



September 30, 2011

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

Re: Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standard*

We commend the Board's effort to make improvements to the auditor reporting model and appreciate the opportunity to provide our comments on this Concept Release.

Following are our responses to the specific questions noted in the Release.

Content and Form of the Auditor's Report

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?*

We believe that the Board should undertake a standard-setting initiative to consider improvements to the auditor's report, with the goal of providing investors with more information about the audit process, including a clear understanding by the users of the financial statements as to the different responsibilities of the auditor and management. However, we do not believe that this initiative should result in an expansion of the basic responsibilities of the 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 believe that the standard auditor's report could be improved by further explaining the difference in responsibility of the auditor and that of management, and perhaps that of the Audit Committee, as well as further explaining the level of responsibility the auditor takes with respect to the financial statements as opposed to other information included outside of the financial statements.

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- 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?*

We do not believe that the auditor's role should be expanded to provide assurance on matters other than the financial statements, as we believe that this is an assumption of the responsibilities of management by the auditor, which may potentially result in additional confusion as to the respective roles and responsibilities of the auditor and management.

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?*

Yes, as the current model provides consistency, comparability, and clarity for users of the related financial statements.

- 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.*

We believe that the following changes to the auditor's report would be beneficial:

- A clear explanation of the responsibilities of the auditor, that of management, and that of the Audit Committee
- Information regarding the concept of "reasonable assurance"
- A clear explanation as to the responsibility of the auditor with respect to information outside of the financial statements, including Management Discussion and Analysis
- Expanded use of emphasis of matter paragraphs related to significant disclosures or other significant matters.

3. *Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.*

We believe that additional information about the company's financial statements is most appropriately provided by management and/or the Audit Committee. The auditor's responsibility is to express an opinion on the financial statements and related disclosure, rather than to communicate to users of the financial statements information about the company.

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?*

Similar to our comments above related to changes in the auditor's report on the financial statements, we suggest that information communicating the responsibility of the auditor vs. management related to internal control over financial reporting also be included in this report.

Auditor's Discussion and Analysis

5. *Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?*
 - a. *If you support an AD&A as an alternative, provide an explanation as to why.*
 - b. *Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?*
 - c. *Which types of information in an AD&A would be most relevant and useful in making investment decisions? How would such information be used?*
 - d. *If you do not support an AD&A as an alternative, explain why.*
 - e. *Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?*

We do not believe that an auditor's discussion and analysis should be pursued as an alternative for the following reasons:

- Auditor's discussion of their views on topics such as management judgments and estimates, accounting policies and practices, and so-called "close calls" offer the opportunity to provide greater confusion as to the relative roles and responsibilities of auditors, management, and Audit Committees, rather than to reduce this confusion. The evaluation of these types of issues in the conduct of an audit involves considerations of specific facts and circumstances that would be nearly impossible to communicate to a user of the financial statements while providing the necessary context to fully understand that evaluation. To do so would likely result in an analysis that would be so lengthy and/or include boilerplate language such that it would not be useful to readers. We do believe that these topics should continue to be discussed by the auditor with the Audit Committee, the difference being that members of an Audit Committee have a knowledge base about the company and the opportunity for continuing dialogue with the auditor that can result in a meaningful discussion.
- The auditor discussion and analysis, as contemplated, appears to be such that may offer opportunities for users of the financial statements to either question the conclusions reached by the auditor, or at a minimum, provide less clarity, rather than more as to the basis for the auditor's opinion.
- We do not believe that it is or should be the auditor's responsibility to provide further context to management's discussion and analysis to users of the financial statements. We do not believe that a failure by management to provide the information necessary to investors or other users of the financial statements in the management discussion or analysis, or by other means, warrants a transfer of this responsibility to the auditor. This transfer of responsibility also may result in the auditor disclosing information that management did not, thus again creating confusion as to the responsibilities of each, and potentially calling into question the independence of the auditor.
- We believe that if investors and others believe that financial disclosure is not adequate at present, that this be addressed through changes to generally accepted accounting principles by the FASB and SEC, rather than attempting to address this through changes to the auditor's report.

- We believe that the auditor discussion and analysis contemplated would result in multiple levels of review not only by audit firms, but also by management, the audit committee, and the company's legal counsel. Considering the current time pressure currently experienced in many issuer engagements, we believe that this review process may result in time being taken away from the audit process, at the risk of decreased audit quality. We do not believe that the potential advantages of such an analysis outweigh the potential costs.

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 noted above, we do not believe that information about the audit should be disclosed in an auditor discussion and analysis.

