MAPI Stephen V. Gold
President and Chief Executive Officer

December 8, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Subject: Docket 037: Concept Release on Auditor Independence and Audit Firm Rotation

Dear Board Members and Staff of the PCAOB:

The Manufacturers Alliance for Productivity and Innovation ("MAPI") welcomes the opportunity to convey the views of its CFO Council on the Concept Release on Auditor Independence and Audit Firm Rotation ("Concept Release"). The CFO Council includes 99 corporate level CFOs with large global, publicly traded manufacturing companies. The annual revenues of the public companies represented on the CFO Council range from approximately $150 million to $43 billion, with 73 percent of these companies having revenues ranging between $1 billion to $10 billion. Collectively, the 99 public companies represented on the CFO Council had revenues of $369 billion in 2010 and employed 1.29 million persons.

The comments are divided into two parts. Part I contains some general comments on the arguments advanced for mandatory auditor rotation in PCAOB's Concept Release. Part II presents the responses from a recent survey of MAPI's CFO Council members on PCAOB's mandatory auditor rotation proposal.

Part I: General Comments

Members of MAPI's CFO Council recognize the importance of accurate financial reporting and know that auditor independence and objectivity are crucial to ensuring financial reports are accurate. They also believe that auditor independence is the norm and that most audit problems uncovered by PCAOB staff are a consequence of individual shortcomings and not a systemic problem created by prolonged tenures that result in a lack of independence and misguided incentives. There have always been and there always will be errors made in audits, but there is little—if any—evidence that a lack of auditor independence is a root cause of audit errors. If there is a lack of skepticism or objectivity, the problem resides with individual auditors, not the audit firms. Mandatory auditor rotation will not alleviate problems associated with individual auditors.

Public accounting firms already have strong incentives to maintain independence, especially following the Enron scandal and the consequences it posed for Enron's audit firm. The Concept Release contends that audit firms sometimes make statements to prospective client companies that raise questions as to how independent they will be (Concept Release, page 7). We contend that such statements are what one might expect in what is essentially a competitive marketing pitch. The members of MAPI's CFO Council have not in practice seen the behaviors by auditors referenced in the Concept Release. Moreover, mandatory rotation would do little to stop audit firms from making similar pitches when marketing their services.

The fundamental problem with the arguments advanced for mandatory auditor rotation in the Concept Release is that they are built on a shaky foundation of "mights" and "mays," rather than evidence [emphasis below added]:

1. "... [The PCAOB] is also considering whether other approaches could foster a more fundamental shift in the way the auditor views its relationship with its audit client...[O]ne possible approach that ***might*** promote such a shift is mandatory audit firm rotation." (Page 2)

2. "The inspection team reported that the [audit] deficiency ***may*** have resulted from a lack of sufficient professional skepticism when evaluating management's plans and the assumptions and assertions underlying management's analyses when estimates requiring judgment are involved. In addition, a more effective review by the engagement leadership ***might*** have prevented or detected the deficiency." (Page 8)

3. "By ending a firm's ability to turn each new engagement into a long-term income stream, mandatory firm rotation could fundamentally change the firm's relationship with its audit client and ***might***, as a result, significantly enhance the auditor's ability to serve as an independent gatekeeper." (Page 9)

4. "The second point—the need for a "fresh viewpoint"—was seen as closely related to the first. [John] Biggs, then Chairman, President and CEO of TIAA-CREF, testified that an audit firm with less incentive to placate management ***might*** exercise that increased independence out of concern about what its replacement might find." (Page 12)

5. "Had Arthur Andersen in 1996 known that Peat Marwick was going to come in in 1997, there would have been a very different kind of relationship between them and Enron. Clearly, they would have wanted to have their work papers in order, all of the deals documented and well explained. They ***might*** well have challenged Enron's management in that early period where Enron was changing its accounting." (Page 12)

6. "The Board is also interested in the view expressed by some that audit committees should be prohibited from removing the auditor without good cause prior to the end of the allowable term. Some measure of tenure protection during the term ***might*** further bolster the auditor's ability to resist management pressure." (Page 23)

The probabilities attached to these "mights" are never specified, and merely throwing in a large number of "mights" does not make for a stronger argument. A major initiative like mandatory auditor rotation should be based on hard evidence that there is a "high likelihood" that mandatory auditor rotation will have its intended effects. This is particularly true given that countries which have experimented with mandatory audit rotation, such as Spain, have concluded that mandatory auditor rotation does end up imposing significantly higher costs on companies.

