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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 Standards

Dear Mr. Doty,

I appreciate the opportunity to comment on the Rulemaking Docket Matter No. 034 as discussed in PCAOB Release No. 2013-005 from August 13, 2013 (the Proposed Standards). Over the course of my 46-year career, I have served various industries in numerous leadership roles. I currently serve as a director of four companies, including Chair of the Audit & Finance Committee of ConocoPhillips, a Fortune 50 entity. I was a former director of Coca-Cola Enterprises, Inc. from 2003-2008, and also served as the former Chief Executive Officer of Deloitte, one of the largest international accounting firms, from 1999-2003. In addition, I previously served as Senior Fellow for Corporate Governance with the U.S. Chamber of Commerce and as a Global Scholar with the Robinson School of Business at Georgia State University.

I appreciate the PCAOB's efforts to increase the informational value of the auditor's report in order to promote its usefulness and relevance. To the extent that enhanced language on auditor independence, as well as the auditor's responsibility for fraud and the notes to the financial statements, promotes this objective, I am supportive. However, I have significant reservations regarding the provisions in the Proposed Standards requiring additional disclosures with respect to critical audit matters as determined by the auditor, enhancing the auditor's responsibility concerning other information outside the audited financial statements, and disclosure of audit firm tenure. I believe these provisions may blur the roles of the auditor with those of the audit committee and management; may cause considerable misunderstanding among financial statement users; and will impose substantial costs which will exceed minimal benefits. These provisions should be discarded or substantially revised to eliminate the potentially negative consequences.

<u>The Importance of the Audit Committee's Oversight Role</u>

I have seen the role of the audit committee evolve during the course of my experience. In the 1970s, the perceived role of the audit committee lacked significance. It was a role of narrow, functional supervision over management's compilation and presentation of accurate financial records. More recently, the audit committee has taken an extensive and critical position in securing the interests of investors through the broad oversight of each entity's financial reporting processes, internal controls, and the approval and independence of the external audit firm.

The importance of the governance role provided by the audit committee is highlighted by inclusion of at least one audit committee financial expert who is independent of management. The financial expert must have proficiency in accounting and financial matters, the aptitude to make appropriate inquiries to determine whether the company's financial statements are complete and accurate, and a deep understanding of the audit committee's oversight role. Currently, auditors communicate significant audit risks to a company's audit committee. These include critical accounting policies and practices and critical accounting estimates, among other items which may be considered critical auditing matters. As an audit committee financial expert, I have the opportunity for live discourse with the auditor, as well as deep background knowledge of the company's financial reporting processes, which is fundamental to my governance role. I, along with the rest of the audit committee, can analyze the auditor's communications in the appropriate context and ensure the company's financial statement disclosures present these matters in a manner that is not confusing to financial statement users.

Recently, I have noted a worrying trend of regulations that impose significant costs while providing questionable benefits. I believe the added prominence of the audit committee is one of the few benefits achieved by these regulations; however, whether other meaningful benefits have been obtained remains debatable, in light of the definitive costs of compliance. Not only do the additional costs imposed by the Proposed Standards expand upon this unfortunate trend, but the consequences of the critical audit matters provision contradict one of the few benefits achieved by these regulations. The governance responsibility of the audit committee and its financial expert may essentially be usurped by the auditor, who is required to further clarify and provide public discussion regarding critical matters autonomously in the audit report. This provision intentionally and improperly magnifies the role of the auditor. The responsibility of the auditor is to attest and corroborate the financial information prepared and presented by management. The Proposed Standards will inappropriately expand the role of the auditor into independently reporting on accounting policies and estimates, rather than purely attesting to the company's financial statements. This is inconsistent with the fundamental approach the auditor should not be an independent source of disclosures about an entity.

I am also concerned this additional responsibility assumed by the auditor will unproductively strain the dynamics of the relationships among the audit committee, management and the auditor. The well-balanced level of tension in these relationships, which currently benefits financial statement users, will be severely disturbed. I fear the shift of the auditor's role will lead to ineffective confrontation between the auditor and management and will allow the auditor an inappropriate level of oversight ability, which should remain the responsibility of the audit committee.

