CPAs & BUSINESS ADVISORS

December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment: *Concept Release on Auditor Independence and Audit Firm Rotation*

Eide Bailly LLP commends the Board's ongoing commitment to the improvement of audit quality and appreciates the opportunity to provide our comments on this Concept Release. Eide Bailly is a registered public accounting firm serving mid-sized and smaller issuers and broker-dealers. We have provided general comments as noted below, followed by responses to the questions which the Board sought specific comment.

General Comments

As noted in our response to the initial question posed in the Concept Release, we believe that it is appropriate for the Board to focus on enhancing independence, objectivity and professional skepticism. However, we do not believe that mandatory firm rotation is appropriate, at least not at this time, as we also believe that the Board does not have enough evidence to support the conclusion that firm rotation will address its concerns, and that other, more effective alternatives are available.

Much of the background information presented in support of mandatory firm rotation is tied to the Board's inspection findings, suggesting that these findings often are the result of a lack of auditor considerations with respect to independence, objectivity, and particularly, professional skepticism. Accordingly, as discussed later in our response, we believe that the Board should complete a more detailed evaluation of inspection findings prior to proposing such a rule. Among other considerations, we believe that this analysis should include further classification of inspection deficiencies (documentation versus scope of work, deficiencies identified in initial engagements versus continuing engagements, etc.) in an effort to form more informed conclusions as to the root cause of identified deficiencies.

Lastly, even if one were to conclude that a lack of professional skepticism was a root cause of poor audit quality, we question whether firm rotation is the best solution to address the problem? As is noted in the Release, "Nevertheless, even well-intentioned auditors, as with other people, sometimes fail to recognize and guard against their own unconscious biases". Without further evidence to conclude that a lack of professional skepticism exists more frequently in long-tenured engagements than shorter-tenured engagements, we are concerned that such a requirement will have significant costs, without ultimately addressing the Board's concerns.

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Following are our responses to the specific questions noted in the Release.

General Questions

1. *Should the Board focus on enhancing auditor independence, objectivity and professional skepticism? How significant are the problems in those areas relative to problems in other areas on which the Board might focus? Should the Board simply defer consideration of any proposals to enhance auditor independence, objectivity and professional skepticism?*

   We believe that it is appropriate for the Board to focus on enhancing independence, objectivity and professional skepticism; however, we question whether the data provided by the Board's inspection process can actually be linked to a lack of independence, objectivity and/or professional skepticism.

2. *Would audit firm rotation enhance auditor independence, objectivity and professional skepticism?*

   We do not believe that the Concept Release provides evidence that audit firm rotation would enhance auditor independence, objectivity and professional skepticism. The Release includes various comments suggesting that inspection findings provide evidence that auditors at times do not exhibit independence, objectivity and/or professional skepticism; however, even if this point is accepted, there is no evidence presented that these situations are more or less prevalent in continuing engagements versus initial engagements.

3. *What are the advantages and disadvantages of mandatory audit firm rotation? If there are potential disadvantages or unintended consequences, are there ways a rotation requirement could be structured to avoid or minimize them?*

   The Concept Release is based upon the premise that audit quality has been hampered by auditor's lack of independence, objectivity and professional skepticism, and that this premise has been formed based upon observations from the Board's inspection program. Although we believe that this premise is flawed, even if one accepts it, mandatory firm rotation is a "shotgun" approach that penalizes all issuers and their auditors; rather than specifically addressing those audit firms that are not appropriately demonstrating independence, objectivity and professional skepticism.

4. *Because there appears to be little or no relevant empirical data directly on mandatory rotation available, should the Board conduct a pilot program so that mandatory rotation of registered public accounting firms could be further studied before the Board determines whether to consider developing a more permanent requirement? How could such a program be structured?*

   We do not believe that a pilot program should be conducted; rather that the Board should focus its efforts on gathering additional information and considering alternative approaches to improvement in these areas, which are discussed in more detail below.

