

I retired from Andersen as a managing partner in 2000 and since have served and chaired 17 audit committees, both public and private. I also am the founding president of the local chapter of NACD whose Blue Ribbon Report you reference in the release.

In the 55 pages of the release I failed to see an issue that the release is attempting to resolve. Chair White last year in a speech referred to disclosure overload and redundancy and I fear any rules resulting from this release will only compound this. The release was also very vague and did not identify the parties or interest groups who were advocating for increased audit committee disclosures. I have listened to hundreds of earnings calls and do not recall one incident of a caller asking about this, even in situations where an auditor change or restatement took place.

Before addressing the specific questions I have some general observations. A stakeholder interested in understanding the workings of the audit committee need only refer to the charter on the company's website. On every committee I have served a standard procedure was to review the charter and conclude the committee has met every obligation in the charter. Some companies track this quarterly, others annually.

Audit committee procedures regarding the selection of the audit firm and its personnel, in particular the signing partner, could raise questions of independence. People who do not have a working knowledge of large firm's

procedures and audit committee operations could mistakenly conclude that the partner's independence is impaired if the partner is fearful of being asked to step aside.

Item B on page 22 discusses divergence in audit committee reporting practices. This does not lead to a conclusion that these companies set the bar for others. Also, because companies are not homogenous it is entirely appropriate for divergence in practices. Requiring all to meet the same requirements will result in a "check the box" approach to reporting as we now have with risk factors and significant accounting policies.

### **Requests for Comment**

Page 28, item 1.

More disclosure is unnecessary. A stakeholder who wishes to understand more can read the charter, AS 16, understand Sarbanes Oxley and the relevant exchange requirements and SEC regulations.

Item 3.

Assuming there is a groundswell for additional reporting requirements, it is unlikely a one size fits all set of rules would be appropriate for all companies.

Item 4.

As we saw with Sarbanes audit committee workloads increased with a primary focus on compliance versus more strategic and operating matters. Audit committee fees, director fees, audit fees, internal audit expenses and legal fees have all increased without a commensurate increase in value received. Much of this time and expense was related to complying with Section 404 and the audit of internal controls.

Item 6.

Audit committee reports today describe the responsibility for overseeing the company's financial reporting.

Item 8.

This would create more unnecessary disclosure, duplication of disclosure and redundancy.

Items 9, 11 and 15.

There are times communications with the auditor relate to sensitive matters which are resolved prior to the filing of the financial statements. Other communications are proprietary to the company and should not be made public for competitors to see.

Item 10.

No further disclosure is needed if the reader understands what the required communications are.

Item 12.

The audit committee is not the appropriate party to report what the audit firm did. This would be more appropriate in the auditor's report.

Item 13.

Audit committees do this already but to require reporting it to the public is inappropriate. Further, it is the auditor's responsibility and judgment to determine these matters.

Item 17.

Potential new disclosures may not chill communications but would likely cause the communications to be more carefully considered in advance and require the audit firm to have more internal consultation.

Item 18.

Each case is unique. Disclosing the number of meetings would be meaningless. Some committees have more frequent meetings with the auditor than others but for very different reasons. This disclosure could cause incorrect conclusions being reached. For example, does Company A disclosing more meetings than Company B indicate A has significant issues or it is more diligent?

Item 19.

Standard practice today is to have private sessions with the auditor. It is assumed.

Item 20 and 21.

A reader interested in this should refer to the PCAOB public reports and the auditor's website. It is interesting to note that the PCAOB has stated that a large percentage of audits inspected were defective but there has not been a proportionate number of restatements. Were the auditors just lucky and guessed correctly? Nonpublic results should not be reported. There is a reason they are nonpublic.

Items 24 and 25.

This would be stating the obvious. If someone needs to understand that auditors are objective or skeptical that person does not understand the audit profession. No amount of disclosure would help.

Item 32.

In these situations a Form 8K should be filed explain why the committee retained the auditor.

Item 33.

Yes, it should continue to be a routine matter.

Item 34.

Disclosing the name of a signing partner suggests a lack of understanding the extensive internal consultation which occurs in the audit firms. It also suggests the signing partner has the ultimate authority on all matters which is incorrect. With respect to large multinational firms numerous signing partners are involved in the audit of subsidiaries, some of whom audit a larger portion of the company than the partner who signs on the consolidated statements.

Item 35.

This is a dangerous proposal. As stated above, the quality control policies of the major audit firms require extensive internal consultation and division of responsibilities. The length of time a partner has served is now limited to 5 years so disclosing number of years has minimal if any benefit.

Items 36, 37 and 38.

No. Any such disclosure is the responsibility of the audit firm.

Item 40.

This disclosure implies that it is the partner and not the audit firm who has been retained. While the partner is a critical consideration, it is the firm which is being retained. Critics could be tempted to claim that the partner's

independence is impaired if the partner's assignment is dependent on the client and not the firm.

Item 43.

Audit committees routinely discuss the partner assignment with the audit firm. Disclosing these matters opens the judgment of the committee open to second guessing. The partner is an important consideration but not the only consideration in selecting a firm.

Item 45.

Tenure disclosure is minimally beneficial.

Items 50 and 51.

A single location for any disclosure would be beneficial, not only for audit committee reporting but also accounting policies, risk factors and other matters that are repeated in SEC filings.

Item 53.

Yes. Many of the requirements for large companies are onerous and expensive for smaller filers. Smaller filers generally are more dependent for financing and need access to the markets.

Items 55 and 56.

Requirements lead to check the box approaches.  
Guidelines are preferable and allow registrants to tailor the disclosures to their specific situations.

Items 57, 58 and 59.

I see nothing in the suggested disclosures that would have a material change in oversight of the auditor other than the time and expense of compliance with any new requirements. I do not believe it will provide insight into the committee's oversight nor do I see how it would improve audit quality.

Item 60.

The proposals would very likely result in boilerplate information.

Item 61.

The proposals have limited beneficial utility to investors.

Item 74.

Company charters will spell out responsibilities and will differ between companies appropriately.

## **Conclusion**

Prior to finalizing the proposal the Commission should do an exhaustive cost benefit analysis and ensure that investors are insisting these disclosures. My reading of the release suggests this is likely a solution seeking a problem to solve.

The views expressed in this document are mine alone and do not represent the views of any company with whom I am associated.

Jack A Henry