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")?*

As noted above, we do not believe that information about the audit should be disclosed in an auditor discussion and analysis.

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

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?*

We do not believe that it is the responsibility of the auditor; rather it is management's responsibility to communicate information related to business, strategic or operational risks to investors or other users of the financial statements. If this information is not currently being provided to users as it is expected to be, we do not believe that addressing this shortcoming through changes to the auditor's reporting model is the appropriate way to address this problem.

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

Should an auditor discussion and analysis model be adopted, we believe that liability considerations would ultimately push the wording toward boilerplate language, similar to what has occurred over time with respect to management's discussion and analysis.

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

See our response to Question #5 above.

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?*

Practically speaking, we do not believe that there would be significant differences between auditor discussion and analysis and management discussion and analysis, as these differences would be debated and addressed in the review process we have discussed above, with any differences ultimately being resolved via discussions between the auditor, management, company legal counsel, and possibly the Audit Committee. As we have mentioned above, we are concerned that the additional time that this would add to the audit process may have the effect of actually decreasing audit quality, at the expense of providing information that may or may not actually benefit users of financial statements.

Required and Expanded Use of Emphasis Paragraphs

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?*

We believe that the use of emphasis paragraphs related to the types of matters described in the illustrative examples would be relevant to users, as they would draw attention to matters deemed by the auditor to be significant to users of the financial statements.

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

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

As noted above, we believe that the use of emphasis paragraphs can be effectively used to draw attention to significant matters in the financial statements and related disclosures. However, we also believe that the designation of topics which would require the use of an emphasis paragraph be relatively limited, as this would allow a measure of consistency to the types of items being discussed in these paragraphs. By ensuring a level of consistency in the types of issues included, the current negative connotation of the inclusion of such a paragraph in an auditor's report would be eliminated.

We do not believe that related audit procedures should be required to be discussed in the emphasis paragraphs. The auditor's decision to perform certain audit procedures is the result of a risk assessment process and significant judgments. To require the auditor to disclose those procedures, particularly in areas which are as significant as those deemed necessary to provide additional auditor reporting in the form of an emphasis paragraph, creates the risk of decreasing audit quality due to the increased risk of management being able to manipulate information based upon their knowledge of planned procedures in key audit areas.

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

15. *What specific information should be 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?*

We believe that areas in which emphasis paragraphs be required be limited to a relatively few number of topics, and that the type of discussion be areas which are fact-based, rather than judgment-based. For example, we believe that it would be reasonable to require emphasis paragraphs that refer to disclosures of significant related party transactions, significant subsequent events, going concern, or accounting matters that impact the comparability of information between periods (significant acquisitions, discontinued operations, etc.). We also believe that the emphasis paragraphs be relatively brief, as their purpose will be to direct users of the financial statements to the relative matters, rather than to suggest that those specific matters are being separately reported on.

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

See our response to Question 15.

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

As noted above, we believe that the content of emphasis paragraphs be relatively brief, with the purpose of referring a user of the financial statements to significant disclosure, rather than repeating or providing an analysis of the specific matter. As such, it is likely that the language of these paragraphs will become boilerplate in nature. We do not view this as a negative consequence as this will result in a level of consistency in the reporting for these types of matters that will reduce the current negative connotation that exists for this type of auditor reporting.

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

The potential benefit of required and expanded emphasis paragraphs is the clear direction that would be provided to users of financial statements with respect to significant financial reporting and disclosure issues. To maximize this benefit, we believe that the range of matters which would require emphasis paragraphs be relatively limited.

Auditor Assurance on Other Information Outside the Financial Statements

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

- a. *If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.*
- b. *On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.*
- c. *What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?*
- d. *If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate and why?*

- e. *Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?*
- f. *Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?*
- g. *If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.*

We do not think the auditor's responsibility should be expanded to provide assurance on other information outside of the financial statements. Similar to the proposal for an auditor discussion and analysis, we believe that this proposed solution is an unnecessary shift in responsibility from management to the auditor in an attempt to improve the quality of management discussion and analysis.

Additionally, there are certain components of this information that would be difficult to audit, if auditable at all, particularly the so-called forward-looking information. As a result, users of the financial statements and related other information may be unclear as to which portions of the other information is audited and which is not.

Lastly, we question the demand for this type of assurance from the auditor, whether from management or investors, as standards currently exist to provide for this reporting, however we do not believe that auditors are routinely engaged to provide this service.

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

We do not believe that there are significant benefits in requiring this information to be audited, and as any requirement to provide assurance on any of all of this information would increase audit costs and increase time pressures; we do not believe that an appropriate cost/benefit relationship exists.

