



September 29, 2011

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Rulemaking Docket No. 34

The American Gas Association (AGA) respectfully submits our comments on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* No. 2011-003 (the "Release"). The AGA, founded in 1918, represents 199 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which 91 percent — more than 64 million customers — receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

Based on the response to the PCAOB's outreach efforts preceding the Release, the AGA acknowledges that investors and other financial statement users expressed concerns about the information provided in the auditor's report in light of increasing complexity in preparing and auditing financial statements and ongoing dialogue both in the United States and in Europe on the role of the auditor and the form of the auditor's report. The AGA appreciates investors and other users' desire for more information on issuers' financial statements from the auditor, particularly given the auditor's independent oversight role. However, we have a number of concerns regarding the alternatives proposed in the Concept Release. The four alternatives proposed in the Concept Release are as follows:

1. Auditor's Discussion and Analysis (AD&A),
2. Required and expanded use of emphasis paragraphs,
3. Auditor assurance on other information outside the financial statements, and
4. Clarification of language in the standard auditor's report.

The Release notes that these alternatives are not mutually exclusive, and also asks for respondents to offer other alternatives that may provide further insight into entities' financial statements.

Summary

Highlights of our comments are summarized as follows:

- Reported financial results are management's responsibility. Commentary regarding what constitutes significant matters, areas of uncertainty, and critical management judgments and estimates are most appropriately provided by those in a position to have the best and most complete understanding of the basis and intent underlying these areas, which we believe to be the role of management. Additionally, the disclosure of critical and significant matters, uncertainties, and judgments is required by SEC regulation and by disclosure rules otherwise established under U.S. GAAP. If investors require changes to the disclosure and reporting requirements promulgated under current GAAP, this should be completed through the standard setting process of the FASB and SEC and provided by management.
- Due to the inherently limited nature of an audit of financial statements, the auditor may not possess a complete understanding of the above areas for which management is responsible, although they may nonetheless have obtained sufficient understanding to satisfy their audit requirements. Providing such information could result in conflicts with the information already required to be disclosed by management, thereby creating confusion amongst investors and other users and potentially subjecting the auditor and the entity to increased risks.
- Increasing the scope of the audit to include assurance on other information outside the financial statements will substantially increase the cost and effort to complete an audit, which could risk the timely filing of financial statements in compliance with regulatory deadlines while not providing a commensurate benefit for financial statement users.
- Clarification of terms in the audit report and explanation of auditor responsibilities could be beneficial to users of the financial statements. This information should be either provided by 1) issuing clarifying guidance (to the extent not already incorporated in existing guidance) without adding language to the standard auditor's opinion or 2) amending the standard auditor's opinion by providing standard language to be used in all auditor's reports.
- If additional information is to be provided by the auditor, it should be limited to information related to the audit process, such as significant audit risks identified by the auditor and audit procedures responsive to these significant risks.

Auditor’s Discussion and Analysis (AD&A) and Emphasis Paragraphs

The Release discusses that the intent of an AD&A section would be a supplemental narrative report for the auditor to provide a view of the audit and financial statements “through the auditor’s eyes”. The AD&A could include information regarding significant matters, including management’s judgments and estimates, difficult or contentious issues and areas where management could have applied different accounting. The proposal to expand the use of emphasis paragraphs would mandate the use of such paragraphs (not required today except in certain circumstances) in all audit reports. Such paragraphs would highlight the most significant matters in the financial statements (in the auditor’s judgment), where these matters are disclosed in the financial statements, information related to significant management judgments and estimates, areas of significant uncertainty, and other areas the auditor deems important to emphasize.

While the auditor possesses enough understanding of the entity’s financial statements to conclude for purposes of the audit, the financial statements are management’s responsibility. The auditor’s responsibility is to obtain reasonable assurance about whether the financial statements are free from material misstatement by executing appropriate audit procedures on a test basis (and in the case of public companies, to opine on the design and effectiveness of internal control over financial reporting in line with that objective). However, as a result of not being involved in the day-to-day analyses and decision-making of running the business, the auditor is unlikely to have a complete understanding of the rationale behind all of management’s decisions, judgments and estimates. Therefore, we believe that information provided by the auditor to the public about an entity’s financial statements should not include subjective information, such as the auditor’s opinion of which matters are most important to a user, opinions about which areas involve the highest relative degree of uncertainty, or opinions about which judgments and estimates are the most important or subject to debate. Management’s disclosure of critical and significant matters, uncertainties, and judgments is already required by the SEC. The auditor may provide information as to what are deemed areas of significant audit risk and the procedures executed in response to those risks, as this analysis is indeed part of the auditor’s purview and responsibility. However, the reasons for deeming an audit risk as “significant”, or including information on the results of related audit procedures, may not have a direct correlation to what would be most material or meaningful to an understanding of the financial statements and may serve to distract from the overall opinion and understanding of users.

