

September 9, 2011

From:

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To:

Office of the Secretary, PCAOB,

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Subject: Docket 034, PCAOB Release No. 2011-003, CONCEPT RELEASE ON POSSIBLE REVISIONS TO PCAOB STANDARDS RELATED TO REPORTS ON AUDITED FINANCIAL STATEMENTS AND RELATED AMENDMENTS TO PCAOB STANDARDS

To Members of the Public Company Accounting Oversight Board:

Thank you for your work and this opportunity to comment on concepts being considered for audit reports.

Most responders to this comment request have fundamental positions. Once that position is clear, the comments are better understood. My responses to each of the questions for which you seek comment are consistent with concerns I have about the public accounting profession. You may interpret my comments from the following convictions about audit firms reached several years ago:

- a. Professional accounting firms are not properly governed or capitalized.
- b. Nor are they committed to proper professional standards.
- c. The public deserves financial and qualitative information about CPA firms.
- d. Independence is routinely compromised in audit work.
- e. CPA Firm ethics are diluted to the lowest level acceptable among organizations permitted to practice as part of CPA firms.
- f. Regulation today is rationalization among friends, and
- g. PACs and lobbying have no place in this profession.

Some of these concerns have been partially addressed. But other proposals, including those in the Concept Release, only burden a flawed foundation needing to be fixed fixed. The concept proposals will cost more in audit fees, non productive work for registrants and standard language in annual reports

that satisfy legal protective concerns while blurring investors' vision. These likely results are not the objectives sought, whether or not you share my specific concerns about the profession.

The U. S. Treasury Advisory Committee on the Audit Profession had much discussion on some of the seven convictions and other structural concerns, but action to its recommendations appears to be dormant in many cases.

It is my avid wish the responses herein are taken as constructive suggestions, not criticism of efforts and ideas of others. The responses are my own, not of any organization with which I am affiliated. It would be a pleasure to discuss these observations with you if you desire. My contact information is shown above.

Sincerely,

Gilbert F. Viets

ATTACHMENT: 15 pages

PCAOB Release No. 2011-003

CONCEPT RELEASE ON POSSIBLE REVISIONS TO PCAOB STANDARDS RELATED TO REPORTS ON
AUDITED FINANCIAL STATEMENTS AND RELATED AMENDMENTS TO PCAOB STANDARDS

Answers of G. Viets

QUESTIONS

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?

Answer: No. "Fairly stated" and "in accordance with GAAP" are appropriate standards against which auditors should report. Stay focused on why failures occur in achieving these objectives.

- 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?

Answer: Do not revise the standard audit report. Investors should look to management for information about the financial condition of the company. If the auditor disagrees with management, they should report the disagreement under existing standards.

- 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?

Answer: No. The auditor reads other information in documents that include audited financial statements. If the auditor finds that such information contradicts the financial statements, they must investigate and resolve the differences to assure the statements are correct. The process improves both the audited financial information and the unaudited company information if done properly.

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?

Answer: Yes. It is simple. If the answer is "fail," the auditor can write as much as they want, and they should. If accounting principles result in unfair presentations, change those.

- b. If not, why not, and what changes are needed?

Answer: Not applicable.

- 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.

Answer: The identification of the issuing office of the auditor is unnecessary and implies some limitation on the use of available firm resources and responsibility. Otherwise, there is nothing wrong with the report except that it is sometimes misapplied, i.e. it says the statements are correct when they are not; that is an auditor problem, not a language problem.

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.

Answer: Management! If company management is incapable of communicating with investors, the board of directors should correct the problem. If management is prevented from communicating with investors because of some regulatory directive, it is a disservice to management and to investors. The more we look to auditors or the audit committee to provide the information, the less independent they become.

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?

Answer: Reports on internal controls are a noble objective, but need reconsideration. Consider eliminating required reports on internal control. It is a costly mandatory exercise, not based on established, commonly understood, acceptable standards, and performed by people untrained in control systems. Reports give false comfort, addressing only the past, not the future. Nearly all "material weaknesses" reports are based on material adjustments required after mistakes have occurred and damage done.

The requirement failed to disclose backdating of pricing stock options, large commitments on derivative instruments, bad credit standards of financial institutions, non existence of assets and non disclosure of real liabilities. Why mandate procedures that miss the obvious?

A change that could help companies and investors would be to orient the reports to the future, not the past. For example, if some experts were to do sufficient work to say:

“...We have studied this system and, considering what is planned and foreseeable during the next year by XYZ, Inc., the procedures provided in this system will identify all transactions and information necessary to currently and properly classify and report the necessary information for shareholder reporting under generally accepted accounting principles...”

