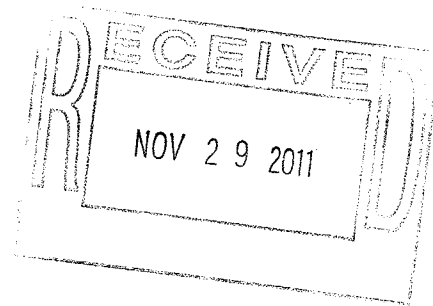


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November 22, 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Dear Board Members:

PCAOB Rulemaking Docket Matter No. 37

Thank you for the opportunity to comment on your Concept Release on Auditor Independence and Audit Firm Rotation.

My background gives me experience in all aspects of the issues you raise. I am currently audit committee chair of three S&P 500 companies. My thirty-one year career at PwC and Price Waterhouse included the following assignments:

- Led the firm's activities globally in independence and regulatory matters
- Led the audit, tax and financial advisory services practices globally
- Led the audit practice globally
- Led the U.S. audit practice
- Led the Boston office and northeast region
- Led strategic planning

- Audit partner serving clients

My comments are solely my own and not those of any organization with which I am or have been affiliated.

All responsible parties are in favor of higher audit quality. I believe audit quality has improved in the time the PCAOB has been existence, and the Board can take pride in its important role in this improvement.

However, the Concept Release is a giant step in the wrong direction. It gives almost no reasons why audit quality would be improved by mandatory audit firm rotation. On the contrary, most of the evidence it cites argues against mandatory rotation. The Release states that the preliminary analysis of PCAOB inspection data appears to show no correlation between audit firm tenure and number of comments in a PCAOB inspection report. In addition, I understand the PCAOB staff has similarly commented that they have not found any direct correlation between audit firm tenure and lack of audit quality.

Mandatory audit firm rotation would be appropriate primarily if the core issue were that audit firms identify but ignore audit issues in order to keep their clients. From my reading of PCAOB inspection reports, this is seldom the case. In my own experience it is seldom the case.

I have no doubt that mandatory audit firm rotation would significantly reduce, not raise, audit quality. It would have several direct, predictable and pragmatic negative results:

1. The audit committee is responsible for selecting and overseeing independent audit firms. They take this role seriously. If the Board mandates audit firm rotation, it would remove the audit committee's ability to choose the best firm for the audit. The committee would not be able to choose the incumbent firm even if it believes it is the best firm for the company – even if the committee believes the incumbent is the only firm capable of doing a quality audit.

This would be an extraordinarily uncomfortable position for an audit committee, perhaps even untenable. My next few points give examples.

2. Auditing has become highly specialized, requiring deep knowledge of the industry, regulations and many other factors. Not every firm and not every auditor can do a quality audit of every company. Even the largest audit firms have chosen to focus on certain industries, in many cases assigning some of their best people to auditing those industries. If an audit committee determined that their

incumbent firm is clearly superior in its industry, then by definition it would have to choose a less qualified firm when rotation time comes.

3. Often one or more firms will be ruled out of becoming auditor for a company. Reasons include ongoing work that would impair independence and that neither the audit firm nor the company would want to terminate, a firm's retired partner serving on the company's board, and many others. If one or more audit firms cannot or will not propose on the audit, and the incumbent is ruled out, the audit committee of some companies would be in the very uncomfortable position of having only one or two choices.

In fact it might have only one choice. One or more audit firms in a city may not have the experience or qualifications to do the audit well – all audit firms, even the largest, have strengths and weaknesses in various geographic markets. This is not an idle concern. It was a real problem for some companies when Arthur Andersen went out of business, which was a preview of the difficulties of forced rotation.

4. Mandatory rotation would make it less attractive for audit firms to transfer in the best qualified audit partner for all but the very largest companies, particularly in the last two or three years before a mandated rotation, because the transfer cost would not be recouped in the short period before rotation is required. Similarly, a firm might have to assign an audit partner to a company even though it has only a year or two before mandated rotation. Both these scenarios would result in lower audit quality.
5. Some firms have offices in a smaller city far from any other office so they can audit one very large company. Examples are Peoria, IL, Midland, MI, and others. Auditing these companies attracts outstanding partners and staff to transfer to that city for a period of years. With mandatory rotation, audit firms may not invest in an office in such cities. Then the partners and staff would have to come from hundreds of miles away on a fly-in basis, and may not be willing to make the personal sacrifice to do so. In any event, it would become much harder for these companies to get a high quality audit.
6. In all but the largest offices of an audit firm, rotation of several clients in one year would put a great short-term burden on the office's people, systems, training and quality. As an audit committee member I would be quite reluctant to select a firm undergoing such a strain, even if the firm's qualifications otherwise made it the best firm for the audit.
7. The risk of first year audits is already high. Mandatory audit firm rotation would result in more first year audits. This simple arithmetic would heighten audit risk inappropriately and unnecessarily.
8. Mandatory rotation on any fixed schedule could come at an inopportune time for the company. Circumstances are numerous and include loss of key financial people, integrating a significant acquisition, and many others. Again, audit risk would rise and audit quality would suffer.

9. Audit firms would necessarily spend much more time on proposals for new audit clients. Some of this could come at the expense of spending time and resources on training on technical accounting and auditing matters, including independence and ethics training. This would also lead to a risk that business development skills would assume more importance in partner evaluations than technical competence. As an audit committee chair, when I evaluate a potential incoming audit partner, my criteria are their technical competence, independent state of mind, and experience in auditing companies with similar issues. Business development skill is not on my list, nor should it be.

All these are practical examples of how mandatory rotation would be counterproductive to the Board's objective – higher audit quality.

Moreover, mandatory audit firm rotation would effectively weaken audit committees. It is already difficult to find people to serve on audit committees because of the time and expertise required. It takes time for an audit committee, particularly the chair, to build rapport with the audit partner that enables direct and candid communication – a communication that in my experience on both sides of the table is invaluable to the quality and independence of an audit.

The added burden of mandatory rotation would steer even more directors away from the audit committee – the time required to go through a major proposal effort at mandated times, coupled with the fact that the committee may have to choose a less qualified audit firm, and the time required to build relationships with the people in the new audit firm, would be viewed as an onerous, unproductive regulatory requirement. In this way, mandatory audit firm rotation would weaken one of the major contributors to audit quality – the keen interest of skilled audit committees.

The Concept Release simply does not make the case for mandatory audit firm rotation. In fact, there is no case for it. The cost to companies would be huge – virtually every company that changes auditors says it had no idea how much of their people's time would be required to educate the new people on the audit. The increased audit risk in the first year or two is real. The benefit is speculative and not supported by the Release or by any other experience developed over the past several decades. The unintended consequences would be serious and unfortunately predictable.

The Board is right to focus on improving audit quality. Independence is one important aspect of this. Mandatory audit firm rotation is not.

In the spirit of offering a thought to improve audit quality: the PCAOB now has considerable experience from its inspection process. I suggest more can be done (1) to educate audit committees on the issues the PCAOB has found, and (2) to help audit committees sharpen their evaluations of audit firms and audit partners. Areas of focus would include, among others, the audit firm's attention to quality training, and partner evaluation systems with respect to technical ability and independence. This step would help sensitize audit committees, and managements and auditors, to matters of importance in audit firm quality.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenton J. Sicchitano". The signature is written in a cursive style with a large, stylized initial "K".

Kenton J. Sicchitano