<u>Misunderstanding among Financial Statement Users</u>

I have concerns many financial statement users may lack the context, background and opportunity for live dialogue with the auditor to properly understand the matters requiring the most complex auditor judgments. Therefore, I believe a change this significant to our existing framework will lead to substantial misconception of critical audit matters. For instance, users who read an unqualified audit opinion, followed by detailed discussion of critical auditing matters, may misinterpret the language as demonstrating the auditor had reservations about the opinion provided or that less reliance should be placed on the financial information presented.

The rules defining critical audit matters also pose a noteworthy risk for disclosure of inconsistent and lengthy information. Most of the items meeting the definition of critical auditing matters are already communicated to the audit committee and currently disclosed in financial reports. However, auditors may have numerous other matters reviewed by the engagement quality reviewer or included in the engagement completion documents that must be deliberated as potential critical audit matters. By including these recommended guidelines in the Proposed Standards, there is a risk of significant discrepancies between the critical auditing matters disclosed in the audit report and those disclosed by management. Furthermore, I am concerned that auditors, who expect peer review and PCAOB inspection, may apply conservative judgment and disclose more of these matters, as well as more information on matters already discussed by management, than financial statement users would find valuable. In addition, auditors may include supplementary legal qualifications to mitigate liability, adding to the length of the audit report.

Costs

The substantial costs associated with the Proposed Standards demand a rigorous analysis of the benefits to be achieved. These costs include increased audit fees, the extended length of financial reports, additional resources involved and time spent deliberating and reviewing critical audit matters, and the risk of misunderstanding by financial statement users. I am disappointed the PCAOB has not provided as robust an examination of the benefits as I would expect.

I am confused by the PCAOB's inclusion of a requirement for disclosure of audit firm tenure. There is conflicting evidence of the correlation between audit firm tenure and audit quality – some academic studies show that longer audit firm tenure leads to higher audit quality, while some show the inverse. In the absence of any conclusive evidence regarding this relationship, it is unclear to me how disclosure of this information would benefit financial statement users. I also would challenge the PCAOB's statement that financial statement users have indicated a strong interest in this information. The Release makes reference to only one shareholder activist group in support of this claim. I would like to see a broader discussion on this topic, including a more representative selection of financial statement users as a whole. A final decision about disclosure of audit firm tenure should only be made after a more solid examination is performed. If such a conclusion is determined, management, rather than the auditor, should disclose this information and provide accompanying clarification to avoid any inappropriate conclusions regarding the correlation between audit firm tenure and audit quality.

Auditor evaluation and reporting on information outside of the audited financial statements will increase the scope of the auditor's assurance responsibilities and the amount of time spent in an already laborious process for the auditor, management and the audit committee. As a director serving on multiple audit committees, I am concerned with the amount of time needed to complete these additional procedures within existing reporting deadlines. I am also worried that this unnecessary increase in the scope of the auditor's assurance responsibilities will lead to the development of even more auditing standards and additional regulations.

An extended audit report and the expanded role of the auditor into a preparer of financial information on accounting policies and estimates provides no apparent improvements to corporate governance, no additional comparability of reports and no reduction of investor risk. I do not believe users of financial statements will find this greater volume of disclosure from the auditor helpful. Financial statement users may actually find these additional disclosures obstructive if they lead to misunderstanding.

I commend the PCAOB's efforts to increase the informational value of the auditor's report in order to promote its usefulness and relevance. To the extent that enhanced language on auditor independence, as well as the auditor's responsibility for fraud and the notes to the financial statements, promotes this objective, I am supportive. My concerns regarding the Proposed Standards require your consideration – specifically, the provisions requiring additional disclosures with respect to critical audit matters as determined by the auditor, enhancing the auditor's responsibility concerning other information outside the audited financial statements, and disclosure of audit firm tenure. These provisions may blur the roles of auditor and audit committee; may cause considerable misunderstanding among financial statement users; and will impose substantial costs which exceed minimal benefits. These provisions should be discarded or substantially revised to eliminate the potentially negative consequences.

Thank you for the opportunity to offer comments on the Proposed Standards, and I hope that you find my comments helpful.

Sincerely,

James E. Copeland, Jr., CPA