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December 8, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

RE: Request for Public Comment on Concept Release on Auditor Independence and Audit Firm Rotation and Notice of Roundtable (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking Docket Matter No. 37)

Board Members:

I appreciate this opportunity to comment on the Public Company Accounting Oversight Board (PCAOB) Concept Release on Auditor Independence and Audit Firm Rotation.

My comments are from two perspectives. I was an audit partner of Deloitte & Touche for twenty five years and served as the firm's CEO for about 15 years. Following my retirement from the firm, I have spent over a dozen years as a director of major public companies and have been the chair and a member of seven of their audit committees.

<u>In Summary</u>

I fully support all efforts to enhance audit quality and the independence, objectivity and skepticism of independent auditors.

I do not support mandatory rotation of auditors for the reasons set forth below. In a nutshell, rotation will not in my judgment achieve any significant benefit, and the resulting costs of rotation would be enormous and far outweigh the benefits sought to be achieved.

I believe there are excellent opportunities for the PCAOB to lead and coordinate initiatives, working with audit committees, that could significantly enhance audit quality and auditor skepticism and effectiveness.

Benefits and Costs / Risks of Rotation

My introduction to the subject of auditor rotation came almost thirty-five years ago when I worked with the Cohen Commission in support of my partner, Kenneth Stringer, a prominent member of that group. The Cohen Commission carefully studied the issue of auditor rotation and concluded not to recommend it, principally because they believed the risks to audit quality outweighed the potential benefit. I agreed with that conclusion then and have agreed with it every time the concept has been examined and rejected in the intervening years – and there have been many such considerations and rejections.

If rotation posed unacceptable risk to audit quality thirty five years ago, that risk is far greater today given the increased complexity of financial reporting and auditing and for increasingly complex businesses, and in particular, businesses conducted in a world economy.

I have read a number of the comment letters you have received on this subject and do not believe I have anything of consequence to add to the numerous expressions of concern expressed about the costs rotation would impose – I would merely say that I agree that such costs – the money, time, disruption, etc. – would be very high, and if anything, they are likely to be underestimated rather than overestimated.

The PCAOB is properly seeking to enhance auditor skepticism and some believe that rotation would achieve that objective. I believe to the contrary; that is, I believe that rotation would more likely decrease and distract from substantive auditor skepticism. Some suggest that skepticism is merely a state of mind but I believe that it is much more than that – not merely an attitude but a well informed, knowledgeable state of mind. I believe that skepticism can only be truly effective when its essential ingredients are present – knowledge, expertise and experience. These attributes are learned and developed over time. It is just not realistic to believe that an audit firm new to a company, its businesses and culture, its control systems, its financial personnel, its financial reporting history, and perhaps the industry in which it operates, would bring a higher level of skepticism on important matters for which the new audit firm has no prior experience with the entity.

Periodic rotation of individual partners, on a planned and systematic basis, is challenging for all concerned – the simultaneous rotation of all partners on a major audit engagement, worldwide, would result in a huge loss of accumulated knowledge and experience – and for quite some time would preclude rather than promote the desired level of skepticism. To be clear, it's not that the new audit firm/partners wouldn't do their best to be skeptical, it's just that their best efforts and good intentions cannot overcome their unavoidable lack of experience and knowledge in the initial years, the same reason that audit risk is inevitably higher in the early years of an audit relationship. Accordingly, the loss of skepticism would be an added cost of rotation – leaving little or no benefit to offset the enormous costs to be incurred.

The PCAOB and Audit Committees

Over the years, a major development in financial reporting has been the expanded role and effectiveness of audit committees, stimulated by the requirements of the Sarbanes-Oxley Act of 2002. However, despite these changes and the substantial progress that has been made, some commentators have suggested that the Concept Release evidences a lack of confidence in the effectiveness of audit committees.

I do not know if this lack of confidence is real or a misperception. Regardless, I believe there are significant opportunities for the PCAOB to engage and work with audit committees to enhance audit committee effectiveness and therefore, audit and financial reporting quality.

Acknowledging that the PCAOB has no regulatory authority over audit committees, I do not believe that this should preclude or deter a strong working relationship which has not been present in the life of the PCAOB to date.

