

**“Concept Release on possible revisions to PCAOB Standards related to reports on audited financial statements”**

Questions 1 through 32:

- 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 board should undertake this initiative. The objective of continually improving relevance and usefulness of information provided to users of financial statements together with the auditor's report is worthy and appropriate. This initiative should address the information gap and expectation gaps in auditor reporting identified on surveys and outreach activities.

However, the solution should not cause the auditor to assume the responsibilities of management nor the audit committee by determining how much of the entity's competitively sensitive and not-yet public information should be disclosed. The financial statement auditors should remain independent, and **objective** while pursuing assurance responsibilities and not be put in a position to make determinations on the timing of disclosure of certain information before management and the audit committee deem it appropriate.

An alternative which should be evaluated by the board (and promulgated by others, e.g. SEC) is utilization of the entity's internal audit activity in a role supporting management and the audit committee in carrying out their responsibilities for disclosing relevant information to shareholders. It might also be appropriate to expand the internal audit activities' responsibility for providing assurance on other information contained within financial filings such as MD&A, so long as these expectations do not distract from other internal audit responsibilities. This would occur at the request of the audit committee to support expanded expectations for evaluation of disclosures and also at the request of management and the financial statement auditors, through the audit committee. As described later in our response, the board should consider the implications of more effective use of and higher expectations by the audit committee of the internal audit activity, including consideration of and coordination with financial statement audit needs. The internal audit activity could report to the audit committee on certain matters, in some cases in lieu of the financial statement auditor. These could include a) testing controls (financial reporting, operational), b) assurance provided on MD&A or other specified

information (possibly in lieu of the financial statement auditor, c) Information bearing on the independence and objectivity of the internal audit activity, d) Earnings releases (in lieu of financial statement auditor).

**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?**

We agree there is an apparent expectation gap (the difference between what users expect from the financial statement auditor and the audit and the reality of what an audit is); efforts should be taken to reduce or close the gap. There is of course a question of whose responsibility it is.

The gap can be closed by either side moving towards the other, or movement of both. While it is expected that users of financial statements are intelligent, knowledgeable people, who bear personal responsibility to be financially literate, it is reasonable to require the entity, through its audit committee, to more clearly disclose key processes, estimates, judgments, governance, and oversight for financial reporting. With respect to the disclosures of the independent financial statement auditor, we support disclosure of additional details of the nature of an audit, including the auditor's ability to detect financial statement fraud, the auditor's responsibilities relating to fraud under existing professional standards, and inherent limitations of a financial statement audit. The information should be communicated in plain English, free of technical jargon. This information could be placed as a disclosure in filings; the auditor's report could reference that information.

It is extremely important that information that is deemed "more relevant and useful" be clearly defined by investors so the audit committee can execute the responsibility of accurately and completely disclosing such relevant and useful information. The audit committee and management should decide what information to disclose in the financial statements and/or related attachments, potentially including information which was disclosed by the auditor to management and the audit committee.

Potential inclusion of subjective information by an auditor to the public is not appropriate. The financial statement auditor role is differentiated from the current typical role of and disclosures by the internal audit activity which, while retaining objectivity, should share subjective judgments with management and the board, and as appropriate, unframed personal views with its constituents. The sharing of such subjective information in an external environment is inappropriate, because the users do not possess the same contextual knowledge, lack the ability to discuss information in a two-way dialogue to gain clarity, and do not know the competency and reliability of the person(s) expressing the judgments.

Lastly, there must be a consideration of costs and benefits related to levels of assurance. It would be reasonable to expect that if additional disclosures were required of the independent auditor, audit fees would surely rise. The board should consider who is paying the costs and who is deriving the benefits; there are many users of financial statements and related information who may seek to influence the board's views on assurance; some of those users may not be concerned with or consider the costs of such assurance.

**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?**

The board should consider whether this expanded role can be filled via an entity's own internal audit activity. Specifically, through direction of expected areas of actions, including information contained within financial presentations, such as (MD&A). While we believe there could be benefit in expanding the auditor's report as noted in our response in "b" above, the independent auditor's role and level of assurance related to information contained in a filing, but outside the financial statements, should be based upon what investors value and require, the source and level of assurance desired should carefully consider costs and benefits of such assurance. Auditors cannot be expected to determine what is important to the wide variety of users, in varying circumstances; therefore, standardization of what is reported by the financial statement auditor is prudent.

