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

R.E. Release No. 2011-003: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements

PCAOB Rulemaking Docket No. 34

Dear Board Members:

We appreciate the opportunity to provide our comments on the Concept Release issued by the PCAOB entitled "Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements" (the "Concept Release"). The intent of this letter is to articulate our position on the Concept Release, from our perspective as a leading provider of systems, products, and solutions to U.S. Government and commercial customers.

We believe that, when fully understood by the user of the financial statements, the current model for the auditor's report works well and is effective in accomplishing its objective. That objective, however, is limited to informing the user that the auditor has performed an independent examination of the financial statements in accordance with a broad set of audit standards and has found that the financial statements fairly present the information shown in accordance with a defined set of accounting principles, but it does not include information relating to the broader objectives discussed in the Concept Release. We believe the current audit report says a great deal to users of the financial statements and that what it represents is of great value to those users when they fully understand its meaning. What it does not do, and what the Concept Release would seek to change, is that it does not attempt to point users in a certain direction by highlighting one portion of the financial statements over another, nor does it attempt to communicate other qualitative information about the financial statements, management's processes or judgments used in preparing the financial statements or other similar information that the PCAOB believes might be useful to certain users. The auditor's report does not cover these latter issues for a number of reasons.

First, the auditor's report already communicates a great deal because it says the auditor completed their examination, an activity that constitutes a great deal of effort and represents the principal area of expertise that the auditor brings to the table to provide value to financial statement users. An auditor is not trained for, and there are no audit standards that provide guidance to assist the auditor in determining which portions of the financial statements or disclosures are more valuable or of greater interest to users than others. Likewise, they are not trained and have no standards to guide them in determining which management judgments, processes or conclusions should be highlighted for disclosure to financial statement users. The primary reason that this training and the audit standards guidance is missing is that these areas are very subjective in nature and thus do not lend themselves to evaluation through training or the application of standard procedures. Subjectivity is in the eye of the beholder, and what might seem important to one user, might not be of value to others, so where does one draw the line? The essence of the auditor's opinion is its objectivity drawn from the independent aspect of the auditor's work and any deviation from this perspective will, in our view, lessen the value of the auditor's opinion to the broader set of financial statement users.

Second, while the language of the standard auditor's opinion may appear to some as a "pass/fail" model, we believe it demonstrates consistency in the outcome of an auditor's processes and this is valuable in and of itself. It means that management has done their work, the auditors have done their work, the Audit Committee has fulfilled its oversight responsibilities and the auditor's report is the outcome. This outcome represents the completion of a great deal of work, the fulfillment of the responsibilities of numerous parties and all completed within a well understood framework that has been relied upon year after year. Condensing this effort to a simple "pass/fail" designation is to trivialize an enormous amount of effort and a valuable process model that should not be simply taken for granted. Historically, the auditor's role and the conclusion derived from their work has been considered in relation to the financial statements and disclosures taken as a whole, while the concept of expanding the auditor's reporting to matters that are removed from the financial statements, as contemplated by the Concept Release, would depart from that foundation and expand the auditor's responsibilities to matters that are apart from the underlying financial statements.

Lastly, we are concerned about what the auditor's report could become if it were required to include consideration of the other areas contained in the Concept Release. We see a situation where the complete opposite of what exists today could occur and there would be little consistency in the form of the auditor's report as each auditor and company situation could result in different outcomes. All of these variations would then fall to the users of the financial information to interpret and understand, yet today the PCAOB believes that the very straightforward language of the standard auditor's report is not well understood by financial statement users. We can only wonder how users will evaluate and put into context this new information if they do not already have a sound foundation and understanding of what management has presented in the financial statement disclosures. We are also concerned that users will inappropriately place greater emphasis on the matters and viewpoints of the auditors than those of management which will increase the auditor's litigation exposure and related audit fees as investor's rely more heavily on the auditor. We do not believe this is the PCAOB's intention for seeking this expanded level of reporting and we view this as an unintended consequence.

We therefore do not believe that the auditor's report should become the venue for dealing with financial statement user's perceived shortcomings in financial statement disclosures or the interaction between the auditors and management. In the case of the former, we believe that the only appropriate solution is to increase disclosure in the financial statements which is beyond the charter of the PCAOB. With regard to the latter, we believe that the Audit Committee is charged with overseeing and administering the conduct of the audit and the relationship between management and the independent auditor. Furthermore, any changes in the auditor's reporting model that would disclose information that the Audit Committee is charged with evaluating will only serve to invite financial statement users to question the effectiveness of the Audit Committee's performance of its responsibilities.

