National Retail Federation®
The Voice of Retail Worldwide

September 30, 2011

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

RE: PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Public Company Accounting Oversight Board:

The National Retail Federation (NRF) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* ("Concept Release"). As the world's largest retail trade association and the voice of retail worldwide, NRF's global membership includes retailers of all sizes, formats and channels of distribution as well as chain restaurants and industry partners from the United States and more than 45 countries abroad. In the U.S., NRF represents an industry that includes more than 3.6 million establishments and which directly and indirectly accounts for 42 million jobs – one in four U.S. jobs. The total U.S. GDP impact of retail is $2.5 trillion annually, and retail is a daily barometer of the health of the nation's economy.

NRF fully supports financial statement transparency and sees value in the PCAOB's review of the auditor's reporting model. However, it is our opinion the current reporting mechanisms and processes in place provide ample information and assurance that the financial statements are presented fairly and accurately. The current process of open communication between management and auditors and the required communication between the auditors and the audit committee of significant accounting judgments and estimates is effective and any proposal that could interfere with this existing process would result in potentially more risk. Any changes to the auditor's report should only seek to clarify terminology and provide detail on the purpose of the audit and the role of the auditor, while leaving the reporting of company-specific information to management.

Question 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?*

   We believe the Board should undertake a standard-setting initiative to consider improvements to the auditor's reporting model; however we believe that those changes should be limited as discussed under b. below. While we feel the current reporting model is generally sufficient, there may be some benefit to further clarification of the purpose of an audit, the responsibilities of the auditor and management in the audit and financial reporting process and the work performed by the auditor on information outside the financial statements, including Management's Discussion and Analysis (MD&A).

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?*

As discussed above, we support the inclusion of further explanatory language on the purpose of an audit, the responsibilities of the auditor and management in the audit and financial reporting process and the work performed by the auditor on information outside the financial statements, including MD&A. We also support discussion in the auditor's report of the significant management judgments and estimates in the company's application of accounting policies and practices, with reference to management's assessment of the company's critical accounting policies and the procedures performed by management and the auditor to determine the acceptability of these positions.

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 the Board should consider expanding the auditor's role to provide assurance on matters in addition to the financial statements. Currently, auditors are required to review any supplemental information included with the financial statements to ensure that the information is consistent with information contained in the financial statements and notes thereto. For example, Item 303, Regulation S-K, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide in one section of a filing, material historical and prospective textual disclosure enabling investors and other users to assess the financial condition and results of operations of the registrant. Disclosure is required of prospective information that involves material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition. We believe it would be improper for auditors to opine on prospective information. We also believe that the intent of Item 303 is to obtain management's perspective, not the auditor's, and that there would be no additional benefit gained from audit comfort over the additional historical information provided in MD&A. Further, the inclusion of additional audit procedures and reporting around MD&A would significantly increase audit costs and place added pressure on the registrant to meet 10-Q and 10-K filing dates. This potential delay runs counter to the SEC's efforts to get information to investors in a more timely fashion.

As an alternative to providing additional assurance, we would support discussion in the audit report that describes the work undertaken by the auditor in reviewing the additional information for consistency with the financial statements. This serves to communicate work performed by auditors that is already taking place.

Question 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?*

Yes, we believe the auditor's report should retain the pass/fail model. We believe that anything more than pass/fail would be too judgmental and would add little value to readers of the financial statements. In addition, a more complicated model would certainly increase audit costs and pressure on filing deadlines. The auditor already has significant leverage to effect change in the financial statements via its communications with management and the audit committee. Additional information about the audit and the company's financial statements to enable the auditor to add commentary on significant matters in the audit report will not increase the auditor's leverage.

Question 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.*

Responsibility for a company's financial statements and the financial reporting process ultimately resides with management. Management makes the final decision on estimates, judgments, and financial statement content and presentation. Therefore, it is management's responsibility to provide additional information about the company's financial statements, as is current practice. Management reviews and discusses this additional information with the auditors and with the audit committee.

The auditor's responsibility is to express an opinion on the financial statements and report directly to the audit committee the audit procedures performed, areas of focus, key accounting policies, assumptions and estimates, as well as any potential alternative accounting treatments on any key matters found during the audit. The audit committee is responsible for providing oversight of the financial reporting and disclosure process. Requiring auditors to provide information directly to financial statement users undermines the governance role of the audit committee. In the interest of increasing the information shared with financial statement users, we would support the inclusion of explanatory language in the audit report stating that the auditor has communicated with the audit committee about the audit procedures performed, the company's critical accounting policies and its significant judgments and estimates.

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

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

We are concerned that the addition of an AD&A could potentially impact the open dialogue between auditors, management, and the audit committee concerning matters affecting the financial statements as well as financial statement content. Requiring auditors to report on potentially sensitive matters in the audit report or AD&A may limit these conversations due to concerns about confidentiality and in turn, possibly make the relationship more tenuous. A change in communication with management could reduce the effectiveness of an audit. It is important that management be able to have conversations with auditors when there are any gray areas without concern that these discussions will be taken out of context and included in the audit report.

Additionally, management currently discloses information about significant risks and critical accounting policies in the financial statements and MD&A, respectively, and the auditor reviews these disclosures for consistency as part of the normal audit process. Requiring the auditor to formally opine on these matters will increase legal risk and therefore the cost of the audit, with no added benefit. And, due to the additional work involved, the requirement of an AD&A will place unnecessary burden on companies in meeting applicable SEC reporting deadlines.

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?*

As mentioned above, increased discussion in the auditor's report on the role of the auditor and the purpose of an audit should be considered. This could be accomplished with additional language in the audit opinion explaining, for example, that the auditors have reviewed the additional information accompanying the financial statements for accuracy and consistency. If financial statement users fully understand the role of the auditor and their interaction with management and the audit committee during the course of the audit, we believe that many of the concerns expressed to the Board in advance of this Concept Release will be addressed without the inclusion of an AD&A.

Question 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 do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.

NRF does not see the value in requiring the expanded use of emphasis paragraphs. The information cited in the Concept Release for inclusion in such paragraphs is included in the notes to the financial statements or MD&A.

Question 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?*

If the use of expanded emphasis paragraphs is required, we strongly believe they should serve to clarify the areas of focus for the audit without providing detail on the specific audit procedures performed. Providing this detail could encourage unwarranted comparisons of the audit approaches of other firms, which can vary based on the specific facts and circumstances of the client being audited. In addition, we think most investors and users of the financial statements would be confused by paragraphs providing detailed information on audit procedures.

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

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

We support adding additional information in the auditor's report detailing the responsibilities of the auditor regarding other information outside the financial statements. However, we do not believe auditor assurance on the other information is warranted from a cost benefit perspective, as previously noted in the answer to Question 1 above.

Question 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?

We support clarification of the auditor's responsibility in short bullet point form outlining what was done and additional steps taken; in essence, laying out the process and defining for the financial statement user the work performed.

Question 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?

The most important consideration is ensuring the audit is performed effectively so the financial statements are transparent and accurate. Openness and transparency between management, auditor, and audit committee are the keys to this goal.

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?

We do not believe the potential increase in audit costs associated with the proposed changes to the auditor's reporting model are justified, for the reasons stated above.

NRF agrees with the Board's commitment to financial statement transparency and thanks the PCAOB for their consideration of our comments and suggestions. We welcome any further discussion on the topic.

Sincerely,

Carleen C. Kohut
Chief Operating Officer