Such a report, as paraphrased, may best be done by someone other than the traditional, historical financial statement auditor. This alternative, at least, reaches into the future attempting to anticipate and prevent bad things from happening rather than reporting what has already happened.

There should be no regulatory distinction among public companies, based on market capitalization, as to whether a review and report on internal controls is required. Complexity and risk have nothing to do with market capitalization. Public companies must accept the responsibility of timely, accurate and fair reporting.

5. Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?

Answer: No.

- a. If you support an AD&A as an alternative, provide an explanation as to why.

Answer: N/A.

- 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?

Answer: N/A

- 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?

Answer: N/A

- d. If you do not support an AD&A as an alternative, explain why.

Answer: Today's financial statements for public companies are valuable documents with tremendous amounts of information if read thoroughly and thoughtfully. Good auditors test the information based on the auditor's determination of how much risk the auditor is willing to accept that something is incorrect and not discovered in the tests. An investor is challenged to digest the financial information, without also having to participate in evaluating auditors' testing decisions.

Unfortunately, auditors have made many bad testing decisions in the last fifteen years, and the rate of bad decisions seems to be increasing. The audit industry response is liability limitation through contracting, inadequate risk capital, entity diffusion (networks), legislation, confidential legal settlements and general lack of transparency about their own business models to investors and to their own partners. Better audit techniques have not been developed, or if developed, not applied.

This proposal tends to transfers auditor responsibility for scope decisions to the investor.

- 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?

Answer: Yes. The present audit report is the best alternative. Also, auditors can and should comment to the audit committee. If the auditors disagree with management on important issues, they should report that disagreement. The necessary vehicles exist already if all parties do their job. Failures we have seen are not the result of lack of opportunity and responsibility to properly report and disclose what investors should be told. The PCAOB should hold audit firms responsible for doing what they are reasonably and professionally responsible to do now under existing reporting standards.

The PCAOB has made good progress in review of audit practices. But, the PCAOB and all would benefit from immediate attention to large known and suspected audit failures, similar to the approach used by the National Transportation Safety Board to review and preserve evidence following airplane accidents. The damage caused is great and the free market can't really afford to bury the causes in confidential legal settlements.

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)?

Answer: N/A.

7. What types of information should an AD&A include about the auditor 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")?

Answer: N/A.

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

Answer: N/A.

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?

Answer: These risks should be discussed by management. If the auditor must be the one to discuss them, something is wrong with management's sense of responsibility to owners and investors.

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

Answer: N/A.

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

Answer: There is no benefit. The shortcoming is that it makes the auditor discussion a primary focus when it should be secondary, used for exceptions to which the auditor must draw attention if management will not do so.

It is not correct to conclude that auditors do it anyway, so it shouldn't cost more. It will cost more. Wording will become crucial, and it will be diluted to defensive language that is uninteresting to read and difficult to understand. It will not be the frank memo that should exist in the file of the audit team that can and should openly discuss rumors, suspicions and other concerns and how the auditor determined disposition of the issues. Deliberations on what an AD&A should say will have a negative impact on the frankness of the memo that now exists in most audit team files for fear that conformance between the two is desirable; it isn't.

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?

Answer: The Annual Report to Shareholders or to the Securities and Exchange Commission is not a debate between the auditor and the company. If the auditor disagrees with management, there is ample opportunity to resolve the issue with the audit committee, and to disclose the issue if not resolved. If that is not happening, it is not because of the lack of an AD&A and it will not be corrected by adding one.

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?

Answer: The opportunity for emphasis paragraphs exists now, but they should be used judiciously to achieve desired emphasis. Mandating emphasis dulls deserved attention.

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

Answer: No.

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

Answer: N/A.

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

Answer: Emphasis paragraphs should be used rarely.

It does little good to require auditors to give a partial explanation, at best, of what their procedures may have been. It would mislead investors to mandate emphasis paragraphs just for the sake of choosing something to say. Auditors are trained to make the choice of what and how to audit. Investors should not get into the position of blessing procedures disclosed, through lack of objection to auditor discussion of emphasis. Auditors are not restricted in choosing to do whatever they want to do to reach conclusions on information based on their own measurement of risk they might be wrong.

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?

Answer: N/A

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

Answer: N/A.

