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

Attn: Office of the Secretary

Re: Rulemaking Docket Matter No. 34  
Concept Release on Possible Revisions to PCAOB  
Standards Related to Reports on Audited Financial Statements

Members of the Board:

The Retail Industry Leaders Association (“RILA”) and its Financial Leaders Council (“FLC”) are pleased to submit the following comments on the Board’s *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (“Concept Release”), issued by the Board on June 21, 2011. RILA is the trade association of the world’s largest and most innovative retail companies. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs, and more than 100,000 stores, manufacturing facilities, and distribution centers domestically and abroad.

RILA and its FLC commend the Board for the significant effort that has preceded the issuance of the Concept Release. Most of our members are public companies and all of our members recognize that the efficient operation of our markets mandates that financial statements present fairly the financial position of the company as of a particular date and provide sufficient transparency so that investors and other users of financial statements can make informed investment or other decisions.

We believe that issuers and audit firms are in the best position to provide the Board with relevant information as to whether the proposed changes would likely increase the cost of a financial audit, increase the burden on issuers and the audit firms, and whether any additional costs and burden would be justified. In our view, the proposed changes would fundamentally change the existing audit framework and, as a result, greatly increase the scope, timing, and cost of financial audits and increase the potential liability of auditors, all without significant benefit.

In addition, many of the suggested changes implicate privilege and confidential or competitive information concerns that cannot be overcome.

While the Board's effort is commendable and this topic is of considerable importance, to the extent the comments set forth in the Concept Release raise issue with Generally Accepted Accounting Principles ("GAAP"), including the rules governing management's estimates and judgments, or the requirements of Regulations S-X and/or S-K promulgated by the Securities and Exchange Commission ("SEC"), attempting to address these issues through a wholesale revision of the audit framework and reports on audited financial statements is not the appropriate solution. The Financial Accounting Standards Board ("FASB") and the SEC have robust processes for making changes to GAAP and SEC rules, including a public comment and outreach process. To the extent there are issues with corporate communication of risk factors, business decisions, etc., the SEC is already equipped to deal with such shortcomings. To the extent there are bad actors, our legal system is fully equipped to deal with those who deserve punishment.

Several of the proposed clarifications to the auditor's report would not, however, raise the important concerns outlined above. If such changes would give investors and other users of the financial statements greater comfort, we believe they could be required without any negative impact.

Our specific comments follow:

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?*

The Concept Release indicates that one of the primary rationales underlying such a project is the concern expressed by some to better understand the audit process and the auditor's report. The undertaking of a standard-setting initiative to address this basic educational concern would seem unnecessary. There already exists significant literature on this topic. Investors or other users of financial statements should already have a fulsome understanding of the auditor's role and various functions. However, to the extent they do not, they can avail themselves of the Board's Standards, all of which are publicly available. In addition, there are numerous other widely-available publications that address this concern. There also exist myriad educational programs and tutorials that focus on these areas, many of which are available free of charge.<sup>1</sup> As discussed in more detail below, while certain clarifications of the auditor's report would not be particularly

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<sup>1</sup> For example, the Center for Audit Quality recently published its "In-Depth Guide to Public Company Auditing: The Financial Statement Audit," which provides a "plain English" explanation of the audit process and the auditor's report. This Guide is available free of charge on the Center for Audit Quality's website. See also <http://www.investopedia.com/university/financialstatements/#axzz1XqGUV0SH> for an example of on-line courses.

objectionable, we believe that any potential benefit that may result from wholesale changes to the auditor's reporting model would not outweigh the substantial costs of such a project.

Further, we do not believe that a standard-setting initiative would be appropriate at this time. As the Concept Release states, there is an ongoing and active international debate in this area that has gone on for decades. We would suggest deferral of any rulemaking until after the SEC has made a final determination as to whether or when to require SEC registrants to utilize International Financial Reporting Standards ("IFRS") rather than GAAP. Moreover, to the extent the use of IFRS is mandated, auditors, issuers, analysts, and investors will need time to learn and understand the implications of new financial accounting rules. Requiring significant changes now, in our view, would be premature and unnecessarily costly.

*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?*

To the extent the concerns that have been expressed relate to a lack of understanding about the meaning of the auditor's report, several of the potential additional "clarifications" set forth in the Concept Release could be added to the current standard auditor's report. For example, an additional sentence defining the term "reasonable assurance" or an additional sentence to more fully describe the auditor's responsibility for financial statement disclosures or other information (*e.g.*, MD&A, risk disclosures, etc.) may be helpful. Similarly, having the auditor's report state expressly that management prepares the financial statements and is responsible for their fair presentation and that the auditor has complied with applicable independence requirements of the PCAOB and the SEC also could be helpful. See also further discussion in response to question 21, below.

