

December 13, 2011

*Sent via regular mail
and electronically to: comments@pcaobus.org*

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Reference: Request for Public Comment: *Concept Release on Auditor Independence and Audit Firm Rotation*;
PCAOB Rulemaking Docket Matter No. 37

Dear Office of the Secretary:

EisnerAmper LLP (EisnerAmper) is pleased to comment on the Public Company Accounting Oversight Board's (PCAOB) concept release on auditor independence and audit firm rotation. EisnerAmper is a large regional full-service accounting firm. We provide audit, accounting, and tax services, as well as other consulting services to a broad range of clients across many industries in the New York, New Jersey, and Pennsylvania corridor. EisnerAmper is a PCAOB Independent Registered Public Accounting Firm with approximately 80 issuer audit clients.

We commend the PCAOB's efforts to enhance auditor independence, objectivity and professional skepticism, and appreciate the opportunity to provide comments on the Concept Release. Independence, objectivity and professional skepticism are the cornerstones of the auditing profession; they are what give an audit value and are some of the most critical factors that affect audit quality.

We do believe that the systematic changes required by the Sarbanes-Oxley Act of 2002 such as partner rotation, prohibition of certain nonaudit services, increased audit committee responsibilities and the PCAOB inspection program have enhanced auditor independence. We believe that frequent consideration of possible improvements to enhance auditor independence is a worthy endeavor.

We agree with the underlying assertion that the current client-pay model inherently creates a conflict since the audit firm is paid by the company being audited. Audit firms are aware of this inherent conflict but value their professionalism and reputation and remain committed to their obligations to the investing public. Audit firms spend significant resources to monitor and mitigate this conflict.

The concept release focuses on mandatory audit firm rotation as a possible means by which to improve auditor independence, objectivity and professional skepticism. While we understand the potential benefits of a fresh point-of-view and the potential reduction in management pressure on auditors that mandatory rotation could provide, given the magnitude of this consideration, we believe that mandating firm rotation is unwarranted and any perceived benefits do not exceed the costs and the inevitable unintended consequences.

Some of our concerns related to those costs and unintended consequences include:

- Research and history has indicated that audit failures occur more often in the first couple of years of an auditor's tenure.
- Significant knowledge of a client including its business, industry and processes is developed over time and this knowledge is a significant factor of audit quality. There is currently no mechanism for that knowledge to be effectively transferred to a successor audit firm.
- Additional issuer costs and business disruption – audit firm changes always result in additional costs and loss of productivity getting the new auditor familiar with a company and its processes.
- Lack of audit firms with sufficient capacity, resources, technical and industry knowledge to perform a high quality audit. Mandatory rotation could require a company to hire an auditor that may not be the best firm to perform a high quality audit.
- Additional risks of audit failures at the end of the rotation period when audit teams are focused on their next post-rotation assignment.
- Mandating firm rotation could also impact the ability of firms to attract and retain highly qualified and trained audit professionals by making it difficult to offer their professionals career opportunities.
- One of the alleged benefits of mandatory rotation is the reduction in pressure an auditor may face from management to protect the client relationship, however, one of the unintended consequences may be the opposite of that; the increased pressure an auditor would face to replace the audit with non-audit services as the rotation period comes to an end.
- The timing of the mandatory rotation might come at a time when transition could be especially difficult due to changes in client management, a significant transaction, changes to the client's business etc. This could negatively impact audit quality.

We are not convinced that audit firm tenure is the primary cause of audit deficiencies that stem from a lack of sufficient professional skepticism. Independence, objectivity and professional skepticism is a mindset that is most closely associated with individuals and not necessarily firms. Firm quality control policies and culture emphasizes the importance of the appropriate level of skepticism and the need to obtain corroborative evidence. There is a risk that over time and with increased familiarity with a client, professional skepticism may not remain as high as it should be and the individual auditor may place too much reliance on management representations, assumptions and judgments. We believe that mandatory partner rotation has definitely taken steps to mitigate this risk.

Proponents of mandatory audit firm rotation believe that setting a limit on the continuous stream of audit fees would free the auditor from management pressure to preserve that relationship and thus the stream of fees. We believe that your consideration should also include the inverse of this. Instead of mandatory audit firm rotation, you should consider mandatory audit firm tenure. Once the audit committee selects the audit firm that they believe is the best firm, they are required to keep that audit firm for a minimum tenure, e.g. 3 years. During that minimum tenure the only way a company could dismiss the auditor would be for cause, which would have to be approved by the SEC. This would serve to free the auditor from management pressures without the costs and unintended consequences of mandatory rotation. It still leaves auditor selection in the hands of the audit committee who are in the best position to evaluate the needs of a company and shareholders. We believe that the audit committee's role in appointing the external auditor and overseeing the audit process is a strong mitigating factor against management pressures on the auditor. At the end of the minimum tenure, the audit committee could decide to continue with the same firm for another minimum tenure period or select a new audit firm.

Over the past thirty years, the auditing profession has experienced increased consolidation, competition, litigation, issuance and complexity of accounting standards, audit firm failures, regulation and public scrutiny.

The auditing profession, however, has endured and continues to place quality, reputation and investor interest above all else. We encourage you with this and your future rule-making initiatives to consider the strength and longevity of the profession while providing issuers with free open-market choices. An environment that fosters the ability of issuers to access capital and investors to provide that capital is critical to the economic success of any open-market jurisdiction. A strong auditing profession that can attract and retain the “best and the brightest” is critical to the sustainability of that environment. We recognize that there are no easy answers to these questions nor is there a perfect solution. We do support any ideas that would improve audit quality and enhance auditor independence, objectivity and professional skepticism; however, we do not believe that mandatory rotation would provide a benefit to investors sufficient to outweigh the costs and any unintended consequences.

Thank you for the opportunity to comment. We are available to discuss our comments at your convenience.

Respectively submitted,

A handwritten signature in cursive script that reads "EisnerAmper LLP".

EisnerAmper LLP

EisnerAmper LLP