September 1, 2011

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

Via email to comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 34; PCAOB Release No. 2011-003; Concept Release on Possible Revisions to PCOAB Standards Related to Reports on Audited Financial Statements

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the *PCAOB Rulemaking Docket Matter No. 34; PCAOB Release No. 2011-003; Concept Release on Possible Revisions to PCOAB Standards Related to Reports on Audited Financial Statements.*

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist the Board. If the Board has any questions about our input, please feel free to contact our committee chair for any follow-up.

Respectfully submitted,

Auditing Standards Committee
Auditing Section - American Accounting Association

Committee Members:
Chair – Joseph Brazel, North Carolina State University
Paul Caster, Fairfield University
Shawn Davis, Emory University
Steven Glover, Brigham Young University
Diane Janvrin, Iowa State University
Thomas Kozloski, Saint Mary’s University
Mikhail Pevzner, George Mason University

Responses to Specific Questions in the Release

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 a standard-setting initiative to consider improvements to the auditor's reporting model. The existing format of the auditor's report lacks communicative value by not providing enough information regarding the nature and types of procedures, processes and information used in the determination of the auditor's opinion, etc. Therefore, the current report simply reflects a pass or fail outcome and is mostly standard or "boilerplate" wording.

In our view, the current format of auditor's report is not particularly informative. Empirically, we know that the majority of audit opinions are unqualified.

According the most recent version of the Compustat database, the following is the breakdown of opinion types over 2000-2011 period:

Opinion Type	Number	Percentage
UNQUALIFIED	53,834	62.45%
UNQUALIFIED WITH EMPHASIS OF A MATTER	32,337	37.50%
ADVERSE, QUALIFIED, NO OPINION	32	0.05%
		100%

In effect, virtually all firms receive unqualified opinions or unqualified opinions with an emphasis of a matter paragraph. As such, because they are all very similar, it is very difficult to infer anything with respect to the information content of such opinions (i.e., their individual signaling value is questionable, except for perhaps going concern opinions).

Research shows that the market negatively reacts to going concern opinion announcements, suggesting they are informative and signal future financial distress (Jones 1996). Thus, it is likely that some forms of additional assurance on intuitive information (e.g., the validity of nonfinancial measure disclosures discussed below) will be useful to the users of financial statements.

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?

Academic research findings suggest that users might benefit from materiality disclosures, auditor's findings in relation to fraud or illegal acts, disclosure of the engagement partner's name in the auditor's report, and disclosure of the communications between the auditor and audit committee (Church et al. 2008). On the other hand, due to the complexity involved with applying materiality in practice, the disclosure of materiality amounts or measures could be very difficult as a practical matter, and would probably be more confusing than informative. This is especially the case since magnitude is only one dimension of materiality. Quantitatively small misstatements can be material due to qualitative characteristics.

In addition, modified wording for clarification, as suggested later in the Concept Release, and increased disclosure about audit risks, as discussed in response to subsequent questions, could be useful.

The report could also emphasize the inherent uncertainty and risk associated with both financial accounting and auditing, it should clarify the auditor's responsibility regarding the detection of fraud, should clarify what is meant by the terms "reasonable assurance" and "materiality", and should clarify the auditor's responsibility for information outside the financial statements.

Other disclosures for the Board to consider include: a summary of proposed adjustments that auditors waived and the client did not record, a summary of adjustments the client agreed to record, a discussion of any significant disagreements with management, a discussion of inherent uncertainties facing different areas of financial reporting (in particular, as it is related to critical accounting policies), the potential effects of measurement errors in those areas, and a comparison of budgeted and actual audit fees charged and a discussion of significant differences between those two amounts. For example, recent research shows that changes in negotiated audit fees represent potential leading indicators of future significant negative events. Comparing negotiated fees to the actual fee charged could provide information about the financial reporting quality of a particular company and/or the likelihood of a negative event in the future (Hackenbrack et al. 2011).