*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?*

Auditors already review information in documents containing the audited financial statements (*e.g.*, Form 10-K) and are required to consider whether such other information, or the way in which it is presented, is materially inconsistent with the financial statements or constitutes a material misstatement of fact. AU § 550.04-.06. Requiring auditors to provide express assurance on such non-financial statement matters would represent a fundamental change in the existing audit paradigm that would require development of a new and comprehensive audit framework. For example, there currently exists no framework for a comprehensive audit of MD&A. In our view, such a change would increase significantly the scope, cost, and time to complete an audit (potentially resulting in an increase in delayed filings) or, alternatively, discourage increased transparency and detail in certain corporate disclosures (*e.g.*, forward-looking information). Another factor which should not be ignored is the increased litigation risk to which the auditors would be subject. This further risk would inevitably lead to even

greater audit costs to the company being audited to offset this risk. Increased audit costs will negatively impact shareholder value and increase consumer cost – all without any improvement in audit quality.

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?*

The phrasing of this question accepts the proposition that the current auditor’s report is a pass/fail model. We disagree with this underlying premise. As the Concept Statement details, auditing standards allow for circumstances where the auditor can provide emphasis of certain matters, explanatory language, a qualification, or a disclaimer of the opinion. The apparent assertion by some that “the standard auditor’s report does not provide the auditor with the necessary leverage to effect appropriate change in the company’s financial statements”<sup>2</sup> does not take into consideration all of the reporting alternatives available to auditors under existing auditing standards. If the auditor does not believe that an unqualified opinion is appropriate, it should not, and we believe would not, be issued. This is significant “leverage,” especially for public companies, because without the auditor’s opinion, filing with the SEC cannot occur.

The comments reflected in the Concept Statement also focus on concerns that may exist with respect to matters that are “not necessarily material to the financial statements.”<sup>3</sup> If the matter is not material to the financial statements then it should not be a significant focus of the audit in general or of the auditor’s report in particular. Materiality is an essential underpinning of our entire financial reporting system, as evidenced by the FASB’s standard language at the end of each accounting pronouncement that “[t]he provisions of this Statement need not be applied to immaterial items.” Education of the investor and user community would appear to be the more appropriate solution to the concerns that have apparently been expressed. A project to consider potentially wholesale changes to the auditor’s reporting model, when the underlying issue appears to be one of education would, in our view, not be an appropriate use of time or resources.

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

N/A

- 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.*

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<sup>2</sup> Concept Statement at 9.

<sup>3</sup> *Id.*

We believe that the current form of the auditor's report is appropriate and strikes the appropriate balance of all competing interests. We would not, however, object to some of the additional "clarifications" set forth in the Concept Release. See discussion in response to question 21, below.

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 why.*

We question the premise of whether significant additional information about the company's financial statements is necessary, given the substantial (and often unread) amount information already contained therein.<sup>4</sup> In addition, today's MD&A contains considerable additional information regarding management's judgments, estimates, and expectations. Quarterly and additional SEC filings provide even more information, as do earnings calls and other company announcements. To the extent it is believed that additional information may be useful, then such information should be provided by management and, where appropriate, the audit committee. Auditors would not be the appropriate party to provide additional information regarding the company. They are not in the best position to evaluate the business and strategic risks faced by the companies they audit (including the attendant legal rules and risks) or to effectively communicate these items to the investing community.

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?*

AS 5 requires that the opinion specify whether the company maintained, in all material respects, effective internal control over financial reporting as so the specified date. We believe this is appropriate and that changes to the auditor's report on internal control over financial reporting are not necessary.

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.*

N/A

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<sup>4</sup> Even the SEC emphasizes the significant information contained therein. See, e.g., *Beginners Guide to Financial Statements*, found at [www.sec.gov/investor/pubs/begfinstmtguide.htm](http://www.sec.gov/investor/pubs/begfinstmtguide.htm) (which notes that "A horse called 'Read The Footnotes' ran in the 2004 Kentucky Derby. He finished seventh, but if he had won, it would have been a victory for financial literacy.").

