ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP
Certified Public Accountants & Profitability Consultants

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September 28, 2011

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

Re: Request for Comment: Concept Release on Possible Revisions to PCAOB Standards Related to Reports in Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket Matter No. 34

Dear Office of the Secretary:

Rosen Seymour Shapss Martin & Company LLP ("RSSM," "We" or the "Firm") is a registered public accounting firm located in New York City. RSSM serves smaller reporting companies and non-accelerated filers. We appreciate the opportunity to respond to the Concept Release. Some general thoughts about the Concept Release and our comments on each of the four alternatives follow.

We do not believe that significant changes should be made to the auditor's report to assist investors in their investment decisions. An audit of the financial statements provides assurance as to the fair presentation of financial statements in accordance with a particular accounting framework. We believe, investment decisions are based on information related to the company being considered for an investment. While objective analytics may be performed, investment decisions are generally subjective. The investor generally decides on the extent to which he or she relies on objective analyses of the amounts presented in a company's financial statements and elsewhere, the extent of reliance placed on financial statement disclosures, and the extent of reliance placed on other available information about the prospective investment.

As stated in the Release, an audit of financial statements has long been recognized as a valuable process. Since the beginning of the twentieth century some form of assurance service has been provided by public accountants. Over time, both businessmen and public accountants have come to realize that assurance with respect to financial statements must be provided in relation to some form of standard or standards; hence the development of accounting standards. Assurance with respect to financial statements progressed from the 1902 "certification" that the financial statements were "correctly prepared from its books and records" to the present form of assurance which attests to whether a company's financial statements present financial position, results of operations, and cash flows fairly as that term is viewed under some framework of standards. Thus, historically, and currently, the purpose of the audit has been limited to being an attestation relating to the financial statements and the standards under which they have been prepared. The accounting principles underlying the financial statements facilitate the understanding of them:

757 THIRD AVENUE, NEW YORK, NY 10017-2049 ❖ TEL. (212) 303-1800 ❖ FAX (212) 755-5600 ❖ www.rssmcpa.com

the auditing standards simply provide assurance that the financial statements have been prepared using the stated accounting principles (e.g., GAAP or IFRS, etc.).

Generally accepted accounting principles ("GAAP") have been developed over the years, to provide investors with a wealth of information for use in making investment and other decisions and we believe that significant changes to the auditor's reporting model could or would dilute the preeminence of GAAP as the basis for assessing financial statements. Financial statements prepared in accordance with GAAP provide investors with an abundance of information about the preparation of financial statements which includes information about how the elements of the financial statements are derived. For example, disclosures with respect to the fair values of financial instruments include information about how the fair values are determined. Likewise, disclosures about share-based compensation include information about how the amounts of these expenses are computed. Therefore, while we concur that an audit of financial statements has value, the value does not relate to providing information about the financial statements. Information about the financial statements is provided by the financial statements themselves, including the related disclosures as required by GAAP. The value of an audit relates to the support it provides about the relevance and representational faithfulness(1) of the financial statements.

Because we believe that GAAP provides the best means for communicating information about a company's financial position, results of operations, and cash flows, we believe the current pass/fail model is appropriate. Auditors are expected to render their opinion with respect to fair presentation. In our opinion, the following should be considered:

- An opinion is a subjective judgment which, by its nature is singular. One can have an opinion on this matter or that matter; but one cannot have multiple opinions on the same item or matter of interest. Thus, an opinion is a yes or no proposition. Of course there may be areas of uncertainty to be considered in forming an opinion, but the opinion is not a definitive statement. So uncertainties affect the formation of an opinion but they are not part of the opinion; consequently the financial statement presentation is considered either fair or not fair under the applicable set of standards.
- Under present auditing standards, an auditor may add a paragraph emphasizing a matter that was considered in forming the opinion; however, the matter being emphasized is only one of many matters considered by an auditor in forming his or her opinion. Since the auditor's opinion is the result of his subjective judgment based on many factors, there is a danger that an emphasis on any particular matter may mislead or confuse the user of the financial statements.

To summarize the preceding remarks, RSSM believes that the role of an audit of financial statements should be limited to the objective stated in AU§110, *Responsibilities and Functions of the Independent Auditor*. That is, the expression of an opinion on the fairness of the financial statements presented by management.

