

September 29, 2011

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

**RE: PCAOB Rulemaking Docket Matter No. 34,
Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited
Financial Statements and Related Amendments to PCAOB Standards**

Dear Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) "Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards" (Concept Release). We have provided summarized comments below, and provided responses to selected questions included in the Concept Release in Attachment A to this letter.

We support the pursuit of methods for auditors to better serve the needs of investors. We believe it is critically important that the value of the work performed by auditors is understood by the investing public and believe that certain improvements could be made to the current reporting model to improve that understanding. In considering the alternatives for changes to the auditor's report and questions in the Concept Release, we reached several underlying conclusions that influence our view of each of the alternatives suggested. Specifically, we concluded:

- 1) It is the role of the auditor to provide assurance on financial information provided by management; thus, the auditor's requirements for disclosure should not exceed those of management. This long-standing auditor role is the foundation of auditing standards, the development of auditor skills, the nature of the relationship between companies and their auditor, the cost of audit services, and a wide variety of related issues. We believe management is best suited to understand their business and future plans and to evaluate what is the most relevant information for investors; whereas the auditor's competency is providing independent assurance on information, not providing commentary on the business. We also believe requiring the auditor to provide additional information about the company may reduce audit quality by detracting from open communication between the auditor, management and the Audit Committee, while shifting some responsibility for financial reporting from management to the auditor could create the perception the auditor is an advocate for the client. Further, any requirements for auditor disclosure of client information would need to be reconciled with prohibitions on auditor disclosure of confidential client information.
- 2) There is value to standard reporting language that provides consistency and clarity of information. An auditor's report should provide clarity such that different investors will consistently interpret the meaning of the report content. As such, we believe the auditor's report should communicate objective information, not subjective information such as the auditor's views on the audited entity.

- 3) Often disclosure provided by public companies is written in a very detailed style, making it difficult to separate the truly differentiating risks and transactions from those which are less critical. We believe that an appropriately designed structure using the emphasis of a matter model could permit the auditor to point to the most significant and/or sensitive matters during the period under audit.
- 4) We believe matters regarding audit procedures, including matters within the scope of AU Section 380, "Communications With Audit Committees," are most meaningful when discussed in a format of two-way communication, by parties who possess knowledge of the company's internal operations (the audit committee) and the full context of all audit work (the auditor). As such, we believe many communications related to the audit do not lend themselves to general use reporting and may create confusion.
- 5) An expansion of the auditor role to report on additional information involves not only additional standards for auditor reporting, but will necessitate issuance of clear management disclosure requirements.

Clarification of the Standard Auditor's Report

We support revisions to the standard auditor's report to provide clarifying language as suggested in the Concept Release. We believe such clarifications will lead toward more consistency in investor understanding of an auditor's report. We believe clarification regarding the auditor's responsibility for information outside the financial statements would be particularly helpful, in light of the expressed investor interest in that topic. We do not believe it necessary to add new language specifying auditor independence or relevant standards, as the title of the standard report states that the auditor is independent, and it is well understood that the auditor must be independent. Adding verbiage about independence requirements introduces risk of misunderstanding; the current brevity is clear.

Auditor's Discussion and Analysis (AD&A)

We do not support the AD&A alternative. As previously discussed, we believe the auditor's requirements for disclosure should not exceed those of management, and the AD&A would conflict with this criterion. Since the AD&A would inherently result in unique language for each audit report and also include subjective information about the auditor's views, we believe it would not provide sufficient consistency and clarity to investors; rather, different investors reading the same auditor's report may reach differing conclusions about the meaning of the report content, resulting in confusion. We believe matters regarding audit procedures are most meaningful when discussed in a format of two-way communication, by parties who possess knowledge of the company's internal operations and the full context of all audit work. In addition, we believe a discussion of "close calls" could vary widely, even between similar issuers that addressed similar matters. As such, we believe many communications related to the audit do not lend themselves to general use reporting and may create significant confusion. As the AD&A would be unique for each company and relatively lengthy, it would require significant effort to prepare, and would involve significant time from the more senior audit staff and a firm's quality control function. As a result, the AD&A would be a costly alternative.

