



September 27, 2011

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

Re: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards (PCAOB Rulemaking Docket Matter No. 34)

Dear Office of the Secretary:

On behalf of the board of directors of the National Association of Corporate Directors (NACD), we are pleased to submit our comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") "Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards" (Concept Release).

Founded in 1977, the NACD's mission is to advance exemplary board performance, and the only national membership organization created for and by directors. Given the close interaction between the auditor and the audit committee, and because a large number of our members are audit committee members and chairs, NACD believes it is appropriate to provide our views on the issues presented in the Concept Release. Our comments are as follows:

Primary Role of Management to Assert and Auditors to Attest

NACD believes that it is imperative that any change to the auditor's reporting model or expansion to the role of the auditor preserve the established role of management asserting information on which the auditor attests. We believe any change that would require or allow the auditor to disclose original information about the company may result in unintended consequences including potentially supplanting the role of the audit committee in overseeing both the financial reporting process and external audit on behalf of investors, and undermining management's responsibility for the financial statements, including disclosures. NACD does believe that some level of auditor assurance on additional information disclosed by management could result in heightened management focus on these areas; however, any such areas should be carefully chosen to ensure that the benefits of the additional work outweigh the costs.

Views on Alternatives Presented in the Concept Release

The Concept Release presents several alternatives for potential changes to the auditor's reporting model that could increase transparency and relevance to financial statement users. We present our views on each alternative below.

I. Auditor's Discussion & Analysis

NACD has significant concerns regarding the auditor's discussion and analysis (AD&A) alternative presented in the Concept Release for the reasons described below.

First, and most importantly, we believe that the AD&A approach would undermine the governance role of the audit committee to oversee the financial reporting process. As described in the Concept Release, the AD&A would result in the auditor communicating, for public consumption, the equivalent of their required communications to the audit committee. Since the enactment of the Sarbanes-Oxley Act of 2002 and implementation of its corresponding provisions, NACD believes the role of the audit committee in overseeing the financial reporting process, including the external audit, has been strengthened and improved significantly. Public communication of such information in the AD&A or otherwise would supplant or confuse the fiduciary responsibility of the audit committee to oversee the financial reporting and external audit processes.

Second, we believe public communication of certain matters (e.g., auditor "perspectives" or "impressions" on matters related to the audit as well as on the company's financial statements, including management's judgments and estimates, accounting policies and practices, and difficult or contentious issues such as "close calls," etc.) in the AD&A could do more harm than good. When complex matters are communicated by the auditor to the audit committee, the audit committee has the benefit of ongoing discussion with the auditor and management to provide appropriate context to the complex matters. The audit committee also gains a further understanding of the issues that would be described in an AD&A through its oversight of the financial reporting process. Investors do not have the opportunity to hold further discussions with the auditor or management for a deeper understanding of issues derived through oversight of financial reporting process. As a result, NACD believes that the auditor's public communication of such matters could be misleading and counterproductive.

Third, a requirement for the auditor to provide an AD&A would require the auditor to provide original information about the company not previously provided by management, creating a fundamental shift in the established role of the auditor attesting to information provided by management. We believe such a shift would undermine management's responsibility for the financial statements, including respective disclosures, as well as the audit committee's role in overseeing the financial reporting and external audit processes. A requirement for auditors to discuss sensitive matters in the AD&A may reduce the robustness and candor of critical discussions between the auditor, audit committee and management for fear that such information would be communicated publicly. Such communication is critical to high-quality financial reporting and audit processes. Additionally, the potential for "dueling disclosures" between the auditor and company may prompt management to alter disclosures and/or accounting treatments to align with those of the auditor.

Fourth, we believe requiring auditors to provide their "impressions" on financial reporting matters could result in subjective, free-form AD&A, diminishing reporting comparability

between companies. This would reduce the usefulness of the AD&A to financial statement users, who would be unable to evaluate investment alternatives due to a lack of comparability. Additionally, we are concerned that a lack of comparability in the AD&A could harm an issuer in comparison to its peers as a result of possible adverse market reactions to subjective communications provided by auditors.

Lastly, the AD&A appears likely to be one of the more costly alternatives, given the levels of review that would be required to draft and approve custom communications reflecting subjective views of the audit team. As such, it is hard to imagine that any potential benefits of the AD&A would outweigh both these direct costs and the “unintended consequences” described above. We believe the emphasis-of-matter approach described below would serve the needs of investors, but in a more cost-effective manner.

II. Emphasis Paragraphs

The Concept Release suggests requiring emphasis paragraphs in all audit reports to highlight the most significant matters in the financial statements, identifying where these matters are disclosed in the financial statements and also identifying the corresponding audit procedures performed. NACD supports an approach that would inform financial statements users regarding important matters to focus on in the financial statements for purposes of their investment decision-making. However, we present the following views for further consideration when evaluating this alternative.