The Concept Release states that when an auditor knows its work will be scrutinized at some point by a competing audit firm, it ***may*** have an increased incentive to ensure that the audit is done correctly. But the Concept Release also points out that the PCAOB has engaged in review of portions of more than 2,800 engagements of the largest audit firms over the past eight years. This indicates that audit firms are already subject to scrutiny and it is unclear why additional scrutiny is needed. These annual inspections have found occasional errors, but there is no indication or evidence that these errors were correlated with the length of tenure that audit firms had with the company being audited. A further complication of a mandatory auditor rotation rule is that large, complex companies have a need for outside advice on a regular

basis. It would be very difficult for such companies to avoid using other large audit firms who are not their auditor for such services—and, hence, asking for bids from firms that have had no "prohibited" activities would potentially result in no qualified bidders for the auditor rotation.

Finally, as shown in Part II, 63.5 percent of the companies on the MAPI CFO Council that participated in the survey have engaged their current auditor for 10 years or more. These are the companies that would be first impacted by PCAOB's mandatory auditor rotation proposal. This raises a question as to how mandatory auditor rotation would be phased in. That is, a lot of very large and complex companies in the manufacturing sector (not to mention companies in the rest of the economy) would be in the position of having to find and engage a new auditor. It is difficult to judge how long such a process would take, but it is clear this could not happen very quickly. In effect, without some thought given to how auditor rotation would be phased in, mandatory rotation would set in motion a very large and costly game of musical chairs.

A complete summary of the responses to the CFO Council questionnaire on mandatory auditor rotation, including detailed comments, are presented in Part II. The summary shows that a very large majority of the CFOs are opposed to mandatory auditor rotation. The survey's main findings included the following:

- Most CFO Council members (94.7 percent) do not think mandatory auditor rotation will improve the quality of audits.
- Most CFO Council members (94.8 percent) believe that mandatory auditor rotation will raise audit costs.
- Most CFO Council members (90.7 percent) believe that auditor rotation will not solve any problems associated with the audit process.
- Slightly more than half of CFO Council members (53.9 percent) said that mandatory auditor rotation will not have an impact on the number of restatements while 44.7 percent said the number of restatements will increase and 1.3 percent said the number would decrease.
- Most CFO Council members (97.4 percent) do not support mandatory auditor rotation.

Part II
MAPI CFO Council Survey Results

The results of a survey on PCAOB's Auditor Rotation Proposal, based on 76 responses from members of MAPI's CFO Council, are summarized below. The survey questionnaire was sent out in late October by Richard H. Fearon, Vice Chairman, Chief Financial and Planning Officer at Eaton Corporation, via email to CFO Council members with public companies. His cover message which accompanied the questionnaire is reproduced in Appendix A.

1. Do you think that the PCAOB's auditor rotation proposal would improve the quality of audits?

   The vast majority (95 percent) of respondents believe the quality of audits would not be improved if mandatory auditor rotation were implemented.

	Number	Percent
Yes	4	5.3
No	72	94.7

Comments from Survey Participants:

1) I understand the issue, but the flip side is that it takes a new auditor a considerable amount of time to become knowledgeable about our company, its control framework and audit risks.
2) It would end up requiring a lot more training folks to understand our industry.
3) It would significantly detract as we would need to educate a completely new team at every expiration date.
4) Rotation on a regular basis would introduce more risk to the audit.
5) No. We believe there will be no net benefit. Our experience has been that with each mandatory rotation of the lead partner on our engagement, as well as the mandatory rotation of the "concurring review" partner (both under existing requirements), the newly appointed partners have brought fresh perspectives with them to the point where previously reached conclusions on key matters are revisited. So, we believe existing partner rotation requirements are meeting the PCAOB's objective. Second, despite best efforts on the part of a new audit firm and management to fully "ramp up" the knowledge of the new audit firm on its new audit client, we are skeptical about whether this can be achieved in the early year(s) of an engagement. Thus, this creates "quality gaps" in the early years of an audit.
6) Auditors would not know the business as well.
7) We already rotate partners every five years plus the firms all have quality assurance and peer review controls.
8) Audit quality would decline as the new audit firms won't really have time to understand the business for their first couple of years on the audit.
9) Generally, a fresh set of eyes and a new approach will provide new findings.
10) I have been through two auditor changes and each time the quality of the audit in the first few years was below that prior to the change due to the significant learning curves. Additionally, it created significant incremental workload on the company's part due to "retraining" required of the auditors.
11) Lack of knowledge at first could be an issue.
12) It takes multiple periods for a new firm to truly learn and understand a large public company.
13) Would be a major issue on the front end of the rotation and the back end before the rotation.
14) Quality is defined by knowing the business risks and developing an audit that might progressively change based on emerging risks and a better understanding. This only arises with consistent experience.
15) The learning curve each time for the new audit team could result in a decline in the quality of the audits.
16) I believe switching firms would waste time and money and actually degrade the quality.
17) The quality of audits would initially go down as new auditors would have to get up to speed on the company while costs would definitely increase.
18) Absolutely not! The learning curve would compromise quality.
19) I think that the mandatory rotation of the lead partner on the engagement adequately addresses the "fresh look" objective.
20) Rotation introduces a steep learning curve for the new firm.
21) It is okay to rotate Audit Partners responsible for the engagement, but it is not clear to me why a change in firms would necessarily improve audit quality.
22) Auditors currently have a high level of independence. There is a steep learning curve that new auditors go through which I suspect might only increase audit risk if mandatory rotation were required. Changing auditors also increases the risk of restatements (i.e., perception of reduced audit quality) as audit firms do not all agree exactly how standards should be implemented.

23) What you may gain in new perspective you may lose in the large disruption and turmoil an audit change causes.
24) Concerns over quality service will diminish if a finite relationship period is injected.
25) It would dramatically reduce efficiency.
26) A quality audit requires deep knowledge of company. Often it takes years to fully understand the inherent risks of a company.
27) Loss of auditor's knowledge of company would reduce quality of audit.
28) Learning curve to get up to speed on company.

2. What impact would the proposed auditor rotation program have on the cost of the financial audit?

The vast majority of respondents (95 percent) expect that audit costs would increase, with 71 percent saying the increase would be nontrivial.

	Number	Percent
None	2	2.6
Audit costs will rise slightly	18	23.7
Audit costs will rise moderately	54	71.1
Audit costs will fall	2	2.6

3. If you expect forced auditor rotation will raise or lower audit costs, what are the reasons?

Responses:
1) Conversion costs.
2) The time to train new auditors on our companies will raise the costs.
3) Familiarization with the company and inefficiency of audits for the first couple of years.
4) Training time and time to review the issues will increase.
5) Will raise costs in terms of inefficiency and I do not anticipate any "bid" competition to offset the inefficiencies of new auditors rotating on.
6) Auditors will spend more hours as they will not understand the business. More hours = More Fees
7) Increased testing to gain familiarity, more training of auditors, less efficiency of auditors because they do not know as much.
8) Get familiar with the company and operations.
9) Early years of audits are more time consuming and expensive due to the learning curve an auditor has on a company's business. Forced auditor rotation would increase the demand for auditors in addition to the cost of the learning curve placing pressure on billing rates.
10) There is cost related to a learning curve. Using past knowledge gained during the conduct of an audit results in productivity. When an entirely new audit team begins their work, there is a lot of new information to learn. This results in additional hours and cost.
11) The learning curve will be too high and there will be a real lack of efficiency.
12) Short term cost reduction for new auditor to win the bake off; long term the fee will creep - always does.
13) Costs will go up as this requirement will decrease competition amongst the Big 4 firms. Business is going to come their way anyway, so no need to be competitive in the fee area.