Required and Expanded use of Emphasis Paragraphs

Properly designed emphasis paragraphs may communicate useful information to investors. While some additional requirements might be useful, we would encourage the PCAOB to retain auditor discretion and limit the number of required emphasis paragraphs or topics.

To the extent that the required use of emphasis paragraphs is expanded, we would suggest the following be considered:

- The paragraphs should contain a concise, objective reference to matters disclosed in the financial statements, and should not discuss the auditor's views on such matters or discuss matters that are not disclosed in the financial statements because the auditor's disclosure requirements should not exceed those of management.

- The paragraphs should not contain a discussion of audit procedures because a discussion of audit procedures may not be clearly understood by an investor. Understanding of the audit procedures is the responsibility of the audit committee.
- We believe required paragraphs or topics should be relatively limited, as the addition of numerous required topics to be discussed in emphasis paragraphs may unduly lengthen the auditor's report and increase the amount of "boilerplate" content. A longer auditor's report with numerous required emphasis paragraphs may not be more useful to investors.
- The standard report should explain the nature of the emphasis paragraphs, including that the information includes matters that may be, in the auditor's judgment, most important to users; that the information does not include all matters that are material, involved judgments and estimates, or involved significant auditing effort; that the information does not address business risks that are not required to be disclosed in the financial statements; and that the user is responsible for reading the entire financial statements.
- The requirements for emphasis paragraphs may need to specify a separate materiality level than overall financial statement materiality, since not all material matters should be included in emphasis paragraphs.
- Additional auditing standards and examples of potential emphasis paragraphs would be needed.

Auditor Assurance on Other Information Outside the Financial Statements

We support providing assurance on other information outside the financial statements, provided such reporting is useful to investors and there are appropriate underlying standards for both auditor reporting and management disclosure requirements. Should auditor assurance on other information outside the financial statements be determined to be useful, we believe assurance on Critical Accounting Policies (CAP) would be more relevant than assurance on the Management's Discussion and Analysis (MD&A), as CAP relate to significant financial statement estimates that are of concern to investors, and the CAP are closely related to the auditor's expertise and role as financial statement auditor. Before requiring an attestation on the CAP or MD&A, consideration should be given to ensuring the CAP and MD&A requirements are sufficiently clear to facilitate comparability in attestation results.

Some investor comments related to this Concept Release seem to be based on the assertion that auditors have information about companies that is not currently being disclosed, and the desire appears to be for disclosure of additional information, rather than additional assurance on existing information. Accordingly, before requiring additional auditor assurance, we suggest careful consideration be given to whether investor needs are better met by additional disclosure of information. We believe needs for additional disclosure of information are best met by revision of management disclosure requirements.

Cost/Benefit Considerations

Any new auditor reporting requirement to provide additional information will result in increased cost. We encourage the Board to perform a thorough cost/benefit analysis to determine that any perceived benefits will meaningfully exceed the initial and annual costs to comply with the contemplated new requirements.

Application

We recommend that revisions to the standard auditor's report on the financial statements, such as additions of clarifying language or required emphasis paragraphs, should apply to all auditor reports to promote consistency.

However, any new reporting requirements, such as an AD&A or assurance on information outside the financial statements, should be considered for application to only those companies subject to audits of internal control over financial reporting. For those audits, the auditor inherently has a better understanding of the company. Additional assurance requirements will require more audit effort in the absence of an audit of internal control and will add cost to the audit. Further, companies not subject to an audit of internal control may have different investor needs than larger companies such that the cost of additional reporting requirements may exceed the benefits.

At a minimum, we suggest a phased-in approach where the additional reporting would first apply to those audits subject to an internal control audit. This would allow for an evaluation to determine if investor needs are indeed being met and whether the additional benefit outweighs the cost. Further, a phased-in approach would allow auditors to avail themselves of best practices observed from audits that include an audit of internal control over financial reporting.