Several issues have to be considered when determining whether to enhance information required to be reported in an auditor's report (or elsewhere): 1) auditor litigation and client confidentiality concerns inherently limit the amount of information an auditor can make publicly available about the audit, and clients have a vested interest in minimizing the extent of such disclosures; 2) markets are not necessarily good processors of "diffuse" and "soft" information or information not stated in binary fashion due to cognitive limitations present in investors (Hirshleifer and Teoh 2003)**;** 3) the readability of information could affect investors' ability to interpret it (Li 2008); and 4) auditors' unique perspectives on financial information and managers' attitudes towards the financial reporting process are potentially quite valuable to investors.

Concerns (2) and (3) suggest that the "pass/fail" format of the auditor report has some value since it gives investors' the ability to assess financial statements' credibility, taken as a whole, and in a straightforward manner. This is most likely the case for nonprofessional investors. Nonprofessional investors are likely to have more difficulty processing more "diffuse" information (e.g. in MD&A), and therefore are more likely to prefer shorter, more salient reports. However, given that qualified and adverse opinions are rarely if ever issued (as discussed above), the current pass/fail model communicates to investors that the final grade of virtually every company's audit was a "pass." For professional investors, any extra information might be valuable. However, there is empirical evidence that suggests that professional investors have difficulty processing accounting-related information as well (e.g., Picconi 2006). Overall, the Board should consider that any additional auditor disclosures may actually widen the information gap between nonprofessional and professional investors (and if widening that gap is good or bad for the functioning of our capital markets).

Christensen et al. (2011) suggest that financial reporting and auditing standards should be revised to produce more transparency in financial statements and audit reports in order to clearly convey the level of uncertainty in fair value and other estimates in the financial statements. They report that public company financial statements contain estimates with reasonable ranges that may be many multiples of materiality amounts. They argue that standards may be requiring a level and nature of assurance that auditors cannot provide for estimates with extreme uncertainty. They suggest that those who set standards for auditing consider the nature of assurance that auditors should be required to provide for highly uncertain estimates. Changes to auditing standards could result in a more appropriate representation of the uncertainty inherent in amounts reported in financial statements and can clarify the assurance auditors are able to provide. They further indicate that if more complete information were to be provided on estimates, including a reasonable range, auditors may be able to provide assurance that the reasonable range is fairly stated.

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?

Professional standards (e.g., AICPA 2002), auditing texts (e.g., Messier et al. 2010), and prior research (e.g., Brazel et al. 2009) suggest that an abnormal inconsistency between a company's financial performance and related nonfinancial measures (e.g., number of retail outlets, warehouse space, employee headcount) represents a red flag with respect to financial statement fraud. For example, for companies that have committed fraud, Brazel et al. (2009) find that revenue growth exceeds nonfinancial measure (NFM) growth by approximately 25% whereas revenue growth exceeds NFM growth by approximately 8% for non-fraud firms.

Prior research has demonstrated that investors find both financial and NFMs to be value relevant (e.g., Callen et al. 2010; Brazel et al. 2011a). However, it appears that auditors are not apt to identify instances when substantial inconsistencies exist between their client's financial data and related NFMs (Brazel et al. 2011b). Thus, we believe that investors would benefit from management disclosing and discussing the comparison between (1) key financial measure growth (e.g., revenue, total assets) and (2) growth in related/key NFMs (e.g., number of patents, number of distribution centers). Management's discussion could be limited to instances where the financial measure growth is abnormally inconsistent (based on company history or industry norms) with growth in related NFMs. The reliability of such a disclosure (and the level of audit quality for that matter) would be tremendously enhanced if the auditor's role was expanded to provide assurance on these measures and management's explanation of any abnormal inconsistencies. Auditors already provide assurance related to the financial data (e.g., revenue, total assets) and the vast majority of NFMs are verifiable (e.g., confirming the number of retail outlets). In addition, financial measures and NFMs (albeit typically presented in paragraph form and provided only for the current year) are already disclosed in 10-K filings. Thus, the increased cost to management and the auditor to provide this disclosure would likely be negligible.