14) Audit firms will not "invest" in relationships and instead will bill 100% of the hours and look for higher recovery rates.
15) My belief is that the audit fees would actually go down due to the required competition. Companies would migrate to fixed-price or fixed escalation clauses to ensure fees don't rise dramatically after the initial "win." However, I believe these savings will be more than offset by higher costs internal to the company. The time, distraction and additional costs for our own people to help the new firm learn the company, business models and locations will out-weigh the cost benefit from the external fees.
16) A learning curve exists after five years. If auditors are forced to rotate this will have to be weighted into their cost equation. When such firms are bidding for the work in a normal competitive manner, they are more likely to consider this an investment whereas if they are in a forced situation they will want to make sure they recover this "investment" cost.
17) Lack of competition.
18) There are extra costs for the auditors in the first year or two and they will have to make this up.
19) Audit firms are like other professional service providers. They make an investment up front (in the first year of service) to get to know the client, understand the business, become educated about issues, etc. If they have less (expected) time to recover that investment and/or to earn profits on that investment, their fees will increase.
20) Retraining the audit staff so it knows the company.
21) If there is no long-term tie-in between the audit firm and the registrant (i.e. a long-term relationship), the willingness of the audit firm to "eat" the start-up hours will be low. Presently, we can convince the auditors that there is startup/learning curve on their part when they bring on new staff, just as there is on our side, and we each eat the additional internal cost. Additionally, the cost to involve multiple sets of auditors on comfort letters and the like that would be needed from more than one auditor on registration statements would be a problem. Since there is no "ongoing" relationship between the former firm, they will charge full "rack rates" as opposed to discounted rates the way an incumbent auditor would. I witnessed this first hand - cost for the prior auditor was 2x what is was for the new auditor on comfort letters, SEC comment letter response cooperation, etc.
22) Learning curve, inefficiencies, staff time.
23) Transition issues. The requirement to educate extensively a new team to not only the company but to the industry in which a company operates.
24) Greater start-up costs plus time to go through evaluation process.
25) Transition inefficiencies. The "new" firm will claim they "eat" this as an investment, but the reality is over the long term and across industry SOMEONE has to pay for this. And it isn't likely to truly be the audit firms.
26) Auditing firms incur a significant amount of startup costs when they are appointed auditors and they will have to recover this cost over a shorter period of time if auditor rotation is mandatory.
27) Audit rates will rise to reflect lower retention rates for clients and upfront investment costs will become more meaningful for both the audit firm and the company.
28) The costs of auditing the company will rise significantly if for no other reason than lost efficiency and the need for a new firm to get up-to-speed, which will take at least 2 years. Another issue is the back end loss of interest as the firm becomes a "lame duck." A third is that the audit firm will feel its investment in a new client will need to be recovered in a much shorter timeframe than the long term relationship that is the current model. Yet another is the increased cost and time of evaluating complex matters that are firm and/or industry specific that need to be investigated at the national or expert level that would not be viewed as unique if the accounting firm had

a longer term relationship and knowledge of the company. I could go on, but not necessary.

