COVENTRY
Health Care

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December 5, 2011

Mr. J. Gordon Seymour
Office of the Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K St., NW
Washington, DC 20006

RE: Request for Public Comment on Concept Release on Auditor Independence and Audit Firm Rotation (PCAOB Release #2011-006, PCAOB Rule Making Docket Matter #37)

Dear Mr. Seymour:

This letter is being submitted on behalf of Coventry Health Care, Inc. and its independent Audit Committee.

Coventry, a Fortune 300 company, is a managed care organization which is listed on the New York Stock Exchange (CVH). We wish to thank the PCAOB for the opportunity to comment on its Concept Release on Auditor Independence and Audit Firm Rotation. While the Concept Release addresses several issues, our comments will be limited to the proposal included within the Concept Release that would require mandatory auditor firm rotation.

For the reasons set forth below, we are strongly opposed to the issuance of any audit standard that would require mandatory audit firm rotation.

The reasons for our opposition to mandatory audit firm rotation are as follows:

- Firm rotation will result in a degradation of audit quality;
- Firm rotation will increase audit costs and disrupt capital markets;
- Firm rotation will reduce industry experience and expertise thereby severely limiting our Company's audit firm choices;
- The overlap of mandatory firm rotation on top of the very rules-based system of auditor independence promulgated under the Sarbanes-Oxley Act of 2002 ("SOX") will severely limit a company's ability to use a large audit firm as its external auditor;

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- The PCAOB's concerns about auditor skepticism seems unfounded given the anecdotal evidence offered by the PCAOB in the Concept Release;
- There is no evidence linking auditor tenure with a lack of professional skepticism and there is certainly no evidence that the purported lack of professional skepticism would be mitigated by a mandatory firm rotation;
- Firm rotation will have the effect of exacerbating, not mitigating, the purported skepticism problem since mandatory firm rotation diminishes and degrades "expertise" which is routinely the root cause for auditor skepticism problems;
- There is no evidence from the PCAOB's inspection process that audit firm tenure has any systemic relationship with audit deficiencies.

With this Concept Release, the PCAOB alleges that the level of audit quality for public companies is somehow inadequate.[1] If the system is inadequate, the PCAOB should explain how the regulatory system failed. This alleged inadequacy is in spite of all the regulatory activities of the PCAOB and others, such as the SEC, and the efforts of audit committees. Regrettably, no facts are presented in the Concept Release to support the premise that the existing regulatory and governance structures fall short of the mark.

In establishing the PCAOB as the regulator of public company audits, with oversight by the SEC, SOX gave the PCAOB multiple powers to maintain and improve audit quality through registration, inspection, standard-setting and enforcement. An alleged inadequacy of audit systems, by implication, means that these powers have either not been used well or not used at all. Similarly, abdicating these powers by moving to mandatory audit firm rotation is tantamount to the PCAOB throwing up its hands and stating that audit regulation cannot work. Further, this implication that audit regulation cannot work must also, by inference, extend to the SOX mandated corporate governance structures. SOX gives audit committees the responsibility for the appointment, compensation and oversight of the independent audit firm, along with responsibility for resolving any disagreements between management and the auditor regarding financial reporting. While SOX gives the PCAOB jurisdiction over audit firms, it does not give the PCAOB authority over audit committees; instead, that responsibility rests solely with the SEC.

[1] This assertion is curious considering that the Concept Release states that, based on its experience conducting inspections, the Board believes public company audit quality has improved post-SOX under the PCAOB (p. 15).

A reading of SOX demonstrates that a fundamental reordering of the audit committee responsibilities and actions would have to emanate from the SEC and not the PCAOB. Mandating a set period for changing audit firms, which would preclude both longer and shorter periods, deprives audit committees of discretion and judgment, contravenes SOX and audit committee responsibilities for audit firm selection, and otherwise constrains and unduly complicates the work of audit committees.

It appears, therefore, that the PCAOB in this Concept Release has not made a very compelling case for moving forward with mandatory audit firm rotation and may be overstepping its authority by emasculating SOX governance mandates with respect to the duties and responsibilities of the audit committees.

As I am sure the PCAOB is aware, mandatory audit firm rotation is, in fact, an old idea which has been consistently rejected. More than three decades ago, mandatory rotation was considered and rejected by the Commission on Auditors' Responsibilities as costly and with no net benefit to investors.[2] The Commission indicated that the lack of auditor familiarity with the client in the early years of engagement would cause more harm than benefit for investors. The Commission concluded that the audit committee is in the best position to evaluate audit effectiveness and decide, if appropriate, to rotate audit firms. We believe that this conclusion remains true today and there is nothing set forth in the Concept Release which challenges our conclusion.

In 1994, the SEC again rejected the notion of mandatory firm rotation and stated that there was not a need for rule changes or legislation to further that goal.[3] Following significant financial reporting failures in the Enron and WorldCom incidents, Congress also explicitly rejected mandated audit firm rotation and instead chose to mandate audit partner rotation and to strengthen the role of audit committees in the passage of SOX.

Consistent with the findings made by the Commission, we believe that the audit committee is in the best position to evaluate audit effectiveness and decide, if appropriate, to rotate audit firms. Likewise, consistent with the rejections by the SEC and Congress under SOX, there is no new evidence and nothing has changed to support the recommendation by the PCAOB to adopt mandatory

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[2] See the Commission on Auditors' Responsibilities: Report, Conclusions and Recommendations (1978), pp. 108-109.
[3] SEC Office of the Chief Accountant Staff Report on Auditor Independence (1994).

audit firm rotation. Therefore, Coventry, and its Audit Committee, respectfully requests the PCAOB to withdraw mandatory audit firm rotation from its Concept Release.

Respectfully,

COVENTRY HEALTH CARE, INC.

By: ____________________ Date: 12/5/11
Thomas C. Zielinski
Executive Vice President and General Counsel

____________________ Date: 5 Dec 2011
Lawrence N. Kugelman
Chair, Audit Committee of Coventry Health Care, Inc.