure is already required in Management’s Discussion and Analysis or elsewhere in a filing. Management’s estimates, accounting policies and procedures, business risk factors are currently required to be disclosed. The rest is of questionable value. Information as to independence would invariably result in a statement that the auditor had followed all independence requirements. I believe that comments on difficult, contentious issues and close calls would be disclosed by the auditor by reference to the footnotes. Quantitative materiality would be disclosed by presentation of an amount. I do not believe that that information would be helpful to readers of financial statements.

Other suggestions for the AD&A include, but are not limited to, the following:

- Evaluation of the quality of the accounting principles used, as in are they “high quality” or “minimally acceptable”? The problem is a lack of definition of a high quality accounting principle, as opposed to those other, low quality ones. While the SEC has always said that it wants “high quality” accounting principles, I have never seen a definition. Would an auditor ever admit that its client was using one of those low quality accounting principles, whatever they are?
- There is a suggestion for a valuation as to whether the financial statements are “aggressive” or “conservative” on a 1 to 10 scale. Here again, the problem is one of definition. Is accelerated depreciation or LIFO, aggressive or conservative? Are high loss allowances aggressive or conservative? Hedge accounting? Is the use of current values aggressive or conservative? And, what about the use of IFRS?

- There is a request for a “sensitivity analysis” as to areas of significant judgment. Sensitivity analyses are useful, but are the province of management. Any used by management and included in a filing, are subject to auditor review as indicated above. The proposal appears to be a request for a separate, different analysis by auditors, which I believe would either be redundant or boilerplate.
- Disclosure of “unusual transactions”. If such transactions occur and are material, they would be disclosed elsewhere in the filings. I doubt that there is a benefit to separate disclosure in AD&A

Among other suggested modifications to the standard audit report is one that would require the auditor to opine on whether, in addition to being in conformance with GAAP, the financial statements are, “true and fair”. These code words imply that there should be two standards: GAAP and truth, with truth, like beauty, defined by the reader. For the last 75 years standard setters and the SEC have been working to write rules so that financial statements properly reflect underlying economic principles and are useful for readers. Believers in true and fair seem to claim that if auditors also had to say that the financial statements were “true and fair” all of the failings of GAAP would drop away. I do not expect that auditors will readily adopt the concept that they have to opine that the financial statements comply with an undefined standard.

Required emphasis paragraphs in the auditors reports

This alternative differs little from the suggestions made relating to the AD&A. Rather than a separate section, the auditor would add to its standard report paragraphs highlighting certain financial statement matters. All of the objections previously raised would apply to this proposal. The information that is suggested is generally required to be disclosed in the notes to the financial statements. It is unclear as to why financial statements would be improved by disclosure of such information in the auditor’s report.

Auditor’s assurance on Management’s Discussion and Analysis

This suggestion is not new and was previously rejected by the SEC. Auditors are now required to read the entire filing, including the MD&A, and take action if it is believed that such information is either inconsistent with the financial statements or incorrect. My experience has been that auditors will challenge factual errors such as wrong numbers but will tend not to challenge management’s judgments about why a trend or change has occurred. This proposal would require positive assurance. The SEC previously rejected this proposal as they believed that its adoption would limit the information presented, as auditors prefer opining on specific information and facts rather than on subjective judgments. For example, if management wished to state that the downward trend is a result of competition, auditors would appear to be required to challenge the response: are the client’s projects approaching obsolescence; is the client not advertising enough or appropriately; is the market shrinking, etc. I believe that the result would be a less informative tabulation of statistics.

Expansion of the standard auditor’s report

This issue has been around since our profession began. Seventy-five years ago the audit report was standardized so all of us use the same language. While great thought has gone into the exact words of the report, which have changed over the years, the basic concept of one-size-fits-all has continued. There are basically two approaches to what should be in a standard auditor's report:

- A concise, cogent description of the audit process and its weaknesses, auditor's and management's responsibilities, and the auditor's opinion on the financial statements, or
- A short document saying the auditor followed the rules and believes that the financial statements are in accordance with GAAP.

The proposals in the Concept Release suggest the following possible additions/changes:

- A definition of reasonable assurance
- Auditors responsibility for fraud
- Auditor's responsibility for financial statement disclosures
- Management's responsibility for the preparation of financial statements
- Auditors' responsibility for information outside of the financial statements
- Auditor's independence.

These are all educational suggestions for the readers of auditors' reports. And, education is good. The question is whether this is the place to educate readers and will they read the information. In the survey, 93% of respondents indicated they do not read audit reports in their entirety. I, of course, do not believe the result. Since the reports are all the same why would anyone read them, other than to scan for something difference or unusual? I believe that expanded opinions would also not be read. All the acceptance of the proposal would do is to drive up costs for paper and printing with no benefit.

I believe that each of the items would require two to three sentences. Not discussing the cost of drafting, to disclose in every report information that will not be read is not a productive enterprise. I would propose that the audit report be one sentence: "Based on our audit, which was performed in accordance with US auditing standards, in our opinion the financial statements on Pages ___ to ___ are presented in accordance with generally accepted accounting principles in the United States."

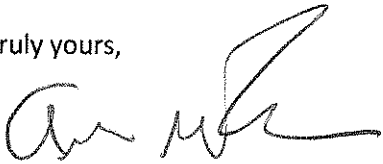
Boilerplate issue

The major problem with all of these disclosures is that they will quickly become boilerplate, carefully produced at great expense and providing no additional information to readers of financial statements. We have seen this with additional disclosures added over the years to financial statements and other areas of SEC filings. The Concept Release states that "these alternatives are focused primarily on enhancing communication to investors". I sincerely doubt that adoption of any of the proposals will have that effect. Public company annual financial and proxy statements now frequently run over 200 pages. The Concept Release proposes to add additional pages, substantially all of which will be repetitive information already presented or will quickly become boilerplate.

Another theory that runs through the Concept Release is that such disclosures will provide auditors “with the necessary leverage to effect appropriate change in the company’s financial statement.” I am not aware of any objective evidence that auditors do not already have such “leverage” or that additional disclosures will provide it. While the Concept Release looks forward to middle paragraphs or AD&A indicating positions different from those of management, I doubt it. I do not see auditing firms, after agreeing with management on the financial statements, differing with management as to the information discussed above.

Again, I am against all of the proposals in the Concept Release. I believe that we have more than enough disclosure, the bulk of which is not being read. The challenge is not more disclosure, but how do we make what we have useful to a reader.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Arthur J. Radin', written in a cursive style.

Arthur J. Radin, CPA