In addition, the SEC recently mandated that publicly traded companies assign eXtensible Business Reporting Language (XBRL) tags to each financial statement item and furnish this information, known as XBRL-related documents, along with their 10-K and 10-Qs (SEC 2009). Although the mandate explicitly states that public accountants are not required to provide assurance on these XBRL-related documents, early research (i.e., Bartley et al. 2009, 2011; Debreceny et al. 2010; Du et al. 2011; Weirich and Harrast 2010) finds that several documents contain errors. Further, new interactive data visualization software allows for the presentation of individual values from the financial statements (Dilla et al. 2010; Janvrin et al. 2011). Without assurance that these tags are appropriately mapped to each value, investors may be misled. To summarize, providing assurance that companies have properly assigned XBRL tags and that individual values attached to each tag are reasonable may be an important role for auditors in the near future.

Auditors could also provide their opinion on the quality of voluntary disclosures. For example, most of the market reaction to financial reporting news is around an earnings press release, not around the release of the 10-K (Stice 1991). Press releases are voluntary disclosures that vary greatly in their format and content (e.g., some provide balance sheet information, while some do not). Press releases also contain forward-looking information and non-GAAP disclosures. Moreover, the SEC has been concerned with the fact that sometimes the information in a press release or a conference call is not consistent with the disclosures in 10-K. Hence, it is only reasonable that auditors have some role in providing assurance that this information is not misleading to investors. Some evidence exists that auditors already look at this additional information (Black et al. 2011; Chen et al. 2011).

As noted in 1b, there may also be a role for auditors in providing information or assurance on the level of uncertainty of fair value and other estimates with estimation uncertainty greater than materiality.

Some additional areas beyond traditional financial statements where the Board may consider the need for expanding the auditors' role include:

1) Pro-forma disclosures, Reg G reconciliations, and assessments of whether any pro-forma exclusions are truly non-recurring.
2) Uniformity of information reported in press releases. (Assurance in this area would need to be preceded by a regulator decision as to whether all press releases should contain balance sheet and cash flow statement information.).
3) Reasonableness of earnings guidance contained in press releases and an explanation as to why auditors feel this guidance is reasonable.
4) Providing assurance regarding consistency between information reported in a press release, conference call, and the 10-K.
5) Provide details regarding the application of the audit risk model. Auditors could be required to report their separate assessments of inherent risk and control risk for each engagement. Categories, such as "low," "moderate," or "high" would be sufficient. Further, in an emphasis paragraph, or an expanded scope paragraph, auditors could explain how audit procedures were adjusted to deal with "high" inherent and/or control risks. Some members of the committee voiced the concern that inherent and control risk assessments are performed at the assertion level and vary between accounting/accounting cycles. Thus, the level of detail required to disclose these assessments could lead to more confusion amongst investors.
6) Fair value and other estimates.

Concerning all of these possible additional roles, the Board should consider if auditors have the levels of knowledge and expertise required to provide assurance on matters in addition to the financial statements (e.g., Management's Discussion and Analysis, earnings forecasts, or non-GAAP information). In addition, the Board should consider the extent to which any additional work required of the auditor (related to additional roles) might substantially reduce the amount of post-fiscal year-end audit time available to the auditor. In other words, if any additional roles require substantial time and effort, the possibility exists that post year-end audit effort related to the traditional audit may be sacrificed. Lambert et al. (2011) find that SEC mandated accelerations of 10-K filings that required a substantial (≥ 10 days) reduction in post-fiscal year-end audit time led to reductions in earnings quality. This effect was more pronounced for smaller, accelerated filers (vs. large accelerated filers).

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 general consensus of the committee was that the pass/fail model is a practical model that clearly conveys the auditor's opinion regarding whether the financial statements are fairly presented. Given the uncertainties involved with the application of GAAP and GAAS (i.e., the risk associated with interpreting and applying accounting and auditing standards), and the nature of the audit itself (i.e., testing, sampling, reasonable assurance, materiality, etc.), this is the only basic expression of assurance on the financial statements that is plausible and workable. However, additional disclosures, as described above are needed to improve the value relevance of auditor services, disclosures, and assurances.

Also as noted in 1b, recent research suggests that some of the current "pass" reports may not actually meet the required standards as the level and type of assurance required by auditing standards may not be possible, for example, for estimates with extreme uncertainty.

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.

We provide suggested changes above.

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.

Management is most appropriate to provide additional information regarding the company's financial statements to financial statement users. Existing standards clearly state that management is responsible for the financial statements and the auditor is responsible for determining whether management's financial statements are fairly presented. The audit committee's role is to help the auditor in making that determination. Also, we believe a move away from this current model would increase the likelihood of impaired independence on the part of the auditor.