- 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?*

N/A

- 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?*

N/A

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

The requirement to include an AD&A would substantially increase the scope of an audit and the time necessary to complete it. It would also require auditors to perform a function substantially different from those they currently perform. When many issuers are required to file with the SEC within 60 days of year end, and audit firms are already challenged in meeting this requirement, such a vast increase in scope would not be workable. Moreover, the requirement of an AD&A would expose auditors to additional potential liability if, for example, the auditors discussed certain items in an AD&A but failed to discuss others that resulted in an investor loss or if its discussion of an item were determined to be incomplete. All of this would necessarily increase the cost of the financial audit, which, in turn, would negatively impact shareholders and, ultimately, consumers and the economy as a whole.

While auditors perform a very important function – the assurance function – the financial statements are and should remain the responsibility of management. In our view, a required AD&A would blur the line of responsibility between the company's audit committee and the auditor.<sup>5</sup>

If the real concern is that GAAP allows companies too much flexibility, then the appropriate forum to raise that concern is with the FASB (and its Emerging Issues Task Force) or International Accounting Standards Board ("IASB"). To the extent disclosures are deemed insufficient, the SEC is the appropriate body to address those concerns. We note that there currently exists a joint project of the IASB and FASB on Financial Statement Presentation. To the extent users of financial statements have concerns about financial statement presentation, participation in this important project would be the appropriate means to voice any concerns and to seek redress.

- 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?*

We believe that the auditor's report is the appropriate place and manner for the auditors to express their opinion on the financial statements.

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<sup>5</sup> An issue not addressed in the proposal is what recourse would be available to the company if management disagreed with some portion of the auditor's discussion or believed it was incorrect.

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)?*

N/A

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, including "close calls")?*

N/A

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

N/A

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?*

Because we do not believe that inclusion of an AD&A is appropriate in general, we disagree that it would be appropriate for auditors to step even further outside their current functions and to comment on business risk, strategic risk, or operational risk. Discussing the nature and extent of such potential risks is more appropriately left to management, with oversight by the audit committee and the SEC. Moreover, management's discussion also is influenced by information that cannot be shared with the auditors because of privilege concerns. For this additional important reason, we do not believe that inclusion of an AD&A is appropriate.

While the Concept Release notes that the Board, in conjunction with the SEC, would have to develop additional direction to auditors in identifying and reporting on such items, up front guidance alone would not be sufficient. Regulatory oversight by the SEC of the actual reporting also would be necessary. In our view, the increased cost and time commitment for the company, auditors, and the regulators, as well as the additional risk that would be placed on the auditors would greatly outweigh any perceived benefit from auditors expressing views on areas outside of their expertise. See also discussion in response to questions 11 and 12, below.

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

We do not believe that boilerplate language can be avoided.<sup>6</sup> If investors do not understand basic concepts like the assurance function and the audit process in general, it is unlikely that they would understand the nuances that would be necessary to understand an AD&A. For example, disclosure of other accounting methods that could have been, but were not, used could lead to confusion as to the propriety of the method that was used. If the method of accounting used is GAAP, it should not make any difference whether there are other, alternative GAAP-compliant methods that were not used.

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

See discussion above. In addition, inclusion of an AD&A would require the creation of a detailed framework that does not currently exist. For example, there would have to be a mechanism to address which information can and cannot be disclosed in an AD&A. Disclosure in an AD&A of highly confidential competitive or proprietary information would be inappropriate and economically damaging to the company.

Further, to the extent there is concern that GAAP is too flexible, or financial statement presentation is ineffective, then the appropriate course is for those concerns to be expressed to FASB and/or the IASB and to participate in their robust deliberations. If the reporting under Regulation S-K is viewed as insufficient, the appropriate body to address such concerns is the SEC. We do not see any potential benefits. There would, however, be substantial additional costs, risks, and likely confusion that would result from such an expansion of the auditors' responsibilities.

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?*

If the AD&A were not subject to any regulatory review, the potential for inconsistent or competing information would be high. A lack of regulatory review, however, would make no sense given that the same types of disclosures when made by management are subject to the SEC's rigorous oversight. Further, as discussed above, if the auditor presents information that the SEC would deem appropriate for disclosure, it would beg the question of why such information was not presented by management. To the extent the SEC deems the information presented by management to be both appropriate and sufficient, there would be no need for any additional information to be presented by the auditor. In short, we do not believe that the concept of an AD&A is appropriate.