Because of the limited nature of an audit, we are also concerned that an auditor providing subjective information through an AD&A or emphasis paragraphs could result in conflicting statements between management and the auditor, which may further confuse financial statement users. There is also a risk of the auditor disclosing information that is confidential to an entity. If an auditor provides subjective information that is later proved to be incorrect or of a confidential

nature, management has borne the risk of this information negatively impacting the decisions of financial statement users, and the auditor may be subject to the additional risk of litigation. In order to effectively mitigate these risks, the auditor may need to significantly expand the scope and nature of procedures required by current auditing standards, which may be difficult to adhere to given the subjective nature of the information in question. At a minimum, expanding audit requirements in this manner would have a direct impact on the cost, effort, and timing to complete an audit of the financial statements for which we do not see a commensurate benefit. If the auditor were required to present subjective information in the form of an AD&A, the transparency of communications between the auditor and management and the Audit Committee could be compromised. Effective communication between these parties is important to uphold the transparency and quality of an audit. The Audit Committee is already charged with the authority and responsibility to oversee the financial reporting process on behalf of investors and to resolve any specific accounting treatments or judgmental financial reporting matters that they are not comfortable with, thereby providing assurance that these areas have been adequately addressed within the financial statements.

If additional disclosures are necessary they should be provided by management. GAAP prescribes the standards that must be followed by management when producing financial statements, which are then reviewed by the SEC. If investors require changes to the disclosure and reporting requirements promulgated under current GAAP, this should be accomplished through the standard setting process of the FASB and SEC and provided by management.

Auditor Assurance on Information Outside the Financial Statements

The Release states that another alternative to enhance the auditor's reporting model would be for the auditor to provide assurance on information outside the financial statements, such as Management's Discussion and Analysis (MD&A), earnings releases, and/or non-GAAP information. Guidance already exists for attestations of MD&A (although these engagements are not frequently performed), which the auditor can be engaged to perform by a particular entity's investors and other key stakeholders, if deemed necessary by those parties. Mandating an increase in the amount of information for which the auditor is asked to provide assurance would increase the scope and thus the cost of the audit and could negatively impact an entity's ability to comply with quarterly financial statement filing deadlines, which are increasingly compromised with each additional compliance requirement. Auditors already perform certain limited procedures related to this information. In our view the cost of providing assurance on this information would outweigh any benefits investors would receive from the additional information.

Clarification of Language in the Standard Auditor's Report

The fourth alternative discussed in the Release is the clarification of certain terms in the standard auditor's report, such as reasonable assurance, and the clarification of auditor responsibilities (such as the auditor's responsibility to detect fraud). The AGA does not object to the audit community providing the factual information proposed by this alternative.

If guidance is issued directing auditors to clarify terms and their responsibilities, the AGA recommends either 1) issuing clarifying guidance (to the extent not already incorporated in existing guidance) without adding language to the standard auditor's opinion, or 2) amending the standard auditor's opinion by providing standardized language to be used in all auditors' reports. If additional information is to be provided in the auditor's report, the information should be consistent for all auditors and entities. If guidance is issued that is left open for auditors to interpret what should be included in the auditor's report, varying language in reports could confuse financial statement users.

Conclusion

We appreciate the opportunity to comment on the Release. We understand the investment community's desire for further insight into entities' financial statements and the knowledge of these financial statements that an auditor obtains during an audit. We support the proposal to clarify the language in the standard auditor's report, if it is deemed necessary, by providing standardized language to be used by the auditing community. However, we believe the financial statements are management's responsibility and do not support proposals that allow or require an outside party to present subjective information on an entity's financial statements. If such additional disclosures are necessary, we believe they should be established through the FASB and/or SEC's standard setting process and provided by management. If an auditor has concerns with the information provided under such standards, they should be addressed with the Audit Committee whose role is to address those concerns.

We would be pleased to discuss our comments in further detail and provide any additional information that you may find helpful in addressing these important issues.

Very truly yours,

Jose Simon [s]

Jose Simon, Vice President and Controller, Piedmont Natural Gas
Chairman of the American Gas Association Accounting Advisory Council