The Concept Release discusses a number of areas and includes suggestions for revisions to the existing auditor's report as well as changes in the scope and extent of the auditor's involvement in the financial reporting and disclosure model that is presently in use. We have the following observations regarding the specific areas of concern contained in the Concept Release:

- Clarification of the Auditor's Standard Report – Although we believe that the current model is sufficient, we have no objection to the language expansion discussed in the concept release regarding the meaning of reasonable assurance, expanded discussion of the auditor's responsibility for fraud, financial statement disclosures and explicit acknowledgement of their independence and the clarification of the roles of management and the auditors. With regard to having the auditor report on other matters outside of the financial statements, we would support expanding the auditor's report to include assurance on matters for which they have the relevant expertise and so long as that assurance is limited to that which can be obtained through the application of agreed-upon procedures to the applicable information. We do not believe that the auditor's work should be expanded to enable them to express an opinion on these other matters as they are either outside of their areas of expertise, not covered by existing auditing standards or represent areas where a separate opinion would be confusing given management's responsibilities. Any such expansion of the auditors work beyond that which can be derived from a limited assurance model would unduly add audit costs and potentially delay the completion of the preparation of the financial statements. Thus, limited assurance language covering critical accounting policies, management's discussion and analysis of financial information and similar narrative information would be acceptable, however, we believe it would be inappropriate and potentially misleading for the auditors to provide any coverage over risk factors, business outlook and similar areas that we believe are outside of their areas of expertise.

- Use of the emphasis paragraph – We believe that the current requirements for the use of this paragraph are sufficient, and that many of the areas where this paragraph might be used should instead be dealt with by improved disclosure in the financial statements rather than by having the auditors direct the users of the financial statements to areas of importance. Greater use of this requirement could serve to cause users of the financial statements to unduly focus on matters in the auditor's report to the exclusion of other information in the financial statements that is essential for the user's overall understanding of the financial information. We also believe that if the conditions that might require the use of this paragraph were changed or enhanced, it would result in changed disclosure in the financial statements that would limit the extent and value of the emphasis paragraph, and could lead to greater use of "boilerplate" language in the emphasis paragraph which would be of little value to financial statement users. At the end of the day, the auditor's opinion on the financial statements indicates that the financial statements "fairly present" the information contained therein, so an emphasis paragraph might raise concerns about whether the financial statement disclosures are adequate, or whether there are other concerns that the auditor is trying to communicate to financial statement users.

- Auditor's Discussion and Analysis Report ("AD&A") – We strongly feel that the addition of an AD&A report is unnecessary, unwarranted and unwise and thus will only lead to creating confusion and concern on the part of financial statement users. Most of the areas of concern discussed in the Concept Release that cause the PCAOB to believe that such a report might be worthwhile deal with areas that are within the purview of the Audit Committee. Including disclosure of these matters would bring into question the effectiveness of the Audit Committee's governance process and essentially provide financial statement users with information that could be used to "second-guess" management and the Audit Committee. Furthermore, we question whether, in the normal conduct of an audit, the auditor would obtain the requisite knowledge and understanding of all of the relevant information and have the expertise necessary to make the judgments necessary to report upon the information expected to be contained in the AD&A narrative disclosure. The requirement for inclusion of an AD&A could also lead to increased tension between management, the Audit Committee and the auditors which will diminish the overall effectiveness of the audit process. The matters considered for disclosure in the AD&A discussion represent matters that management, the Audit Committee and the auditors should review, discuss and resolve in the conduct of the audit such that the financial statements and related disclosures reflect the outcome of the satisfactory resolution of these matters.

In the appendix to this letter we discuss our responses to the specific questions contained in the Concept Release. We would be happy to discuss our comments with you in more detail and would be pleased to meet with you in person if you so desire. Thank you again for the opportunity to comment on these matters and for your consideration of our points of view.

Respectfully,

K.N. Heintz

Kenneth N. Heintz

Corporate Vice President, Controller
and Chief Accounting Officer

Appendix

Appendix
Responses to Questions in the Concept Release

Form of the Auditor's Report

1. Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.