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

Answer: Don't make emphasis paragraphs mandatory. As used today, emphasis paragraphs are not boilerplate. Consistency among audit reports is not necessarily a good objective. If something is said only because it is required of all, how does an investor recognize what is really different, requiring special attention?

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

Answer: There would be little, more likely negative, benefit from mandating this reporting by auditors. It would result in misunderstanding of what the auditor does and what the full scope of the auditor responsibility is.

Implications of required emphasis could be personal and severe. At the extreme, an auditor might be required to discuss emphasis on individual executives because of their lifestyles, internal squabbles among executives or mental and physical health concerns of key executives. Auditors are not blind to social issues in setting their testing scopes.

On the other hand, is there any evidence that mandated emphasis paragraphs would have prevented the problems experienced in the last decade from back dated stock options, subprime lending, non disclosed liabilities and nonexistent assets? What could an investor have done if the audit report had discussed areas of emphasis?

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

Answer: No. The Board should consider the assurance that already exists. There are schedules in the Annual report to the Commission that require audit opinions and, in some cases, auditors are required to give specific procedure reports to major creditors, e.g. loan covenant compliance. Auditors review and sometimes audit quarterly financial information. Auditors must now read other information in documents containing their audit report to satisfy themselves that the other information does not contradict what is in the financial statements.

Further required intrusion by auditors into information and communication with shareholders shows incredibly low regard for the integrity and ability of company management and incredibly high regard for auditors' ability to be the gatekeeper for all information that anyone might want. We cannot audit our way to integrity. Auditing is a costly, non productive exercise, focused on the past rather than the future. Auditing should be used sparingly.

- a. If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.

Answer: N/A.

- 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.

Answer: N/A.

- c. What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?

Answer: Read it. Discuss it with management if it contradicts information in the audited financial statements to assure the financial statements are not misleading. Resolve issues with audit committee and report the issues in the audit report to shareholders if they are not resolved to auditor satisfaction. These procedures are already required.

- 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?

Answer: N/A.

- e. Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?

Answer: No, not if the auditor is doing the job they are supposed to be doing in auditing the basic financial statements.

- 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?

Answer: Yes, if it is to be done at all. In most cases, it is not necessary.

- g. If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.

Answer: A requirement that the auditor give formal opinions on peripheral information is a step toward further compromising auditor independence, making auditors part of management as primary providers of information. Management has a right, responsibility and fiduciary requirement to communicate with investors. Management representations in that communication are part of the evidence upon which auditors should base their conclusions about financial statements, and to a large degree evidence by which investors should judge management. Results of following this proposal would be expensive. It would have negative value to investors by filtering managements' views through the eyes of the auditor. Investors have a right and need to know what management believes untainted by auditor authorization.

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

Answer: There is no benefit.

To find any benefit to this proposal, one must necessarily conclude that management cannot be trusted. Further, one must conclude that investors would be protected from management misinformation by having the external auditor review, correct and adjust the information to something closer to the truth. There is no study that supports such a conclusion, to my knowledge. The cost of audits would grow exponentially trying to accomplish this unsupported goal, and auditor independence would be further compromised by making it the auditors' information.

Consider, for example, would anyone benefit by having the audit partner sit on the stage at a shareholder meeting, nodding "yes" or "no" to statements by the CEO and CFO? Would it be helpful to have the audit partner deliver an "Auditor Response" in periodic investor conference calls, agreeing or disagreeing with management? These preposterous "over the top" examples are similar to what is being suggested.

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?

Answer: No. The terms "reasonable assurance" and "independence" are good, time tested use of the words. Any attempt to clarify them produces more restrictive meaning than their common usage. Auditors may want to restrict implications of common usage for liability purposes, but that would be a disservice to investors, not an aid.

The other terms listed in the question are all preceded with the word "responsibility," by the auditor in three cases and management in another. There is abundant written material in the standards and case law about what they mean for both auditor and management. Trying to

further define the terms in the audit report for investors would result in narrowing responsibility, working to the benefit of auditors, not investors.

I respect The Center for Audit Quality but challenge its example of a new report that would supplement the efficient language of the current audit report by adding language like "...the 'total mix' of information presented in the consolidated financial statements, taken as a whole..." and "...audit evidence we obtain is often persuasive rather than conclusive..." Will the investor be even marginally enlightened to better understand "materiality" and "evidence" with these additions?

The auditor report is clear now and should not be changed.

- 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.

Answer: The problems we have experienced are not because investors misunderstood a clear, simple audit report. The problems are because financial statements were wrong. The value of auditors' reports is diminished, not enhanced, with any attempt to clarify common terms.

