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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, D. C. 2006-2808

Subject: Docket 037

Board Members:

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

Background

For the last 11 years, my occupation has been that of an Investor/Director. As an investor, I have invested in numerous public companies and private enterprises. I serve or have served on four public company boards listed on either the NYSE or NASDAQ generally as the Audit Committee Chairman and Audit Committee Financial Expert (ACFE). Prior to that time, I spent 37 years (29 years as a partner) with KPMG LLP. My primary experience at KPMG included serving many types of clients as an audit partner, managing and area partner, and international partner.

Perspective of My Comments

As a former KPMG partner, I am precluded from serving on boards of companies they audit. As a result, KPMG does not perform audits for any of the three boards I currently serve, but I have used and had exposure to all the "Big Four" firms and several smaller CPA firms in various capacities. My comments in this letter are solely mine and not attributable to any public accounting firm or the boards that I serve. Sitting on both sides of the table does provide me with a somewhat unique perspective to comment on the matters in your Concept Release.

Position Overview

As an experienced audit committee chairman, I believe auditor independence warrants ongoing monitoring, but I am adamantly opposed to mandatory audit firm rotation being imposed upon public companies for the major reasons set forth in my comments. Such action will not cure any future audit and company failures and has many shortcomings.

While I appreciate reviewing the matters set forth in the Concept Release, I do not believe these are the major issues of the day. Time could be better spent on addressing disclosure overload, achieving less complex accounting and reporting, and requiring at least one qualified ACFE serve on each audit committee of a public company.

Position Major Reasons

Independence is the corner stone of the public accounting profession. The Sarbanes-Oxley Act of 2002 (SOX) specifically mandated auditor independence requirements and the Securities and Exchange Commission (SEC) addressed such requirements in its subsequent releases. Public accounting firms take their responsibilities very seriously and enact safeguards to ensure that independence is achieved. They report to audit committees on independence throughout each annual audit. The audit firms also have built in controls through mandated professional standards and their added quality controls to ensure that independence operates effectively. Independence is not a state of mind, but in fact, it is practiced with the utmost care by the profession.

Bear in mind that the audit firm is engaged by and responsible to the audit committee. Thus, significant time is spent with the audit partner outside of scheduled meetings, and it is easily determined whether the audit firm is in fact acting in an independent fashion. In addition, each of my audit committees annually evaluate our registered public accounting firms, including whether a rotation is necessary, and report our findings to our boards. While no audit firm would want to lose a significant, valued client, independence would be last on a list of reasons for causing such a loss. In addition, I believe that no client would be that significant to an audit firm's revenues where it would violate its standards for independence. In fact, accounting firms would routinely turn down engagements where independence cannot be achieved.

Simply put, good people can do bad things through various fraud avenues, lack of values, greed, insufficient training, or a host of other reasons, but lack of independence today would not be a significant cause of audit failures. Again, there are too many safeguards in place today by the firms and audit committees for independence to be a major issue. Skepticism and objectivity are separate issues in an audit and will be addressed below.

The major reasons for my position against mandatory audit firm rotation in the Concept Release are set forth in the following paragraphs.

- Audit Committee's Role – SOX set forth specific rules for audit committees on boards serving public reporting companies. The SEC then enacted numerous additional rules for public companies, audit committee committees, and others to follow to comply with SOX. Perhaps the most important aspect of these actions was charging the audit committee with being directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by a public company. If mandatory rotation was required, the audit committee would have absolutely no service or fee leverage or meaningful relationship with the accounting firm in its audit service to a public company. In this way, mandatory audit firm rotation weakens, and some might argue destroys, the audit committee's role in a public company.
- Audit Quality – The presupposed notion for mandatory audit firm rotation is that an accounting firm's skepticism and objectivity would be enhanced. I would argue to the contrary. An auditor can appear to be most skeptical and objective, or said another way, question everything at every turn particularly when lacking experience in an industry or with the company being audited. That is not the type of skepticism and objectiveness the shareholders of a public company deserve. Audit quality is preserved by the audit committee selecting the right accounting firm in its market that can handle its local and

global needs. Further, required audit partner rotation provides additional safeguards for a fresh look every five years in the audit process. There is also ample turnover in an audit team members and company financial personnel that further enhances a fresh look. If there is any perception that skepticism or objectivity is not being applied by the accounting firm, the audit committee is in the best position to take the appropriate action. To the contrary, my experience has been that audit teams that are highly skeptical and objective, and I believe it is absolutely necessary to maintain their professional integrity.

- Multiple Accounting Firms – On its face, mandatory rotation of audit firms sounds simple and easily applied. From a practical standpoint, it would be a nightmare. Most public companies actually use multiple accounting firms. Smaller companies may use them sometimes due to lack of internal resources, whereas larger companies may need specific expertise. For example, I served on one global company board where each of the “Big Four” accounting firms served us in four major areas – as auditor, SAS 70 reviews, internal control assistance, and tax services. Thus, a mandatory rotation requirement would have caused a multitude of shuffling of multiple public accounting firms to properly serve this public company, and all for no real benefit.

