Pennsylvania Institute of Certified Public Accountants

December 14, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803
Via e-mail at comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation

Dear Chairman Doty,

The Professional Ethics Committee (the Committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide its comments on the Public Company Accounting Oversight Board's (PCAOB) Rulemaking Docket Matter No. 37 - Concept Release regarding Auditor Independence and Audit Firm Rotation. The PICPA is a professional association of more than 20,000 CPAs working to improve the profession and better serve the public interest. Founded in 1897, PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The Committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

The Committee agrees with the overall objective of ensuring auditor independence and the maintenance of objectivity and professional skepticism. However, we believe that mandatory audit firm rotation is not an effective way to accomplish those objectives. The Committee believes that mandatory audit firm rotation would increase audit costs, strain resources within the accounting profession, and would not necessarily improve audit quality.

Mandatory audit firm rotation would likely result in higher audit fees to compensate for an auditor's significant start-up time, as well as potentially significant resource costs for companies that have to regularly acquaint new auditors with the accounting systems and accounting policies and procedures. These new costs would be in addition to the substantial strain already placed on internal accounting resources and accounting firm personnel from recent and upcoming significant changes to accounting and auditing standards.

While the proposed audit firm rotation requirement attempts to provide a one-size-fits-all solution, it fails to contemplate the facts and circumstances of each situation and undermines the authority of the governing bodies to make decisions in the best interests of the companies they serve. There are currently limited options for many larger companies and those in complex niche

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industries as few audit firms have the requisite expertise, size, and capability. Companies may have added difficulty finding multiple firms with auditing expertise in their industry. We believe that mandatory audit rotation would reduce rather than enhance competitiveness. These inconsistencies in supply and demand will further drive up audit costs and will add pressure for audit firms to oversell themselves to clients.

On larger audits, accounting firms may need to hire new staff and train them not only on the accounting firm's policies and audit approach but also on the specific engagement. Given the size the largest audits, a mandatory audit firm rotation policy could possibly lead to entire offices of auditors being laid off when the firm rotates off the engagement, while new offices spring up to take on the new account. This creates a fundamental instability in the auditing profession and is unrealistic as there are simply not huge quantities of unemployed CPAs. It is also unclear whether employees from an audit firm would be permitted to move to a new audit firm to continue to work on the company's audit. This obviously would not accomplish the overall objective of the proposal.

Instead of improving audit quality, mandatory firm rotation would likely lead to reduced audit quality during the transition periods. For larger complex engagements, the first several years of start-up time could result in greater risk to investors and the audit firm while presenting an opportunity for the company to manipulate its financial reporting. The transition period is also duplicative as the new audit firm has to evaluate the predecessor's working papers and relearn the client's business, accounting policies, internal controls, etc.

The Committee believes that the current PCOAB oversight process is effective in ensuring that audit firms perform high quality audits with the appropriate amount of objectivity and professional skepticism. The Committee believes that instead of requiring auditor rotation, greater focus should be placed on improving and strengthening public company governance.

Thank you for the opportunity to provide our comments related to the Concept Release. The Committee would be glad to discuss our comments with you at your convenience. I can be reached at (412) 697 - 5237, or you can contact Allison Henry, PICPA staff liaison, at (215) 972 - 6187 with any questions.

Sincerely,

Kenneth L. Urish, CPA
Chair, PICPA Professional Ethics Committee

cc: Allison Henry, CPA - Staff Liaison, PICPA Professional Ethics Committee