

From: [Scott Seamands](#)
To: [Comments](#)
Subject: Mandatory Audit Firm Rotation
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I attended the recent PCAOB meeting in San Francisco to listen to both sides of the issue regarding this topic. Thank you for scheduling a meeting here.

My comments on this issue are respectfully attached via this link to my column as President of the San Francisco Chapter of the California Society of CPAs.

<http://blogs.calcpa.org/sf/2012/08/15/rotation/#more-1246>

Best regards,

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Rotation

By **S. Scott Seamands, CPA**



How do you feel about rotation? In the case of planets, I am in favor of it. But I don't support the idea for professionals. The Public Company Accounting Oversight Board (PCAOB) is discussing the pros and cons of mandatory audit firm rotation.

This issue surfaces about every decade and the last time was shortly after Enron. At that time a study was conducted that concluded mandatory firm rotation does not eliminate audit failures and, in fact, leads to less awareness about clients maintained within audit firms. Does that sound like a good idea? The rotation question was resurrected in Europe last year in response to the recession that began with several notable bank failures in 2008. Would a "new set of eyes" have detected that loans made at 130 percent of real estate valuations were riskier?

You may not think that this issue has any impact on your practice if you don't have any SEC registrants as clients. But keep in mind that rules passed by Congress or the PCAOB that are intended to only affect public companies soon trickle down to local organizations—whenever the GAO or California decide that a rule should apply to all not-for-profit and governmental organizations, for example.

I attended a PCAOB hearing on the topic this summer in San Francisco and listened attentively to the more than nine hours of testimony covering both sides of the issue. The testimony was evenly weighted on both sides of the question.

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The proponents of mandatory audit firm rotation say that current mandatory audit partner rotation every five years doesn't go far enough toward maintaining independence and skepticism. They pointed out that although the number of audit failures has decreased since the partner rotation rules were adopted along with other changes made by the Sarbanes-Oxley Act, too many audit failures still remain.

The opponents countered that there is no evidence that the frequency of audit failures decreases when audit firms are rotated. In fact, studies indicate that as CPAs have less knowledge and background with a client, the likelihood of an audit failure increases.

I agree with opponents to rotation because audit failures are not caused by cozy relationships between lazy or corrupt professionals and their clients, as is often cited by rotation advocates. Instead I think audit failures occur because the well-intentioned professional didn't understand a client's risky transactions well enough. In other words, the problem isn't that auditors are too knowledgeable about their clients, but rather it's just the opposite. Firm rotation would only make this situation worse.

Let's see if this logic applies to other professions. Does our family doctor become too familiar with our medical history eventually? Does the doctor therefore get lazy and start skipping some important tests or questions? Is it a good idea to switch doctors every ten years just to keep them on their toes? I haven't heard anyone suggest that idea, but to me it sounds about as logical as mandatory audit firm rotation.

I encourage you to view the [PCAOB archived proceedings](#) online and let your views be known before they make a recommendation. You can send a comment to the PCAOB via [email](#).



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