

From: [Dan Sandstrom](#)
To: [Comments](#)
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PCAOB:

I would like to add my comments to the others on this important topic (such comments should not necessarily be attributed to my firm). Let me first say that I applaud what Chairman Doty is trying to accomplish -- if only the leaders of my profession had such passion for serving the public interest, we more than likely would not have found ourselves in the position we are in today (and would still be promulgating auditing standards for both private and public audits).

As brief background, I have been in public accounting since graduating college. I started w/ AA&Co and have worked in auditing my entire career. This issue is near and dear to me and I have given it much thought over the years. The fundamental issue, as you know, is the current payment model where the auditor is paid by the very firm he/she audits. I continue to believe that we can make this model work but it requires a special kind of professional. Auditing is unique from all other services a CPA provides -- and in fact from what most professions provide: Simply put -- auditors are not permitted to be advocates for their client.

However, auditors are human and there is a natural tendency not to "rock the boat" regardless of all the rules and standards. Add to this the constant marketing barrage you hear from the AICPA and the firm themselves about needing to be your "client's trusted advisor" and how to improve "client service", and it is no wonder that we continue to have problems w/ this issue.

In reading over some of the comments, there seems to be a perception that rotation of audit partners is something new and should be given more time to work. Unfortunately, this rotation requirement has been around since the 1990's for firms that were members of the SECPS (which covered most of the larger firms). W/ the PCAOB noting that the 2010 inspection cycle has revealed more issues than in prior years and when you consider that audit failures are continuing even after Sarbanes Oxley (e.g., Satyam Computer and Bally Total Fitness audits to name two -- both resulting in large fines against the respective audit firms), it seems there is still a problem.

My personal belief is that we are dealing w/ a culture that has developed over decades (e.g., during a period when auditing took a back seat to consulting and other non-attest services) and the change Chairman Doty is striving for will take time. I also believe that the audit firms are more focused on audit quality today and will, over time, come to the realization that putting the public interest first is not only necessary but serves the firms (and its partners self) interests as well.

My suggestions to improve auditor performance follows:

- Codify in the auditing standards the clear responsibility of auditors as articulated by the Supreme Court (*U.S. v. Arthur Young & Co.*, 465 U.S., 1984)
- Craft standards to leverage self interest in the furtherance of public interest (e.g., prohibit all indemnification and related wording in engagement letters)
- Consider developing an auditor advocacy position within PCAOB that champions efforts to strengthen auditors ability to withstand fee pressures (i.e, commoditization of the audit) and raises the stature of the profession
- Provide for forced firm rotation in extreme cases (based on facts and circumstances)

However, I do have concerns about profession wide audit firm rotation (not the least of which is that it can take years for an audit firm to develop a full understanding of the unique risk profile each audit client presents). I realize that this is a conundrum -- the multinational audits that pose the most risk to the public also have the potential for the most serious of unintended consequences (which will only be

exacerbated if the European Commission goes forward w/ its recent proposals in this regard). Whatever you, I would suggest a measured but sufficiently forceful response -- you don't want to throw the baby out w/ the bath water so to say. Best wishes -- auditing is an honorable and learned profession that has a societal role unlike any other -- I truly hope we can say in a few years from now that this profession has chosen to put serving the public interest ahead of self interest.

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