John V. Faraci
Chair, ConocoPhillips Audit & Finance Committee

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July 12, 2016

Mr. James R. Doty, Chairman
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Sent by email to comments@pcaobus.org

Re: Rulemaking Docket Matter No. 034 – Proposed Auditing Standard – *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and Related Amendments to PCAOB Standards

Dear Mr. Doty,

The Audit and Finance Committee of ConocoPhillips (Committee) appreciates the opportunity to comment on the Rulemaking Docket Matter No. 034 as discussed in PCAOB Release No. 2016-003 dated May 11, 2016 (2016 Proposed Standard). Our Committee is comprised of four distinguished members – Charles E. Bunch, James E. Copeland, Jr., Arjun N. Murti and myself. As a team, we have a unique depth of experience regarding business and financial reporting matters, including executive leadership roles and directorships at large, international companies in various industries. Our Committee plays a vital role in investor protection through oversight of ConocoPhillips' financial reporting function, as well as its internal and external audit processes. Accordingly, the 2016 Proposed Standard is of the utmost importance to us.

We recognize the PCAOB's efforts to increase the informational value of the auditor's report in order to promote its relevance and usefulness without imposing requirements beyond the auditor's expertise or mandate. To the extent that standardizing the form of the auditor's report, enhancing certain basic elements of the report, adding a statement regarding auditor independence, and permitting additional report addressees uphold this objective, we are supportive. We also agree with the PCAOB's decision to preserve the existing pass/fail auditor reporting model.

However, we have significant reservations regarding the provisions in the 2016 Proposed Standard requiring 1) additional disclosures with respect to critical audit matters as determined by the auditor (CAMs), and 2) disclosure of audit firm tenure. These provisions have been retained, although slightly modified, from the original standards as proposed by the PCAOB in 2013 (2013 Proposed Standard). We believe these provisions continue to have the potential to result in disclosure of lengthy and potentially inconsistent information, blur the roles of the auditor with those of the audit committee and management, and cause considerable misunderstanding among financial statement users already overloaded by disclosure. These provisions impose requirements beyond the auditor's mandate and do not achieve the PCAOB's objective as currently drafted.

The following paragraphs outline our views on certain key elements of the 2016 Proposed Standard in greater detail.

Critical Audit Matters

The 2016 Proposed Standard includes a revised definition of CAMs, referring to those matters involving especially challenging, subjective or complex auditor judgment that are both communicated or required to be communicated to the audit committee and related to material financial statement accounts or disclosures. This narrower scope is an improvement from the CAM scope contained in the 2013 Proposed Standard, which not only included matters communicated to the audit committee, but also matters reviewed by the audit team's engagement quality reviewer or included in the audit engagement completion documents. However, we do not believe this enhancement sufficiently alleviates the risk of blurring the role of the auditor with those of the audit committee and management or for disclosure of lengthy and potentially inconsistent information.

The regulatory framework in the U.S. contemplates an effective balance in the responsibilities of the audit committee, the auditor, and management. Management is responsible for the fair presentation and disclosure of financial information, including the complex assumptions and judgments underlying that information. The auditor is responsible for independent attestation and corroboration regarding the information presented by management. The audit committee is responsible for assisting the board of directors with its oversight responsibilities of both management and the auditor on behalf of a company's shareholders, and disclosing certain matters related to its role in the company's proxy statement.

Requiring the auditor to disclose CAMs, as determined by the auditor, autonomously in the auditor's report inappropriately magnifies the role of the auditor, expanding the auditor's responsibility into independently reporting on accounting policies, estimates, transactions and other matters, rather than purely attesting to a company's financial information through a pass/fail audit opinion. It inherently undermines the governance role of the audit committee and the disclosure role of management. It is also inconsistent with the principles underpinning our regulatory framework that an auditor should not be the source of disclosure about a company.

We question whether the PCAOB's inclusion of an explanatory note, that an auditor is not expected to provide information about a company that has not been made publicly available, is substantive. CAMs intrinsically allow the auditor to provide information about a company that has not been made publicly available, improperly increasing the auditor's role and influence, and providing the auditor an unsuitable level of oversight ability. This additional oversight capability assumed by the auditor infringes on the audit committee's responsibility, which will add ineffective tension to the relationship between the auditor, management and the audit committee.

We prefer the CAM provision be removed from the 2016 Proposed Standard in its entirety. At the very least, an additional improvement would be to further narrow the scope of potential CAMs to those critical accounting estimates already disclosed by management. This solution would better maintain the existing roles of the audit committee, management and the auditor, and preserve the delicate balance needed in these relationships. It is also more consistent with the principles of the U.S. regulatory framework.

Auditor Tenure

We question the value of a requirement for disclosure of audit firm tenure. The PCAOB has proposed disclosure in the auditor's report of the year in which the auditor began serving consecutively as the company's auditor. This approach provides no additional perspective. There is contradictory evidence regarding the correlation between audit quality and audit firm tenure. Some academic studies conclude that longer audit firm tenure leads to higher audit quality, while others conclude the opposite, and still others conclude no relationship exists. Further, any correlation may vary depending on specific facts and circumstances.

We do not believe a requirement to disclose audit firm tenure is needed. However, if audit firm tenure is disclosed, it should be disclosed by either management or the audit committee with the appropriate perspective included so readers do not draw improper conclusions regarding any link between audit quality and audit firm tenure.

Conclusion

We recognize the PCAOB's efforts to increase the informational value of the auditor's report in order to promote its relevance and usefulness. To the extent that standardizing the form of the auditor's report, enhancing certain basic elements of the report, adding a statement regarding auditor independence, and permitting additional report addressees uphold this objective, we are supportive. We also agree with the PCAOB's decision to preserve the existing pass/fail auditor reporting model.

We appreciate your consideration of our concerns regarding the provisions in the 2016 Proposed Standard requiring 1) additional disclosures with respect to CAMs as determined by the auditor, and 2) disclosure of audit firm tenure. We believe these provisions still have the potential to result in disclosure of lengthy and potentially inconsistent information, blur the roles of the auditor with those of the audit committee and management, and cause considerable misunderstanding among financial statement users. In our view, the PCAOB's proposed expansion of the auditor's role into a preparer of information regarding accounting policies, estimates, transactions and other matters provides no clear additional comparability of reports, no apparent improvements to corporate governance and no significant reduction of investor risk. Therefore, these provisions impose requirements beyond the auditor's mandate and do not achieve the PCAOB's objective as currently drafted.

Thank you for the opportunity to offer our comments on the 2016 Proposed Standard.

Sincerely,

John V. Faraci
Chair, ConocoPhillips Audit and Finance Committee