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

Re: PCAOB Rulemaking Docket Matter No. 37 *Concept Release on Auditor Independence and Audit Firm Rotation*

Dear Board Members:

Arthur F. Bell, Jr. & Associates, L.L.C. appreciates the opportunity to submit comments to the Public Company Accounting Oversight Board (PCAOB) on the above referenced concept release on auditor independence and audit firm rotation (the concept release).

As a public accounting firm subject to PCAOB inspection, we strongly support the PCAOB's mission to ensure auditor independence, professional skepticism, and the highest levels of objectivity in the conduct of public company audits. We believe that the current auditor independence standards, including mandatory five-year partner rotation for continuing auditors, offer a sufficient framework for auditor independence and objectivity. In addition, we find the increased role of audit committees resulting from the enactment of the Sarbanes-Oxley Act of 2002 serves to appropriately address auditor selection and potential conflict of interest concerns.

We believe that there is no compelling evidence to support the idea that mandatory audit firm rotation will enhance audit independence and audit quality, and we disagree with the proposal of requiring mandatory auditor rotation for the following reasons:

- First, the cost of annual public company audits would significantly increase due to the loss of learning curve currently achieved for recurring audit engagements. Under the current auditor requirements, a new auditor incurs significant "start-up" costs with a new engagement; such costs are expected to be recouped and/or reduced over the succeeding years, with an expected audit cost savings over time to the investors. Under the proposed mandatory auditor rotation, audit firms would have little incentive to discount "start-up" costs in the initial year and the potential cost savings resulting from the "learning curve" would be minimized due to the mandatory short-term client retention horizon. In addition, the cost burden to a public company's internal staff for constantly educating the rotating audit teams would likely be significant.

- Second, the quality of annual audits would suffer. A fresh perspective of professional skepticism expected to be a result of mandatory rotation of audit firms is not in and of itself a viable replacement for the seasoned and knowledgeable objectivity provided by a continuing auditor strictly adhering to professional audit standards. The audits of many public companies would potentially be at risk of being weaker – not stronger – as the continuous change in audit teams would reduce the auditors' ability to specialize in more complex areas, and thus be less favorably positioned to identify company-specific issues. Audit firms have different levels of industry expertise and related skill sets which impact the quality of a particular audit; an audit firm's experience in an entity's industry sector is an important consideration for an audit committee in selecting the independent auditor. Disqualification of a current auditor with highly regarded industry specialization due to a mandatory rotation requirement may force audit committees to choose an audit firm with less specialized knowledge in an entity's industry, and therefore, potentially subject the entity to a lesser quality audit. There is also no compelling evidence that audit firm rotation enhances an auditor's ability to identify errors or detect fraud. In addition, the likelihood of undiscovered errors and fraud could potentially be greater due to the inexperience of the audit teams and/or lack of familiarity with the public company's operations. True professional skepticism is best provided by experienced auditors possessing an in-depth knowledge of an entity's industry sector and operations. There is also a risk that audit firms would over-extend themselves in an effort to obtain clients that are up for rotation. Accordingly there is no certainty that the successor auditor would be any more independent than the current auditor or provide any better audit quality. If a company does have weaknesses or issues with the current auditors it is possible that they would seek a more sympathetic replacement and in so doing frustrate the expected objective.

- Third, required rotation of audit firms may increase "opinion shopping" by public company management. In the current environment, a company is subjected to a fair amount of scrutiny when changing auditors. In a mandatory rotation environment, there is potential for less scrutiny over the auditor selection/change process as the presumption would be that a change in auditors is a routine event.

- Fourth, the audit committee's oversight role in the selection and retention of a public company's auditor is a more reliable objective measure in ensuring quality audits than the proposed mandatory auditor rotation rule. If the audit committee is not providing the essential safeguards against conflicts of interests and fails to select the appropriately qualified audit firm, forced audit firm rotation will not address the audit committee's deficiencies. We believe that the PCAOB should consider placing a greater emphasis on its examination of audit committee decision-making in the annual inspections of public company audits in order to ensure that audit committees are providing the necessary oversight.

- Fifth, the independence provided by the mandatory audit partner rotation requirement that is currently in place provides the public company with a fresh perspective on its audit without losing the benefit of the entire current engagement team's knowledge and experience. We also believe better clarification, summarization and possibly consolidation of the SEC and PCAOB's independence rules would assist audit firms in ensuring that all conflicts of interest have been fully considered and appropriately addressed.

As an independent auditor, we uphold the ultimate goal of protecting investors and the public. Currently there are no studies which indicate that mandatory audit firm rotation can actually enhance auditor independence and audit quality. As such, we believe the interrelationships among auditors and audit committees, as well as the regulatory audit oversight functions should be further examined to determine whether audit deficiencies noted in PCAOB inspections can be successfully addressed alternatively, rather than the implementation of a mandatory auditor rotation requirement as currently contemplated by the PCAOB. We appreciate the opportunity to provide comments on the concept release, and we welcome further discussion on this matter. Please contact Keith Stafford at (410)-771-0001 if you have any questions or comments.

Very truly yours,

Arthur F. Bell, Jr. & Associates, L.L.C.

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