The incremental value of added assurance through the auditor's reporting on other information provided by management versus the level of assurance which exists today through the auditor's association with such information should be decided by investors or the audit committees representing investors, based on cost benefit analysis and determination of which elements warrant additional levels of assurance. Today, the auditor is required to read such information, including MD&A, and we recommend the auditor include a paragraph in the auditor's report that the auditor has read [auditor should note the specific areas] and found such information and disclosures to be materially consistent with information observed as part of the audit of the financial statements.

**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 current model should be retained. Without substantial additional guidance to both auditors and users of the auditor's report, additional information will exhibit subjectivity and create confusion.

**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.**

If the board believes there is insufficient understanding of the purpose and procedures of an audit, an explanation of an audit, including its purpose, procedures, techniques, and limitations, could be included in the auditor's report. This could be accomplished in a number of ways, including a reference in the auditor's report to a description elsewhere in the document containing the auditor's report. Also, users would benefit from an additional paragraph to the financial statement auditor's report describing their responsibility with respect to other information included in the document with the financial statement filing, their ability to detect financial statement fraud, their responsibilities relating to fraud under existing professional standards, and inherent limitations of a financial statement audit and a statement that the auditor has read [auditor should note the specific areas] and found such information and disclosures to be materially consistent with information the auditor observed as part of the financial statement audit.

**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 agree that the audit committee should have responsibility for ensuring the extent and timing of information disclosed publically. The shareholders have chosen an audit committee to oversee the reporting processes for disclosure of financial and operating results of the entity; they should continue to have the responsibility to see that accurate and complete disclosure of such relevant and useful information is achieved. The audit committee, together with full access to management which it has hired, has the greatest quantity of contemporaneous information, the greatest resources to analyze, validate, and seek clarity on such information and are closest to the investors who desire this information.

**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?**

Changes necessary would be dependent upon the board's ultimate conclusions after considering public response to this exposure draft. The changes which seem evident at this point include reference to the nature of an audit and its limitations, financial statement auditor's ability to detect fraud and responsibilities relating to fraud under existing professional standards, along with a paragraph to describe the auditor's responsibilities for "other" information included with the financial statements.

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

No.

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

We do not support this.

**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?**

We do not support AD&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?**

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

The auditor should retain the role of auditing financial statements and not be in the position where they create or are compelled to provide proprietary entity information. This could put independent auditors in direct contradiction of ethics and independence requirements (one because the auditor is not allowed to disclose confidential information and the other because the auditor should not be the source of information). The AD&A appears overly subjective, would likely confuse rather than inform readers and runs the risk of becoming boilerplate or watered down which would create yet a new and larger expectation gap. Much of the information suggested in the exposure draft (ED) discussion is already required of management in public filings (e.g., risk factors and processes to mitigate risks). If management does not provide appropriate information, the audit committee should require management to fill the void. We acknowledge

that the auditor should comment if there is something materially missing or misstated.

If an AD&A was required by the board, how would the auditor know where to start and stop its commentary? What is the basis for including a comment on one item and not another? What rights to share entity information does the auditor have or need to acquire? What liability would the auditor be assuming, as the auditor could disclose information harmful to the entity (competitively or otherwise)? The auditor would likely encounter criticism for either saying too little and saying too much. Such an AD&A would put auditors in the role of formulating public reports and could, over time change the users' view of an auditor's objectivity, particularly if the auditor started to disclose in lieu of management. If all the auditor's views are open to public disclosure, information flows would be impacted. And of course there are cost considerations, both the immediate cost of extra time and effort to create, review and audit the information, but also the risk of litigation to the auditor and related costs would need to be built into ongoing fees. Lastly, haven't there been complaints by some users of public filings that there is too much information?

Of the four alternatives presented, some are good suggestions, while others would be problematic. Specifically:

- Auditor's Discussion and Analysis - We recommend limiting this to auditor's procedures to address the expectations gap of what an audit is and is not. It should not be used to disclose any information that management and its board has determined not to be appropriate for disclosure.
- Required and expanded use of emphasis paragraphs - We support this, with caution, it should be limited to include reference to the nature of an audit and its limitations, along with a paragraph to describe the auditor's responsibility with "other" information included together with the financial statements.
- Auditor assurance on other information outside the financial statements - We recommend limiting this to the procedures which auditors perform in conjunction with forming their opinion on the financial statements, and not expand any further. Requiring auditors to report on additional information would likely not be cost justified; it will likely increase audit fees and add additional complexity that in the end, might not provide improved relevant, useful information to investors.
- Clarification of language in the standard auditor's report - We support clarifying the terminology used to better explain to users the nature and extent of the procedures performed.

