James H. Edwards
[redacted]

September 8, 2015

Mr. Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549-1090

Re: Request for Public Comment on Concept Release on Possible Revisions to Audit Committee Disclosures (Release No. 33-9862, File No. S7-13-15)

Dear Mr. Fields:

I write in response to the above referenced request as an independent individual investor. While the scope of the Concept Release is quite expansive, I restrict my comments to six selected topics, namely: 1) the need to update Item 407 (d)(3)(i)(B) of Regulation S-K, and the opportunity this provides for both possible codification of existing disclosure requirements and potential creation of a consolidated framework for inclusion of future PCAOB initiated auditor, or SEC initiated audit committee, initiatives; 2) audit committee disclosures as they might relate to the reporting of the names of natural persons associated with audits; 3) audit committee disclosures as they might relate to auditor independence, 4) audit committee disclosures relating to the most recent PCAOB inspection report, 5) audit committee disclosures as they might relate to various aspects of so called "audit quality indicators," and 6) a specific response to Request for Comment No. 72.

1) Need to Update Item 407 (d)(3)(i)(B) of Regulation S-X

Any attempt to dispose of the need to update this item by replacing it with a single general catch-all disclosure encompassing "all PCAOB required auditor communications" would be a disservice to the investing public and must be resisted. On the contrary, the need to update this item should be taken as an opportunity to enhance its rigor.

a) Specific reference to PCAOB AS 16 must be included.

b) The Item should be framed in terms of disclosure as to receipt, review, and consideration of the "Results of the Audit," as outlined in Paragraphs 12-24 of AS 16.

c) "Receipt" of the auditor workproduct is merely the symmetrical complement to the committee being the body appointing the auditor.

d) "Results of the Audit" conforms, in parallel language and seemingly in principle, with that used in EU Directive 2014/56/EU: "The statutory auditor(s) or the audit firm(s) shall present [in writing, to the audit committee] the results of the statutory audit in an audit report."

e) The co-existence of Rule 2-07 Regulation S-X and AS 16 needs to be rationalized, with possible cross-reference, so that they mutually support each other. At present, there is, at a minimum, a potential conflict in timing between these two requirements (as well as with EU Directive 2014/56/EU).

f) Both Rule 207 Regulation S-X and AS 16 require specific auditor and audit committee communications regarding notions fundamental to oversight of the financial reporting process (i.e., critical accounting policies and practices, critical accounting estimates, and significant unusual transactions, among others). Specific reference to the requirements that describe these notions provides enhanced notice to audit committee members of their importance, and thereby some marginal degree of assurance to investors. In particular, if one sets aside outright looting, financial statement frauds that result in "notorious disasters" can broadly be described as an admixture of the two categories of wholesale fabrication of transactions and the misclassification of entire classes of transactions, with the latter being most popular. Only AS 16 Paragraph 13 (e) makes any reference to the classification of items as they relate to conformity with the applicable financial accounting framework.

g) While the Concept Release pertains to audit committee disclosures, I would be remiss to not mention that while AS 16 appears to be an improvement over AU Sec 380 (which it replaced), AU Sec 380 did contain the requirement that: "The auditor should determine that the audit committee is informed about the process used by management in formulating particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates." This assessment by the auditor that "the audit committee is informed" about two very important aspects of the audit is, again, to my mind, an ever-so-slight enhancement that would result in an additional degree of investor confidence in the process of oversight of financial reporting for all audit committees. [Some might argue that such an enhancement is illusory. I'm not so sure. If an auditor states: "OK. Before we conclude, I need to apprise you that I have determined the audit committee is informed of these topics," I can imagine at least a few audit-committee members becoming inspired enough to seek additional clarification with some follow-up questions.]

h) The SEC should require the audit committee to disclose whether, prior to recommending to the full board that the audited financial statements be included in the 10-K, they have, in addition to reviewing the audited financial statements, received (in the entirety), reviewed, and considered, the "Results of the Audit" as outlined in AS 16 Sections 12-24, as well as indicating the form (whether written or oral) in which such Results were received.