> **a. Should the Board undertake a standard-setting initiative to consider improvements to the auditor's reporting model? Why or why not?**
>
> **b. In what ways, if any, could the standard auditor's report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?**
>
> **c. Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?**

We do not believe that it is necessary for the Board to consider a significant overhaul of the auditor's reporting model or expansion of the auditor's role to provide assurance on matters other than the financial statements and related footnote disclosures. We feel the current level of auditor involvement and communication is effective and that additional detail provided in the audit report would introduce a great deal of subjectivity, as well as create the false perception that auditors have the same level of insight as management.

The Concept Release states that investors perceive the standard auditor's report as being too "boilerplate." We feel, however, that the auditor's report needs to remain standardized in order to retain clarity and comparability between public companies. One example in the Concept Release's proposed changes would allow an auditor to disclose items that it has communicated to management but which management has chosen not to disclose because of immateriality. If the audit report is unqualified, then the auditor has already concurred with management's decision not to disclose the matter. We cannot think of any situation where separate disclosure by the auditor of matters that do not affect the auditor's report would result in more clarity. To the contrary, we feel such disclosures would result in the opposite effect, leaving users of the financial statements wondering why the auditor has chosen to highlight something that management considered immaterial and to which they had concurred.

The auditor's report provides relevant and useful information if the reader has a reasonable understanding of the auditor's role and the processes and procedures that must be performed in order for the auditor to issue their report. An audit performed in accordance with Generally Accepted Auditing Standards ("GAAS") requires that the auditor put forth a substantial effort to plan and conduct the audit. The audit report reflects the conclusions reached by the auditor as well as confirming that this effort was performed. We believe that this is the most relevant and useful information that a financial statement user should expect to obtain from reading the auditor's report.

Investors and other financial statement users have the responsibility to educate themselves on what an audit represents. By obtaining this understanding they will have a much better ability to put into context the roles of management, the audit committee and the auditors.

We do, however, support several improvements to the standard audit report such as those contained in our responses to questions 21 and 22.

Additionally, we have no objection to expanding the auditor's report to provide limited assurance on supplemental information outside of the financial statements where the auditor could apply limited or agreed upon procedures to determine that the supplemental information was consistent with the information contained in the audited financial statements. As we will indicate in our response to questions 19 and 20, we believe that the auditors should use the audited financial statements as the basis for their work on the other information contained in documents in which the audited financial statements are presented. We do not believe that it is appropriate for auditors to expand their audit scope to enable them to express some form of an opinion on such supplemental information for a variety of reasons. These include the absence of auditing standards relating to such information, the absence of any reporting standards for auditors to use in reporting on such information and the absence of any expectation that the auditors would have the requisite experience and expertise to enable them to express an opinion on such supplemental information.

2. The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a "pass/fail model."

a. Should the auditor's report retain the pass/fail model? If so, why?

b. If not, why not, and what changes are needed?

c. If the pass/fail model were retained, are there changes to the report or supplemental reporting that would be beneficial? If so, describe such changes or supplemental reporting.

We feel strongly that the auditor's report should retain its current form of opinion and do not see this as a "pass/fail model". Reducing the opinion on the financial statements to such a simplistic outcome fails to acknowledge what an audit encompasses, and the substantial responsibilities of both management and the auditors that must be fulfilled in order to support the issuance of an opinion. The auditor's opinion has a much deeper significance than the words used to convey its outcome. The fact that few words are used to express the outcome of a substantial effort may, on its face, seem insufficient to provide comfort to an unsophisticated user of the financial statements having no knowledge about what is required by an audit or the role and responsibilities of the independent auditor. However, we feel that it is unrealistic to expect that the financial statements and the auditor's report should be designed to be relevant to such an unsophisticated user.

Additionally, the current model is universally understood. To modify that model would introduce a level of subjectivity into the process that will likely confuse readers and reduce comparability between companies and audit firms. Moreover, introducing subjectivity into the process will require the establishment of new auditing standards (assuming subjectivity can be standardized) and users will have to evaluate for themselves the meaning of the subjective determinations. Today's model contains an objective outcome that is not subject to the need for evaluation by financial statement users.

3. Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.

