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Past studies have shown that the relationship between an audit firm and their long term clients affect the quality of audit work. Evidence supports the assertion that when an auditor has a long term relationship, the auditor usually seeks to obtain evidence that corroborates rather than challenge the assertions made by management. According to this PCAOB release, even well intentioned auditors fail to recognize and guard against their own unconscious biases when auditing a long term client. This fact has led to the increase in the number of auditors displaying a lack of professional skepticism in their work.

In my opinion, a mandatory requirement for public companies to rotate their external auditors will improve auditor independence and objectivity. As John Biggs said, “had Arthur Andersen in 1996 known that Peat Marwick was going to come in 1997, there would have been a very different kind of relationship between them and Enron.” This statement explains how auditor rotation could have prevented some of the major corporate scandals. An audit firm will be more likely to ensure that it has performed its audit duties to the highest standards if it knows that at some point its work will be checked by the audit firm that takes over the client.

The cost and benefit analysis involved in auditor rotation shows that there are significant costs to consider in implementing a mandatory rotation requirement. The steep learning curve in the first few years of a new client engagement and the high cost to firms in switching auditors are significant issues that cannot be ignored. However, the ultimate objective in performing an audit is to assure the users of financial statements about the accuracy of management assertions. Without a rotation policy, an audit firm will not be able to be completely independent and objective. The fact that the audit fees are paid by the audit client is the reason why auditors find it difficult to become objective. A rotation requirement will enhance an audit firm’s independence because each new engagement will not be treated as a potential for long term income from the client. One solution suggested by experts that we agree with, is to replace the client-payer model with a system of financial statement insurance. This system will ensure that the audit fees are not paid by the client but by an insurance company.

The PCAOB release suggested a pilot program should be implemented first. So that mandatory rotation program could be further studied before the Board determines whether to make it a permanent requirement. This pilot program could be focused on a specific industry that has a medium to high risk of material misstatements. If an improvement is shown in the quality of audits the mandatory requirement could then be expanded to all public companies.

In conclusion, in light of the recent scandals involving public companies, the PCAOB has to take steps to ensure that this never occurs again. A mandatory rotation policy has its advantages and disadvantages. Those against it argue that it will reduce the quality of audit work. However, a rotation policy will ensure that auditors are objective and independent in the performance of their work.

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