



IntegrYS Energy Group, Inc.

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September 29, 2011

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

### **Rulemaking Docket No. 34**

IntegrYS Energy Group, Inc. respectfully submits our comments on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements No. 2011-003* (the "Release"). IntegrYS Energy Group is a diversified holding company with six wholly owned regulated utility subsidiaries, wholly owned nonregulated subsidiaries, and a 34% equity ownership interest in an electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois.

IntegrYS Energy Group understands that investors and other financial statement users expressed concerns about the information provided in the auditor's report in light of increasing complexity in preparing and auditing financial statements. IntegrYS Energy Group appreciates investors and other users' desire for more information on issuers' financial statements from the auditor, particularly given the auditor's independent oversight role. However, IntegrYS Energy Group has a number of concerns about the alternatives proposed in the Release. The four alternatives proposed in the Release are as follows:

1. Auditor's Discussion and Analysis (AD&A),
2. Required and expanded use of emphasis paragraphs,
3. Auditor assurance on other information outside the financial statements, and
4. Clarification of language in the standard auditor's report.

The Release notes that these alternatives are not mutually exclusive and also asks for respondents to offer other alternatives that may provide further insight into entities' financial statements. IntegrYS Energy Group offers the following comments for your consideration.

#### **Auditor's Discussion and Analysis (AD&A)**

The Release discusses that the intent of an AD&A section would be a supplemental narrative report for the auditor to provide a view of the audit and financial statements from an auditor's perspective. The AD&A could include audit risks identified, audit procedures and results, and independence. It could also provide a discussion of the auditor's views regarding the financial statements, management judgments and estimates, accounting policies, difficult or contentious issues, and areas where the auditor believes different accounting or disclosures could have been applied.

The auditor is responsible to conclude on the material correctness of the financials taken as a whole, not to guide investors' views about the risks of the entity and its industry. While the auditor possesses an

understanding of the entity's financial statements to conclude for purposes of the audit, the financial statements are management's responsibility. If additional disclosures are necessary, they should be provided by Management. The auditor is not involved in the day-to-day decisions or strategic discussions and, therefore, is unlikely to have a complete understanding of the rationale behind all of management's decisions and judgments. Integrys Energy Group believes that the auditor should not provide subjective information to the public about an entity's financial statements, such as the auditor's opinion of which matters are most important to a user, opinions about which areas involve the highest relative degree of uncertainty, or opinions about which judgments and estimates are the most important or subject to debate. The auditors may provide information as to what they believe are areas of significant audit risk, as this analysis is part of the auditor's responsibilities. However, the reasons for considering an audit risk as "significant" may not have a direct correlation to what would be most material to financial statements or useful to investors.

Integrys Energy Group has a number of concerns with auditors providing subjective information through an AD&A. Subjective information provided by the auditor could result in conflicting statements between management's already very detailed disclosures, which may confuse financial statement users. The information provided by the auditor could also be sensitive information that could impact the company's competitive industry position. If an auditor provides subjective information that negatively impacts the decisions of financial statement users and is later proved to be incorrect, the auditor may be subject to the additional risk of litigation. As a result of the auditor's ability to provide subjective information, the relationship between management, audit committee members, and the auditors may become strained, which may impair the transparency and openness in discussions between these groups.

The increased responsibility for auditors to provide information directly to investors may undermine the role of the Audit Committee. Under existing rules, the auditor is responsible for discussing with Audit Committees the items that would be required in the proposed AD&A. It is then the Audit Committee's responsibility to resolve matters of concern raised by the auditor as well as oversee the financial reporting process on behalf of investors. Requiring auditors to communicate directly to investors through AD&A has the potential to stifle the candid interaction between Audit Committees and auditors encouraged by existing rules. Furthermore, the Audit Committee would be unable to act on these accounting issues prior to the release of AD&A to the public.

Finally, this alternative would increase the scope, and thus, the cost of the audit and could negatively impact the timing of compliance with deadlines for filing audited financial statements. More time and effort would be required to resolve and clarify differences between the AD&A and the other information in the financial statements.

### **Required and Expanded Use of Emphasis Paragraphs**

The Release states that a second alternative to enhance the auditor's reporting model would be to mandate the use of emphasis paragraphs. In these paragraphs, the auditor would discuss the most significant matters in the financial statements and identify where they are disclosed, information related to significant management judgments and estimates, areas of significant uncertainty, and other areas the auditor believes are important to emphasize.

Current auditing standards require the auditor to report significant management judgments, estimates, and significant risks with the Audit Committee. If this information is required to be provided in the emphasis paragraphs, the language could become too subjective and could lead to the same concerns Integrys Energy Group has outlined in the AD&A alternative above, leading to strained relationships

between the company and the auditors. The PCAOB's existing auditing standards already require use of emphasis paragraphs in certain situations and allow auditors to include them when the auditor would like to discuss a significant matter. Integrys Energy Group believes the existing guidance for the use of emphasis paragraphs in the audit report is sufficient.

### **Auditor Assurance on Information Outside the Financial Statements**

The Release states that a third alternative to enhance the auditor's reporting model would be for the auditor to provide assurance on information outside the financial statements, such as Management's Discussion and Analysis, earnings releases, and/or non-GAAP financial information. Integrys Energy Group is concerned that mandating an increase in audit procedures over this type of information may not provide added value to financial statement users and could create delays in filing financial statements. This increase in scope of audit procedures would also add significant costs to the audit.

### **Clarification of Language in the Standard Auditor's Report**

The fourth alternative discussed in the Release is the clarification of certain terms in the standard auditor's report and the clarification of auditor responsibilities as it relates to detecting fraud, testing financial statement disclosures, and information provided outside the financial statements. This alternative also requests clarification of management's responsibility for the preparation of financial statements.

Integrys Energy Group does not object to auditors providing the factual information proposed by this alternative. If guidance is issued directing auditors to clarify terms and their responsibilities, Integrys Energy Group recommends amending the standard auditor's opinion by providing standardized language to be used in all auditors' reports. If guidance is issued that is left open for auditors to interpret what should be included in the auditor's report, varying language in reports could confuse financial statement users.

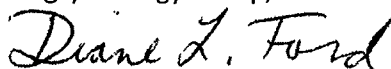
### **Conclusion**

Integrys Energy Group appreciates the opportunity to comment on the Release. Integrys Energy Group understands the investment community's desire for additional information about entities' financial statements from an independent auditor's perspective. Integrys Energy Group supports the proposal to clarify the language in the standard auditor's report by providing standardized language to be used by all auditors. However, Integrys Energy Group does not support proposals that allow or require an outside party to present subjective information on an entity's financial statements. Instead, Integrys Energy Group believes that additional disclosures should be provided by management.

Integrys Energy Group would be pleased to discuss its comments in further detail and provide any additional information that the PCAOB may find helpful in addressing these important issues.

Sincerely,

Integrys Energy Group, Inc.



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Diane L. Ford  
Vice President and Corporate Controller