The Concept Release observes that "The auditor's report is the primary means by which the auditor communicates to investors and other users of financial statements information regarding his or her audits of financial statements." We think that the auditor's report communicates information regarding the results of the audit as it relates to the financial statements, not about the financial statements. The Board may wish to clarify this understanding. We believe the scope paragraph explains the nature of what was done to enable the auditor to express his or her opinion.

The Concept Release also states "Some investors indicated that if they had a better understanding about the audit and how the audit was conducted relative to a particular company, then they would have a better perspective regarding the risks of material misstatement in a company's financial statements." We believe this desire for better understanding about the audit is a request for information about unusual or complex transactions and potentially adverse situations encountered by the auditor during the engagement, and how such matters were resolved. Because the standard audit report does not disclose these and other matters, we understand the Board's decision to consider improvements to the auditors reporting model recommended by SAG, IAG and ACAP. However, after considering the information and viewpoints received from the comments to this Release, if the Board decides to pursue the notion of changing the auditor's report, we believe that more in-depth analysis should be made. While the PCAOB Staff (the "Staff") has conducted outreach activities, the degree to which those activities represent the attitudes of the population of users, preparers, and auditors of financial statements needs to be confirmed.

In considering the potential alternatives for changes to the auditor's report, we were mindful of the fact that the auditor's report should not be the original source of information or disclosure about the entity; that should remain the responsibility of the management of the entity. Accordingly, we offer the following comments regarding the proposed alternatives.

A. Auditor's Discussion and Analysis ("ADA")

We believe that having a supplemental narrative in the form of an ADA is not a good idea. In our view, such a supplemental report could confuse investors and shift their focus to the matters discussed in the ADA and away from the financial statements as a whole. As a result, we do not believe an ADA would facilitate an understanding of the auditor's opinion because it could bring about the loss of an investors primary perspective toward the financial statements as a whole.

Specifically, we do not believe that a discussion about the auditor's views with respect to estimates and judgments affecting the financial statements would be beneficial. The auditor's basic views with respect to such estimates and judgments are inherently part of the auditor's opinion on the financial statements as a whole. Any supplemental views that are either favorable or unfavorable could cause undue optimism or pessimism on the part of investors.

B. Required and Expanded Use of Emphasis Paragraphs

This alternative seems to be a shorter and less extensive version of an ADA that would be included in the auditor's opinion instead of as a supplemental narrative. Therefore, we do not believe that it's a good idea to expand the use of the emphasis paragraph to address matters of estimates and judgments affecting the financial statements. In other words, we do not believe that mandating the use of emphasis paragraphs in audit reports and to highlight the matters deemed to be most significant in the financial statements and to identify where these matters are disclosed in the financial statements would be of much benefit. However, emphasis paragraphs can amount to condensed footnotes and undermine the effectiveness of disclosures required by generally accepted accounting principles.

C. Auditor Assurance on Other Information Outside the Financial Statements

As pointed out in the Release[(2)]: "Providing assurance on information outside the financial statements would increase the scope of the auditor's responsibilities, require the development of new auditing standards, and might result in projects separate from the auditor's reporting model project." We fully agree with your statement.

The substantial increase in the cost of an audit should be carefully weighed against the added benefits that investors might receive. As the Board knows, Regulation S-K contains fairly detailed requirements about the content of the MD&A and much of the information includes management's subjective judgments and analysis about causes behind changes in operations and about the future. The Board should consider adding this subject matter to the requirement for discussion by management in MD&As. The reliability of this type of information, no matter how carefully it is prepared, is questionable due to its nature. Moreover, the cost of auditing it may well outweigh the perceived benefits.

D. Clarification of the Standard Auditor's Report

The standard auditor's report already has "built-in" explanations about an auditor's responsibility and what an audit represents. We think that any additional explanations, like an ADA, could be more confusing to the typical investor and, therefore, would not provide significant additional value to investors. We believe that auditor's reports should be as clear, concise, and to the point as possible. This approach supports the pass/fail structure of the opinion.

We appreciate the opportunity to express our views on this issue.

Respectfully submitted,

, PARTNER

Rosen Seymour Shapss Martin & Company LLP

(1) Statement of Financial Accounting Concepts No. 8, Chapter 1, *The Objective of General Purpose Financial Reporting*, and Chapter 3, *Qualitative Characteristics of Useful Financial Information*. Paragraph QC 5 states: The fundamental qualitative characteristics [of financial statements] are *relevance* and *faithful representation*.

(2) Page 23.