If it becomes necessary for a public company to change its audit firm for service, fee or other appropriate reasons, the audit committee is in the best position to make a planned change over the appropriate course of time.

- Cost/Benefit – If I could foresee a cost/benefit relationship to the shareholders for rotating audit firms over some period of time, I would support that concept. However, even rotating audit partners over the five-year term has an internal and external cost to a public company. I cannot fathom the cost of a mandatory rotation program where there would be little to no ability to hold the audit firms accountable for reasonable fees and attentive, experienced service. In addition, the external auditor cost and internal company cost would be difficult to measure but would no doubt be much greater than the present rotation requirement. At the end of the day, all of this would be done for the sake of appearance where no real benefit is derived to the shareholders or the public.

If an audit committee determines a change in audit firms is necessary today, the present practice of reviewing the qualified firms and undertaking a bid process assures the shareholders that audit committees are taking the appropriate action in a systematic fashion. This is an added safeguard for investors and the PCAOB since it cannot inspect every company annually.

- Qualified Firms – Companies today more than any time in our history have a global reach. Even many entrepreneurs trade their products internationally. Certainly most public companies operate on a global basis. For example, one of the board companies I serve on acquired another publicly-held company and the combined company presently operates in the U.S. and 64 foreign locations. The question arises as to how many public accounting firms beyond the “Big Four” have the expertise and can effectively and efficiently handle that kind of global reach. I would have no objection to using a firm outside the “Big Four” provided that accounting firm possesses qualified resources and locations to service our needs efficiently throughout the world.

SOX did provide for the Comptroller General of the United States to study and report on

the consolidation of public accounting firms, which included possible solutions to increase competition and the number of firms capable of providing audit services to large national and multinational business organizations. While much has changed since that 2003 study was completed, the number of public accounting firms with highly competent resources and global reach remains small. Accordingly, mandatory audit firm rotation is neither practicable nor sensible in today's environment.

In summary, I do not foresee any improvement in audit quality, independence, skepticism, and objectivity in requiring a mandatory rotation of audit firms. Such a requirement would be costly to our shareholders, highly impracticable, possibly deter audit quality, not further investor protection, and most importantly impede the oversight responsibilities of audit committees. The alternative to mandatory audit firm rotation requested in the PCOAB Concept Release is to have audit committees continue to do their job as required under SOX and SEC rules. My suggestion is that the PCOAB quickly end this project and move on to more worthwhile undertakings.

As to some of the other items set forth in the Concept Release, a mandatory tendering of audits that would require audit committees to solicit bids from other firms or require joint audits, my view is that audit committees annually review their registered public accounting firms and audit committees are in the best positions to make judgments on retention or the necessity of any additional participation by other firms in their annual audits. Joint audits typically are more expensive, and absent some specific circumstances requiring a joint audit, would not add value to a public company or its investors. Further, changing the payment model would add administrative cost to the process and achieve no real, substantive purpose. Simply put, my view is that these items would constitute window dressing and further deteriorate the roles of audit committees.

Before closing my comments on the Concept Release, let me take this opportunity to provide some constructive comments that are intended to be helpful to the PCOAB in other areas where the PCOAB could directly or indirectly be a catalyst for change.

- The PCOAB inspections are important to our public companies and audit firms. The audit firms advise audit committees when an inspection will be performed and its results. However, it mystifies me that as part of the inspection process, the PCOAB does not undertake to interview or discuss any improvements resulting from the inspections with the audit committee chair. I believe that both the PCOAB and the chair could benefit from the inspection process.
- As an investor, I believe a qualified ACFE should serve on each audit committee of every public company. SOX listed the proper requirements for a qualified ACFE when the Act was passed, but unfortunately this was changed due to public comments received by the SEC. Long before SOX was enacted, my audit experience with companies is they were far better served where a CPA sat on the audit committee. It is encouraging to note the recent additions of CFOs to the General Motors and JPMorgan Chase boards, but much still needs to be done. The PCOAB could work as a catalyst with the SEC to revisit this matter.
- While I appreciate that the PCAOB's responsibility is to regulate auditors of entities reporting to the SEC, my impression about the mindset used in the inspection process gives me concern. Too often, we hear about criticism of auditors and the audit firms or

disagreements about subjective matters. These comments are not recent but have existed since the formation of the PCAOB. I do not believe that was SOX's intent for the role of the PCAOB and it is certainly not helpful to the profession or shareholders. In my audit experience, I found that I could disagree without being disagreeable.

Like the PCAOB, I believe in a zero tolerance for improper audits and that appropriate actions should be taken. However, as to subjective decisions where multiple answers are acceptable and handled through a proper audit process, I find it inappropriate for the PCOAB to insist on its answer. The same comment would be attributable to the audit process where acceptable procedures have been performed under the prevailing requirements at the time. In my view, that should not be the role of the PCOAB. Revisiting these areas internally might be of value to the PCOAB and to the public companies it serves.

I appreciate the opportunity to provide my comments to the PCOAB and trust you will find them helpful in your pursuits for improving the audits of public companies.

Sincerely,

A handwritten signature in cursive script that reads "Cecil H. Moore, Jr.".

Cecil H. Moore, Jr.