- 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?

Answer: As noted earlier, the identification of the issuing office of a national or international accounting firm is not necessary or helpful.

Consider, however, requiring disclosure of significant limitations in the auditor's contract. The contracts frequently define permitted legal avenues for the company to resolve disputes, e.g. no jury trials or that cases involving the auditor can only be prosecuted under the statutes of a state chosen by the auditor. Disclosure perhaps should include restrictions against holding non issuing network firms responsible for their portion of work by exempting the network firms from liability to third parties. As in the example report offered by the Center for Audit Quality, such restrictions usually are presented positively, e.g. "...the U.S. firm assumes full responsibility..." when the clear meaning may be that non U. S. firms cannot be held responsible even if they do the majority of the work, because only the U.S. firm signs the contract and the report. Occasionally, that disclosure is on the auditor website, unread by all who should know.

Consider if investors should be told of significant contractual restrictions agreed to by the company. If so, should the disclosures be relegated to the proxy statement, a separate 10-K item or some other remote location apart from the firm's report on the company financial statements? Is the website of the auditor OK?

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

Answer: Clarifications of this type narrow the meaning of the words, reducing the auditor responsibility. Audit work may be reduced because audit risk becomes less. It does not serve investor interests to reduce the responsibility for auditors by narrowing the meaning of "reasonable assurance," "fairly stated" and "independent." It is reasonable for auditors to make their own judgments of risk they are willing to assume; but it is unreasonable to redefine words that otherwise broadly protect investors. If they have documented their reasoning, auditors are well down the road to convincing others of its reasonableness.

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

Answer: Further clarification will dampen the creativity that auditors use to create audit plans for various scenarios that could be wrong with financial statements. Such creativity is best developed by auditors in the field who know the people, business model and controls of their clients.

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?

Answer: The alternatives of requiring an AD&A and emphasis paragraphs, clarifying language in the standard report and adding to the information required to be audited are all available to auditors and registrants without any action by the PCAOB. If an audit firm unilaterally decided to use the alternatives, the PCAOB would probably object to the alternative of clarifying language as too restrictive. The other three alternatives are not commonly done now for some good reason, if one believes in market driven answers: i.e. the three either do not add value or the cost is too great to justify any benefit that could be derived. Any proposal to require them in all instances, however, begins to sound like a marketing plan by accounting firms to get more work with the help of regulators.

Who believes that the Enron problem would not have happened if any or all of the alternatives had been done? Does anyone think that the backdating of stock options would not have occurred, but for lack of these alternatives? The same questions should be asked for the failure to discuss the impact of derivatives, repurchase agreements, bad loans and poorly securitized investments? All of these bad things occurred and continue to occur because management and the auditor did not do the things they are required to do under existing law, regulations and professional standards, using already existing tools.

None of these alternatives is necessary.

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?

Answer: No.

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

Answer: There are several.

Communication is far better if auditor independence is paramount and there is sufficient risk to the auditor for not communicating.

Anything the PCAOB can do to reinforce upon auditors their independence from company management, and the auditor's responsibility to investors, would be the first alternative.

Consider how that can be done:

Should the check to pay the auditor come from a bank account maintained for the audit committee, and be signed by a member of the audit committee?

Should the audit fee be charged to shareholder equity, similar to a dividend, rather than be charged to operating expense, reinforcing who the customer of the auditor really is?

Should the audit team share all memoranda on discussions with key management with the audit committee?

Auditor independence is still hampered by the lack of appropriate financial commitment by audit partners in their own business. Audit partners at major firms have little capital at risk relative to the income they make and take each year from the limited liability entities in which they operate. They are driven far too much by the desire to generate cash income rather than by protecting their accumulated net worth and that of other partners in their firm. That situation did not exist until the late 1990's and it has had a very significant negative effect on audit quality. It is far too easy to "escape" from serious financial and ethical responsibility. Structuring for risk protection has been taken to the extreme by the major audit firms.

Auditor independence is weakened when audit firms expand their practices to include non audit, advocacy services. Any audit firm that offers lobbying services for political solutions for any industry or company or litigation support services, regardless of the merits of the issue, takes sides, compromising someone's interest. "Independence from" and "advocacy for" are concepts having significantly different approaches and they don't mix together. But, that's what the audit industry tries to do. The information developed in the U. S. Treasury Advisory Committee proceedings show the major audit firms are not primarily audit firms, but consulting firms.

These types of rationalization of true independence are dangerous and continue to plague this industry.