**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?**

The auditor should have clear and robust communications with the audit committee on numerous matters; the audit committee is responsible for disclosing appropriate information that may be important to users of financial statements.

**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)?**

As stated previously, the auditor should not prepare an AD&A. The items listed could be incorporated into other expanded commentary.

**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")?**

Management, together with the audit committee should disclose areas of governance, judgments and estimates as they should know best the facts, risks and evaluations which were considered. As exists today, the auditor is required to read such disclosures, including MD&A; it would make sense to include a paragraph in the auditor's report that the auditor has read [add specific areas] and found such information and disclosures to be materially consistent with information the auditor learned as part of his or her audit of the financial statements.

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

An AD&A should not be required.

**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?**

Much of the information which the board is suggesting to be included in an AD&A is already required of management in public filings (e.g. risk factors and processes to mitigate risks). The audit committee also acknowledges their agreement, and the financial statement auditor associated with that information is required to comment if there is something materially missing or misstated.

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

Boilerplate in AD&A is best avoided by not requiring an AD&A. Given the potentially lengthy disclosures, which are likely to be confusing to users, the substantial risk to the auditor for such disclosures and the cost to entities being audited, it is likely many parties will ultimately influence reporting to a standard or boilerplate language; that is, boilerplate is likely unavoidable within current environment.

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

Many have been mentioned in responses #5 - #10.

**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?**

Because this potential exists and would be difficult to avoid, requiring an AD&A could force management and the auditor to work more closely together on their mutually exclusive and joint presentations, potentially impacting perceptions of auditor objectivity over time.

An AD&A could in many cases improve an entity's disclosures, however in a few cases, over time; it could instill passivity among management, under the presumption that whatever the entity does not cover the auditor will.

**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?**

Reporting requirements are designed to require an entity to disclose important information, based upon what the various and varied users of the financial information require for making prudent investment decisions. Asking the auditor to prioritize which risks are most important requires judgment; akin to "beauty is the eye of the beholder". That is, no one other than a user can determine which areas suit the users' needs. That said, it may be useful for auditors to make greater use of additional paragraphs and draw a user's attention to specific management disclosures. The use of additional paragraphs should occur only in defined, prescribed circumstances, including where management's disclosure is deemed by the auditor to be inadequate.



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

Under certain defined conditions, yes. For example, if the entity is a part of a larger enterprise, then a paragraph should state such. Another example would be if GAAP surrounding an area material to the entity is undefined, evolving or there are significant divergence in practice, those areas should be highlighted by management and the auditor's report should refer to them.

**a. If you support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**

In the limited defined circumstances, it would help users focus their attention and provides a view towards what the auditor also considers important in a more defined and less confusing format than an AD&A.

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

N/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?**

In addition to areas already requiring mention (e.g., going concern), the items which would warrant specific auditor mention include the following (in each case, the auditor's report should refer to management's disclosure which would be expected to be adequate unless otherwise noted by the auditor):

1. If the entity is a part of a larger enterprise
2. If GAAP in an area material to the entity is undefined, evolving or there are significant divergences in practice.
3. Areas of significant leverage or exposure (derivatives, off balance sheet commitments, contingencies, etc.) which are not included in the gross figures displayed on the balance sheet.
4. Disclosures by the entity is deemed by the auditor to be inadequate
5. Material, unusual transactions impacting the financial statements.

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

The auditor's report should be limited to a) a few specific defined circumstances and b) reference to management's disclosure which would be deemed adequate unless otherwise noted by the auditor.

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

Boilerplate is not necessarily a negative. Consistent format may facilitate user review; when the boilerplate form changes, that in itself may be an indication of an area of interest.

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

Benefits include directing users' focus and require the financial statement auditor to emphasize significant matters. Shortcomings include the risks that a) the auditor is expected to know how each user will evaluate information presented, and each user's purpose in reading the financial information, b) users "assume" other information is not as important, and thus, a new expectation gap could form and litigation could increase if using hindsight about something not initially highlighted which ultimately turned significant.