We believe management is the appropriate party to provide additional information about the company's financial statements. We further believe that any additional information that the PCAOB deems important through this comment process should be communicated and vetted as a proposal through the appropriate standard setters (i.e. the Financial Accounting Standards Board (FASB), or the Securities and Exchange Commission (SEC)). If deemed important, that information can be incorporated into current FASB or SEC disclosure requirements.

The audit committee is a governance body, and it devotes the time and effort necessary to oversee management's preparation of the financial statements. The audit committee's involvement is not sufficient to enable it to make its own judgments about financial statement matters and therefore it should not be responsible for providing financial information or disclosures to financial statement users. That responsibility clearly and appropriately rests with management.

4. Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by -- Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?

We do not believe that any changes to the report on internal control over financial reporting are necessary since we do not support substantive changes to the form of the auditor's report. Please refer back to our earlier comments. There is a much more detailed process that underlies the auditor's opinion on internal controls over financial reporting that should not be overlooked. Also, even sophisticated users of financial statements may not be technically knowledgeable enough to understand the nuances involved with internal control over financial reporting, and expanding the wording of this portion of the report may make it less useful to users.

Auditor's Discussion and Analysis

5. Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?

a. If you support an AD&A as an alternative, provide an explanation as to why.

b. Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?

c. Which types of information in an AD&A would be most relevant and useful in making investment decisions? How would such information be used?

d. If you do not support an AD&A as an alternative, explain why.

e. Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?

8. Should a standard format be required for an AD&A? Why or why not?

9. Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential benefits and shortcomings of including such risks in an AD&A?

10. How can boilerplate language be avoided in an AD&A while providing consistency among such reports?

11. What are the potential benefits and shortcomings of implementing an AD&A?

12. What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?

We do not support the concept of an AD&A. If there are perceived shortcomings with what is presented in management filings then this should be communicated to the SEC and FASB and addressed by them. Furthermore, an AD&A seems to have limited value due to the inherent limitations in the scope of activities that the auditor could comment on as well as the limited amount of work performed by the auditor to enable them to provide any meaningful commentary. Auditors are independent of their clients, spend a limited amount of time testing and evaluating the financial information prepared by the company outside of that used to prepare the financial statements, and have no responsibility for the outcomes of the decisions made by management. Thus we believe that any supplemental commentary that is provided by the auditors will necessarily contain severe limitations as to the basis upon which such commentary was developed.

In this context, we do not believe it is cost effective or practicable to attempt to expand the scope of the auditor's involvement with management's responsibilities in order to enable the auditor to issue some form of opinion on such matters. Management performs its responsibilities in the continuum of its day-to-day activities and makes judgments based upon the weight of its experience, the totality of the information available to management, and the expertise of management. Management shares with its auditor the rationale for its judgments to enable the auditor to reach a conclusion as to the reasonableness of management's judgments. The auditors are not in a position to make their own independent judgments on such matters because these would be purely hypothetical judgments that do not result in actions taken by the company. Therefore, we do not think it would be meaningful for a user of financial statements to attempt to weigh the hypothetical judgments of an auditor against the actual decisions and judgments of management because only management's decisions can be evaluated on the basis of the outcomes of the judgments.

The preparation of an AD&A may also discourage users from performing a comprehensive review of the complete financial statements and disclosures. The AD&A should not be a substitute for the user obtaining a full understanding of the financial statements and related disclosures. Additionally, because the AD&A comes from an independent source it may inappropriately be viewed as having more authority than the information provided by management. To avoid this outcome, the auditor will likely have to include qualifying language in the AD&A report that will be viewed by users as "boilerplate" language that will limit the effectiveness of the auditor provided information.

It is also likely that if an AD&A were put in place, it would result in a duplication of the information already provided by management. If for example, an audit firm approached management about including something in their AD&A report that is different from what management was planning to disclose, discussions would ensue and the two parties would come to a mutual agreement whereby management would likely adjust their disclosures to avoid or minimize the effect of the auditor disclosure. This outcome again points out the overall relevance and value of the financial statements and related disclosures as being the primary source of information for users.

Furthermore, we do not believe that the auditor should be singling out certain aspects of a company's financial reporting or other disclosures. This would expose the auditor to undue risk of litigation, if for example a risk factor or critical accounting policy that was highlighted by the auditor in their AD&A report became an issue. In practice, the auditor and management would likely work together to ensure that the information in both parties' reports is consistent to reduce the exposure to misinterpretation or misunderstanding by financial statement users. The end result of all of this is that no meaningful additional reporting by the auditors would occur, again resulting in information that would be viewed by financial statement users as "boilerplate".

