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PCAOB  
Office of the Secretary  
1666 K Street, N.W.  
Washington, D.C. 2006-2803

*Reference:* PCAOB Rulemaking Docket Matter No. 34

CFA Institute<sup>1</sup>, in consultation with its Corporate Disclosure Policy Council (“CDPC”)<sup>2</sup>, appreciates 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*.

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets, and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

### **General Comments**

#### *CFA Institute Support for Changes to the Auditor’s Reporting Model*

CFA Institute supports the efforts of the PCAOB to improve the independent auditor’s reporting model. We have long expressed the need to improve the Standard Auditor’s Report (SAR) as a means of communicating important information to investors and other users regarding the audit of a company’s financial statements. It is our belief that the SAR along with the financial statements and management’s discussion and analysis should be considered part of a holistic communication of valuable information to investors to make informed capital allocation decisions. Significant efforts and costs go into an audit, yet investors are provided very little information in the three paragraph report provided by the current SAR. Through increased

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<sup>1</sup> With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 57 countries and territories.

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

transparency, a revised auditor's reporting model should heighten user confidence in the audited financial statements and better inform them about the auditor's role.

The current SAR contains largely "boilerplate" language which has contributed to an "expectations gap", commonly understood as the gap between the auditor's performance, the auditor's communication of what they did, and the users' expectations regarding the audit process and findings. It is our belief that enhancements to the SAR hold the greatest promise to narrow this expectations gap and to provide decision-useful information to investors.

We are hopeful that the PCAOB will not delay enacting significant changes to the auditor's reporting model.

#### *CFA Institute Surveys Support Changes to the Auditor's Reporting Model*

CFA Institute has conducted multiple surveys<sup>3</sup> of our membership over the last few years on the importance of the SAR to investors and its information content. These surveys have consistently shown that the auditor's report is important to the analysis of financial statements but that it should provide more information about the basis for the auditor's opinion.

Among the more significant survey findings are:

- Seventy-two percent of respondents indicated that the auditor's report is important to the analysis and use of financial statements in the decision-making process.
- Fifty-eight percent of respondents indicated that the auditor's report needs to provide more specific information about how the auditor reaches their opinion.
- A large majority of respondents indicated that more information regarding materiality, auditor's independence, management's critical accounting judgments and estimates, and key areas of risk is important.

These surveys indicate that investors desire more qualitative information about the audit findings and audit process.

#### *CFA Institute Observations on the Pass/Fail Reporting Model*

The SAR has been commonly described as a pass/fail model since the auditor expresses an opinion on whether the financial statements are fairly presented (pass) or not (fail). This aspect of the SAR is beneficial because it is brief, clear, consistent and comparable. It benefits those investors who want to quickly scan the SAR for departures from the unqualified report. However, it has limited utility for those who desire a more thorough and complete understanding of the audit findings and the audit process. For this reason we believe that the pass/fail element of the model should be retained but, as explained in our responses to the specific questions from the PCAOB, it should be supplemented with additional information.

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<sup>3</sup> CFA Institute, Usefulness of the Independent Auditor's Report, March 2011  
[http://www.cfainstitute.org/Survey/usefulness\\_of\\_independent\\_auditors\\_report\\_survey\\_results\\_march\\_2011.pdf](http://www.cfainstitute.org/Survey/usefulness_of_independent_auditors_report_survey_results_march_2011.pdf)  
CFA Institute, Independent Auditor's Report Survey Results, March 2010  
[http://www.cfainstitute.org/Survey/independent\\_auditors\\_report\\_survey\\_results.pdf](http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf)

### Auditor's Discussion and Analysis vs. Emphasis of a Matter

The principal consideration regarding expanded disclosure of the audit findings and audit process should be the content, irrespective of where the information is reported. We preface our remarks, however, with the assumption that in either form (i.e. AD&A or emphasis of a matter) the additional disclosure will be a component of an auditor's report that will include the audit opinion. Whether the information is presented in AD&A or in emphasis of a matter paragraphs should not be a barrier to requiring the auditor to report the information, provided that in either situation it should carry the same level of professional accountability for quality.