2) Audit committee disclosures as they might relate to the reporting of the names of natural persons associated with audits.

The audit committee report is not the appropriate venue for disclosure of the names of natural persons involved with the audit. This information should be contained in the auditor's report.

a) Separately, however, inclusive and in addition to the requirements of AS 16 (10)(d), the auditor should furnish to both the PCAOB and the company (upon request) a complete list of "the names, locations, and planned responsibilities" (including changes thereto reflecting actual involvement) and independence, of all individual natural persons employed or retained by the auditor or employed or retained by any "sub-contractor" of the auditor pursuant to the engagement. This latter recommendation may seem, at first, a bit excessive; but it is generally agreed that, whether driven by evolution of standards or otherwise, there is an ever-growing amount of basic audit work being outsourced. Audit committees may be interested in developing assessment criteria, at the level of individual detail, that encompass this increased "general contractor" perspective, as well as identifying specific potential security concerns.

3) Audit committee disclosures as they might relate to auditor independence.

Request for Comments Nos. 24/25 refer to the notions of auditor objectivity and professional skepticism, which are tightly coupled with the notion of auditor independence (Request for Comments Nos. 9/10).

a) PCAOB Rule 3526 requires written communication and discussion with the audit committee regarding all relationships with the registered public accounting *firm* which "may reasonably be thought to bear on independence;" yet independence considerations obviously extend to individual natural persons associated with the firm as well. It is unclear the extent to which the Rule 3526 communications require the audit firm to describe how independence is evaluated at the level of individual natural persons participating in the audit or otherwise associated with the firm.

b) The audit committee should be required to disclose that they have received a written assertion from the auditor as to independence, and that they have discussed this assertion with the auditor.

c) Objectivity is impaired by conflict of interest. Audit committees seeking to promote auditor objectivity may wish to disclose their inquiry into and, possibly, their consideration of, the nature and scope of the conflict of interest criteria the audit firm employs at the level of individual natural persons participating in the audit or otherwise associated with the firm. For example, specific inquiries and consideration might relate to the precautionary insight provided by Walter P. Schuetze, then Chief Accountant, Office of Corporate Practice, U.S. Securities and Exchange Commission: "It appears to me that some auditors and their families through social contacts are getting so close to and so involved with their clients and their clients' families that a disinterested observer would question whether the auditor's objectivity had not been clouded or even perhaps enveloped." (Remarks at the 17th Annual SEC and Financial Reporting Institute Conference, University of Southern California, 1998).

4) Audit committee disclosures relating to the most recent PCAOB Inspection Report

The PCAOB inspection regimen, which in essence consists of targeted evaluations as to whether an auditor performed the work necessary to render an opinion at selected audits, is an outstanding program. It remains, it seems, at the discretion of the audit committees as to how they might utilize such inspection information as made available by the PCAOB. In that deployment of audit committee discretion is a fundamental basis by which investors might differentiate between companies for investment and voting purposes, voluntary disclosure of PCAOB inspection related committee-auditor communications and, possibly, considerations resulting therefrom, is "low hanging fruit" for those audit committees seeking to provide greater transparency.

a) Nevertheless, one would expect that all audit committees would be particularly interested in any inspection information that related to *the specific company* for which they had financial reporting oversight. Further, while it seems that the audit committee chair of a company is generally notified if an auditor inspection which derivatively relates to their firm is underway, it is unclear if such notification is required.

b) The SEC should develop a requirement to the effect that the audit committee must disclose whether the committee has inquired of the auditor if any aspect of financial reporting of the company was derivatively selected as a basis for a PCAOB inspection of the

auditor within the previous period; and if so, whether or not the auditor has communicated and discussed with the committee the result of that inspection.

c) Accepting the fact that required disclosures most certainly incentivize behavior, it seems reasonable that the SEC should require such a disclosure; for surely a desire to learn the details of an inspection by the professional regulating body pertaining to any aspect of the audit and auditor of *the very company* one has oversight responsibility for would be no more than a minimum expression of care which any investor must be able to expect from any director.