6. What types of information should an AD&A include about the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., audit risk, audit procedures and results, and auditor independence)?

7. What types of information should an AD&A include about the auditor's views on the company's financial statements based on the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls")?

Many of the items described in your questions relate to issues or matters that are discussed between management, the auditor and the audit committee. The idea of requiring disclosure of these communications assumes that the user of the financial statements has sufficient expertise to be able to understand and interpret the information that will be disclosed. Under requirements established by Sarbanes-Oxley, members of the audit committee are required to have a minimum level of accounting and financial expertise that cannot be assumed to exist for users of financial information. In addition, the information provided to audit committee members is intended to assist them in conducting their oversight responsibilities with respect to management's preparation of the financial statements and its selection and application of accounting principles. These communications from the auditors are supplemental information to that which is provided to the Audit Committee by management, and this information and these communications are incorporated into the dialog between the audit committee, the auditor and management as the committee fulfills its oversight responsibilities. Adding disclosure of the information contained in these communications without including the context in which such communications are evaluated by the audit committee will likely render the information of limited value to financial statement users.

Moreover, the addition of an AD&A section in which the auditor provides subjective commentary about the audit process, management's judgments, and the company's financial statement disclosures would significantly alter the role and relationship of the auditor to the company being audited, and may completely undermine the fundamental independence relationship that now exists. Today, auditors perform tests, examine underlying documentary evidence, and evaluate the reasonableness of the judgments made by management to enable them to conclude that the financial statements are fairly presented. Their primary area of focus is the financial statements and related disclosures. We do not understand how a user of the financial statements would benefit from understanding the auditor's risk assessments or what audit procedures were applied so long as the outcome was such that the auditor was able to render an unqualified opinion. Similarly, asking the auditor to provide color on their assessment of management's judgments, use of estimates, accounting policies and/or contentious issues, including close calls, in situations where an unqualified opinion is issued is of dubious value because such commentary would seem to detract from the fact that the auditor ultimately became satisfied with these matters such that they did not affect the opinion on the financial statements. Without an extensive knowledge of the overall audit process and the importance of the various aspects of that process, we do not believe users of the financial statements will benefit from the auditor highlighting certain elements of the audit process over others. Thus, we believe that the auditor would necessarily have to provide a thorough explanation of the limitations upon which their supplemental commentary is based. Once these limitations are understood, we believe that they will significantly limit the value of any supplementary information provided.

<u>Required and Expanded Use of Emphasis Paragraphs</u>

13. Would the types of matters described in the illustrative emphasis paragraphs be relevant and useful in making investment decisions? If so, how would they be used?

14. Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?

> **a. If you support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**
>
> **b. If you do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**

15. What specific information should required and expanded emphasis paragraphs include regarding the audit or the company's financial statements? What other matters should be required to be included in emphasis paragraphs?

16. What is the appropriate content and level of detail regarding the matters presented in required emphasis paragraphs?

17. How can boilerplate language be avoided in required emphasis paragraphs while providing consistency among such audit reports?

18. What are the potential benefits and shortcomings of implementing required and expanded emphasis paragraphs?

We believe that the existing model for the use of an emphasis paragraph is sufficient. The fact that very few emphasis paragraph opinions occur in practice is due simply to the absence of matters necessary for such paragraphs.

The auditor's emphasis of additional matters that users may see as significant has a negative connotation given the current limited use of an emphasis paragraph. Thus expanding the use of an emphasis paragraph may be confusing to users since they have not been accustomed to seeing such disclosures. Users would have to become informed as to the changes in the standards regarding the use of an emphasis paragraph, and the meaning of any new emphasis paragraph disclosures.

Another concern is the quantity of emphasis paragraphs that an auditor may be required to provide. This would seem to merely increase the data in the report and further incentivize users to avoid reading the full financial statements and instead, look to the areas set forth in the auditor's opinion. We believe this would cause users to place more reliance on the auditor's work than on the information contained in the financial statements and related disclosures. Additionally, if a user sees one company with only one or two emphasis paragraphs and another with multiple paragraphs, they might mistakenly think that the company with more paragraphs is more risky, yet there are many other factors to consider when including multiple emphasis paragraphs (such as, complexity of the industry, degree of centralization of the accounting organization, geographical and jurisdictional dispersion of the company, etc.). Therefore, we are concerned that the greater use of emphasis paragraphs will be misinterpreted by financial statement users and thus lead to greater confusion over the meaning of the additional disclosures.