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?*

We do not believe that the emphasis paragraphs would be relevant or more useful in making investment decisions. The necessary detail should be in the footnotes to the

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<sup>6</sup> If the AD&A language were not boilerplate, the quality of AD&A between companies would not be consistent and could vary considerably.



financial statements or in MD&A. Anything else added by the auditor would be superfluous. In addition, there is also a chance, and perhaps likelihood, that emphasis paragraphs in an auditor's report may make it *less* likely that the information in MD&A and the footnotes will be considered in the investment decision-making process.

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

No. See response to question 13, above. In addition, given that the concerns that underlie the Concept Release apparently result in large part from a lack of understanding of financial statements and the financial auditing process, the suggestion to discuss the specific audit procedures used would likely be meaningless to those without a fulsome understanding of the audit process.<sup>7</sup>

15. *What specific information should be 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?*

As discussed above, we do not believe that expanded emphasis paragraphs are appropriate.

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

As discussed above, we do not believe that expanded emphasis paragraphs are appropriate.

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

Any additional emphasis paragraphs by the auditors, just like any AD&A, will inevitably lead to more litigation and challenges. This, in turn, will lead to standardization of the language used. As a result, we believe that boilerplate language is inevitable.

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

We do not see any benefits from the use of additional emphasis paragraphs. See our prior responses for a summary of some of the more significant shortcomings of such a

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<sup>7</sup> For example, if a layperson wanted to know whether an operation was successful, a surgeon's explanation of the specific steps, actions, and procedures taken and the medical instruments used during the operation would not answer the question. While that information would be relevant to a medical review board in determining the quality of the operation, it would not provide meaningful information to a layperson. Similarly, while the detailed audit steps performed would be relevant to the Board's inspection of a public accounting firm that regularly performs audits, we do not believe that the information would be relevant or useful to the investment decision-making process.

proposal. We also note that a comprehensive framework would have to be developed if any such proposal were to be implemented.

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

No. The expertise of the corporate CEO and other corporate managers, in addition to the expertise of the finance, tax, legal, HR, and other corporate departments all contribute to the non-financial statement information. Having auditors opine on such matters will not lead to better or more transparent information. However, to the extent there is a belief that specific information currently contained in, for example, MD&A should be moved into the financial statements, the appropriate approach would be for the SEC to expand the scope of Regulation S-X (and reduce the scope of Regulation S-K). As discussed above, to the extent there is a perceived shortcoming in GAAP, the appropriate course of action to address any such issue is through FASB (including the EITF), and the IASB.

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

N/A

- 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.*

See discussion above and response to g, below.

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

In our view, this would be inappropriate.

- 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?*

As discussed above, only if the SEC were to conclude that certain specific items should be moved from Regulation S-K to Regulation S-X, and therefore included in the financial statements, would any such assurance be appropriate. If this were done, the auditor's report would apply to that new information just as it does to the rest of the financial statements.

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

We do not believe that any substantial changes are likely. The Form 10-K must already be signed by the company's principal officer(s), its principal financial officer(s), its controller or principal accounting officer, and by at least the majority of the board of directors or persons performing similar functions. In addition, the auditors already review the MD&A for material consistency with the financial statements that they are responsible for auditing.

- 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?*

See response to d, above.

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

See discussion above. Moreover, as the Concept Release notes, providing assurance on matters outside the financial statements would "increase the scope of the auditor's responsibilities." This increase in scope will necessarily increase the risk faced by the auditor. The increased scope and increased risk will therefore necessarily increase the cost of the audit (both in terms of dollars and time) resulting in, at most, minimal related benefit, especially given the already tight filing deadlines to which issuers are subject. In addition, we believe it would be inappropriate for an auditor to provide assurance on earnings releases or on other significant management judgments, especially given that such judgments may take into account privileged information.

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

See responses to question 19, and its subparts.

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?*

As discussed above, we believe that many of the issues raised in the Concept Release are the result of a basic lack of understanding by some of the assurance function and of the mechanics of how and why an audit is conducted. Greatly expanding the role of the auditor will not correct this problem. That being said, certain, limited clarifications of the auditor's report that would not increase the scope and cost of the audit process may be of some value.

Several of the suggested additions to the standard auditor's report may be useful. Specifically, providing a definition of the term "reasonable assurance" could be helpful, although there still could be some uncertainty over the definition of the term "high level." We also agree that clarification that the financial statements under Regulation S-X include all notes to the financial statements and all related schedules could be helpful as it may cause the investing public to read more thoroughly this important information. Clarification of the auditor's role with respect to non-financial information also may be helpful. Finally, while we believe it is implicit, requiring the auditor to state that it has a responsibility to be independent of the company and has complied with applicable independence requirements of the Board and SEC is not objectionable.