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards and the reporting for investors. We hope that our comments and observations will assist the Board in its consideration of the matters in the Concept Release. If the Board has questions on the above comments, please contact Michael Yates or Wes Williams at (574) 232-3992.

Cordially,

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Attachment A
Responses to Selected Concept Release Questions

Question 2.a. Should the auditor's report retain the pass/fail model? If so, why?

We believe the current opinion model should be retained. We believe an auditor's report should provide clarity such that different investors will consistently interpret the meaning of the report content. Accordingly, we believe the auditor's report should communicate objective information, not subjective information about the auditor's views. We believe the standard opinion wording with a definitive indication of conformity with established standards provides objective information with clarity.

Question 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 strongly believe it is the role of management to provide information regarding the company's financial reporting to financial statement users, and it is the auditor's role to provide assurance on information. The question of the appropriate role of the auditor is fundamental; impacting auditing standards, development of auditor skills, the nature of the relationship between companies and their auditor, the cost of audit services, etc. As such, fundamental changes to the role of the auditor would impact a wide variety of issues, and could result in unintended consequences. If undertaken, we believe such a change in role would require significant due process over an extended period of time. However, we believe such a change from long-standing practice is not appropriate. We believe management is best suited to understand their business and future plans and to evaluate what is the most relevant information for investors; whereas the auditor's competency is providing independent assurance on information, not providing commentary on the business. We also believe requiring the auditor to provide additional information about the company may reduce audit quality by detracting from open communication between the auditor, management and the Audit Committee, while shifting some responsibility for financial reporting from management to the auditor could create the perception the auditor is an advocate for the client. Further, any requirements for auditor disclosure of client information would need to be reconciled with prohibitions on auditor disclosure of confidential client information.

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

We do not support the AD&A alternative discussed in the Concept Release.

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.

We do not believe it is appropriate to comment on audit risks and procedures in an AD&A. We do not believe a discussion of audit risks and procedures is appropriate in a general use report, since, to be meaningful, such requires a detailed knowledge about the internal operations of the company and a full context of all audit work, including audit scopes. We believe these issues lend themselves to a two-way discussion, such as those held with Audit Committees, but not to general use reporting. We believe the disclosure of audit procedures or audit scopes could decrease audit quality by providing a road-map of audit strategies and by reducing the element of unpredictability in the audit.

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

As previously discussed, we believe the auditor's requirements for disclosure should not exceed those of management, and the AD&A would conflict with this criterion. Since the AD&A would inherently result in unique language for each audit report and also include subjective information about the auditor's views, we believe it would not provide sufficient consistency and clarity to investors. Rather, different investors reading the same auditor's report may reach differing conclusions about the meaning of the report content, resulting in confusion. We believe matters regarding audit procedures, including matters within the scope of AU Section 380, "Communications With Audit Committees," are most meaningful when discussed in a format of two-way communication, by parties who possess knowledge of the company's

Attachment A
Responses to Selected Concept Release Questions

internal operations (the audit committee) and the full context of all audit work (the auditor). In addition, we believe a discussion of “close calls” could vary widely between similar issuers that addressed similar matters, due not only to differing judgments about what comprises a close call, but also due to previous experience a company or their auditors may have had with an issue; in other words, two companies may have addressed the same issue and reached the same correct conclusion, but one might consider it a close call while the other does not. As such, we believe many communications related to the audit do not lend themselves to general use reporting and may create significant confusion. As the AD&A would be unique for each company and relatively lengthy, it would require significant effort to prepare, and would involve significant time from the more senior audit staff and a firm’s quality control function. As a result, the AD&A would be a costly alternative.

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

We do not support the AD&A alternative, but if it were to be required, the Board should seek to standardize the format as much as possible to increase the comparability and clarity of the report.

Question 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 strongly oppose including discussion of the issuer’s risks, such as business risks, strategic risks or operational risks. As previously discussed, we believe the auditor’s requirements for disclosure should not exceed those of management. We believe management is best suited to understand their business and future plans and to evaluate what is the most relevant information for investors; whereas the auditor’s competency is providing independent assurance on information, not providing commentary on the business.