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 stated above, auditors could disclose their separate assessments of inherent risk and control risk as part of their standard audit report. They could also disclose examples of steps taken to adjust detection risk in response to high inherent and/or control risk. Also, if the auditor's report on the financial statements is modified, and it becomes a longer report, the option for the auditor to provide one report that covers both the audit of the financial statements and the audit of internal control should be eliminated, and the auditor should provide two separate reports. This may improve the clarity of both reports.

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.

The consensus of the committee was that an AD&A would prevent a lengthy auditor's report and provide the additional disclosures about the audit that are described above. However, the Board should consider if such a requirement would put the auditor in the position of a preparer, and not an assurer, and would damage the financial reporting system that is in place. In addition, potential legal issues might all but ensure that an AD&A would over time be reduced to uninformative boilerplate language. In that case, it is hard to imagine an AD&A that would read much differently or provide additional content over that information which is presented in the scope paragraph of the current audit report.

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

A standard format should be required for an AD&A for general consistency and clarity of purpose. However, the content of an AD&A should be solely based on the discretion of the auditor in terms of the types of material or significant matters disclosed.

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?

The Committee asks how different would these disclosures be or become from the current discussion, by management, of the risks disclosed in a Form 10-K or in a Prospectus for an initial public offering? We believe it is important for investors to consider business risks, strategic risks, and operating risks. However, we do not think assessments of those risks or reporting of those risks should be the responsibility of the auditor. Again, we fear a blurring of the roles of preparer and assurer and the possible impairment of independence if auditors are required to report these additional risks that may go beyond the audit risk model.

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

Benefit: Investors may be able to better quantify the various risks faced by the entity, depending on what additional information is disclosed.

Shortcoming: It may add cost to the audit, with little added benefit, particularly if the ADA is reduced to boilerplate language. In addition, the AD&A might overshadow the MD&A and thus, cause management to disclose very little information in the MD&A. This may be especially the case if the AD&A is purposed to make comments regarding estimates, forecasts, and other items discussed by management in the MD&A.

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?

The Committee offers this thought: suppose the auditor disagrees with management. What then are management's options for increased disclosure/rebuttal? The concept release is silent about this. We believe that the potential for competing information is reasonably high and, in such cases, it would probably lead to higher auditor turnover due to "opinion shopping." Also, because the auditor may not have all of the information used by management in reporting on components in the MD&A and/or the financial statements, there is in the Committee's opinion a high risk that the AD&A could indeed present inconsistent or competing information and consequently impact users' assessments and evaluations of the financial statements, of the assertions made by management, and of the competence and integrity of management.

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?

Consistent with the Board's illustrative emphasis paragraph, areas of critical importance to the financial statements, including significant management judgments and estimates, areas with significant measurement uncertainty, and other areas that the auditor determines are important for a better understanding of the financial statement presentation could be discussed in emphasis paragraphs. These types of matters would be used to effectively highlight areas (e.g., the uncertainty surrounding management estimates and judgments) that might not be immediately apparent to financial statement users. However, if these disclosures become boilerplate they will be of little benefit to interested users.

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

The Board should consider a requirement to include areas of emphasis in each audit report, but only to the extent that the auditor determines such disclosures are important for a better understanding of the financial statements. However, disclosure of the related key audit procedures may or may not be necessary.

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

The consensus of our committee was that required and expanded emphasis paragraphs could benefit financial statement users by highlighting those matters deemed as significant and could potentially increase the quality of management's disclosures in the financial statements. For example, research generally reveals that going-concern opinions have information value, serving as an effective early warning of financial distress or entity failure and reducing the surprise associated with bankruptcy announcements. They are also useful in evaluating firm valuation and IPO securities (Asare 1990; Davis 2011).

In addition, providing assurance on XBRL-tagged financial statements may be one additional area of emphasis. As noted above, research has noted that current XBRL-related documents often contain errors (Bartley et al. 2009, 2011; Debreceny et al. 2010; Du et al. 2011; Weirich and Harrast 2010). As interactive data visualization software that presents financial statement values becomes readily available, investors will be more likely to rely on XBRL-related data. Assurance on XBRL-tagged financial statements may serve a vital role in the future.

