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Mr. J. Gordon Seymour  
Secretary  
Public Company Oversight Board  
1666 K Street NW  
Washington, DC 20006-2803

Re: Rulemaking Docket Matter No. 37 - Request for Public Comment on Auditor Rotation

Dear Mr. Seymour,

Reflecting on the PCAOB's request for comment regarding its Concept Release on a requirement for mandatory independent auditor rotation, I question why the focus is on the auditors and not the audit committee.

Apparently, the PCAOB believes (or as the Concept Release states, "some believe") that audit firms lose their independence by receiving fees for their work on a long-term basis. That is, in order to keep the annuity stream of revenues, the PCAOB believes auditors and their bosses will ignore their integrity, ignore their certification standards, and look the other way at tough accounting and disclosure decisions. Further, there is the apparent view that different audit decisions will be made if the relationship period is reduced from infinite terms to a definite term of three or five year terms.

As chair of six public company audit committees over the last twelve years, I applaud the SEC's focus on the independence of audit committee members as well as auditors. The Sarbanes-Oxley Act put the audit committee, rather than management, in charge of the auditor and overseeing the audit engagement. Audit committee members have taken that independence seriously. I'm quite certain that my fellow board members and management teams consider my incessant queries and healthy skepticism to be a real pain at times. But that's my job. I do the job independently without facing mandatory rotation.

The audit committee's responsibility is to manage the relationship with the auditor, including monitoring its independence. If there is a question about the auditor delivering on its promise of independence, why then wouldn't the *audit committee*

be held accountable? If the PCAOB believes auditor rotation is necessary, wouldn't it be logical for the PCAOB to also recommend mandatory audit committee rotation?

I raise that hypothetical question because I think it would be just as implausible to rotate directors as auditors. Experience trumps a fresh look.

Rotating the audit committee would be highly inefficient. It takes experience to be a good director. Many audit committee chairs have brought to bear their functional audit and accounting skills to their audit committee roles. In selecting them as board members, their functional skills were valued more than their industry experience. Therefore, subsequent to joining a board, it takes sustained effort from audit committee chairs to learn the business and offer a broad based level of independent query. If audit committee chairs were rotated on and off boards every three to five years, their contribution would be severely curtailed.

The PCAOB and the SEC have made it quite clear that the independent auditor reports directly to the audit committee - - not the management team. The audit committee hires and fires the auditor and approves fees. I have not had one experience, nor would I tolerate a request, of a management team trying to twist my arm to change audit firms or reduce auditing hours or fees.

So, I'm trying to understand the logic of the Board in assuming that the independent audit team would change its opinion or conclusions on the basis of a constant stream of revenues. That would suggest the audit committee is not monitoring the audit or the audit issues. I believe reality is quite to the contrary. The audit committees I represent demand auditors that are independent of management. They demand frequent, frank and private communication with auditors. Meetings and phone calls between the engagement partner and the audit committee chair are the expected norm. Private sessions with the auditor at every audit committee meeting exhibit the independence of both parties and the honest discussions about issues. The first question we ask in private sessions is whether the auditors are receiving any pressure from management regarding the financial disclosures and whether they are receiving the cooperation necessary. The auditors know who is in charge. The auditors know the importance of their independent relationship. The auditors know that any suspicion by the audit committee of allowing management to pressure them, of evidencing a lack of independence, objectivity and professional skepticism, will result in being fired. The message couldn't be stronger and should not be characterized as being less because of a few examples to the contrary.

Both the audit committee chair and auditor must work toward building a relationship of trust and confidence. The chair must share with the auditor the committee's questions (sometimes concerns) about accounting issues, business and management. Trust in the independent auditor's grasp of the business and accounting issues only comes from these candid discussions. These relationships get better over time. The understanding, frankness and thoroughness that result would be impaired by mandatory rotation.

The independent directors on the audit committee feel responsible for assuring the independence of the auditor. It is far from what the PCAOB appears to assume: that long-term auditor relationships create a cozy relationship between the auditor and management. This assumption seems to ignore the work of the audit committee. Would the shareholder be better served if the audit committee itself were subject to mandatory rotation? That concept could be expanded beyond the audit committee to all independent directors. I doubt that would best serve shareholders. Experience trumps a fresh look. I know too well how difficult it is to get up to speed in a director role to be of maximum independent benefit to the stakeholders.

As a former big-four independent audit firm partner, I understand the seriousness of independence, objectivity and professional skepticism. I also understand the strengthening over recent years in the auditor's relationship with the audit committee. It has been a worthwhile emphasis. I think we have a good system in place. In my opinion, it is not broken and requires no mandatory auditor rotation. Mandating change in audit firms every so many years would only make our jobs more difficult.

With respect to additional issues, I will let those more knowledgeable make the detailed analytical points, but I will make some summary observations.

**Cost:** Under mandatory rotation, costs will increase, as new firms must repeatedly become familiar with the businesses and systems of new audit clients. Audit firms will be at maximum workloads as startup hours on new engagements soar. Stretched to their limits, audit firms will prosper as fee pressures subside.

**Effectiveness:** There is no question that audits get better over time. Auditors have to learn the business and the systems to be effective. There is no better audit tool than experience.

**Independence:** Having shareholders pay for independent auditors monitored by independent audit committees is a good formula. Requiring audit firm partners to rotate after five years is enough for a fresh look. More regulation in the process is not helpful. Where does it stop? The ultimate extension of more government regulations on the audit would be for the government to do the audit. That would not serve our capitalistic system well. I have seen government auditing in many industries, and it does not compare to the private sector.

Thank you for considering my comments.

Sincerely,

William C. Jennings