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

We believe this would be very difficult to achieve, and the lack of comparability is one of the reasons we do not support the AD&A alternative.

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

Properly designed emphasis paragraphs may communicate useful information to investors, and current auditing standards provide the auditor with the discretion to use such paragraphs. While some additional requirements might be useful, we would encourage the PCAOB to retain auditor discretion and limit the number of required emphasis paragraphs or topics.

To the extent that the required use of emphasis paragraphs is expanded, we would suggest the following be considered:

- The paragraphs should contain a concise, objective reference to matters disclosed in the financial statements, and should not discuss the auditor’s views on such matters or discuss matters that are not disclosed in the financial statements because the auditor’s disclosure requirements should not exceed those of management.
- The paragraphs should not contain a discussion of audit procedures because a discussion of audit procedures may not be clearly understood by an investor. Understanding of the audit procedures is the responsibility of the audit committee.
- We believe required paragraphs or topics should be relatively limited, as the addition of numerous required topics to be discussed in emphasis paragraphs may unduly lengthen the auditor’s report and increase the amount of “boilerplate” content. A longer auditor’s report with numerous required emphasis paragraphs may not be more useful to investors.
- The standard report should explain the nature of the emphasis paragraphs, including that the information includes matters that may be, in the auditor’s judgment, most important to users; that the information does not include all matters that are material, involved judgments and estimates,

Attachment A
Responses to Selected Concept Release Questions

or involved significant auditing effort; that the information does not address business risks that are not required to be disclosed in the financial statements; and that the user is responsible for reading the entire financial statements.

- The requirements for emphasis paragraphs may need to specify a separate materiality level than overall financial statement materiality, since not all material matters should be included in emphasis paragraphs.
- Additional auditing standards and examples of potential emphasis paragraphs would be needed.

Question 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?

We do not believe it is appropriate to include information about audit procedures in the auditor's report. We believe matters regarding audit procedures are most meaningful when discussed in a format of two-way communication, by parties who possess knowledge of the company's internal operations and the full context of all audit work. As such, we believe communications related to the audit do not lend themselves to general use reporting and may create confusion.

We believe that identification of matters of greatest significance and sensitivity in the historical financial statements presented could provide investors with additional value as they attempt to assess a company's future prospects.

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

See the response to Question 14 above.

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

This will be difficult to achieve, and is one reason we urge caution against creating a large number of required paragraphs. However, we also believe standard, objective language has value in providing consistency and clarity in auditor's reports. As previously discussed, we do not believe emphasis paragraphs should contain discussion of audit procedures or the auditor's views; rather, they should contain a concise, objective reference to matters further disclosed in the financial statements, and, as such, standard language is not necessarily a negative attribute.

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

We support providing assurance on other information outside the financial statements, provided it is useful to investors and there are appropriate underlying standards for both auditor reporting and management disclosure requirements.

Some investor comments related to this Concept Release seem to be based on the assertion that auditors have information about companies that is not currently being disclosed, and the desire appears to be for disclosure of additional information, rather than additional assurance on existing information. Accordingly, before requiring additional auditor assurance, we suggest careful consideration be given to whether investor needs are better met by additional disclosure of information. We believe needs for additional disclosure of information are best met by revision to management disclosure requirements.

While Item 303 of Regulation S-K contains the requirements for Management's Discussion and Analysis (MD&A), the requirements are relatively general, are impacted by various SEC communications issued over a long period of time, and require management to interpret what information is relevant, including estimated future impacts of transactions and events that have occurred or are expected to occur. As a result, in practice there can be diversity in MD&A content between similar companies. Critical Accounting Policies (CAP) are a component of the MD&A, and some have suggested that CAP could also be subject to auditor assurance. However, the requirements for Critical Accounting Policies have not been

Attachment A
Responses to Selected Concept Release Questions

formalized into SEC rules. Accordingly, before requiring an attestation on the MD&A (or CAP), we believe consideration should be given to ensuring the MD&A and CAP requirements are sufficiently clear to facilitate comparability in attestation results (we recognize there is currently an attestation standard regarding MD&A, but we observe it is not widely used at present).

