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To Whom It May Concern:

The concept of audit firm rotation could greatly improve auditor independence. An uncapped engagement relationship allows for companies to get too comfortable with their auditor, which leaves room for unethical behavior. Auditors begin to lose objectivity as the years go on, ultimately resulting in a loss in public trust of their report on financial statements. With such major scandals in the past like Enron and WorldCom, it is important to take measures to instill faith in the auditing profession. Audit firm rotation would create both independence in fact and appearance. Constantly changing clients would allow auditors to maintain the degree of professional skepticism required to perform an engagement. “When exhibiting professional skepticism, auditors do not assume that management is dishonest, nor do they assume that management is unquestionably honest” (Louwers, Ramsay, Sinason, Strawser, & Thibodeau, 2011, p. 44). As relationships grow between auditors and clients, a trust is formed. This trust may cloud auditors’ vision and fail to see any dishonesty around them.

By basing these assumptions of unethical behavior off of a small percentage of accountants may be deemed wrong, but everything is based on strengthening investor’s trust. The ethical theory of utilitarianism says that the correct solution to a problem is one that causes the greatest amount of good for the greatest amount of people (Mill, 1863). The investors make up the majority of the public organizations being audited. There happiness comes by knowing the company they give money to is following all ethical standards and is not falsifying the public reports. The only way this can be made certain is by having an independent company monitor procedures, controls, and management behavior. According to David M. Katz, investors are concerned with the “coziness” between auditors and management and fear it is affecting the integrity of the financial statements (Katz, 2011). There may be many complaints by companies about mandating audit firm rotation, but auditor responsibility lies in the investors and the general public.

One argument is that the costs will skyrocket due to having to constantly become familiar with new business environments. There are solutions to that. Along with the firm rotation, there should also be a required report at the end of the rotation period filed by the auditor directed to the successor auditor. The report should give details about the client’s environment, industry, accounting techniques, management, and any other useful information for the new auditor. This could eliminate some of the time taken getting acquainted with the new client. It also saves the new auditor the effort of reaching out to the predecessor and waiting for approval from the client. By doing this, both engagement quality risk and initial costs could be reduced.

Another argument against firm rotation is that the new companies will not have the same quality audits as the previous auditor who was with the company for a rather long time. Perhaps a fresh look is exactly what that company needs. Longtime auditors may start to "view the audit as a simple repetition of earlier engagements" (Arel, Brody, & Pany, 2005). They may rely too much on previous results and go through every procedure of an audit. This is especially the case when an auditor is reviewing his own work. New auditors will be able to catch mistakes that the previous auditors missed. They may have different procedures in their audit plan that work better for that client. There seem to be positives to every negative argument and the decision to make now is which side outweighs the other.

With such a mix of ethics in today business world, it is the governing bodies responsibility to act before it gets out of hand, Auditor independence has become a serious issue and the PCAOB must take strict actions to save the integrity of the audit profession. Firm rotation can remove certain risks and validate objectivity. The investors are the main concern and it is the PCAOB's duty to instill rules to prevent auditors from behaving inappropriately. I believe audit firm rotation is a step in the necessary direction.

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