29) Significant costs would be incurred as the entire new audit team encounters a steep "learning curve" in order to render a fully informed opinion in a short period.
30) Our global infrastructure is very complex and we have a diversity of businesses, so a new audit team would have a very steep learning curve and be less efficient in completing the audit.
31) Startup expenses associated with auditing a new client.
32) The first few years of an audit are expensive for the firm because they have to dedicate so many resources to get the team up to speed on the client's business. If they only have five years to audit and they spend two or three of those years allocating significant resources to get up to speed, then the costs would likely be higher because they have no time to get a return on their investment.
33) Learning curve, new firm looking to blame all old sins on prior auditor, risk avoidance.
34) The new auditor will naturally have a higher risk assessment of the new client due to unfamiliarity and will naturally over-audit in the early years. New auditor will not benefit from the efficiencies gained by the old auditor from years of experience with the client.
35) Costs would likely rise "substantially" not "moderately" at our firm. A new auditor would need to have 2x size team to learn our business and operations around the world. Costs would decline in subsequent periods.
36) Predominately inefficiencies of new audit team performing the audit. All historic knowledge about the company and historical transactions will be lost. How will the new audit firm sign off on financials of prior years' included in the financial reports without additional work?
37) Cost of additional hours to educate each new firm to our business as well as gaining confidence in their ability to rely on our internal audit testing.
38) We run a complex, global business. The learning curve is tremendous and a rotation would drive up the cost of bringing new auditors up to speed on an ongoing basis.
39) Would decrease competition (Big 4 each will have a turn), there would be significant unproductive audit efforts by both the firms and the company, and there would be a risk of an increase in restatements as each firm tries to uncover issues in Year 1 of a change (basically second guess judgments.)
40) It takes time to learn the company, its people, etc., so that will likely add to cost of the audit given such frequent rotation. Additionally, it would be disruptive to company personnel to train the new firm so frequently, resulting in higher indirect internal costs. Additionally, I believe that a better understanding of the company, its processes and controls results in a more comprehensive audit. So, frequent auditor rotation may possibly increase the risk of a lower quality audit.
41) Audit firms will spend more time and money chasing new clients which will lead to higher costs.
42) Learning curve; unfamiliarity with systems and controls and the overall nature of our business and financial practices.
43) Need for auditors to spend time to learn business model and processes. Demand for hours would cause billing rates to increase.
44) Time spent to educate and inform.
45) Costs would increase, perhaps significantly as the firms would have to add resources to come up the learning curve. Not only will audit costs increase, so will internal costs to support the auditors.
46) Costs associated with the first year of an audit engagement. These costs are typically borne by the audit firm, but I believe they will be much less willing to if they are 1) higher in frequency and 2) lead to engagements that are relatively short in duration.

47) There will be transition costs and lost efficiencies between the Audit Firm and the Company.
48) I believe costs would rise; while the pure audit fee may stay the same, the total cost in time, effort and would detract from running the business. The mandatory partner audit rotation accomplishes this at a much lower cost.
49) The new firm starts at "zero" and needs to learn the business and the client pays for the learning curve.
50) Constant learning curve, more travel costs to locations new to new auditor, more training time spent by client teaching new auditor the business.
51) Raise - many reasons - cost of orientation at all locations - learn of historical events such as acquisitions - coordination with internal audit - more competition for audits so more costs - change auditor used for non-audit services such as tax.
52) Regardless of the "audit fee," the internal costs associated with bringing a new audit firm "up to speed" would be significant.
53) There are significant start-up costs for auditors when they take on a new assignment. Some of these will invariably be passed on to the companies being audited should there be mandatory rotation.
54) Time on the engagement will increase due to "re-educating" of auditor on our particular business and industry.
55) More competition.
56) I actually believe the external audit fees will be about the same as the Big 4 will compete for the business, but not at the detriment of their margins. I think the increase in cost will be associated with the Registrants re-training of the audit team...so inefficiencies.
57) Change in auditor is very expensive for both auditors and firms which create more cost.
58) New audit teams would need to acclimate themselves to the company. The learning curves are often steep and it could take several years before they truly understand the company and can become efficient and effective.
59) We changed from PwC to KPMG and obtained both a significant improvement in Audit staff and 30% reduction in fee. Our experience is that an Auditor's having to bid for the contract makes them focus on offering their better Partners and also better pricing.
60) It will raise costs as auditors recoup the cost of getting up to speed and not being able to spread that over a longer relationship.
61) It will raise costs because of the excessive work required to bring new audit firms up to speed.
62) The reason in my mind would be the following: 1. Knowledge transfer would be difficult. 2. Risk for the auditing firm would increase as its knowledge decreases.
63) Given the complexity of our organization and steep learning curve associated with it (we have ~30 different business units within our organization), I suspect the Big 4 will likely be less competitive on their bids and we will pay for their learning curve.
64) Loss of experience and client knowledge would reduce overall audit efficiency. Would also divert time of client staff toward managing the inefficiencies.
65) Less competition, less ability to challenge.
66) Learning curve for new team, time and energy to teach new team for our staff.
67) Inefficiencies in the process due to training of auditors to help them understand the business.
68) Training new auditors about the business will cost time and resources.
69) Costs will go up as the new auditor requires additional time and resources to understand the company's operations worldwide.