On the other hand, we do not believe that any discussion regarding fraud would be appropriate. Fraudulent financial statements are not common. Having the auditor's report mention fraud could lead some to believe that fraud exists where it does not, or that the auditor's report is somehow being qualified when it is in fact not. Finally, we do not think it is necessary for the auditor's report to state specifically that management prepares the financial statements and has responsibility for the fair presentation of the financial statements. Such language would simply restate what is already contained in the standard auditor's report – that the financial statements are management's responsibility.

- 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.*

See response to a, above.

- 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?*

None.

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

To the extent the changes were only clarifications, there should be no change to the scope of the audit or the auditor's responsibilities.

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

See discussion above.

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?*

We believe that some of the proposed clarifications could be of some marginal benefit. Also, to the extent there is a strong belief that certain portions of, for example, the MD&A, should be subject to the auditor's opinion, the appropriate body to make that determination would be the SEC through its rule-making process. Moving those discussions into the footnotes to the financial statements also would appear to be the appropriate action. In that way, such discussions would be subject to the auditor's opinion.

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?*

For all of the reasons set forth above, we do not believe so.

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

We do not believe that there is a strong reason for the Board to take action in this area. In our view, certain of the audit report clarifications suggested, while not objectionable, are of marginal benefit. Virtually all of the other suggestions would increase the cost of the audit without the corresponding and meaningful benefit of improved information. Further, given that the SEC has not yet determined whether or when IFRS will be mandated, any significant regulatory action would appear to be premature and needlessly increase costs.

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?*

N/A

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?*

See discussion regarding fraud discussion above related to the perception of a qualified opinion. We believe that expansion of the auditors' role and scope of an audit, and corresponding increase in length and detail of the auditor's report, is likely to cause financial statement users to focus even more on the report rather than on the financial statements and footnotes themselves. Further discussion of certain items, such as significant risks, etc. could be perceived as a piecemeal opinion.

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?*

To the extent any changes are perceived as being needed, the some of the clarifications to the auditor's report, as discussed above, would be appropriate.

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

We do not believe that any of the suggestions will improve audit quality. The Board's oversight of the profession is the driving factor behind the improved quality of audits.

30. *Should the changes to the auditor's reporting model considered by the Board apply equally to all audit reports filed with 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 exclusion.*

We do not believe that distinctions should be drawn. Any changes should apply to all entities.

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?*

Increased potential liability will undoubtedly impact audit effort and cost. Confidentiality also is a primary consideration. Management's decisions and judgments are based on many factors, including consideration of confidential, competitive, and sometimes privileged information. Some of the suggested changes could not be

implemented without increasing the risk and harm to the company if competitive, privileged, or legally protecting information were disclosed. Privilege would be waived if privileged information were disclosed to the auditors or third parties and legally protected information could lose that protection if disclosed to the auditors and would lose that protection if disclosed to third parties. The Concept Release does not appear to have considered these very important issues. In addition, to the extent the distinction between the role of the auditor and the role of the audit committee is eroded, as we believe would result if many of the proposals in the Concept Release were implemented, it could be viewed as decreasing auditor independence.

*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 that any perceived benefits would outweigh additional cost. See discussion above.

*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?*

See discussion in a, above.

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

With respect to the legal privilege issues, those concerns could not be addressed by the PCAOB.

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 there already exists a strong and appropriate system of checks and balances: the financial statements are the responsibility of management; management is overseen by the audit committee; the SEC has regulatory authority over registrants; FASB and the SEC set the accounting standards that must be satisfied, and the PCAOB has regulatory authority over the auditors and reviews the quality of their audits.

In conclusion, we do not believe that the proposals in the Concept Release would result in an improvement of audit quality or transparency and many of the suggestions implicate privilege and confidential or competitive information concerns. Comprehensive changes to the existing audit framework would be required and the scope, timing, and cost of financial audits would increase substantially. In our view, many concerns underlying the proposals in the Concept Release would be more appropriately addressed by modifications to GAAP and/or Regulations

S-X and S-K, rather than through a major change to the existing financial audit paradigm. We thank you for the opportunity to comment on this proposal.

Sincerely,

A handwritten signature in blue ink, appearing to read "Casey Chroust", with a long horizontal flourish extending to the right.

Casey Chroust  
Executive Vice President, Retail Operations