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

Yes, if investors believe the cost benefit analysis justifies auditor assurance on elements reported by management in addition to the financial statements. However, we believe it is unlikely that the cost justifies the benefits. However, a better and arguably more cost effective alternative might be to consider the use of an entity's internal audit activity to provide assurance to the audit committee or management where they deem appropriate.

**a. If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why. Subject to the caveat and suggestion above, assurance over other important components of information provided by management is a form of assurance commonly provided by the internal audit activity and a reasonable extension of financial statement auditors, to the extent it is cost justified and can be related to the financial statements and information considered in connection with the audit of the financial statements.**

**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.**

The incremental value of direct assurance through a financial statement auditor's reporting on components of information provided by management versus the level of assurance which exists today through the auditor's association with such

information should be decided by investors or the audit committees representing investors, based on cost benefit analysis, considering which components warrant direct assurance by financial statement auditors.

Earnings releases seem to fall in a different category as they are generally not attached to audited financial statements. Requiring financial statement auditor assurance on quarterly, or other periodic releases, would increase costs dramatically, pending analysis of the level of assurance required; this may be an area where use of the entity's internal audit activity in a role supporting the audit committee would be beneficial.

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

See answers "a" and "b" above together with responses to earlier questions about auditors report.

**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?**

While we do not believe direct reporting or assurance by the financial statement auditor over MD&A is appropriate, there is a general presumption that knowledge of auditor oversight will encourage an appropriate level of scrutiny by preparers of such information.

**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? The cost of AT 701 form of assurance may exceed the benefits. We suggest a compromise position. As exists today, the auditor are required to read such disclosures, including MD&A, we suggest the auditor include a paragraph in the auditor's report that the auditor has read [add specific areas] and found such information and disclosures to be materially consistent with information the auditor learned as part of the audit of the financial statements. That is, have the auditor's report disclose what is essentially in effect today.**

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

The cost of AT 701 form of assurance may exceed the benefits. We suggest a compromise position. As exists today, the auditor would be required to read such disclosures, including MD&A, and we suggest the auditor include a paragraph in the auditor's report that the auditor has read [add specific areas] and found such information and disclosures to be materially consistent with information the auditor learned as part of the audit of the financial statements. For areas where additional assurance is requested by shareholders, we suggest that management disclose its processes ensuring the reliability of such information and the internal audit activity could provide "assurance" to the audit committee, if deemed materially important.

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

Potential shortcomings include costs outweighing benefits, usurping responsibilities of management, internal audit and audit committee, and creating inconsistencies in use of auditors among reporting registrants.

**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?**

If the board believes user interests are not being served, or an expectation gap is a real issue, a clarification of all of the items is indeed appropriate. To achieve the goals of providing relevant, pertinent, user-friendly information and fuller disclosure, the auditor's report should include reference to a place where the terms are defined and clarifications are more fully explained.

**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.**

As described in "a" above, numerous objectives would be met simultaneously.

**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?**

A general explanation of the audit process would likely aid some readers, from considerations of risk, planning, execution (including some key techniques used), supervision and review of testing through to conclusion.

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

The implications to the scope of the audit, given our view of appropriate changes would be minimal.

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

Benefit is that users would have additional information more readily available. The major shortcoming, if the clarifications are provided within the report itself, is that the report would become very lengthy and other, arguably more crucial information could be lost in the morass.

Questions Related to all Alternatives:

**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?**

If the board believes users interests are not being served, or expectation and information gaps are real issues, as discussed in more detail above, the auditor's report should include a) additional explanatory information when warranted, b) state the auditor's responsibility with respect to "other" information included with the financial statements (either as is current practice reading for material inconsistencies or omissions, or a higher level of assurance similar to AT 701, if investors and the audit committee believe such assurance is valuable) and c) reference to clarifications of various terms and concepts used in the auditor's report and a description of an audit.

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

See answer to 23 above.

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

The board should consider use of the internal audit activity to support management and the audit committee in their responsibilities, as appropriate. Also, audit committee commentary to describe its governance process and as necessary information to supplement management's comments.

**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?**

If the board decides to require AD&A or other forms of reporting by the auditor, the board needs to carefully consider how to support the auditors' objectivity, avoid inconsistencies in disclosures provided by management and auditor, avoid inconsistencies among auditors, address potential perceptions of equivocation of the auditor's ultimate opinion, along with the costs and benefits to investors, including the potential for "information overload".

