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Testimony

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Introduction

Chairman Levitt, Chairman Nicolaisen, Members of the Advisory Committee, fellow panelists and other guests:

My name is Brian Jennings. I currently serve as the Chief Financial Officer of Dallas, Texas based Energy Transfer Partners, L.P. Energy Transfer is a New York Stock Exchange traded Master Limited Partnership principally engaged in the gathering, processing, and transportation of natural gas. While we are not a household name, through our ownership of both intrastate and interstate natural gas pipeline systems, we are one of the nation's largest natural gas transmission companies. Each day we transport in excess of 9 billion cubic feet of natural gas in pipeline systems that stretch currently from the California border to east Texas. In 2008 alone, we will invest approximately $2 billion building natural gas pipelines and processing facilities and expanding critical energy infrastructure in this country.

On behalf of myself and Energy Transfer, I want to thank the Advisory Committee for inviting me to share my thoughts on human capital issues facing the accounting profession and ultimately the impact of those issues on entities such as Energy Transfer.

I must preface my comments by stating that I am not a Certified Public Accountant; however, I have served in a Chief Financial Officer position for the past six years, including my current position at Energy Transfer and my previous position as Chief Financial Officer of Oklahoma City based Devon Energy Corporation. In addition, I am a member of the Board of Directors of Arch Coal Corporation where I serve on the Audit Committee. I hold a degree in Petroleum Engineering from The University of Texas at Austin and a Master of Business Administration degree from the University of Chicago's Graduate School of Business. The perspectives I will share today on the current state of the accounting profession reflect not only my experiences serving as Chief Financial Officer but also my experience serving on the audit committee of a publicly traded company.

I was asked to comment today on the skills, education, and training that I seek in external audit staff as the Committee considers critical human capital issues in the accounting industry. I have been very fortunate in my professional career, a career which now spans three decades, to work with many talented and professional audit staff. I hope to share with the Committee my expectations of audit excellence and discuss with the Committee the skills and capabilities I expect our external auditors to deliver. From that discussion, I hope to explore with the Committee the challenges and opportunities facing the profession.

I do want to take a moment to commend this committee for its willingness to discuss human capital issues in the accounting profession. This issue is not, however, unique to the accounting field as we also face critical shortages of accountants, engineers, and scientists in my industry. These shortages, while manageable today, represent in my view, one the nation’s greatest economic challenges.

Audit Expectations

I look for our external auditors to bring to each audit or quarterly review they complete, or comfort letter they provide, a broad based and thorough understanding of our business and the accounting rules that govern our financial reporting. The energy business is complex and rapidly changing. In addition to understanding the complexities of our business, I expect our external audit staff to maintain that understanding against a backdrop of complex accounting rules and frequent rule changes. In addition to accounting skills and business understanding, we expect our external auditors to bring to every engagement the highest ethical standards.

Our partnership provides to the market with each financial reporting event disclosure that captures, for current and potential investors, a complete and thorough review of our business strategy, business risks, and our financial performance. We provide financial disclosure that is consistent with current accounting policies while remaining useful to investors seeking an understanding of our financial position. I look to our external auditors, as does our Board and our investors, to ensure the integrity of our financial reporting and disclosure.

The depth of experience an external audit team brings to an engagement is critical to its ability to provide value added insight to the audit function. That experience must include familiarity with our company and familiarity with our industry. We want our external audit team to have the confidence to look beyond the financial reports and schedules to the critical accounting policies that we adopt and their impact on our financial reporting. We expect our external audit team to bring their collective experience and the firm’s collective expertise to the table to ensure decisions we make are reasonable and well tested.

Bottom line, we expect our external audit firm to be knowledgeable of our company, knowledgeable of our industry, and experts in the accounting policies that govern our financial reporting. We believe we capture this critical skill set with an external audit team, including the lead audit partner, who is experienced and deeply staffed. The challenge for the accounting profession is to meet our expertise, knowledge, and continuity requirements.

