PCAOB Public Meeting on the Auditor's Reporting Model

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Comments by Joan C Amble, President , JCA Consulting LLC; Public Board Member; NACD Audit Chair Advisory Council Member, and Retired EVP and Principal Accounting Officer, American Express

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Thank you for the opportunity to participate in this PCAOB public meeting. Your diligence and the fact that your are reaching out to varied constituents to seek input as you move forward on these important topics is commendable.

Please note the comments I offer are my own and do not necessarily represent the views of the organizations of which I am affiliated.

My background encompasses various positions in business and business related fields such as an accounting instructor, a CPA and auditor with Ernst & Young, a standards setter with the FASB, and a Principal Accounting Officer (PAO) and CFO in varied businesses within the General Electric Company and later as a PAO with American Express.

I am currently focused on Corporate Governance as a board and audit committee member of three public companies; chairing two of the audit committees. I believe you have invited me to participate because of that role. Therefore, while my comments are informed by all of my experiences, they apply most specifically to those as an audit committee chair and member.

It is important to highlight, however that my perspective, similar to most I presume, is to seek sound financial reporting, with an unyielding commitment to integrity, strong governance and a bias towards transparency as it relates to all parties involved. Company management, directors, and auditors each have a role to play.

While I have been asked to comment on auditor tenure and other basic elements of the auditor's report, given the significance of the very important topic of disclosure of Critical Audit Matters, I feel compelled to note that I strongly disagree with the direction the Board has taken on this proposal and do not support it as currently written.

Along with the vast majority of audit committee members with whom I have had the opportunity to discuss this matter since the exposure draft was issued, I believe including Critical Audit Matters in the auditor's report would lead only to much longer, but not more useful, reports by including information already adequately provided by management in footnotes or MD&A. I was pleased to see that many audit committee members as well as the National Association of Corporate Directors provided input to the PCAOB to elaborate on the reasoning for this opposition.

The other area not subject to this panel's discussion relates to the auditor's responsibility regarding other information, on which, time permitting I will provide comment during my close as it too is an element of the proposed changes I do not support as written.

The specific areas to be addressed in my comments today are:

1. Auditor tenure
2. Auditor independence
3. Auditor's responsibility for the financial statements, including the related notes and, if applicable, schedules
4. Auditor's responsibility for fraud

Auditor tenure

While auditor tenure may be an interesting data point for some users of financial statements, I do not support the disclosure of this in the auditor's report. This is an area where I have given considerable thought and have been on both sides of the issue before concluding.

Auditor tenure, taken out of context, has the potential to unnecessarily obscure the question of audit quality, and perhaps cause some to erroneously conclude a direct correlation between auditor tenure and audit quality. To my knowledge no such verifiable correlation exists.

I do not think auditor tenure negatively impacts audit quality or independence*; people and actions* do.

My experience has been that the engagement team on the ground and its ability to access specialized expertise within the firm provides the basis for sound audit quality, not the number of years a firm has audited a company. In addition, the mandatory rotation for partners limits the years senior members of the engagement team can audit, which provides a systematic introduction of differing and fresh perspective to the audit engagement. If anything, I would favor permitting a 7 year rotation for engagement partners on large, complex global organizations.

If tenure were to be introduced in disclosures as *an element of governance*, the placement seems better situated in the proxy statement as part of the audit committee report or with the ratification of auditors.

Auditor independence

I support the recommendation to expand the auditor's report stating the firm is required to be independent with respect to the Company in accordance with the United States Federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.

Having said this, I think it is important to underscore the significance of the ongoing review of audit quality by the audit committee and the use of audit committee executive sessions and other interactions with the external auditors to understand the nature and quality of the engagement and to engage in dialogue about the independence, integrity, objectivity and requisite competence of the engagement team as well as the firm in fulfilling its professional responsibly as the auditor.

Those discussions and dialogues should not be canned or routine, nor a perfunctory or cursory review of a recurring presentation on auditor responsibilities. Instead they should be robust and enriched discussions addressing engagement team skills, company risks and the degree to which specialists are engaged. Other topics to be addressed, while certainly not a comprehensive list, are significant areas requiring substantial judgments, estimates, and incremental audit procedures.

This ongoing review of audit quality is a core responsibility of the audit committee and provides a robust basis of judgment regarding the audit quality we seek and further provides a firm foundation for continuous improvement in audit quality from the auditor.

Auditor's responsibility for the financial statements, including the notes and, if applicable, schedules; and auditor's responsibility for fraud

I support the Board's proposal to enhance the auditor's report to require the auditor to identify the financial statements, including the related notes, and if applicable, schedules, as part of the financial statements that were audited.

I also support the proposal to revise the auditor's report to recognize the auditor's existing responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements*, whether caused by error or fraud*.

I agree these proposed enhancements to the auditor's report provide a more complete and accurate portrayal of the worked performed by the auditors.

Other Information: Auditor's responsibilities regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report

While not part of the panel discussion, I feel equally compelled to offer my brief perspective on the auditor's responsibilities regarding other information in certain documents containing audited financial statements and the related auditor's report. As many constituents have noted, clarification of work done by the auditors should be provided in the auditor's report.

If the PCAOB determines it will move forward with its proposal on 'other information' in some form, I recommend the Board accept Deloitte's offer to work with the Board to "develop a workable model for expanded auditor involvement with other information". I further recommend as part of this proposal that consideration be given *first* to the auditor's responsibilities regarding *quantitative non-GAAP measures*.

There have been many instances when a company feels quantitative non-GAAP measures are more meaningful to users of their financial statements than GAAP measures. However, I would venture to say that auditor involvement in terms of evaluating the rigor around the processes, controls and testing of non-GAAP quantitative disclosures is varied, and therein lays an opportunity to clarify what the auditor's responsibility for such information should be and how this responsibility should manifest in terms of auditor reporting.

Thank you for the opportunity to speak.

Respectfully submitted

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