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Audit Rotation is Not Beneficial in the Long Run

According to the Sarbanes Oxley Act of 2002, external audit partners and their concurring partners are no longer able to have an engagement with a client for more than five years and must take a five year “cooling off” period before they can return to that client. I do not support this requirement and I feel it does more harm than good.

Along with audit rotation, SOX has created other requirements to ensure auditor independence. One of them includes the responsibilities of the audit committee. As stated before, the audit committee bears the responsibility for determining the scope of services provided by the auditor and reviewing independence issues prior to the appointment of the audit. With the audit committee overseeing the external auditors work and determining their duties, it prevents the external auditors from having to do it themselves.

Another requirement to ensure auditor independence is when an external auditor decides to work in a management position of their client. As stated before, Sarbanes Oxley requires a one year “cooling off” period before an auditor is allowed to work for a client in a key management position. This requirement allows the external auditor to take a break from their client. This ensures audit independence by allowing the auditor to think about their actions before they are shoved into an untenable situation. These requirements have better reasoning behind them than the new requirement for audit rotation.

Why audit rotation should not be required will be discussed by using the utilitarianism theory of ethics. As stated before, utilitarianism is a moral theory that implements fair choices in an effort to ensure the least amount of harm is done to all parties involved. The parties involved with audit rotation include the audit firm, their client, their audit committee, the public, the government, and much more. Audit rotation is more harmful to all parties than it is helpful.

The reason for audit rotation was to assist the auditors in giving off a better impression of auditor’s independence. By having audit partners rotate their clients every five years it allows the auditor to become less invested in their client’s well-being and more interested in fulfilling their responsibilities to the public. The public needs to feel reassured that the company’s financial statements are complete and accurate; that the financial statements have not been altered or tampered with to make companies appear more profitable. The public should be able to trust that companies are not afraid to show weaknesses in their controls; that the companies will be upfront about all issues involving third parties whether they are good or bad. To ensure that the public has no doubts in the company’s performance, SOX implemented an audit rotation requirement. When auditors realize they only have a relationship with their client for five years, auditors should be better equipped to be more professional in their duties than personal, because their relationship will not be long lasting. The auditor should be out for the public interests rather than the interest of their clients.

The benefits for rotating audit firms every five years are it allows the auditors to become less attached to their client. Auditors realize they have less time to be with their client and therefore are less likely to adhere to any fraudulent actions. There will be a new set of eyes to look over the previous auditors work in the upcoming years, so the previous auditor does not want to be seen as being incompetent. Another benefit is auditors will be perceived as more independent in appearance. By having a different auditor look over the financial documents of a company every few years, the auditors appear to be independent of that company since they do not have a long lasting relationship with them. Also, a benefit of audit rotation is that there will

be more people looking over the company's financial documents giving them the ability to give different opinions of the documents each time. The public is able to see not only one audit firm's opinions of a company, but two or more audit firm's opinions. This gives the company a more accurate audit opinion.

The detriments of audit rotation include having more people look over a company's financial documents. This can cause auditors to give a less thorough look into the company as a whole. With more people causes more chaos making it less likely to give a more detailed review. Another detriment in audit rotation is the time it takes to learn the new client's business practices. When an audit firm is assigned a new client it takes time and effort to understand the ins and outs of this new company. As states before, in general, interviewed partners believe partners are not fully effective in the first two years of an engagement. They are not equipped to give an accurate opinion without full comprehension of how this new company works. Also, there is more risk as to the quality of the audit. This takes into account the previous two detriments. When there are more auditors looking over an audit it gives the company a vast quantity of opinions, but not necessarily a better quality audit. When more time is taken to comprehend an audit, the quality of it is being set back.

SOX has created many different opportunities for auditors to become more independent in appearance. By giving the audit committee's more control over the external auditors, permitting a cooling off period before an auditor can work in their clients business, and rotating audit firms every five years. Audit firm rotation compared to the other independence requirements from SOX, although, does not give a clear cut explanation for how it improves auditor independence in fact. When the audit committee is looking over the independence issues of an external auditor it is in fact giving what used to be the responsibility of the external auditor to now the responsibility of the audit committee. When an auditor is given a "cooling off" period before they can work in a management position of their client it is in fact allowing the auditor time to think over their actions before walking into something too fast. When an audit firm is rotating their clients every five years, how is it factually proving auditor independence?

SOX has already given several ways into providing the accounting profession more precautions to be taken to show and prove their independence from their clients, but audit rotation has gone too far. When auditors are not given time to earn the respect of their clients, when auditors are not given time to learn everything there is know about their client, and when auditors are worried about what will happen in the next five years, then auditors are not able to honestly and accurately complete their duties. For example, a patient with a chronic disease has been going to the same doctor for ten years. This doctor has performed surgery on this patient severally times and knows this patient's history like the back of their hand. Without this doctor the patient could have died ten years ago, but they have not, because the patient trusts they are in good hands. The same goes for a client. Clients do not want to be tossed around to a new auditor every couple years who does not know who they are and what they have been doing. Clients want to trust their auditors are competent and thorough. With audit rotation, it limits these possibilities and causes more harm to all parties involved.