4. Are there any problems with the audit process that auditor rotation would solve?

	Number	Percent
Yes	7	9.3
No	68	90.7

If "Yes," please identify:

1) Not sure what the issue is that is trying to be solved.
2) The rare occasion that a rogue audit partner has made a poor judgment together with his/her client that gets uncovered in a rotation.
3) It would alter the perception that audit firms are not independent of management.
4) There may be some relationships that are too close.
5) Having changed Auditors we have found many Audit problems that new eyes uncovered. While it is never good to uncover problems, in the long term, I would argue that Auditor rotation clearly creates a tougher Audit environment and that is a positive in my opinion.
6) Forced rotation in cases of unethical service relationships would end those problems.
7) May be perceived as adding more independence.

5. What impact will mandatory auditor rotation have on the overall trend in restatements?

	Number	Percent
None	41	53.9
Restatements will increase	34	44.7
Restatements will decrease	1	1.3

6. How many years have you used your current auditor?

There was considerable variation in the responses to this question, but 47 of the 74 companies (63.5 percent) responding to this question have engaged their current auditor for 10 years or more. As mentioned earlier, these are the companies that would be first impacted by PCAOB's mandatory auditor rotation proposal.

Years with Current Auditor:

1) 1 year (2 companies)
2) 2 years
3) 3 years (2 companies)
4) 4 years
5) 5 years (4 companies)
6) 6 years (4 companies)
7) 7 years (3 companies)
8) 8 years (6 companies)
9) 9 years (4 companies)
10) 10 years (6 companies)
11) Over 10 years (2 companies)
12) 11 years (2 companies)
13) 12 years (4 companies)
14) 14 years (2 companies)
15) 15 years (4 companies)
16) 18 years

17) 20+ years (4 companies)
18) 25 years (3 companies)
19) 25+ years (1 company)
20) 40 years (3 companies)
21) 50 years
22) 60 years
23) 70 years
24) 75 years
25) 80 years
26) 85 years
27) 100 years
28) 108 years
29) Forever/Decades/Since being a public company (6 responses)
30) KPMG for many, many years; however relocating our corporate office and changing cities (client service team and engagement partner) has been almost like having a new firm.
31) Not sure, but quite awhile
32) We were formerly an Arthur Young client that became E&Y with merger of E&Y and Arthur Young.

7. Are you considering changing your auditor in the next year or two?

	Number	Percent
Yes	6	8.0
No	69	92.0

8. If you are considering changing your auditor in the future, what is the primary reason?

1) Price and service.
2) Believe we are being over-charged relative to peer companies.
3) To lower our audit costs.
4) Fees. We always consider changing.
5) The only reason would be for lower fees.
6) Technical strengths of the team have diminished post-SOX. Do not believe we are getting value for the price paid.
7) If we would consider changing auditors, it would probably be driven either by fees or lack of responsiveness/support.
8) Yes. An audit fee benchmarking showed that our audit costs had gotten too high.
9) Cost control if audit firms becomes complacent
10) We discuss this on a regular basis with the Audit Committee, so it is just part of our normal practice.
11) We are not considering.
12) Service quality.
13) Cost and service.
14) I would plan to change, or at least rebid the Audit again after a maximum of five years with our New Auditors—even though I am completely happy with the relationship.