First, we believe it will be important for the PCAOB to develop a framework to ensure consistency in the determination of matters to be emphasized, as well as how such matters are emphasized to best serve the needs of investors. In particular, we are concerned that without such a framework, the number of matters emphasized could become too broad, in part to minimize litigation risk, detracting from the objective of emphasizing only the most significant matters for investors.

It is important to note that while auditors are expert in generally accepted accounting principles and their application, they are not expert in making investment decisions.

Second, NACD questions whether it is appropriate or practical for the auditor to describe audit procedures in the emphasis paragraphs. Given NACD’s understanding of the comprehensive nature of most audit procedures, we believe it will present a significant challenge for auditors to provide a brief, user-friendly overview of the audit process and procedures that would convey the true depth and substance of their work. Consistent with our concerns noted on the AD&A, we question whether users of financial statements will have the appropriate context to understand the description of audit procedures included in emphasis paragraphs without the context the audit committee gains through dialogue with the auditor and the execution of its oversight responsibilities.

III. Auditor Assurance on Other Information Outside of the Financial Statements

Management’s Discussion and Analysis

The Concept Release questions whether auditors should provide assurance on other information presented outside the financial statements such as Management’s Discussion and Analysis (MD&A), or other information provided by management such as key performance indicators and earnings releases. NACD is not opposed to the auditor providing some level of assurance around

management's assertions contained in the MD&A if—and only if—such information is auditable and within the expertise of the auditor. However, we believe cost and timeliness are important considerations and that the benefit provided would need to outweigh the cost of the auditor performing such procedures.

NACD believes that auditor attestation on management's critical accounting estimates, as suggested in the Center for Audit Quality's June 28, 2011, comment letter to the PCAOB, could be a mechanism to provide investors with greater clarity around management's accounting approaches and application of judgment. This seems to be an area where investors seek further information. This approach will also allow management to provide financial information, auditors to attest to it, and audit committees to oversee the process. NACD also believes that this approach could improve management's disclosures in this area and would also provide investors additional comfort based on further auditor assurance. While NACD has not evaluated the cost of such an approach, we believe it would be more cost conscious than auditor attestation on MD&A in its entirety.

Other Information Provided by Management

It is clear that investors and analysts rely on financial and nonfinancial information disclosed by management outside the annual report, including key performance indicators and information contained in earnings releases. NACD believes that further outreach and analysis is necessary to determine the precise management disclosures that could be subject to further procedures and whether it is appropriate for the auditor or some other expert to perform these procedures. We believe that any requirement for additional auditor assurance should be subject to clear standards, including the level of assurance to be provided. Further, we recognize that such a requirement would result in additional procedures. The Board should consider the additional cost such procedures would entail, the time and effort required on the part of the auditor and whether this would impact the issuer's ability to meet SEC filing deadlines.

With respect to earnings releases, we support further consideration of the extent to which auditors could have an explicit level of association with earnings releases. Through the audit committee's oversight responsibilities it is aware of the procedures performed by auditors on the earnings release prior to public distribution. Explicit auditor association with earnings releases could provide investors with a better understanding of the auditor's procedures related to information communicated by management in the earnings release, though it would need to be clear that the audit had not been completed. However, we question whether the usefulness of information communicated in the earnings release would be reduced if the timeliness of distribution was delayed due to further auditor involvement. We encourage the Board to further explore this area and to include in these deliberations investors, audit committees, management, auditors and the SEC. NACD believes that auditor association with other types of communications provided by management (e.g., information provided in conference calls, etc.) would be more problematic, but we recognize that additional analysis may be necessary to better understand the needs of investors in this regard.

IV. Addition of Clarifying Language to the Auditor's Report

NACD supports the proposed addition of clarifying language to the auditor's report as contemplated in the Concept Release including further explanation regarding the term "reasonable assurance," the auditor's responsibility for fraud, financial statement disclosures and information outside the financial statements, auditor independence, and management's responsibility for the preparation of the financial statements and disclosures.

While NACD believes that there is room for improvement to the auditor's reporting model, NACD urges the PCAOB, before proposing specific standards, to thoroughly consider how certain changes to the auditor's reporting model could impact how the audit committee and management—equally important parties in the financial reporting process—carry out their responsibilities to investors.

We applaud the PCAOB and its staff for seeking a wide range of views through outreach to all stakeholders to inform the development of this Concept Release. In particular, we believe clear consensus must be reached by the full spectrum of investors regarding what changes are necessary to provide the most relevant information for investment decisions. We, therefore, urge the Board to make special efforts to reach out to the investment community to ascertain clearly what changes to the auditor's report are most important, from the investor perspective, as well as the most cost-effective.

NACD appreciates the opportunity to comment on this Concept Release and would be pleased to respond to any questions regarding the views expressed in this letter.

Sincerely,

A handwritten signature in black ink that reads "Barbara Franklin". The signature is written in a cursive style with a long horizontal line extending to the right.

Hon. Barbara H. Franklin
Chairman
NACD

A handwritten signature in black ink that reads "Kenneth Daly". The signature is written in a cursive style with a large loop at the end.

Kenneth Daly
President and CEO
NACD