

December 9, 2011

Mr. J. Gordon Seymour  
Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, DC 20006-2803

**Re: PCAOB Rulemaking Docket Matter No. 37, Concept Release on Auditor Independence and Audit Firm Rotation**

Dear Mr. Seymour:

In response to your invitation to comment on the concept release on mandatory audit firm rotation, I am providing input in my capacity as the Chairman of the Audit and Finance Committee of ConocoPhillips, a major integrated energy company. I also serve/have served on the audit committees of other public companies, and previously was the Chief Executive Officer of Deloitte & Touche and Deloitte Touche Tohmatsu.

I believe auditor independence, objectivity, and professional skepticism are critical elements of the audit environment. However, mandatory audit firm rotation would, in my opinion, result in significant harm to audit quality. Mandatory audit firm rotation would result in a significant loss of institutional knowledge, which I believe is critical to an auditor's evaluation of the risks, judgments, and estimates required to prepare financial statements and related disclosures. Because a new audit firm would face a steep institutional (and potentially industry) learning curve, the investing public would be exposed to more frequent risk of audit failure. The risk of management fraud going undetected would also increase during the initial years of each new engagement. Additionally, while audit quality is decreasing, the cost to companies, and ultimately shareholders, will increase substantially.

Among the most critical elements necessary for performing high-quality audits are a professional environment that can attract extraordinarily talented people and focusing that talent almost exclusively on training for and performing audit work. Mandatory rotation of audit firms may undermine both of these quality elements. Mandatory rotation of engagement partners every five years creates more frequent needs to relocate auditors, placing more stress and hardship on these professionals, particularly in an era of dual career families. Mandatory firm rotation would significantly exacerbate this problem. Regulators have in the past expressed concern that audit quality might suffer if auditors spent significant time selling their services and audit firm compensation systems are reviewed to ensure such marketing efforts are not excessively incentivized. Requiring all companies to change audit firms on a periodic basis could only increase the amount of selling effort required and decrease the percentage of time spent conducting audits.

As you're aware, mandatory audit firm rotation is not a new concept. In the late-70's, the Cohen Commission considered and rejected mandatory audit firm rotation, concluding higher costs and increased audit risk outweighed any perceived benefits. The U.S. Securities and Exchange Commission studied and rejected the idea in the mid-90's, and in 2002 the U.S. Congress considered but did not require mandatory audit firm rotation in the Sarbanes-Oxley Act. Finally, in late 2003 the U.S. General Accounting Office studied the matter and concluded that "mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record, as well as the current reforms being implemented."

These “current reforms” include the establishment of the PCAOB, mandatory rotation of the lead audit engagement partner, and auditor appointment by independent audit committee directors. I believe these actions have further strengthened auditor independence since the above studies were conducted. It is also worth highlighting that audit committees are clearly incentivized to ensure the auditor is independent, skeptical, intimately familiar with the company and its industry, and qualified to deliver a quality audit.

Despite these improvements, the PCAOB determined it is again time to explore mandatory audit firm rotation. One perceived benefit of such an approach is that auditor skepticism would improve as a result of the auditor knowing another audit firm will be looking over their shoulder in a few years. Based on my experience, auditor appointment, compensation, and oversight by an independent audit committee, mandatory engagement partner rotation, concurring partner review, audit firm quality assurance processes, and PCAOB inspections provide adequate assurance of professional skepticism today, without the increased risks and costs, both direct and indirect, associated with mandatory audit firm rotation.

I am not aware of any studies linking audit firm tenure with audit failures, and the concept release indicates the PCAOB’s own preliminary analysis shows no correlation between audit tenure and the number of comments in PCAOB inspection reports. Further, the concept release notes the root causes of audit failures are complex and the PCAOB plans to explore those causes further. Audit deficiencies and/or failures can result from a number of factors, including not only lack of objectivity but lack of technical competence, lack of experience, lack of sufficient supervisory review, audit engagement time or resource pressures, or other factors. I believe the PCAOB would be well served to conduct further root cause analysis before issuing additional regulatory requirements. Without such a thorough understanding, the PCAOB is at risk of arbitrarily and capriciously enacting a new requirement – mandatory audit firm rotation – that not only does not address the underlying issue(s), but does far more harm than good.

Thank you for the opportunity to provide comments on this proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "James E. Copeland, Jr.", written in a cursive style.

James E. Copeland, Jr.  
Chairman of the Audit and Finance Committee  
ConocoPhillips