Continuity Challenges

Our partnership, as consumer of audit services and the accounting profession, as a supplier of audit services, faces two critical challenges related to ensuring the continuity of the external audit team. The first challenge to audit team continuity relates to the five year lead audit partner rotation requirement mandated, with other important financial market reforms, following the passage in 2002 of the Sarbanes-Oxley Act. The second challenge to external audit continuity is the consequence of mandatory rotation on audit partner retention and career development.

In two of the three audit situations I have been involved with in the past four years, I have experienced lead audit partner reassignment. In each case, we were very pleased with the lead audit partner's leadership skills, technical capabilities, and professional integrity. The reassignment decision in both circumstances was mandated by PCAOB lead partner rotation requirements.

For companies located in large markets, those well served by a wide range of audit firms with large experienced audit staff and audit leadership, the transition may be relatively seamless. For companies located in smaller markets or companies in specialized industries, such as energy, the rotation requirement may cause a significant gap in technical and sector expertise. The rotation requirement, while well intended, may place these small market companies at a significant disadvantage in securing for their investors the highest quality external audit services.

In considering the impact of five year audit partner rotation on the human capital challenges that face the accounting profession, I drew upon the experiences and challenges that confront my own industry. In the energy industry, employers in this decade have faced a myriad of workforce issues. We have an aging workforce. We have experienced dramatic and sustained industry cycles. We have transformed our sector through frequent consolidation. In turn, we created an industry that for a generation failed to recruit and hire new employees with critical technical skills. Like many businesses, we have been forced to compete today for new employees with a view of employment and career goals that differ greatly with our core baby boomer workforce.

One issue in particular that resonated with our newest generation of employees was the difficulties we have faced with employee transfer and relocation. We could spend an entire session discussing the implications of generational differences in the current workplace. Many excellent studies and books have been written that explore the consequences of these issues. Most would agree that the new generation entering our workforce and making employment decisions is placing significantly greater value on the quality of their lives and that quality measurement often includes where and how they work. For many employees transfer and relocation, synonymous in my generation with promotion and success, is being routinely declined in favor of dual careers, family requirements, and location preference.

I believe five year rotation requirement will ultimately impact external audit employee development and leadership retention. Mandatory reassignment may ultimately be a disincentive to those considering the audit career path as a consequence of the uncertainty that reassignment creates. That uncertainty may drive talented audit professionals out of the business. Sector specialization may ultimately be impacted as individuals seek to maximize career flexibility. I believe that audit partner rotation will have a greater impact on small- to mid-sized public accounting firms, and consequently small- to mid-sized publicly traded companies, as their markets may not support the scale necessary to ensure seamless rotation.

Closing Considerations

I believe companies and their Directors are better served by controlling the timing of lead audit partner engagement. If talented and skilled external audit professionals face uncertain employment situations, we are at risk to lose the very best of our accounting staffs. We reward excellence with career uncertainty. In a perfect world, individuals would relocate to pursue advancement and promotion with the knowledge that in five years a new move will be required. The world is not perfect. For external auditors that select energy as a field of specialization, the risks of relocation and reassignment are significant. For our company, rotation of the lead audit partner and reassignment of our relationship to an individual with limited sector expertise places us at a disadvantage. For the audit partner, the prospect of five year rotation may lead those with options to step out of the field.

I do appreciate the rationale for the rotation of the lead audit partner. Risk exists in any organization where employees or contractors become entrenched and relationships over time blurred. I do believe that much has changed for the better in the area of corporate governance. Heightened director awareness and active participation in financial reporting preparation is a far more effective tool to ensure the integrity of public company financial reporting than the rotation of the lead audit partner.

I have been a strong proponent of the benefits that the adoption of Sarbanes-Oxley has delivered. The adoption has had a profound impact over the quality and integrity of public company financial reporting. As we begin to reexamine the long term consequence of Sarbanes-Oxley and PCAOB regulations, I hope we will give important reconsideration to mandatory rotation requirements. In the long run, we will all be better served by a talented and robust accounting profession that attracts and retains the very best employees and leaders. Thank you.