5. *According to the 2003 GAO Report, large firms estimated that a rotation requirement would increase initial year audit costs by more than 20 percent. What effect would a rotation requirement have on audit costs? Are there other costs the Board should consider, such as the potential time and disruption impact on company financial reporting staff as a result of a change in auditors? Are there implementation steps that could be taken to mitigate costs? The Board is particularly interested in any relevant empirical data commenters can provide in this area.*

   We agree that a rotation requirement would likely increase audit costs, however are not able to provide specific evidence as to the estimated impact.

6. *A 2003 report by the Conference Board Commission on Public Trust and Private Enterprise recommended that audit committees consider rotation when, among other factors, "the audit firm has been employed by the company for a substantial period of time— e.g., over 10 years. To what extent have audit committees considered implementing a policy of audit firm rotation? If audit committees have not considered implementing such a policy, why not? What have been the experiences of any audit committees that have implemented a policy of rotation?*

   For the various reasons noted throughout our response, we do not believe that mandatory firm rotation is the most appropriate means of addressing the Board's concerns, whether that be as a result of a PCAOB standard or the policy of an Audit Committee. With respect to Audit Committees, we believe that the effectiveness of the Audit Committee can have a far greater impact on audit quality than mandatory firm rotation.

7. *Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity and professional skepticism? For example, should broader alternatives be considered that relate to a company's requirement to obtain an audit, such as joint audits or a requirement for the audit committee to solicit bids on the audit after a certain number of years with the same auditor? Could audit committee oversight of the engagement be otherwise enhanced in a way that meaningfully improves auditor independence?*

   We believe that a requirement to periodically solicit bids ("tendering") has a higher likelihood of decreasing, versus increasing, audit quality, as it will often result in nothing more than a reduction of fees, thus putting additional pressure on engagement teams.

   We also believe that there are a number of alternatives to mandatory rotation that the Board should consider that will more effectively enhance auditor independence, objective and professional skepticism. Those alternatives are summarized as follows:

   - PCAOB Inspection Process – we believe that the Board's inspection process has contributed to an overall increase in audit quality; however can be improved. First, the process does not appear to attempt to identify the root cause of identified deficiencies at the firm level, rather only reports engagement-specific deficiencies, supplemented by broad-based quality control deficiencies. In addition, the process does not separate documentation deficiencies from those in which sufficient audit procedures were not considered to have been completed. While we do not suggest that documentation deficiencies do not need to be addressed, we do not believe that they rise to the same level of concern as those in which appropriate procedures have not been performed or an appropriate level of professional skepticism has not been applied. Accordingly, we believe that a cooperative effort between inspection staff and firms to identify and address the root cause of deficiencies has more potential to improve audit quality. Second, the time it takes the inspection staff to issue draft and final reports must improve if the inspection process is to achieve its goal of improving audit quality.

   - Audit Committee Effectiveness – we believe that there is a direct link between an engaged, knowledgeable and effective Audit Committee and audit quality. Our experience is that an Audit Committee that is consistently engaged with the auditor, and also objective, results in engagement partners and engagement teams being more objective in their relationships with management; thus improving audit quality. Accordingly, we believe that the Board should consider possible activities to improve the effectiveness of Audit Committees.

   - Firm Specific Rotation Requirements – we believe that a process to address audit deficiencies on a firm-by-firm basis, with the possibility of the Board implementing rotation requirements for individual firms and/or issuers is more appropriate than imposing such a requirement on all firms.

8. *Should the Board continue to seek to address its concerns about independence, objectivity and professional skepticism through its current inspection program? Is there some enhanced or improved form of inspection that could better address the Board's concerns? If mandatory rotation were in place, could an enhanced inspection, perhaps focused particularly on professional skepticism, serve as a substitute in cases in which it would be unusually costly, disruptive or otherwise impracticable to rotate auditors?*

   We agree that the Board should continue to address these concerns through the current inspection program; however believe that improvements can be made to the inspection program, as noted in our response to the previous question.