Furthermore, while auditor reports are required to be delivered annually, we believe that the AD&A requirement should extend to quarterly financial statements as well. Although registrants are required to have quarterly reviews, there is generally no associated report. Investors would benefit from the auditor's perception of the quarterly financial statement reviews through disclosure of many of the same reporting attributes we specify in our response to Question 6.

### Improvements to the Current Auditor's Reporting Model will Require a Cultural Shift

Investor needs should be paramount when considering revisions to the auditor's reporting model. Requirements should be set with a view toward providing the highest quality and most comprehensive information possible for investors. We draw attention to the PCAOB mission statement, which places investor interests in its first line:

*The PCAOB mission is to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports.*

We believe that for meaningful changes to be effective the reporting responsibilities of the audit committee, management, and independent auditors will need to undergo a cultural shift in reporting mindset. The historical reporting relationship has tended to be viewed as the auditor reporting to the audit committee and to management, rather than as a communication to investors. Instead, the reporting considerations of the auditor should be directed to the user, since it is the users (i.e. investors) who contract with the auditor, not management.

Shifting from the current mindset will take time and, given liability concerns, many audit firms are likely to oppose the alternatives in the concept release. Moreover, there is the potential that, even with a new and expanded audit reporting model, liability concerns will quickly cause any new disclosure requirement to revert to boilerplate reporting. *We urge the PCAOB to bear in mind that the investor pays for and is the ultimate consumer of the auditor's report and that the boilerplate nature of the existing model requires improvement and use of boilerplate in the revised report, should be discouraged by issuing a well-written standard that is rigorously enforced.*

### Audit Committee Reporting

Although the matter of audit committee reporting is not part of the Concept Release, we believe that investors would also benefit from enhanced reporting directly from audit committees. It is our belief that requiring greater reporting to investors by the audit committee would enhance the overall value of the audit and provide useful information to investors. We suggest that the

PCAOB work with the appropriate governing bodies in a separate initiative to enhance the audit committee reporting requirements for the benefit of investors.

*CFA Institute Responses to Specific Questions*

CFA Institute responses to specific questions are presented in the **Appendix** to this letter.

**Closing Remarks**

We thank the PCAOB for the opportunity to express our views on the Auditor's Reporting Model. If the PCAOB have questions or seek further elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at [matthew.waldron@cfainstitute.org](mailto:matthew.waldron@cfainstitute.org).

Sincerely,

*/s/Kurt N. Schacht*

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Gerald I. White, CFA  
Chair  
Corporate Disclosure Policy Council

cc: CFA Institute Corporate Disclosure Policy Council

**Responses to Specific Questions**

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. *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?*

CFA Institute supports the PCAOB initiative to improve the independent auditor's reporting model. The current standard auditor's report (SAR) is in need of enhancement to provide additional information beneficial to investors regarding the audit findings and audit process beyond what is provided by the current pass/fail model. The auditor provides a valuable service for the users of financial statements regarding the reliability of reported operating results, cash flows, and asset/liability balances. However, the current three paragraph, largely boilerplate, report is not sufficiently informative to meet the needs of investors who would benefit from further insights into the auditor's perspective on the audit findings and the audit process. Changing the auditor's reporting model, which has been largely unchanged for decades, holds the greatest promise of providing relevant and decision-useful information to investors, provided that it does not revert to uninformative boilerplate language.

We are not in favor at this time of expanding the auditor's role to include assurance on matters outside of the financial statements beyond what is already presently required by the auditing and attestation standards. It is our belief that the PCAOB should remain focused on making the necessary and immediate changes to the existing auditor's reporting model.