Specifically, I would suggest:

Communication

The PCAOB observes many audits and auditors through its inspections and other activities. The Board has expressed concerns about various matters in its public reports, speeches, congressional testimony and other forums but has never to my knowledge communicated concerns directly to audit committees.

I recommend that the PCAOB communicate with audit committees whenever an engagement is selected for inspection – at the onset and again at the conclusion. The nature and content of these communications would be determined by the specific situation and findings with appropriate limitation, if necessitated by confidentiality considerations.

In addition, I recommend that the PCAOB regularly communicate directly with audit committees to express its views regarding areas of common concern, such as audit risks, auditor performance and skepticism, and developing areas where changes in emphasis or new approaches may be desirable.

Timely and Continuing Engagement of Audit Committees

Similar to other advisory groups it has formed, the PCAOB should appoint an Advisory Committee of audit committee chairs/members. The group would meet periodically with the PCAOB and key staff members to consider and provide timely input on the activities and priorities of the PCAOB, from the perspective of the audit committee, and would be available to the Board for continuing consultation and input.

Collaboration with Audit Committees to Enhance Effectiveness

I recommend that the PCAOB invite and encourage interaction between the PCAOB, the Securities and Exchange Commission, stock exchanges and audit committees to facilitate the understanding of mutual concerns and the agreement on and communication of "best practices" to improve the financial reporting process and audit committee effectiveness – hopefully without new "rules and regulations" and costly regulatory responses for perceived needs for improvement.

To illustrate, areas that might be addressed:

Audit Committee Communication with Shareholders

Most seem to agree that the current report of the audit committee in the annual proxy statement is not an informative communication. The various constituencies suggested immediately above could identify best practices for such reports and then work together to facilitate and communicate recommended changes and enhancements to make this report more informative for shareholders, hopefully leading to enhanced confidence in the financial reporting process and the role of the audit committee in overseeing the financial reporting process and the auditing function.

Among the matters to be considered for enhancement of the audit committee report would be topics that have been of some concern to the Board. For example; 1) the audit committee's oversight of critical accounting policies, estimates and judgments and 2) the audit committee's oversight of the determination and approval of all fees paid to the audit firm [with reference to the fee information disclosed elsewhere in the proxy statement].

Regular and Periodic Challenges to Long-Standing Auditor Relationships and Auditor Skepticism

The PCAOB has expressed its concerns about the effects of long-standing relationships on auditor independence and skepticism. While believing that rotation should not be adopted as a response to these concerns, I believe there are audit committee best practices, often being followed regularly today, that could be identified, codified and communicated to all audit committees for their consideration and adoption as appropriate. For example:

1) The audit committee could assess periodically the continuation of a long-standing auditor relationship, formally communicating the results of the assessment to shareholders. Such assessments might include reviews of key auditor personnel worldwide, a review of the auditor's industry knowledge, and an evaluation of the performance of the audit team. If warranted, this process could be extended to reviewing the qualifications of possible successor firms.

2) Ongoing challenges to the skepticism demonstrated by the firm and the audit team could be conducted through:

- meetings between the audit committee and the concurring review partner and national office consultation partners;
- periodic reports from the audit team to the audit committee on significant consultations, including the subjects considered, people involved, conclusions reached, etc.; and
- reviews by the audit committees of the nature and frequency of consultations by the audit team with other experts in the firm concerning challenging issues, critical estimates and judgments, etc.

These are only illustrations but are areas that appear responsive to the concerns expressed in the Concept Release.

<u>In Summary</u>

Mandatory rotation should not be adopted and that aspect of this project should be terminated.

The PCAOB should lead efforts to engage and communicate with audit committees and to identify and disseminate "best practices" to address its concerns and to improve all aspects of the financial reporting process for the benefit of investors.

Sincerely,

J. Michael Cook

cc: James R. Doty
Chairman, PCAOB

cc: Lewis H. Ferguson
Board Member, PCAOB

cc: Daniel L. Goelzer
Board Member, PCAOB

cc: Jay D. Hanson
Board Member, PCAOB

cc: Steven B. Harris
Board Member, PCAOB

cc: James L. Kroeker
Chief Accountant, SEC