Clarification of the Standard Auditor's Report

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?*

We believe that each of these clarifications are appropriate, as a better understanding of each of these concepts by users of the financial statements should result in a clearer understanding of the roles and responsibilities of the auditor, management, and possibly also that of audit committees.

- 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.*

Yes, as evidence suggests that users of financial statements do not have a clear understanding of the nature of the audit as it relates to the concept of reasonable assurance, nor do they have a clear understanding of the separate responsibilities of the auditor and management with respect to the financial statements.

- 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?*

We believe that similar clarifications be made in auditor's reports on internal controls over financial reporting. Additionally, clarification of the role of audit committees may be of value to users of financial statements.

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

We do not believe that the clarification in the auditor's report for the types of matters discussed will have a significant impact on the scope of the audit.

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

We believe that the proposed clarifications will result in a better understanding of the audit report, as well as a better understanding of the responsibilities of the auditor, management, and possibly audit committees with respect to the financial statements and the auditor's report. We do not believe that there are significant shortcomings that would result from the inclusion of these clarifications.

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?*

We believe that the possible reporting described in *Clarification of the Standard Auditor's Report* can provide effective and meaningful enhancements to auditor reporting without a significant increase in the cost of audits.

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?*

We believe that the combination of the considerations noted in *Clarification of the Standard Auditor's Report*, along with those discussed in the *Form of the Auditor's Report* have the potential for the most benefit with limited cost. We also believe that consideration of required emphasis paragraphs may improve auditor reporting, depending upon the nature and extent of what matters the Board would deem to be "required".

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

None specific, other than that we believe that many of the considerations discussed also have applicability to the auditor's reports on internal controls over financial reporting.

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?*

The development of an auditor reporting framework needs to be such that the framework will appropriately consider the cost/benefit relationship of any expansion in auditor reporting. In addition, the Board needs to consider the impact of any changes on smaller issuers and smaller firms.

27. *Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate the risk of this perception?*

We do not believe that the considerations discussed in *Clarification of the Standard Auditor's Report* would be perceived to result in a qualified or piecemeal opinion. Also, if appropriately scoped and applied, the concepts discussed in *Required and Expanded Use of Emphasis Paragraphs* may result in these paragraphs being perceived more favorably than they are currently.

However, we believe that the concepts discussed in *Auditor's Discussion and Analysis* and *Auditor Assurance on Other Information Outside the Financial Statements* may well result in more confusion as to the auditor's responsibilities than what currently exists, in addition to adding significant time and cost to the audit process.

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?*

See our response to Questions 23 and 24.

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

We believe that the considerations discussed in *Clarification of the Standard Auditor's Report* can be implemented at minimal cost with no effect on audit quality, other than an improvement in auditor reporting.

As discussed in response to previous questions, we believe that the considerations discussed in both *Auditor's Discussion and Analysis* and *Auditor Assurance on Other Information Outside the Financial Statements* have the potential to decrease audit quality as a result of taking time away from the audit process to prepare and review auditor discussion and analysis and/or complete procedures necessary to provide assurance on other information, while still requiring timely reporting of financial information.

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.*

In order to appropriately achieve the goal of consistency and comparability in auditor reporting, we believe that changes in the auditor reporting model apply equally to all reports covered by the standards of the Board. We do recommend, however, that the Board properly consider the impact of any changes to the reporting model to smaller issuers and smaller firms.

Considerations Related to Changing the Auditor's Report

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

- a. *Are any of these considerations more important than others? If so, which ones and why?*
- b. *If changes to the auditor's reporting model increased cost, do you believe the benefits of such changes justify the potential cost? Why or why not?*
- c. *Are there any other considerations related to changing the auditor's report that this concept release has not addressed? If so, what are these considerations?*
- d. *What requirements and other measures could the PCAOB or others put into place to address the potential effects of these considerations?*

32. *The concept release discusses the potential effects that providing additional information in the auditor's report could have on relationships among the auditor, management, and the audit committee. If the auditor were to include in the auditor's report information regarding the company's financial statements, what potential effects could that have on the interaction among the auditor, management, and the audit committee?*

We do not believe that the auditor should be placed in the position of being the source of information about the company to users of the financial statements. We believe that any proposed changes that would place the auditor in this position will result in a lesser understanding of the auditor's responsibility by users, rather than to clarify it.

Once again, we appreciate the opportunity to comment on this Concept Release. Please feel free to contact us if you have questions on any of our comments or would like to discuss them further.

Sincerely,



Brian Bluhm, CPA
Director of Assurance Services
Eide Bailly LLP