Auditor Assurance on Other Information Outside the Financial Statements

19. Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?

a. If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.

b. On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.

c. What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?

d. If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate and why?

e. Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?

f. Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?

g. If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.

20. What are the potential benefits and shortcomings of implementing auditor assurance on other information outside the financial statements?

We would support expanding the auditor's report to include assurance on matters for which they have the relevant expertise provided that such assurance is limited to that which can be obtained through the application of agreed-upon procedures or other limited scope work to the applicable information. We do not believe that the auditor's work should be expanded to enable them to express an opinion on these other matters as they are either outside of their areas of expertise, not covered by existing auditing standards or represent areas where a separate opinion would be confusing given management's responsibilities. Any such expansion of the auditor's work beyond that which can be derived from a limited assurance model would unduly add audit costs and potentially delay the completion of the preparation of the financial statements. Thus, limited assurance language covering critical accounting policies, management's discussion and analysis of financial information and similar narrative information would be acceptable to us. We question whether the auditors should provide any coverage on areas such as risk factors, business outlook and similar forward looking information which we believe are outside of their areas of expertise and knowledge.

We believe that the existing audit standards provide sufficient guidance to the auditor in determining the work scope and related reporting to utilize in reporting upon information outside of the financial statements and feel that this level of assurance would be beneficial to financial statement users. We do not feel that this level of reporting would unduly affect the timing of management's completion of the preparation of the financial statements, nor would it materially alter the form or content of such information as the auditor is already required to review this information today, and the primary change contemplated is to require the auditor to report on the review that was performed.

Clarification of the Standard Auditor's Report

21. The concept release presents suggestions on how to clarify the auditor's report in the following areas:

Reasonable assurance
Auditor's responsibility for fraud
Auditor's responsibility for financial statement disclosures
Management's responsibility for the preparation of the financial statements
Auditor's responsibility for information outside the financial statements
Auditor independence

a. Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?

b. Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.

c. What other clarifications or improvements to the auditor's reporting model can be made to better communicate the nature of an audit and the auditor's responsibilities?

d. What are the implications to the scope of the audit, or the auditor's responsibilities, resulting from the foregoing clarifications?

22. What are the potential benefits and shortcomings of providing clarifications of the language in the standard auditor's report?

We have no objection to expanding the language in the standard auditor's report in the areas listed above. We believe that these clarifications would enhance the auditor's report by addressing areas that are of particular interest to users and do serve to better communicate the nature of the audit, and the respective responsibilities of management and the auditor.

Because these items represent clarifications of language, they do not change the audit scope or responsibility of the auditor, nor would they be expected to have any significant cost impact. Clarification of these matters would serve to further support our views expressed earlier regarding the utility of the auditor's report to financial statement users. We do not foresee any shortcomings in providing these clarifications.

<u>**Alternatives**</u>

23. This concept release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is most appropriate and why?

As described in our earlier responses, we support the auditor's reporting on certain matters outside of the financial statements using a limited-assurance model and certain clarifications to the standard auditor's reporting model. We do not support the expanded use of the emphasis paragraph in auditor reporting and also do not support the concept of adding the time delays, added cost, and uncertain value of the AD&A reporting model described in the Concept Release.

24. Would a combination of the alternatives, or certain elements of the alternatives, be more effective in improving auditor communication than any one of the alternatives alone? What are those combinations of alternatives or elements?

See our response to Question 23.

25. What alternatives not mentioned in this concept release should the Board consider?

No further comment.

26. Each of the alternatives presented might require the development of an auditor reporting framework and criteria. What recommendations should the Board consider in developing such auditor reporting framework and related criteria for each of the alternatives?

No further comment.

27. Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate the risk of this perception?

