
**Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System
National Credit Union Administration
Office of the Comptroller of the Currency**

November 7, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
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:

The staffs of the four federal regulatory agencies (the agencies) responsible for supervising the safety and soundness of U.S. financial institutions appreciate 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* (the Concept Release). The information provided in the auditor's report is relevant to the agencies given our requirements regarding independent audits and assessments of the effectiveness of internal control over financial reporting for financial institutions with total assets above certain thresholds. The auditors' reports for these institutions are available to the public.

In general, the agencies support changes to the auditor's reporting model that would bridge the information and expectations gaps of investors and other users of audited financial statements as long as the changes do not alter the auditor's fundamental role of opining on the financial statements or impair the auditor's independence. We believe that communicating additional information in the auditor's report on public company financial statements as a result of audit procedures performed may aid the agencies, investors, and other users in earlier identification of potential problems at individual public financial institutions. Furthermore, improvements to the auditor's reporting model may enhance the agencies' supervision of public financial institutions through better market discipline.

We offer the following comments and suggestions for your consideration as you evaluate possible changes to the auditor's reporting model.

Pass/Fail Model

Since the fundamental role of the auditor is to opine on the fairness of the presentation of the financial statements prepared by management, we recommend retaining a pass/fail model for the auditor's report that reflects a clear and unambiguous opinion on the audited financial statements. Additional disclosures or changes to the auditor's reporting model should be based on the results of the audit procedures performed by the auditor in accordance with the applicable auditing standards and should not result in the auditor assuming or performing management functions or responsibilities.

Emphasis Paragraphs and Clarifying Language

The Concept Release discusses the benefits and possible expanded use of emphasis paragraphs, including required paragraphs for certain important matters, as well as the addition of clarifying language to better explain the auditor's responsibilities and what an audit represents. Expanded use of emphasis paragraphs and the use of clarifying language in the standard auditor's report may reduce the information and expectations gaps and could also increase the readability of the auditor's report. For example, emphasis paragraphs could address critical management representations relied upon in arriving at the audit opinion. To avoid overreliance on such emphasis paragraphs by financial statement users, care should be taken within the body of the auditor's report to refer the reader to important information contained in the body of the financial statements and in the notes thereto. We recommend that any proposed expanded use of emphasis paragraphs and clarifying language focus on providing decision-useful information. The auditor's report should not become too lengthy and obscure its primary purpose, which is to disclose the auditor's opinion on the audited financial statements.

Disclosure of Material Weaknesses in Internal Control Over Financial Reporting

When an auditor conducts an audit of financial statements only, we encourage the PCAOB to consider requiring disclosure in the auditor's report of material weaknesses in internal control over financial reporting identified by the auditor during the audit. The auditor is currently required to communicate this information in writing to the audit committee and, in an integrated audit, to disclose the material weaknesses in the auditor's report on internal control over financial reporting. However, material weaknesses identified by the auditor during an audit of financial statements only are not currently required to be disclosed in the auditor's report. A registrant that is a non-accelerated filer is required to provide a report of management on the registrant's internal control over financial reporting. However, such a registrant is not required to undergo an integrated audit that would result in its auditor's issuance of a report on the effectiveness of internal control over financial reporting. We believe that disclosure in the auditor's report of any material weaknesses noted during an audit of financial statements only would provide

meaningful information to regulators, investors, and other users of audited financial statements.

Independence

A key contributor to the value of an auditor's report is the auditor's independence in both fact and appearance. Also, in carrying out his or her responsibilities in conducting an audit, an atmosphere of candid and open communication must exist between the auditor, management, and the audit committee. In this regard, we encourage the PCAOB to consider the effects of any changes in the auditor's reporting model on the auditor's independence as well as the communication flow between the auditor, management, and the audit committee.

Outreach Efforts

The agencies encourage the PCAOB to continue its outreach efforts, particularly with the American Institute of Certified Public Accountants' Auditing Standards Board and the International Auditing and Assurance Standards Board (IAASB), in order to promote international consistency in the auditor's reporting model. The IAASB's Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*,¹ presents an opportunity to work toward international convergence.

Audit Quality

Finally, although the PCAOB's Concept Release discusses potential alternatives for changing and improving the auditor's report, it does not directly address the quality of the audit work performed that forms the basis for the information provided in the auditor's report. Changes to the auditor's reporting model, in and of themselves, will not ensure that audits are conducted in accordance with the PCAOB's auditing standards and are of high quality. If audits are not performed in this manner, any changes to the auditor's reporting model will not reduce the expectations gap. We believe that the quality and sufficiency of the audit procedures performed has a direct correlation to the degree of reliance that can be placed on the auditor's report. Thus, while we support and commend the PCAOB for its efforts to improve the value of the auditor's report, we also encourage the PCAOB to continue its work to improve audit quality, and the role of auditing standards in promoting it. We believe that the PCAOB's inspection program has helped improve audit quality.

We appreciate your consideration of our comments and we would be pleased to discuss in more detail our views on the Concept Release.

¹ The IAASB's Consultation Paper, released May 16, 2011, is available at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0163>.

Sincerely,

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