

# American Federation of Labor and Congress of Industrial Organizations



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September 30, 2011

### ***Sent via Electronic and U.S. Mail***

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

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

Dear Mr. Seymour:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") concept release on possible revisions to PCAOB standards related to reports on audited financial statements. The AFL-CIO is the largest labor federation in the United States and represents 12.2 million union members. Union-sponsored pension and employee benefit plans hold more than \$480 billion in assets.

The ability of investors to rely on accurate and reliably audited financial statements is fundamental to ensuring the integrity of the capital markets. We commend the PCAOB for its initiatives to reform the audit process, including the report by auditors to shareholders on company financial statements. The auditor's report is the primary means through which auditors communicate with investors regarding the audit of a company's financial statements. But auditors' reports that consist of boilerplate are of little value to investors.

The auditor's report should include a discussion of the auditor's assessment of the estimates and judgments made by management in preparing the financial statements, and how

the auditor arrived at the assessment. Financial statements have become increasingly complex and dependent on management's estimates of subjective values. We believe that auditors should be required to disclose their assessment of significant judgments and estimates made by management.

The auditor's report should also include a discussion of unusual transactions, restatements and other significant changes in the financial statements. Investors would benefit from knowing more about accounting misstatements, including failures in internal controls that permitted the misstatement to occur, whether those weaknesses in internal controls had been fixed, and other changes that have occurred as a result. Investors should also be provided more information about unusual transactions such as those made toward the end of a quarter, or at fiscal year-end, in order to meet financial targets. Other unusual transactions that would fall under this category would be tax-shelters, and related party transactions.

The auditor's report should also discuss the quality, not just the acceptability of the issuer's accounting practices and policies. For example, auditors should describe those instances in which a management's application of accounting principles, while acceptable under GAAP, was not the preferred practice. Differences in how companies apply GAAP can have a significant impact on their financial statements. In addition, we believe that the auditor's report should indicate the auditor's responsibility for detecting material fraud. The auditor's report should clearly state that the auditor provides reasonable (i.e., a high level of) assurance that financial statements are free of material misstatements.

Although there is some merit to the binary nature of the current audit report, we would prefer the audit report to have more levels than simply unmodified and modified – particularly since the large majority of audit reports issued are unmodified. For example, auditors could evaluate the quality of the issuer's accounting policies and practices (including its estimates and judgments) by assigning one of four grades: conservative, above average, average and aggressive. There will not be a failing grade because such a grade would denote non-GAAP reporting and would require the auditor to issue a modified opinion.

Requiring audit firms to issue reports using a forced curve could serve to meaningfully differentiate between issuers in the quality of their accounting policies and practices. Such differentiation would be useful to investors in making investment decisions, and could represent an efficient means of communicating the auditor's overall judgment about the issuer's accounting quality. Moreover, unlike other alternatives being considered by the PCAOB, expanding the audit report choice from two to four categories, and requiring auditors to issue reports based on a forced curve, virtually eliminates the risk that auditor reporting devolves into boilerplate language which would obviate any benefit to investors from changing the auditor reporting model.

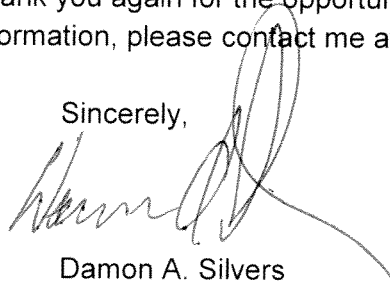
Letter to J. Gordon Seymour  
September 30, 2011  
Page Three

The auditor's report should identify the role of any affiliated firms in conducting the audit. We believe this is important because investors currently have no information about the extent to which the audit was performed by a foreign affiliate of a U.S. auditing firm. Investors would also benefit from the development of an information clearinghouse that identified auditors attached to public company audit engagements worldwide, listing any sanctions, suspensions and litigation against them. Investors can already obtain this type of information about brokers and investment advisers.

Substance should take precedence over form in how this new information is presented to investors. If presented in an Auditor Discussion and Analysis section, the PCAOB should take steps to ensure this new section is not boilerplate. We also believe that the engagement partner should be required to sign his or her name on the auditor's report in addition to the audit firm's name. We find the absence of the engagement partner's signature inexplicable given that CEOs and CFOs must personally certify company financial statements.

Investors deserve more information about company audits and the auditors whose job is vital to preventing accounting fraud. Thank you again for the opportunity to comment on the proposal. If you need any additional information, please contact me at 202-637-3900.

Sincerely,



Damon A. Silvers  
Director of Policy & Special Counsel

DAS/mdg  
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