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 cashflows 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.*

As noted in our opening remarks, CFA Institute supports retention of some form of the existing pass/fail model. However the model should be supplemented with additional reporting requirements regarding the audit findings and the audit process as noted in our answer to Question 6. The pass/fail model provides a clear and consistent means for a user to

assess the results of the audit and the auditor's opinion. There are many investors who mainly scan the SAR to identify departures from the unqualified opinion and the pass/fail model meets their needs. However, the information needs of those who desire more information regarding the audit findings and audit process are not met. A model that combines both a pass/fail opinion with additional reporting requirements is optimal and would satisfy the needs of most investors.

See our response to Question 6 for the additional information we believe should be added to the auditor's report.

- 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 that the information regarding audit findings and audit process is best provided by the auditors, not management. The auditors are in the best position to provide information about their perspective on the reported financial results and the audit process since they are an independent third party and can offer an objective unbiased assessment of the financial statements. Furthermore, an independent assessment of the accuracy of the financial statements is necessary in order to maintain the integrity of the financial reporting process.

- 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?***

No response.

- 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?***

As noted in our opening remarks, we believe that either an AD&A or emphasis of a matter paragraphs would be acceptable means of communicating additional information regarding the audit findings and audit process provided that both locations carry the equivalent level of professional accountability for quality. Our principal concern is that

the information should be reported by the auditor in such a way that it is not construed to be reported by management.

We also urge the PCAOB to consider requiring an AD&A on quarterly and interim financial information since investors rely on these periodic filings and currently often do not receive a report on the reviews conducted by the auditor. An AD&A on interim filings would provide much needed transparency regarding these reviews.

See our response to Question 6 regarding type of information to be reported to users.

**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)?***

In accordance with the PCAOB Auditing Standard No. 3 paragraph 13, the auditor must identify all significant findings or issues in an engagement completion document. This document identifies and discusses the significant findings or issues and the basis for conclusions reached in connection with each engagement. The information in the completion document would be of interest to investors because it provides the auditor's perspective on significant risks and other matters associated with the audit. Much of this information is already documented in the auditor's working papers in connection with the issuance of the auditor's report. We believe that the auditor should report these same matters in plain, non-boilerplate language. We are not suggesting any change in audit scope or additional procedures, but that the auditor simply report what was done in conducting the audit, using information already largely contained in the audit completion memo.

We believe that the PCAOB's Concept Release illustration starting on page 15 includes the following elements in addition to others that we would consider important:

- Audit Risk- Provide a discussion of significant risks identified by the auditor and include factors the auditor evaluated in determining which risks are significant and how they were audited and assessed. This risk assessment should include not only specific financial statement risks, but also the auditor's overall client risk assessment factors. Also discuss why the auditor views these risks as significant.
- Auditor Independence- Provide a discussion of any matters that were reported and discussed with the audit committee concerning independence.
- Auditor Materiality- Provide details about the quantitative and qualitative materiality levels and factors the auditor considered in establishing materiality levels.
- Assessment of Management's Critical Accounting Judgments and Estimates- Provide a discussion of the critical accounting estimates that were discussed with management or the audit committee, the assumptions underlying the critical accounting estimates, and the auditor's assessment of and findings associated with the evaluation of these critical estimates. This could also include a discussion of movements and ranges around critical estimates.

- Accounting Policies and Practices- Provide a discussion of:
  - a. Discretionary changes in accounting principles or estimates affecting the consistency of reported amounts.
  - b. Qualitative aspects of the company’s accounting practices, financial statements and disclosures discussed with the audit committee or management.
  - c. Material matters that, while in technical compliance with the financial reporting framework, could have enhanced disclosures to improve investor understanding of the matters.
  - d. Significant unusual transactions in the current reporting period.

This discussion should focus on the reasons why the auditor considers changes in critical accounting policies to be significant and include a statement that they found no inconsistencies in their review. The auditor should also discuss any changes in accounting policies and practices not deemed critical by the auditor and/or management. The auditor should opine on any accounting policies and practices that represent a significant departure from policies and practices commonly applied by comparable firms in relevant industries.

