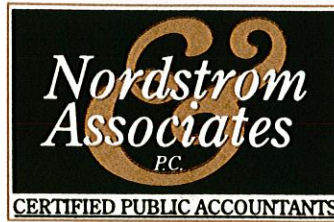


Bruce J. Nordstrom, CPA  
Godfrey C. Loper, Jr., CPA  
Marjorie T. McClanahan, CPA  
Timothy D. Hansen, CPA



MEMBER  
American Institute of  
Certified Public Accountants  
Arizona Society of Certified  
Public Accountants

May 21, 2012

Public Company Accounting Oversight Board  
Office of the Secretary  
1666 K Street, NW  
Washington, D.C. 20006-2803

Submitted by e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: Rulemaking Docket Matter No. 38**

I am Bruce J. Nordstrom, President and Certified Public Accountant with Nordstrom & Associates, P.C. and Chairman of the Audit Committee for Pinnacle West Capital Corporation ("Pinnacle West"). Pinnacle West is the NYSE-listed parent company of Arizona Public Service Company, the largest electric utility company in the state of Arizona, serving more than a million customers. It is in my capacity as Audit Committee Chair for Pinnacle West that I respectfully submit comments on the Public Company Accounting Oversight Board's ("PCAOB") *Proposed Auditing Standards on Related Parties and Related Amendments to PCAOB Audit Standards* (the "Release"), in particular the proposed procedures related to company transactions with executive officers.

I have been asked by the Audit Committee to bring to your attention concerns with respect to the portion of the Release that deals with the auditors' reviews of transactions with executive officers. The Release includes proposed procedures that I believe are significantly in excess of what is needed to accomplish its objectives with respect to transactions with executive officers. Rather than approaching concerns with a straightforward, cost- and time-effective solution, the Release casts a wide net that places unnecessary requirements on auditors and unnecessary costs and burdens on issuers, management and even members of the boards of directors of public companies.

**Required Reading of Proxy Statement**

The current auditing standards do not require a company's independent auditors to read the company's proxy statement. (See Paragraph 11 of Auditing Standard No. 12, which only requires an auditor to consider reading public information regarding the company.) This is the only proposed change to Auditing Standard No. 12 that appears reasonable. The SEC rules governing the required content of proxy statements has been much

expanded in recent years (most recently in the Dodd-Frank Act). Public company boards and their committees now spend considerable time and effort in reviewing the proxy statement for completeness and accuracy. The proxy statement contains the very information that should be the focus of inquiry under the Release, and provides auditors with a thorough understanding of the company's executive compensation structure, arrangements with certain key officers and the extent to which the compensation structure may incentivize risk-taking. (See Items 402(s) and 407(h) of SEC Regulation S-K.) A required review by the auditors of the proxy statement, coupled with discussions with management to address questions or to attain a better understanding of underlying compensation structures, would be a more reasonable and measured solution to the concerns cited throughout the Release.

### **The proposed definition of "Executive Officers"**

The proposed amendments require the auditor to read employment and compensation contracts for each "executive officer," which is an expanded scope of officers subject to any such review and scrutiny. The SEC's focus is on obtaining detailed compensation related information for named executive officers ("NEOs"). The Release's expansion of this concept to require auditors to delve into the compensation for a broader group of officers is unfounded based on research cited by the PCAOB in the Release. The Release references a study that examined SEC accounting and auditing enforcement releases from 1997 to 2008. The study found that either the chief executive officer or chief financial officer was named in 89 percent of the enforcement actions involving fraudulent financial reporting. (See footnote 15 of the Release). Given these statistics, the PCAOB's broadening of the scope beyond NEOs and requiring auditors to perform analyses of each of the broadly defined "executive officers" is unnecessary. In the case of Pinnacle West and based on its interpretation of the Release, this expansion nearly triples the number of executives subject to this higher level of required scrutiny by its independent auditors.

The additional time an auditor might need to perform this review could be significant due to the unique circumstances and nature of employment and compensation related agreements. As the Release recognizes, auditors may not be suited to understand and evaluate these arrangements, and may need to hire outside experts themselves in order to perform the level of risk assessment required in connection with their audit. Both of these factors unnecessarily increase the cost burden on companies compared to the likely benefit to the investing public of the additional procedures.

### **Inquiry of Compensation Committee Chairperson and Compensation Consultants**

Any required inquiry by the auditors of the compensation committee chairperson would be unnecessarily intrusive and burdensome on the chairperson's time, particularly in light of the proposed expanded definition of executive officer discussed above. Use of board members for purposes of providing audit support should be done on a selective basis, and the proposed amendment to require this as part of the auditing standard goes beyond what should be required. Again, a requirement for an auditor to read the proxy statement and make inquiries of management would be consistent with addressing the concerns

described in the Release. Access to the compensation committee chair could be afforded on a case-by-case basis if the auditor's review prompts specific concerns, for example with the CEO's or CFO's compensation arrangements.

Second, any discussion with the compensation committee's independent compensation consultant seems on its face to be a duplication of efforts. The very reason a committee hires an outside compensation consultant is to gain the perspective of an outside expert to assess the company's compensation structure. Compensation consultants have the required level of expertise to assess the appropriateness of a company's compensation structure. For the Release to require the auditor to make another level of inquiries of these consultants is unsettling. The release does not provide any justification for making these advisors subject to questioning by auditors. It could affect the consultant's objectivity and independence from influence if it is asked to, in effect, justify compensation decisions of the company that the consultant has reviewed. As you know, the SEC has promulgated regulations under the Dodd-Frank Act specifically directed towards ensuring independence of consultants to the compensation committee. (See SEC Release Nos. 33-9199 and 34-64149.)

In summary, I feel that the costs and burdens of the proposed amendments to Auditing Standard No. 12 are disproportionate to the stated rationale for the Release. Page A4-42 of the Release includes the following statement: "Understanding how a company has structured its compensation for executive officers can assist the auditor in understanding whether such compensation arrangements affect the assessment of the risks of material misstatement." While our committee does not disagree with this statement, we believe the Release's approach is overly broad and intrusive in light of the reasonable alternatives described above.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce J. Nordstrom". The signature is written in a cursive style with a large initial "B" and "N".

Bruce J. Nordstrom