

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, DC 20006-2803

Re: PCAOB Rule Making Docket 037, Release No. 2011-006

Board Members:

I appreciate the opportunity to comment on the PCAOB's Concept Release on "Auditor Independence and Audit Firm Rotation." I currently serve as the audit committee chairman for Entergy Corporation and have served on Entergy's board since 2003. I have also served on other organizations' audit and board committees. I was a partner with Arthur Andersen until my retirement in 1998, serving as director of the firm's North American utility practice and I served as a partner for almost 25 years. It is from this experience and perspective that I am providing my response to the PCAOB's request for comment on its Concept Release, however these comments are solely my own and should not be ascribed to any other entity.

The Concept Release notes that the possibility of mandatory audit firm rotation has been considered in the past. The Concept Release also describes some of the prior considerations including the 2003 General Accounting Office study, mandated by the Sarbanes-Oxley Act, which concluded that "mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality considering the additional financial costs and the loss of institutional knowledge of a public company's previous auditor of record [and that] the potential benefits of mandatory audit firm rotation are harder to predict and quantify." The reasons that are described in the Concept Release for undertaking this initiative again in light of the findings of prior evaluations include the PCAOB's audit findings which question whether firms are exercising the appropriate level of independence and professional skepticism in the audit process. Other reasons for the current reconsideration include suggestions by certain investors and members of the PCAOB Investor Advisory Group that mandatory audit firm rotation should be considered in light of the financial crisis, and also because of the efforts in other countries to more closely evaluate the issues of auditor independence and professional skepticism that have been undertaken. I believe that a more robust discussion surrounding ways in which to enhance audit quality would be a meaningful and welcome discussion by the financial statement community, however I also believe that:

- The Concept Release seems almost singularly focused on mandatory audit firm rotation as the means to achieve that objective.
- The change of an audit firm is an action that the audit committee should undertake if deemed necessary vs. being statutorily imposed.

- A mandatory audit firm rotation requirement will diminish rather than enhance audit quality and this result will be amplified in large, complex organizations.
- There are other areas or topics that I suggest the Board discuss with representatives of the financial statement community including companies, accounting firms and investors to improve or enhance audit quality.

***Concept Release Focus on Mandatory Audit Firm Rotation as a Way to Enhance Auditor Independence, Objectivity and Professional Skepticism***

The majority of the 21 specific questions included in the Concept Release are focused on issues surrounding mandatory audit firm rotation, including the possible term of engagement limitation, the scope of the potential requirement (large vs. small companies), and transition and implementation of a mandatory audit firm rotation requirement. And only 2 of the 8 questions in the General Questions section address broader audit quality issues as compared to specific issues related to mandatory audit firm rotation. While the Summary of the Concept Release indicates that it is requesting commentary on ways to enhance auditor independence, objectivity and professional skepticism, which underlies the quality of an audit, it appears that there is only one clear path articulated by the PCAOB to achieve that objective which is mandatory audit firm rotation. One of the fundamental reasons described in the Concept Release in support of mandatory audit firm rotation is that without such a limitation, there is potentially an unlimited revenue stream to the audit firm which impairs their ability to conduct the audit with the appropriate level of professional skepticism. It is this supposition and the seemingly sole focus on mandatory audit firm rotation in the Concept Release that is concerning to me. A high quality audit performed by an independent and objective accounting firm is critical to the financial reporting process and to the investment community.

A high quality audit is something that companies, their audit committees and accounting firms continue to strive for. As an audit committee chairman, and member of the accounting profession, it is troubling to me that rules continue to be considered or issued based upon the supposition that companies, their boards, and accounting firms are not good corporate citizens each with the intent of being diligent and vigilant in their day to day work to ensure that the objective of accurate, complete and reliable financial statements is met. Some of the legislation and processes implemented through Sarbanes-Oxley and other regulation have most certainly improved the overall quality of the processes at both companies and audit firms. However some legislation has been subsequently interpreted to narrow the focus of the legislation which supports the position that sometimes the initial rule-making may go too far if it is undertaken with an improper assumption or a singular focus. When this occurs, the passed legislation can be counterproductive by resulting in additional work that is not value added or that does not provide extra protection to the investor, but that results in an unnecessary distraction to organizations which, more importantly, shifts focus, efforts and resources away from higher risk issues. Therefore while I fully support a future dialogue on ways to continue to improve audit quality

and the audit process, I believe that a primary focus on a mandatory audit firm rotation, particularly based upon an assumption that audit firms allow the economics of an audit fee to impair their ability to exercise the appropriate level of independence and professional skepticism, will result in rules that ultimately diminish rather than improve the overall financial reporting process.