Should auditor assurance on other information outside the financial statements be determined to be useful, we believe assurance on Critical Accounting Policies would be more relevant than assurance on the MD&A. CAP relate to significant financial statement estimates that are of concern to investors, and the CAP are closely related to the auditor's expertise and role as financial statement auditor.

Question 21.a. 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

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 support revisions to the standard auditor's report to provide clarifying language as suggested in the Concept Release. We believe such clarifications will lead toward more consistency in investor understanding of an auditor's report. To provide such clarity, we believe the revisions should be concise language derived from the auditing standards. Since there seems to be some investor interest in the role of the auditor with information outside the financial statements, we believe clarification regarding the auditor's responsibility for information outside the financial statements would be particularly helpful. We do not believe it necessary to add new language specifying auditor independence or relevant standards, as the title of the standard report states that the auditor is independent, and it is well understood that the auditor must be independent. Adding verbiage about independence requirements introduces risk of misunderstanding; the current brevity is clear.

Question 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?

The addition of clarifying language to the standard auditor's report is an appropriate alternative, as it is consistent with the auditor's current role, promotes clarity in reporting, would be less costly than the other alternatives in the Concept Release, and is less likely to be detrimental to audit quality.

Properly designed emphasis paragraphs may communicate useful information to investors. While some additional requirements might be useful, we would encourage the PCAOB to retain auditor discretion and limit the number of required emphasis paragraphs or topics.

We support providing assurance on other information outside the financial statements, provided it is useful to investors and there are appropriate underlying standards for both auditor reporting and management disclosure requirements. Should auditor assurance on other information outside the financial statements be determined to be useful, we believe assurance on Critical Accounting Policies would be more relevant than assurance on the MD&A.

Question 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 the addition of clarifying language to the standard auditor's opinion would be useful. We believe there would be redundancy between the alternative of emphasis paragraphs related to significant

Attachment A
Responses to Selected Concept Release Questions

accounting estimates and the alternative of a separate attestation report on critical accounting policies or the MD&A; and, therefore, requiring both emphasis paragraphs and a separate attestation report would seem unnecessary.

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

Three of the alternatives (clarifying language, AD&A, emphasis paragraphs) primarily involve additional communication and would not significantly improve audit quality. Alternatives that require auditor disclosure in excess of management disclosure requirements or disclosure of audit procedures could reduce audit quality by detracting from open communication between the auditor, management and the audit committee, and by providing a road-map of audit strategies, reducing the element of unpredictability. A separate engagement to provide assurance on information outside the financial statements would have a significant impact on overall financial reporting quality, which may positively impact audit quality.

Question 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.

Revisions to the standard auditor's report on the financial statements, such as additions of clarifying language or required emphasis paragraphs, should apply to all audit reports to promote consistency.

However, any new reporting requirements, such as an AD&A or assurance on information outside the financial statements, should be considered for application to only those companies subject to audits of internal control over financial reporting. For those audits, the auditor inherently has a better understanding of the company, which could impact the comparability of reporting compared to similar companies that are not subject to an audit of internal control. Additional assurance requirements will require more audit effort in the absence of an audit of internal control and will add cost to the audit. Further, companies not subject to audits of internal control may have different investor needs than larger companies such that the cost of additional reporting requirements may exceed the benefits.

At a minimum, we suggest a phased-in approach where the additional reporting would first apply to those audits subject to an audit of internal control. This would allow an evaluation to determine if investor needs are indeed being met and whether the additional benefit outweighs the cost. Further, a phased-in approach would allow auditors to avail themselves of best practices observed from audits that include an audit of internal control over financial reporting.

Ideally, field testing would be performed prior to implementation for any changes to auditor reporting. This would provide a vehicle to assess the cost implications as well as evaluate whether investor needs are being served.