- Summary of Unadjusted Audit Differences- List and discuss all unadjusted audit differences by financial statement line item.
- Audit Scope Changes & Unique Management Representations- Discuss audit scope limitations or expansion in audit scope and the impact on the financial statements. Additionally, include a description of any unique/non-standard representations included as a part of the management representation letter.
- Difficult or Contentious Issues, Including “Close Calls”- Discuss any difficult or contentious issues or “close calls” that arose during the audit and the final resolution of each issue.

**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")?***

See response to Question 6. However, it is worth reiterating that the appropriate level of detail would be that which is documented in the auditor’s completion memo, but written in plain English.

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

We believe that there should be some overall guidance regarding the format and content, however, we caution against an overly prescriptive format that could lead to the reporting



requirements becoming boilerplate. The main objective should be to communicate information about the audit findings and audit process tailored to a company's particular circumstances.

- 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?***

To the degree that business risks, strategic risks or operational risks have a direct bearing on the financial statements – such as those that may impact the valuation of assets and liabilities, the related critical accounting judgments and estimates or the entities ability to continue as a going concern – then the auditor should provide information about how those risk factors were assessed and the overall impact on the financial statements and their audit process and findings. It is our belief that the auditor should also be expected to communicate information with respect to risks associated with the audit and internal controls.

We are not in favor of the auditor reporting on business risks, strategic risks or operational risks outside of those with direct impact on the reported amounts in the financial statements as noted above. Commenting on these areas would require the auditor to be more fully embedded in the management of the company on a more contemporaneous basis in order to have a complete understanding of the matters. This is not, in our view, the role of the independent auditor. Management on the other hand should comment on the business, strategic and operational risks through the MD&A.

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

Boilerplate language can be avoided if the auditor identifies and reports on the unique issues facing the company. Audits are customized to address these issues and the investors would benefit from an auditor report in similar terms.

As previously mentioned, while we think there should be some overall guidance about the form and content of the additional reporting requirements, we do not think it should be overly prescriptive which could lead to boilerplate language in the report.

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

We believe that the benefits of implementing additional disclosure by the auditor are clear; an enhanced understanding of the auditor's perspective on the critical issues of the audit findings and audit process which will result greater transparency for the benefit of investors is long overdue.

The shortcomings in implementing AD&A are rooted in the cultural shift in the current auditor's reporting model. A switch from the current mindset that the auditor is reporting to management and the audit committee to a user focused reporting relationship may pose

challenges. We believe that, through proper review and enforcement of the auditor's reporting by the PCAOB, the content and quality should improve.

***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?***

There is the potential for the additional disclosure to present inconsistent or competing information between auditor and management. There are some who argue that this would only confuse investors and other users which is not the case. We believe that on balance it should improve management's presentation of the financial results. With the added transparency provided by the new reporting requirements, management and the auditor would be expected to work together to resolve differences in advance of issuing the audited financial statements.

We also do not believe that undue consideration should be devoted to this concern. The point of the additional reporting requirements is for the auditor to communicate to the investor. There is informational value to the investor if the auditor and management report inconsistent or competing information. As an example, any audit difference is a reflection of a difference of opinion between the auditor and management. Disclosure of such differences will not confuse investors.

***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?***

See response to Question 6.

- 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.***

See response to Question 6. If it is decided that emphasis of a matter paragraphs should be used, it should be made a requirement rather than be permitted and the contents of the emphasis of matter paragraphs should not be substantively different from contents of an AD&A.

***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?***

See responses above.

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

See responses above.

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

We believe that the audit committee and the PCAOB are in the best position to ensure that audit reports do not include boilerplate language. Additionally, we think there should be guidance issued about the objective and preparation of the additional reporting requirements noted in our response to Question 6 and that it not be overly prescriptive but rigorously enforced.

