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Mr. Martin F. Baumann – Chief Auditor
Public Company Accounting Oversight Board (PCAOB)
1666 K Street NW
Washington, D.C. 20006-2803

Docket Matter No. 034 – Proposed Auditing Standards on "The Auditor's Report" and "The Auditor's Responsibilities Regarding Other Information"

Dear Mr. Baumann:

Emerson appreciates the opportunity to comment on the Revised Proposed Auditing Standards re: Reports on Audited Financial Statements. We agree with the Board's decision to withdraw the proposals regarding Auditor's Discussion and Analysis and mandatory use of Emphasis of Matter paragraphs. However, we also do not support the remaining proposals.

We continue to believe the pass/fail audit report functions properly in its current form. The proposed discussion of "Critical Audit Matters" is likely to be confusing to investors. If the audit is satisfactory, there is no benefit to describing the issues that presented the most challenge. Any perceived shortcomings of current reporting and disclosure requirements should be addressed through the SEC and the FASB. The auditor's role should remain one of oversight and should not be the original source of information for investors; that is the responsibility of management.

If all accounting and reporting matters are satisfactorily resolved, a discussion of what *might* have happened is unnecessary. Resolution of difficult matters is an everyday occurrence given the highly technical nature of accounting rules and complexity of issues in today's business environment. Auditor discussion of these items will be interpreted by investors as a disclosure of accounting *problems.* Investors do not have the benefit of deeply analyzing issues in the full context of the situation, nor do they have the benefit of interaction between auditors, management and the audit committee. A lengthy and highly technical discussion between management and auditors does not mean the matter is contentious, or even risky. Whether it is a new transaction, evolving business circumstances, adoption of a new accounting standard, or a complex matter elevated for SEC Staff consideration, once resolved, the background and process of resolution is not important. Investors cannot be expected to wade through highly technical matters and derive meaningful information from the type of report that is being proposed. An auditor rendering an unqualified opinion but then discussing transactions that *might have* resulted in a qualified opinion will likely confuse and potentially mislead investors.

On the other hand, unresolved material issues could lead to a qualified opinion, which should rightfully be accompanied by additional disclosure. We note there is already a requirement for management to report disagreements with auditors to the Audit Committee, as well as publicly disclose the nature of such disagreements under Rule S-X.

Our comments on the proposal follow:

- PCOAB efforts over the last several years have resulted in continued expansion of the audit scope and documentation requirements. We have not seen the benefit from the resulting increase in cost that has accompanied these efforts. We believe this proposal will lead to additional costs of compliance without improvement in audit quality. With the auditors' experience from the inspection process, we would expect they will exercise extreme caution to avoid second-guessing, resulting in an overabundance of Critical Audit Matters.

- It is not clear how this information will be of value to investors. In addition, the new report may distract from understanding the entities performance by giving undue prominence to elements of the financial statements that were difficult to audit. We do not see how investors would have behaved differently had this information been included in the auditor's report. Critical Audit Matters will only contain information that is already actionable from the MD&A or financial statements.

- We believe an expectation will be created that there must be Critical Audit Matters discussed in every audit report. This will quickly lead to boilerplate reciting of items such as critical accounting policies already disclosed in MD&A, as well as discussion of matters communicated to the audit committee (including, for example, significant deficiencies in internal control which is not required today), items included in the auditor's completion memorandums, consultations with auditor's quality review and national audit partners, and issues discussed by the company with the SEC. This may also result in audit firms developing *standard* Critical Audit Matters by industry that must be included in each report to avoid second-guessing and resulting in disclosure overload.

- As discussed with the original proposal, the requirement that every national office consultation or audit committee communication is potentially a Critical Audit Matter could have a significant "chilling effect" on the communications between auditors and the audit committee. The existing environment promotes an open dialogue.

- The illustrations contained in the proposal make it clear that compliance will require numerous pages of discussion. The proposed report will result in a lengthy technical summary that investors will not be able to understand or appreciate without direct and in-depth discussion of the matters with the company or auditor. The examination of these technical matters is why professional auditors are engaged in the first place, and what allows investors to rely on the financial statements.

- The proposed process will lead to significant effort on the part of the auditor to draft this information at a high level of quality required for external reporting to shareholders, and to undergo a rigorous internal review process. As the auditor's expanded report will appear in the company's filings, management will have a vested interest to review and provide input on all critical audit matters discussed. All this activity will occur in an already very compressed and stressful annual reporting cycle.

- The proposed change to the auditor's responsibility for Other Information is more substantive than it appears. Current requirements are to *read* the other information for inconsistency with the audited financial statements. The proposal requires an *evaluation* of all Other Information including that not directly related to the financial statements. This raises the auditor's responsibility and required standard of care which will result in increased procedures. Other Information includes statements which are not purely financial and are based on the knowledge, insight and experience of management which is not necessarily objectively verifiable. Auditors may not possess the expertise necessary to evaluate Other Information. This could lead to the auditor consulting with specialists, or conversely curtailed management commentary in MD&A. We believe there is only minor incremental value to be derived from this proposed requirement that will not justify the cost. We are not aware of problems in this area and believe the current approach is sufficient.

We appreciate the opportunity to respond to this proposal and trust that our comments will be seriously considered in future Board deliberations.

Sincerely,

Richard J. Schlueter

Richard J. Schlueter
Vice President, Controller and
Chief Accounting Officer

cc: Frank J. Dellaquila
Executive Vice President and Chief Financial Officer