Possible Approaches to Rulemaking

Term of Engagement and Scope of Potential Requirement

We do not believe that the Board should move forward with the development of a firm rotation requirement, primarily because we do not believe that there is evidence available to conclude that such a requirement would address the Board’s concerns with respect to auditor independence, objectivity and professional skepticism. This is evidenced by the nature of the questions posed in this section of the Concept Release, most of which we believe are not able to be answered without first obtaining additional information.

Accordingly, we suggest that the Board spend additional time obtaining more information, including a more formal evaluation of inspection findings to determine if there is evidence of a link between the tenure of the audit firm and audit quality.

Transition and Implementation Considerations

7. To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?

   We believe that there are large, multinational entities for which there will be limitations on the company’s choice of an auditor, both as a result of the expertise and resources necessary to audit those entities and limitations that may exist as a result of the non-audit services being provided to those entities by other potential audit firms.

   Although it is likely that some smaller audit firms will leave the public company audit market as a result of such a change, we do not believe this to be a significant concern.

8. If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice?

   As noted above, we believe that non-audit service arrangements to pose a potential problem with respect to larger entities and the firms that serve them; and accordingly, transition rules would be necessary. We also believe that there are safeguards that could be implemented to also address these concerns on a long-term basis.

9. *If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?*

   Depending upon the nature and size of the issuer entity, there may be challenges with certain firms having the capacity and/or qualified personnel for engagements. We believe that firms would adapt over time to develop the necessary knowledge and capacity to plan for and manage rotation requirements.

10. *Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?*

    Please see our responses above.

11. *Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?*

12. *Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?*

    We do not believe that the implementation of such a standard will change the approach of most firms. Those firms that are committed to audit quality will continue to be committed, and those that are not are not likely to change their approach as a result of such a requirement. As a result, and as noted previously in this response, we believe that a more effective approach will be to address the lack of audit quality on a firm-by-firm basis, rather than a far-reaching standard that impacts all auditors and issuer entities.

14. *Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?*

    We do not believe that a firm rotation requirement will have an impact on “opinion shopping”.

15. *What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?*

    To the extent that a rotation requirement results in additional fee pressures, we believe that it is an equal chance that such a requirement could result in a decrease in audit quality versus an increase. Again, as we have noted elsewhere in our response, we do not believe that enough evidence has been obtained to form conclusions on these types of issues, and therefore encourage the Board to obtain additional information prior to proposing such a requirement.

16. *Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?*

    Please see our response related to alternative measures that the Board may take in lieu of a mandatory rotation requirement, specifically those related to improvements to the Board’s inspection program and consideration of methods to improve Audit Committee effectiveness.

17. *If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs?*

    We believe that the concepts of appropriate audit supervision and oversight and appropriate engagement acceptance procedures are a key element of audit quality. However, these are areas that require a significant amount of judgment which needs to be applied on a case-by-case basis, and therefore question how a standard would be drafted in any manner other than a rules-based, checklist approach that is inconsistent with the necessary judgment that is required to be applied in these situations.

18. *If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?*

    If mandatory rotation were required, we would expect that it would also include requirements related to the communication between predecessor and successor auditors. We do not believe that those requirements should include the predecessor auditor providing a written report regarding audit risks and other matters to the successor auditor. Rather, we believe that the successor auditor will need to assume responsibility for their own engagement acceptance and risk assessment processes in their evaluation of the succeeding engagement.

20. *If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?*

    We believe that the Audit Committee should continue to be responsible for the oversight of auditors, including their hiring and dismissal, and as noted elsewhere in our response that the Board should consider enhancing the oversight responsibilities of Audit Committees. Accordingly, we do not believe that a rotation proposal should provide any further limitations with respect to the Audit Committee’s function with respect to retaining auditors.

Once again, we appreciate the opportunity to comment on this Concept Release. We would be pleased to discuss our comments with the Board or its staff.

Sincerely,

Eide Bailly LLP

Eide Bailly LLP