***Change of Independent Auditor is a Role Properly Assigned to Audit Committees***

As described in Entergy's 2011 proxy statement, "the audit committee annually reviews the qualifications, performance and independence of the Company's independent auditors in accordance with regulatory requirements and guidelines and evaluates whether to change the Company's independent auditors." The audit committee's appointment is communicated to shareholders who are asked to ratify that selection by an affirmative vote of a majority of the shares entitled to vote on the matter. The proxy also states that "although shareholder approval is not required for the appointment of [the audit firm] the Board and the Audit Committee have determined that it would be desirable as a good corporate governance practice to request the shareholders to ratify the selection of [the audit firm] as our independent auditors ... If the shareholders do not ratify the appointment, the Audit Committee may reconsider the appointment ... Even if the appointment is ratified, the Audit Committee, in its discretion, may select different independent auditors if it subsequently determines that such a change would be in the best interest of the Company and its shareholders." Additionally, an industry publication describing the impacts of Sarbanes-Oxley<sup>1</sup> states that "when effective, new Sarbanes-Oxley requirements would strengthen the audit committee's role in several ways: Its direct responsibility for engaging the external auditor and approving and paying for external auditor services would reduce the risk that the auditor may view its client as management and possibly compromise the audit." And, "its ability to hire and compensate special advisors provides a direct avenue to engage qualified people to obtain objective counsel on potentially troublesome matters – and thus have a stronger base of information upon which determinations may be made in the best interest of shareholders." In my opinion, the Concept Release does not appropriately recognize the current responsibility, processes and procedures undertaken by audit committees to evaluate the independence and qualifications of an audit firm each year in connection with an audit committee's recommendation to shareholders to appoint an audit firm. Underlying that recommendation is the ongoing dialogue and questions and answers among an audit committee and the audit firm, including direct conversations, without management of the company present. Rigorous processes and evaluations of materials as well as evaluation of the communications by an audit firm are considered as part of an annual recommendation. I believe that a mandatory audit firm rotation will shift focus away from these necessary efforts and result in more unnecessary time in re-learning a new audit approach and new personnel. The current laws result in committees that I believe appropriately challenge the audit firm and its personnel in making the committee's decision with respect to the annual appointment of an independent

audit firm and a proposal for mandatory audit firm rotation does not place enough emphasis on the rigor of that current process.

***Mandatory Change in Audit Firm Rotation will Diminish vs. Enhance Audit Quality***

The preparation of financial statements and the execution of an audit in today's environment can be very difficult. Statutory deadlines for registered filers to prepare and submit audited financial statements have continued to shrink, accounting rules which are complex and sometimes difficult to understand continue to be passed and regulatory reviews, audits and evaluations have been expanded. These external pressures are exerted on the company and its audit firm and I believe that it requires technical competence, good judgment and experience – both general accounting experience and industry and company experience of management personnel and the independent audit firm - that is absolutely necessary in meeting and complying with all relevant laws and regulations. In large organizations, it takes time to understand the scope of the business and how things work. It is this same reason that organizations cross train individuals and implement programs to limit turnover of capable personnel.

As I read the Concept Release, I was imagining a scenario where the audit firm that serves the company has a highly technical and qualified partner and staff who understand the company, its business and accounting policies. The partner on the engagement has promoted an open dialogue with the audit committee and as part of his or her required communications, has historically described the complex issues discussed with management and key factors or assumptions that were evaluated in considering the company's position. When a difficult or particularly complex issue has arisen in the past the audit firm has been in a position to think not only of that specific issue, but to also put that issue in a broader context and challenge the issue if it is inconsistent with other accounting positions or policies of the company. The method in which the firm communicates with the committee and the level of rigor that it applies, as described in the firm's discussions with the committee, is part of the audit committee's consideration in appointing the firm each year. I then fast forward to that same scenario except that the committee must replace that audit firm because of a mandatory audit firm rotation requirement and, as an audit committee member, am now faced with an entirely new audit team which is potentially less experienced in the industry, has less technical accounting qualifications and knows less about the company. The Request for Proposal (RFP) process to find a new audit firm is time consuming both for management and the audit committee members and the audit firm that would be the top choice based on qualifications is no longer able to be the top choice in the RFP. The next several years are spent by the audit firm, management and the audit committee working through a transition process rather than continuing discussions on high risk issues. In that assumed scenario I wonder how audit quality has been improved or what investor has been served by that change. I acknowledge and understand the issues described in the Concept Release that the PCAOB has identified during its audit review process. However I

would maintain that the instances where an audit firm has not demonstrated the appropriate level of professional skepticism because of its concern that it will lose a future revenue stream may be the exception rather than the rule. I believe that most of the instances described in the Concept Release where judgments were not sufficiently challenged by the audit firm (many of those situations not resulting in any restatements of financial information) may be more of a function of the issue being highly subjective in nature in the context of accounting rules which are not explicit and where an answer is less black and white and more gray. Because I am not privy to the full results of the PCAOB reviews I do however acknowledge that a discussion related to audit procedures on highly subjective or particularly complex issues may be necessary in the future depending upon the PCAOB's specific findings.

***Suggested Topics for Further Board Discussions on Audit Quality and Ways to Enhance Auditor Objectivity, Independence and Professional Skepticism***

This issue is relevant and important. There likely are ways by which to improve the process and most professional accountants would agree. A primary point that I believe may warrant further discussion on this broader issue is whether the current audit framework is sufficiently "risk based" or whether compliance and other requirements have resulted in a significant amount of time and effort spent in auditing and documenting areas that are low risk to the financial statements. This is an area that could become sufficiently complex; however I believe that if the domestic system is attempting to move to a more principles based accounting framework then the dialogue related to the audit process should likely follow.

I thank the Board for its effort on this important matter and thank you for your consideration of this letter.

Sincerely,

/s/ Steven V. Wilkinson

Steven V. Wilkinson

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<sup>i</sup> PricewaterhouseCoopers, "The Sarbanes-Oxley Act of 2002, And Current Proposals by NYSE, Amex and NASDAQ, Board and Audit Committee Roles in the Era of Corporate Reform: A White Paper", 2003