Also, auditors often define materiality based on total values in the financial statements. To provide assurance on the individual values underlying each XBRL tag, auditors may need to change how they define materiality. This change may be needed since academicians and regulators argue that the advent of XBRL-tagged information will allow investors to examine individual data-centric financial items without requiring the items to be viewed within the context of the financial statements (e.g., Lowe and Locke 2011). For example, an investor may view the total inventory value differently if the value is shown alone vs. when it is shown as a component of total assets on the balance sheet.

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

Some of the committee members believe that the auditor should continue to have the option to employ emphasis paragraphs in the auditor's report, but do not believe that such paragraphs should be required. Again, it is perceived that this will risk having the auditor adopt the role of preparer, instead of assurer. Other concerns, similar to those raised by the possible AD&A, also apply: time delays, boilerplate language, etc. To further illustrate this concern, suppose management records an Allowance for Doubtful Accounts of $1 million. Further, suppose the auditors believe an allowance of $1.5 million would be appropriate, and they propose an audit adjustment to management for $.5 million. Management disagrees with the auditor’s estimate and refuses to record the adjustment. The auditors decide to go along with management’s lower estimate, and the $.5 million is deemed “borderline” material. What exactly would the expanded emphasis paragraph say in this situation? Estimates for the allowance may be more or less conservative and therefore a wide range of acceptable numbers may be applied. A discussion of this would likely be confusing to investors and would most likely be ignored. Further, a high potential for the use of boilerplate language exists in this situation.

In contrast, if management is consistently aggressive in its assumptions and consistently chooses income raising alternatives, the auditor most likely assigns a high degree of risk to the engagement. As stated above, disclosure by the auditor of their overall risk assessment of the client would be informative to investors without confusing them with additional emphasis paragraphs that most likely would evolve into boilerplate language.

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?

Regarding assurance on XBRL tags, a statement should be included indicating that the auditors have conducted appropriate audit procedures to provide reasonable assurance that the XBRL-related documents follow four XBRL principles (recently proposed by the AICPA (2011)): (1) tags are complete (i.e. all required information has been tagged at the required levels), (2) mapping (or selection of elements) is appropriate, (3) values are accurate (i.e., the amounts, dates, monetary units, and calculation relationships in the XBRL-related documents are consistent with the source financial statements), and (4) XBRL files are structured for their intended use (e.g., regulatory requirements).

Further, if the auditor did not change his/her definition of materiality, the auditor may want to acknowledge that he/she performed only assurance as to XBRL tag selection; materiality considerations were not affected.

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

Potential shortcomings are that the paragraphs could end up having little or no communicative value if they are too boilerplate, or the information content of the paragraphs might not be fully incorporated by the market on a timely basis (or might be incorrectly incorporated). The obvious benefit to investors is the provision of additional information regarding the performance of the audit and quality/risks associated with the financial statement data. However, as stated previously, the provision of such information may have the consequence of increasing the information gap between nonprofessional and professional investors.

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

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.

As noted above, providing assurance on XBRL-related documents is important as investors are now using interactive data visualization software to display XBRL-related documents when making investment decisions. Unfortunately, early research (Bartley 2009, 2011; Debreceny et al. 2010; Du et al. 2011; Weirich and Harrast 2010) indicates that several XBRL-related documents contain errors.

Also, we describe above how assurance related to the consistency between financial data and related NFMs may enhance the auditor's reporting model. Similarly, we discussed earlier the information and assurance that could be provided on fair values and other estimates (see 1b).

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

Several benefits and shortcomings of providing assurance on XBRL-related documents exist as noted below.

Benefits: Given that both the SEC and PCAOB have the core mission to protect the interests of investors, providing assurance on XBRL-related documents allows investors to rely on XBRL tagged information with fewer opportunities to be misled by incomplete, inappropriately mapped, inaccurate, or improperly structured data (Gunn 2007; Plumlee and Plumlee 2008; Srivastava and Kogan 2010; AICPA 2011).