9. Do you support the PCAOB's proposal to require mandatory auditor rotation?

	Number	Percent
Yes	2	2.6
No	74	97.4

10. General comments on PCAOB's auditor rotation program?

Comments from Survey Participants:

1) From my vantage point, it seems to be a solution looking for a problem. If you have the right control framework, culture, auditor relationship and a strong audit committee, you will be in good shape. I don't think rotating your audit firm would overcome deficiencies in the four fundamentals noted above. And thus, would not add value.
2) Knowing that firms have to rotate off, firms will not drive for efficiencies. It takes a firm a couple years to really understand the business and issues, with little time left once they understand the business, there will be little incentive to keep fees low.
3) PCAOB's proposal will increase costs and reduce the quality of audits. Inexperienced audit teams will become a liability to public companies and the system as a whole.
4) This is a dumb idea. They ought to be working on how to adequately enforce the rules we have.
5) Bad idea.
6) The PCAOB seems to believe there is a problem that needs to be fixed, and we're not sure this is the case to begin with. First, we believe there has been significant improvement, within the current framework and set of guidelines, in the quality of audits. The level of probing is higher, the nature of what is expected from management in terms of quality of controls and level of documentation is much higher. Possibly if the quality of audits was not already improving, to explore other options like mandatory auditor rotation might make some sense; but we believe audit quality is improving.
7) Fundamentally disagree with it. I question the common sense and motive.
8) The current standard of rotating partners every 5 years "fixes" whatever "problem" the regulators think there is. Partner rotation accomplishes a "fresh view."
9) I disagree with this proposal. Partner rotation already accomplishes the goal of reducing the possibility of independence being compromised due to long-standing relationships and being overly familiar with the client. Below the partner level, there is constant change of personnel. The only thing this proposal will accomplish will be to have the rotation of the ENTIRE audit team at the same time. This is an ivory tower solution to a problem that I don't believe exists.
10) Partner rotation should be more than sufficient to deal with the concern. This provides the new set of eyes from what should be a well trained professional.
11) Auditors already have to be rotated off of an account every 5 years. Even when this happens within an accounting firm it is a difficult transition. Changing firms on a forced basis will make that transition much more difficult and risky. Not to mention that you cannot control where your company will be in its business cycle. Could make things very hard. At the end of the day management stills needs to run the company.
12) Theoretically a good idea but in practice a terrible one. It would add additional costs to the audit and accounting department with no perceived benefit. Auditing/ accounting is not a black and white exercise and requires a great deal of judgment and understanding of all the facts and history of various positions. Different accounting firms have different views on the same topic, which could result in honest

differences of opinion and more restatements. Global multi-industry entities are increasingly complex and changes such as this will not increase the quality of an audit due to the learning curves involved on all sides.

13) Partner rotation is enough.
14) I believe there are enough other checks and balances. Our need is for more audit firms to have capacity and keep costs competitive.
15) To me this is a good example of a regulator not truly understanding the cost/benefit of a major proposed change.
16) Already requirements for engagement and independent partner rotation. PCAOB is conducting firm audits for quality control. Seems like enough controls exist already.
17) This is an incredibly naive view of the complexity involved in auditing an SEC registrant and is remarkably lacking in sensitivity to the need for firm specific knowledge.
18) The only way to really ensure auditor independence is to make the audit a direct responsibility of a government agency such as the SEC. As long as an audit firm is a for profit enterprise that relies on clients for revenue there will be a conflict. That, however, will likely greatly reduce the quality of the audits, while enhancing perceived independence. Unless the PCAOB is prepared to go there, they are wasting their time.
19) They are trying to fix a problem that doesn't exist.
20) What is the history of restatements on the first year of new auditor?
21) Changing auditors is difficult. It takes a lot of time on the audit firm's part as well as on my staff. It is enough work to change the audit partner every five years and deal with the turnover in general of employees at audit firms. I believe the better the audit firm knows the business, the better they can audit. If they have to rotate every five years, they don't have enough time to get to know the business. I believe a five year rotation would reduce the quality of audits because they would be chasing the next client instead of servicing the one they have.
22) They have no clue!!
23) Partner rotation addressed the concern adequately. The unintended consequences of this follow-on proposal far outweigh any incremental benefits.
24) This could end up having the opposite effect than what the PCAOB intends. It would be more costly and result in less confidence in the quality of the audits done by a new team each year.
25) Intuitively, it seems that the costs of this approach must significantly outweigh the benefits.
26) I will look into a model whereby we utilize 1 firm to handle much of the lower level work with the rotating firms charged with the final attestation. The consistency in the trenches is important.
27) It does nothing to improve the quality of financial reporting.
28) Spend energy on practical issues. If auditor rotations are forced, we might as well just nationalize the profession and make it a part of the Department of Treasury.
29) I find the Big 4 firms take their commitment and responsibility for independence very seriously. To violate that would be a personal reflection on individual partner reputation. Accordingly, I don't believe mandatory rotation would provide any benefits and only add direct and indirect costs, and possibly result in lower quality audits as noted above.
30) This is really a bad idea. The firms have such scrutiny from the PCAOB and their internal reviews that this would only add to cost and degrade quality. It is one of the dumber ideas I have heard of.
31) I think the rotation of audit partners and managers is a mitigation of the PCAOB's concern and perhaps other rotations should be considered such as the tax partner.