We believe that the greater use of an emphasis paragraph and the use of an AD&A report runs the risk of confusing the user's understanding of the auditor's reporting in much the same way as would a qualified opinion or piecemeal opinion. Financial statement users would have a difficult time understanding the context of these different levels of reporting and which is more representative or meaningful for them to rely upon. Without an appropriate context, which may be very difficult to convey, financial statement users will have a difficult time understanding the meaning of an emphasis paragraph or certain AD&A disclosures at the same time that the company receives an unqualified opinion on the financial statements. As indicated in our earlier responses, we believe that one of the values of the current model of auditor reporting is that it sends a clear message to financial statement users who understand what the report represents. Changing the form of the report, and adding different auditor involvement and levels of reporting will only serve to confuse financial statement users and leave them wondering which reporting element is the most valuable.

28. Do any of the alternatives better convey to the users of the financial statements the auditor's role in the performance of an audit? Why or why not? Are there other recommendations that could better convey this role?

See our earlier comments.

29. What effect would the various alternatives have on audit quality? What is the basis for your view?

See our response to Question 23 regarding the alternatives that we would support. We do not believe that these alternatives would substantially improve the current audit quality as they do not significantly change the auditor's role. We do believe that the greater use of the emphasis paragraph and the potential inclusion of the AD&A report could create areas of greater tension between management and the auditor and thus affect the overall quality of the audit. We also believe that because many of the areas that the Concept Release suggests would be included in the AD&A report are either difficult for the auditor to perform or are beyond the expertise of the auditor, the overall quality of the audit would likely suffer.

30. Should changes to the auditor's reporting model considered by the Board apply equally to all audit reports filed with the SEC, including those filed in connection with the financial statements of public companies, investment companies, investment advisers, brokers and dealers, and others? What would be the effects of applying the alternatives discussed in the concept release to the audit reports for such entities? If audit reports related to certain entities should be excluded from one or more of the alternatives, please explain the basis for such an exclusion.

Any changes made should apply to all registrants, no exception.

Confidentiality

31. This concept release describes certain considerations related to changing the auditor's report, such as effects on audit effort, effects on the auditor's relationships, effects on audit committee governance, liability considerations, and confidentiality.

> **a. Are any of these considerations more important than others? If so, which ones and why?**
>
> Audit committee governance is an important consideration as several of the alternatives suggested undermine their oversight role. The Sarbanes-Oxley Act significantly enhanced

and placed reliance upon the role of the audit committee in overseeing management's responsibilities related to internal controls over financial reporting and financial reporting in general. We believe that any changes that are contemplated in the auditor's report should be made in reliance upon and with a view towards strengthening the current role of the audit committee as opposed to diluting it or rendering it redundant.

b. If changes to the auditor's reporting model increased cost, do you believe the benefits of such changes justify the potential cost? Why or why not?

The addition of an AD&A and/or increase in emphasis paragraphs will likely increase costs due to the increased effort and risk assumed by the auditor and delay the timing of the completion of the financial reporting process. We do not believe that the recommendations contained in the Concept Release provide sufficient benefits to justify the increased costs or the additional time delay for the completion of the financial statement reporting process.

c. Are there any other considerations related to changing the auditor's report that this concept release has not addressed? If so, what are these considerations?

No further comment.

d. What requirements and other measures could the PCAOB or others put into place to address the potential effects of these considerations?

No further comment.

32. The concept release discusses the potential effects that providing additional information in the auditor's report could have on relationships among the auditor, management, and the audit committee. If the auditor were to include in the auditor's report information regarding the company's financial statements, what potential effects could that have on the interaction among the auditor, management, and the audit committee?

We believe it has the potential of creating an adversarial relationship between the issuer and its auditor. If an auditor is required to include their subjective opinions on management's accounting practices or disclosures beyond what is currently required to satisfy themselves that the financial statements are fairly stated in accordance with GAAP, conflicts will be inevitable. We believe these conflicts will affect both the auditor's relationship with management and its relationship with the audit committee charged with overseeing the role of management.

Furthermore, as described in our earlier responses, we are concerned about the confusion that financial statement users would have in trying to understand the various reports and opinions that the auditor would issue. Without some meaningful context within which to evaluate the additional information we do not see how it could be useful in making judgments about the quality of the financial statement disclosures, the integrity of management and/or the effectiveness of the audit committee's oversight role. We see such incremental auditor disclosures as serving only to confuse users of financial statements as they would appear to indicate some conflict between the auditor, management and the audit committee notwithstanding the fact that the auditor will have issued an unqualified opinion on the financial statements.

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