Shortcomings: Auditors generally define materiality based on total values in the financial statements. To provide assurance on the individual values underlying each XBRL tag, auditors may need to change how they define materiality. Specifically, academicians and regulators argue that the advent of XBRL-tagged information will allow investors to examine individual data-centric financial items without requiring the items to be viewed within the context of the financial statements (Lowe and Locke 2011). For example, an investor may view the total inventory value differently if the value is shown alone vs. when it is shown as a component of total assets on the balance sheet.

Further, some opponents of XBRL assurance argue that the process may be cost prohibitive. However, recent work by Alles and Gray (2011) suggests that the cost of providing XBRL assurance will be fairly low compared to its benefits.

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 these clarifications are appropriate? Why or why not?

These clarifications are appropriate as research evidence tends to suggest that users of the financial statements are confused about the auditor's responsibilities and level of assurance provided by the auditor's report (Church et al. 2008).

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.

Yes, see 21(a) above.

c. Should the auditor's report clarify all or some of the above areas? Why?

The auditor's report should clarify all of the above areas as there appears to be an "expectation gap" related to the level of responsibility that is assumed by the auditor, as well as the level of assurance provided (Church et al. 2008).

d. 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?

In terms of the nature of the audit, as stated above, users might benefit from an explanation of the uncertainty and risk associated with financial accounting and auditing, materiality disclosures, auditor's findings in relation to fraud or illegal acts, disclosure of the engagement partner's name in the auditor's report, and disclosure of the communications between the auditor and audit committee (Church et al. 2008).

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

Clarifications of the language (e.g., use of more straightforward and explanatory language (Robertson 1988), and minor wording modifications (Hermanson et al. 1991)) in the auditor's report would improve the communicative value of the report. The suggested clarifications would provide investors with a better understanding of the role of the auditor and the nature of an audit. The clarifications are extremely low cost and we see no shortcomings for investors or management.

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 or combination of alternatives is most appropriate and why?

Auditor's Discussion and Analysis and clarification of language in the standard auditor's report would immediately improve communication to the users of financial statements based on comments obtained during the Board's outreach efforts. In addition, the content of the AD&A could expound on the emphasis paragraphs and/or auditor's assurance on other information outside the financial statements, if these two alternatives are adopted.

Revising the audit report to include the auditor's separate assessments of inherent risk and control risk, and the steps taken by the auditor to adjust the nature, timing, and extent of audit procedures to achieve an appropriate level of detection risk would be the useful.

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 developing an auditor reporting framework and criteria the Board should work closely with the FASB to ensure that such framework is fully reflective of GAAP standards, and perhaps to influence GAAP standards to improve the transparency and auditability of fair value and other estimates.

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?

Clarification of language in the standard auditor's report better conveys to the users of the financial statements the auditor's role in the performance of an audit as it would more clearly outline the auditor's responsibilities in conducting the audit relative to management's responsibilities, and would more accurately describe the level of assurance provided by the auditor.

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

A revised report that included the auditor's separate assessments of inherent risk and control risk, plus an explanation of appropriate adjustments regarding detection risk would lead to better quality audits. This is based on the examination of audit failures using the audit risk model to determine why the audit failure occurred. When auditors simply state they are assuming control risk at the highest level, or, when they combine inherent risk and control risk into a single assessment, they invariably do not make the necessary adjustments to the nature, timing, and extent of audit procedures to achieve an appropriately low level of detection risk. In other cases, they simply assess inherent risk and/or control risk too low for the circumstances.

In addition, requiring auditors to explicitly express their independence in the audit report, and perhaps having them explain, in brief, the measures they take to ensure independence, may also lead to perceptions of higher audit quality due to perceived higher auditor independence.

Finally, improvement in financial and audit standards around fair value and other estimates would improve audit quality (Christensen et al. 2011).

31. This concept release describes certain considerations related to changing the auditor's report, such as effects on quality control procedures, effects on the auditor's relationships, effects on audit committee governance, liability considerations, and confidentiality.

b. If changes to the auditor's reporting model increased cost, do you believe the benefits of such changes outweigh the potential cost? Why or why not?

As with most new reporting standards, we believe that the benefits will outweigh the potential costs over time. Improving the communicative value of the auditor's report through additional disclosures will definitely involve additional audit costs but should improve audit quality and users' decision-making in the long run.

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