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

See responses above.

**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.**

See response to Question 1.

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

See response to Question 1.

**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?*

We believe that clarification of the auditor's responsibilities will assist investors to understand better the auditor's role and narrow the expectations gap. We draw particular attention for the need to clarify the auditor's responsibility for detecting and reporting material fraud, which would be especially beneficial to users. It is our belief that further explanation of the extent of the auditor's fraud detection responsibilities combined with clarification of the auditor's responsibilities under the reasonable assurance standards will help narrow the expectations gap.

Additionally, the auditor's responsibilities for matters outside of the financial statements should be clarified since currently there is some confusion regarding these responsibilities.

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

The benefit is that the expanded language will close the expectations gap by clarifying the auditor's responsibilities and perspective on the financial statements. For example, auditor independence is not mentioned in the main body of the auditor's report aside from the reference to the "Independent Registered Public Accounting Firm" in the title. The report could be strengthened by additional wording to describe exactly that the auditor has the duty to be independent of the company.

Also, in the case of the auditor's responsibility for information outside the financial statements for example, the auditor is required to read the other information accompanying the financial statements. This responsibility is not contained in the audit report and, if included, would alert investors to this responsibility.

**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?***

See response below.

**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?***

As mentioned in our responses above, we are indifferent to whether an AD&A or emphasis of a matter paragraphs are used if the contents are the same and the degree of professional

responsibility is identical. The most important considerations are that the investors receive the expanded disclosures directly from the auditor.

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

As stated in our opening remarks, we believe that the PCAOB should consider a separate initiative on requiring that audit committees report directly to investors. However, this should come at a later date and not delay the immediate and necessary changes to the current auditor's reporting model.

**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?***

In order to minimize the potential for boilerplate reporting we believe that the guidance should not be overly prescriptive. However, we do believe a framework is necessary in order to guide the preparation of the report.

**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 do not believe that investors would perceive any of the alternatives as qualified or piecemeal opinions. Rather, it would be seen as a more thorough and transparent basis for the audit opinion, especially by retaining the pass/fail element of the existing model.

**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?***

The additional descriptive language regarding the auditor's responsibilities in the auditor's report is the most effective means of conveying to investors the auditor's role in performing the audit.

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

We believe that the avoidance of boilerplate language and clear qualitative descriptions of the audit findings and the audit process directly by the auditor, including enhanced descriptions of the responsibility of the auditor, should improve audit quality.

**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.***

We believe that the requirements should apply to all entities given that the information is equally relevant and important to investors regardless of the type of entity. We also note that the distinction between public and private enterprises has become increasingly blurred in recent years due to the growth of private equity.

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

While we understand the challenges presented by changing relationships, audit effort, auditor liability, etc. we believe that they should not either individually or in the aggregate override the need to improve the auditor's reporting model. The auditor provides a key service on behalf of the investor and revision of the current ineffective model is essential to adding transparency to the audit process and purpose.

We are aware that there are those in company management and in the audit committee who will object to changes for a variety of reasons. For instance they will argue against changes to the already well entrenched auditor's reporting model because of increased exposure to legal actions and increased audit fees. However, investors and other users have been disadvantaged by the lack of transparency and the uninformative auditor's report currently in place. Investors pay either way, through increased costs for additional information or through lacking information to assist them in making informed investment decisions. We do not believe that requiring the auditor to describe the audit findings and the audit process is an expansion of scope. We are simply asking that auditor's report on what they did and their findings, including the factors unique to the company that influenced the auditor's process and decisions.

- 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 that including the additional information in the auditor's report will strengthen the interaction among the auditor, management, and the audit committee. It will change the reporting model that is currently grounded solely in the auditor-to-management reporting relationship to one focused more on investors and other users of the financial statements. The resulting change in auditor mindset can only increase *de facto* independence.