32) Another example of regulation that adds no value. Companies are being forced to spend more and more time and money on initiatives that have no real value thus making US companies less competitive in a global market.
33) The benefits of mandatory rotation are limited while the costs in actual dollars and management time would be significant.
34) Knowledge loss would raise the accounting risk, not lower it, the opposite of what the PCAOB infers. Cost will increase and risk will increase.
35) Another poorly thought out governmental program that gets in the way of business.
36) Believe PCAOB is using this threat as a power play over the Big Four firms.
37) Auditor knowledge of the client and industry are a critical component of a quality audit. Rotation would compromise this knowledge.
38) We have submitted a separate comment letter opposing auditor rotation, signed by the CFO and the Chairman of the Audit Committee.
39) It will increase Company costs associated with the audit, but it will not necessarily improve audit quality (could in fact go the other way).
40) It will cost businesses more time and money!
41) I understand the objective is to ensure auditor objectivity. I don't believe this approach will accomplish that goal. The disruption costs will outweigh any perceived benefits.
42) The PCAOB should not underestimate the amount of effort, internal and external, required to bring a new firm up to speed.
43) It will create a great deal of inefficiencies in the audit process and distract my finance team in the process from our important role of running the day to day business operations.
44) Think it would greatly reduce audit efficiency, divert time from client staff to manage the inefficiencies, and would actually reduce the quality if audits due to lost knowledge. Would also impact company's financial consulting relationships, given auditor restrictions, thereby increasing inefficiencies beyond those created on audit side.
45) Rotating audit partner without requiring rotation of auditor is sufficient to ensure fresh views and reviews on a periodic basis, without undue costs.
46) Engagement partner rotation has been a good thing.

* * *

Submitted by:

Stephen V. Gold
President and Chief Executive Officer
MAPI

Richard H. Fearon
Chair
MAPI CFO Council
and
Vice Chairman and Chief Financial and Planning Officer
Eaton Corporation

Appendix A

Email Announcement of Survey on Mandatory Auditor Rotation Proposal

To: Members of MAPI's CFO Council

Subject: Survey Re: PCAOB Proposal on Mandatory Auditor Rotation

From: Richard H. Fearon

In August, the PCAOB issued a "concept release" of a proposal to require public companies to rotate their audit firm after a certain number of years. The rationale for this proposal is that an audit firm that is used by a public company for a long period of time may develop a relationship that erodes independence, thereby leading to audits that fail to accurately assess a company's financial situation. The idea of mandatory auditor rotation was raised during the debate over the Sarbanes-Oxley bill, and pursuant to Sarbanes-Oxley the U. S. General Accounting office conducted a study in 2003 of the idea. The GAO concluded that mandatory audit rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record. The GAO further concluded that the potential benefits of mandatory audit firm rotation are harder to predict and quantify, although GAO said it was fairly certain there would be additional costs.
Following discussion of the PCAOB's concept release at the CFO Council meeting in September, it was decided that MAPI's CFO Council should consider submitting comments to PCAOB on the merits of compulsory auditor rotation. We have prepared a short questionnaire designed to elicit the views of CFO Council members. It is important that we get a good response as we want to ensure that the letter accurately reflects the views of CFO Council members.

The questionnaire can be accessed by clicking here. Please respond as soon as possible as final comments are due December 14.

Rick