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Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D. C. 20006-2803

December 10, 2011

Re: PCAOB Rulemaking Docket Matter No. 37
Auditor Independence and Audit Firm Rotation

Dear Mr. Seymour:

Following are my comments on the PCAOB Concept Release on Auditor Independence and Audit Firm Rotation. I currently serve as a Director and Audit Committee Chair for Lincoln Educational Services Corporation, a Director and Audit Committee Member for Symetra Financial Corporation and a Trustee and Audit Committee Chair for John Hancock Trust and John Hancock Funds II. I was an audit partner at Arthur Andersen LLP until retirement in 1999. The following comments reflect my views and are not necessarily the views of the organizations with which I am currently associated.

"Murphy's Law - It is impossible to make anything foolproof because fools are so ingenious."

Perhaps the first priority should be to remember that human enterprise involves risks. And, of course, investing in human enterprises is no exception. While we may wish to regulate away risk, or at least unintended risk, there will always be counteracting forces such as greed, ego or lack of knowledge that will subvert the intent of the "best" regulations.

We should also remember that the incidence of fraudulent financial reporting and real or perceived auditor failure is extremely small in comparison to the number and economic activity of all businesses. There is however no question that publicized failures have produced significant harm to certain individuals and are great poster children for reform and regulation. When a crisis occurs, there is always a rush to plug the perceived holes in the system whether a particular activity truly produced or did not prevent the crisis. Sort of "this might have, could have or should have contributed" thought process.

As you note, the concept of mandatory rotation of auditors has been discussed periodically, pretty much matching the timing of particularly gruesome financial failures. And the discussion always suggests that the benefit is to increase the independence of the auditor. Increase the willingness of the auditor to stand up to management since the auditor would know that they have nothing to lose since they will lose the audit assignment eventually. Increase their skepticism and enhance their audit techniques for fear that a subsequent auditor might expose their lack of audit quality. Give the auditor more backbone and fear.

The problem as I see it is that there should already be enough fear in the minds of auditors. The reputational and financial consequences of performing less than adequate audits are currently

significant. Between litigation, PCAOB, peer and internal inspections and enforcement actions, there would seem to be sufficient disincentives to not perform adequately and independently. And the enhancement of communications to audit committees and the requirement to report disagreements when rotation occurs, should buttress the auditor's ability to challenge management without fear of retribution i.e. loss of the account.

Further I am not aware of a correlation having been made between auditor longevity on the account and audit failure. Nor to my knowledge has there been a correlation between PCAOB review negative findings and lack of independence or longevity.

The costs of mandatory rotation are too great to be incurred on the basis of a presumption. The costs include the additional effort needed to be expended by auditors to perform adequately in a first time through situation. The accounting firms know better but 20% additional fees would in my mind be the minimum. More likely 50% or more. There is of course an additional cost to businesses in that they would be required to allocate substantial resources to the educational process. And while we may wish it not to be so, the independent auditor's education and knowledge of the company and the business will probably not be complete in the initial year.

I am not in a position to comment on the logistics of matching the supply of auditors to the demand created by mandatory rotation but given the small number of firms capable of performing large or complex audits, the wide spread locales of businesses and the need for industry knowledge in order to perform adequately, it would seem they would be formidable.

The audit committees will also be disadvantaged in the initial years of the new auditor's education and familiarization process in that they will be dealing with and counting on audit individuals that may not have achieved complete knowledge of the company.

But of course there are audit failures. So, how to respond?

Since audits require judgments and people are entirely capable of coming to different conclusions even with the same set of facts, the goal should be to enhance the audit process since elimination of audit failure is impossible. My suggestions are to look at the education and training of the auditor, require additional information to be reported to audit committees and expand the audit report.

The major concern has to be lack of corroborating, independent audit evidence to support management's assertions. This can result from a lack of understanding of the economics or mechanics of transactions or the business, poor estimation of the potential impact of events (lack of stress or "what if" testing), the pressure of deadlines and the difficulty of always being a skeptic.

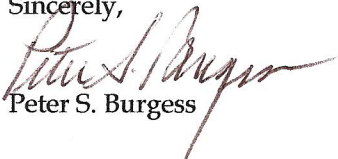
Currently many or most states require continuing education of around 40 hours per year. The audit firms have consistently recognized that this level of education is inadequate given the complexity and density of current accounting principles and auditing standards in addition to the changing dynamics of and variation between industries. Benefits might be achieved however by promulgating more detailed training requirements both in undergraduate work and in continuing education that would be specific to industry oriented financial analytics (equivalent to analyst training). An overview of the training and results of financial analytics should be presented to audit committees as part of the required communications by independent public accountants.

Required auditor communications to audit committees should also be strengthened. Currently there is a requirement to discuss management judgments and accounting estimates and the basis for the public accountant's conclusions on those estimates. This discussion should include the requirement to disclose all situations where independent evidentiary matter or third party corroboration was not or could not be obtained and the reasons. Further, auditors should specifically report on any auditing or accounting matters that arose in the fourth quarter financial closing process which were difficult to resolve or support. This would go deeper than disagreements and disputes.

I would also suggest expansion of the standard independent registered public accountant's report. I am aware of the separate effort focusing on the report but think it needs to be combined with this discussion. While the financial statement reader generally does not understand the approach and limitations to audits, the bigger concern should be that the audit report provides no discussion - just black or white on fairly presents. If the auditor were required to highlight difficulties encountered in the audit as well as the approach to verification of management estimates, there would be additional pressure to obtain adequate audit evidence.

I believe that audit failure is caused by bad audits not by lack of independence. And bad audits are the result of human judgment error. Increasing the knowledge, skills and resources of the auditor and providing additional transparency relative to the audit process should be the joint mission of the PCAOB, educational organizations, audit firms and audit committees.

Sincerely,



Peter S. Burgess