**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?**

Adoption by the board of all suggestions would make for a very lengthy auditor's report, one which likely would exacerbate the expectation and potentially the information gap, if indeed new information is to be provided by the financial statement auditor. As discussed in more detail above, if the board believes users interests are not being served, or expectation and information gaps are real current issues, the auditor's report should include a) additional explanatory information when warranted, b) state the auditor's responsibility with respect to "other" information included with the financial statements (either as is current practice reading for material inconsistencies or omissions, or a higher level of assurance similar to AT 701, if investors and the audit committee believe such assurance is valuable) and c) reference to clarifications of various terms and concepts used in the auditor's report and a description of an audit.

**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?**

As discussed in more detail above, the auditor's report should state the auditor's responsibility with respect to "other" information included with the financial statements (either as is current practice reading for material inconsistencies or

omissions, or a higher level of assurance similar to AT 701, if investors and the audit committee believe such assurance is valuable), the auditor's ability to detect financial statement fraud, the auditor's responsibilities relating to fraud under existing professional standards, and inherent limitations of an financial statement audit and provide a reference to clarifications of various terms and concepts used in the auditor's report and a description of an audit.

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

Audit quality is a key attribute which likely transcends the changes noted and suggested herein. Quality of reporting and financial statement audits could be enhanced through more effective use of and additional expectations by the audit committee of the internal audit activity, including consideration of and coordination with financial statement audit needs.

The AD&A and causing the auditor to be the original source of information could distract from the mission of a quality financial statement audit. The attention of key personnel could be diverted to creating, collecting, and writing their own disclosures. Crafting language which is clear, concise and meets the needs of various constituencies, determining the suitability for public consumption, while balancing audit risk will be time consuming and does not necessarily utilize the same skill set as auditing skills. We suggest keeping the financial statement auditor and management focused on their distinct roles and what they are good at: the auditors "audit" and management creates disclosures.

**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.**

The system benefits from consistency; there should be good reasons to allow for differences among types of companies, industries or other designations.

**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?**

All these considerations are relevant, which ones are more important are situational or contextually-based; that is, they will vary in importance in each individual circumstance.

**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?**

As discussed in more detail above, the costs would appear to outweigh the benefits, in part because the benefits have not been well-defined. However, more appropriate cost benefit balance can be gained with more effective use of and higher expectations by the audit committee of the internal audit activity, including consideration of and coordination with financial statement audit needs. We caution that additional financial reporting matters should not distract from the internal audit activities' responsibilities.

Changes to the financial statement auditor's report should be limited to a) additional explanatory information when warranted, b) state the auditor's responsibility with respect to other information included with the financial statements (either as is current practice reading for material inconsistencies or omissions, or a higher level of assurance similar to AT 701, if investors and the audit committee believe such assurance is valuable), the auditor's ability to detect financial statement fraud, the auditor's responsibilities relating to fraud under existing professional standards, and inherent limitations of an financial statement audit, and c) reference to clarifications of various terms and concepts used in the auditor's report and a description of an audit.

**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?**

Please see response to item d below.

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

An entity's governance structure warrants further consideration and potential changes to regulations. These would include:

1. The audit committee - We suggest disclosure of its governance and responsibilities in documents which include management disclosures, interactions between the audit committee and financial statement auditor, and guidance to audit committees as to consideration of additional audit committee disclosures, and possibly of its interactions surrounding key



areas of discussion with management and with auditors, both financial statement auditors and the entity's internal audit activity.

2. Internal Audit - The board should consider the implications more effective use of and higher expectations by the audit committee of the internal audit activity, including consideration of and coordination with financial statement audit needs. The internal audit activity could report to the audit committee on certain matters, in some cases in lieu of the financial statement auditor. These could include a) testing controls (financial reporting, operational), b) assurance provided on MD&A or other specified information (possibly in lieu of the financial statement auditor, c) Information bearing on the independence and objectivity of the internal audit activity, d) Earnings releases (in lieu of financial statement auditor).

**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?**

In general there will be greater confusion and relationships could be strained or deteriorate when roles and responsibilities are not clear and/or those roles overlap. Many of the proposals herein would exacerbate tensions since the financial statement auditor could end up with responsibilities which overlap those of management and the audit committee, in addition to maintaining its financial statement audit responsibilities. Additionally, the board should ensure whatever actions are taken promote clear, open dialogue with auditors, to avoid degradation of audit quality.