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

PCAOB Rulemaking Docket Matter No. 34

BACKGROUND

This letter is to comment on the PCAOB Release No. 2011-003 dated June 21, 2011, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements*.

The PCAOB release referred to in the preceding paragraph requests comments on possible revisions or additions to the content of the auditor's report. Rather than responding to each of the thirty questions in that release document, we have chosen to articulate our views in the following few paragraphs.

OVERALL VIEW OF PROPOSAL

We believe that the appropriate order of events for the PCAOB in fulfilling its mission should be to first review the current audit requirements and then to compare them with what it believes the requirements for an audit should be. Only after the PCAOB has taken that critical step can there be any meaningful and logical discussion about the wording and content of the auditor's report. The wording can have no objective other than ensuring that the report faithfully represents to its readers the purpose, scope, and conclusion of the audit. Until the PCAOB is content with the objective of an audit, any meaningful changes to the report are premature and merely cosmetic. However, if immediate change to the auditor's report fulfills a sense of accomplishment for the PCAOB in responding to widely reported but nevertheless anecdotal comments made by those purporting to represent the user community, we offer our reaction to some changes that could take place without the need for the PCAOB to rethink the audit process. Those comments are in the section that follows.

Our overall reaction to this request for comments is that a change to the current auditor's report is simply unnecessary. In our view, the current auditor's report is clear in describing the objective, the scope, and the conclusion of an audit prepared in accordance with standards issued by the PCAOB in fairly understandable and unambiguous plain English. However, any language and description can be improved, and we certainly have no objections to attempts to make such improvements to the report.

We do want to be very clear that changes to improve the auditor's report should not become the driving force behind changes to the scope of the audit. If it is the PCAOB's desire to change what is required to be done in an audit, the proposed change should be addressed head-on by issuing a proposed auditing standard following the normal exposure rules of procedure for a change in auditing standards as now required for any change to auditing requirements. Such a change should not be attempted in a back-door manner by making an addition to the auditor's report to require reporting on an area not currently subject to an audit requirement. A vivid example that cries out from the discussion document is the sample discussion in the audit report of past and present company operations. We definitely believe any discussion of company operations along the lines of management's discussion and analysis has no place appearing in an auditor's report which is, after all, a report from the auditor and not the company's management. Current requirements are for the auditor to read management's discussion and analysis that is prepared by the company's management to ensure that nothing is being stated therein that conflicts with information about which the audit team has knowledge as a result of its audit.

Including a narrative discussion of the company's past and future operations to the auditor's report also indirectly imposes a new requirement to audit prospective information about company plans—something that has no place in an audit report.

We believe the PCAOB needs to decide whether it wants to change the core content of an audit or simply revise the auditor's report. If the latter is the intent, then the only changes to the auditor's report that can be considered are changes that add information about what already takes place in an audit performed in accordance with PCAOB standards. We provide our reaction to those in the following section.

POSSIBLE *AD HOC* CHANGES THAT COULD BE MADE TO THE AUDITOR'S REPORT

If the PCAOB should choose to simply make changes to the auditor's report based on no more than the anecdotal comments made by those who purport to represent the user community, then some changes can be made to the report without the PCAOB conducting a full study and evaluation of the audit process described in the second paragraph of our letter. Our reactions below are to some of the possible changes to the auditor's report that could be made by the PCAOB on an *ad hoc* basis:

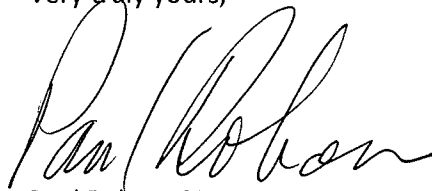
- Firstly, we have no objection to any wording changes to the auditor's report that, in the view of the PCAOB, add clarity to readers' understanding of the audit process and the audit conclusion.
- Secondly, we have no objection to the addition of any language additions or changes in the audit report that, in the view of the PCAOB, adds clarity to the readers' understanding of the independence of the audit firm.

- Thirdly, we have no objection to adding to the audit report the significant audit risks required to be identified in the normal course of the audit, should the PCAOB conclude that such information adds to the report readers' understanding of the audit report. *However, we would caution whether such information really would be helpful or might simply lead to readers of the auditor's report wrongly concluding that the sheer number of audit risk areas identified by the auditor in some way correlates to the reasonableness of the financial statements that are the subject of the auditor's report.*
- Fourthly, we have no objection to adding affirmative statements to the audit report to indicate in general terms the specific and significant audit procedures employed by the audit firm in the course of the audit, whether those audit procedures are mandatory, presumptively mandatory, or elective, should the PCAOB conclude that such information adds to the audit report readers' understanding of that report. *However, we would again caution whether such information really would be helpful or might simply lead to readers of the auditor's report wrongly concluding that the sheer number of audit procedures identified by the auditor in some way correlates to the effectiveness of the audit and the reasonableness of the financial statements that are the subject of the auditor's report.*
- Finally, we have no objection to adding to the auditor's report the identity and extent of auditing services provided by the firm signing the report and others—both network and non-network firms, as well as identifying the domestic and foreign locations in which those other firms provided their audit services.

CONCLUSION

Thank you for the opportunity to comment on this topic. I would be pleased to provide further information and comments should you so wish. Also, please contact me at (203) 401-2101 should you have any questions.

Very truly yours,



Paul Rohan, CPA

Partner

Director of Financial Reporting and Quality Control