5) Audit committee disclosures as they might relate to various aspects of so-called "audit quality indicators."

"Audit Quality" is an ill-defined and contentious notion. Yet "quality" is generally understood in all other commercial disciplines as being a measure of system performance (results); that is, the "suitability to purpose," the objective for which the task which produces the output was undertaken in the first place.

a) The Treasury's Advisory Committee on the Auditing Profession and the PCAOB SAG Discussion Paper on Audit Quality Indicators each distinguish between input-based, process-based, and output (results)-based metrics.

b) To even use the word "indicators" in conjunction with input-based metrics is deceptive. First, since there is no generally accepted definition of "audit quality," it is only possible to argue that some input-based metric is indicative of some parochial definition of audit quality. Second, there is, to my knowledge, no evidence whatsoever that any specific input- or process-based metric, alone or in conjunction, causally influences any output-based metric. (The single academic study which indicates a "higher incident of fraudulent financial reporting in the early years of the auditor-client relationship" does not, contrary to the suggestion in Footnote 74 of the Concept Release, provide *causal* "evidence connecting audit tenure to audit quality." Rather, it suggests that in years 1-3 of a new engagement there is some higher degree of risk of fraudulent financial reporting. The authors of the study themselves suggest a possible alternative explanation: "It may be that the heightened incidence of financial reporting problems associated with the early years of an auditor-client relationship reflects the fact that companies that change auditors are more likely to have financial reporting problems;" the implication being that the new auditors were more or less "dumped on," and that, perhaps, the take-away of the study is that additional resources in years 1-3 of an audit are required to achieve "quality." Or, in any case, that the relation between audit firm tenure and financial reporting fraud is not definitively causal, and hence suitable as an "indicator," but symptomatic of another determining variable instead.)

c) There is nothing, it seems, to prevent audit firms from independently developing and communicating input- and process-based metrics on their own, and using these in their marketing and promotional efforts to obtain or retain audit appointments. One must expect that such activity is already standard practice. To suggest, however, that audit committees must disclose aspects of communications regarding these input- and process-metrics, disingenuously ignores the power of SEC disclosure requirements to drive behavior, and comes as close to explicitly endorsing input- and process-based metrics, despite no demonstrable causal connection (i.e. proven influence) on the desired outcome (results), as one can get, without literally doing so. This would be highly prejudicial and risks jeopardizing the evolution of good corporate governance in an area which moves glacially at best, thus possibly impairing such evolution for decades to come.

d) The PCAOB must also be cautious with proscribing provision of input- or process-based metrics by auditors in that this would create a concomitant responsibility for the PCAOB to tightly specify, *and monitor adherence to*, standard measurement techniques to be used by audit firms for such metrics.

6. Response to Request for Comment No. 72: "If audit committees are required to provide disclosure that relates to information provided by the auditor (and it is not currently required to be communicated by the auditor under existing PCAOB auditing standards), would changes to PCAOB auditing standards be necessary to ensure that additional information beyond existing required communications is provided to the audit committee?"

This is a provocative question that seems more suitable as a topic for a regulated markets or corporate governance seminar. Theoretically, it would seem that audit committees should be able to make appointment of the auditor contingent upon provision by the auditor of any information, which, in the opinion of the audit committee, they require so as to properly assess the auditor or proffered audit, whether disclosure regarding the communication of such information is required by the SEC or not; and thus the ability or willingness of the auditor to provide such information would be subject to engagement negotiation, where, lacking a concomitant PCAOB requirement for the auditor to provide such information, and, depending upon the specific nature of the information, possible increased auditor turnover or divergence in disclosure content, or both, might be expected.

Sincerely,
(signed)
James H. Edwards