Finally, a deliberate focused effort should be made by the PCAOB to see if there is any possibility that communication to investors can be enhanced by reducing auditor work and words. The initiative in this concept release is totally directed at increasing communication by adding work for auditors and words to their reports. Maybe we are down the road too far trying to have auditors answer all perceived needs rather than focusing on real needs, diluting rather than improving effectiveness.

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?

Answer: This question assumes that an alternative or a combination of alternatives will be adopted. Today, the biggest shortfall in reporting and communication is lack of discipline following existing requirements. The best alternative is to eliminate the lack of and inconsistent application of discipline.

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?

Answer: This question implies there is something wrong with an auditor communication that has a qualification or is restricted to some particular fact. Qualified and piecemeal opinions can be good communication, better than communications that overstate reality. The question highlights concerns about the direction of this concept statement.

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?

Answer: No. The alternatives are well intended, but they attempt to over define and over report what ultimately is best left flexible and efficient. The result will be less assurance at greater cost. There are better answers including stronger enforcement of what is already required, coupled with enhanced auditor independence.

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

Answer: The effect would not be good. Any of the alternatives would misdirect energy from foundational weaknesses that should be fixed. Cost would increase because hours required to do the alternatives increase. The alternatives would narrow the responsibility of auditors giving them more argument to deny responsibility where they should be responsible. The alternatives detract from necessary communication between management and investors by inserting a third party, the auditor, as a filter between the two who most need to communicate.

The basis for my views is thirty-five years as an auditor in a large firm including managing an office; teaching auditing at a major university; serving as an EVP and CFO at a public company; serving on two public boards; serving as chair of audit committee for two public entities; working to advise a state agency charged with auditing every agency, county, township and municipality in the state; and serving on a Special Litigation Committee for a closely held international private entity having disputes among shareholders. I experienced the personal loss and fallout of the death of Arthur Andersen after my retirement, a life changing and instructive development. These experiences cause focus on why bad things happen and what could be done better.

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.

Answer: If done at all, these changes should apply to all public entities. But, I do not support the proposed changes because they will have negative impacts on what the PCAOB is trying to achieve for investors.

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?

Answer: The largest effect will be on audit effort, liability and governance. Effort will increase, driving up costs to shareholders. Liability to auditors will be defined down by narrowing responsibility for auditor creativity and thoughtfulness. Governance will shift relatively from management to auditor. And, the impact to investors will be negative.

- 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?

Answer: The proposals will increase cost. Suggested benefits to investors will, in fact, be losses in terms of financial cost, without adding value to the business model of the company. Auditors' messages will be diluted.

- 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?

Answer: Yes. The missing considerations are the fundamental structural changes that need to be made in the audit industry to enhance independence and what could be done to simplify meaningful auditor reporting with less work and fewer words, not more.

- d. What requirements and other measures could the PCAOB or others put into place to address the potential effects of these considerations?

Answer: The considerations propose changes to the report of auditors. More regulatory required words from the auditor do not accomplish desirable objectives. The real objective for auditors is simple: make sure company financial statements are correct, as defined. This objective is best accomplished by insisting the auditor be completely independent and sufficiently exposed to risk of loss for not doing a good job.

Audit firms are private entities, generally partnerships with structurally limited risk confined to small pots of capital within geographic boundaries, seeking to privately settle all disputes using structured settlements from future earnings to ease partner pain. If the pain is too great, some form of liquidation of the small pots of capital follows. Audits continue under another banner. As presently structured, individual auditors are driven to generate revenue for the firm to be distributed currently.

We are running far too close to the edge with only four uninsured, undercapitalized organizations auditing nearly all public companies. This situation requires heavy external quality control, with clear, current reporting about audit failures and auditor financial information. The U. S. Treasury Advisory Committee on the Audit Profession had much good testimony on these weaknesses, but little was done with some of the key recommendations. The inevitable result is only clouded by questions of “when?” and “what will follow?”

We should try to answer those questions by eliminating them as a concern.

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?

Answer: Confusion, redundancy and unhelpful tension would result. The proposal is a regulatory insult to management and audit committees, favoring the integrity of poorly capitalized, uninsured audit firms and showing universal disrespect to the ability of company governance to properly deal with communication between and among owners and management. That disrespect is sometimes deserved, but recent history and human nature suggest similar shortcomings at audit firms, law firms and investment banker advisors who have been involved. At great cost, the proposals in the concept release would shift responsibility from those directly responsible to investors, to those indirectly responsible to investors, not a good move for investors.