

From: Joyce Barasa
Sent: December 11, 2011
To: Comments
Re: Rulemaking Docket Number 37

Thank you for the opportunity to comment on the Public Company Accounting Oversight Board's "Concept Release on Auditor Independence and Audit Firm Rotation." I am an Accounting undergraduate student at Louisiana State University. After looking into the advantages and disadvantages of mandatory audit firm rotation, I came to the conclusion that mandatory audit firm rotation would not enhance auditor independence. I feel like mandatory audit firm rotation would not be a solution to the issues regarding quality of the audit and independence of the auditor. I discuss in detail the reasons why I chose this position below.

Given the complexity and rapid change of technology in companies today, an auditor would take long to fully understand the company's operation before he/she can conduct the audit. Mandatory audit firm rotation would increase the cost of the audit because of the learning time needed to gain familiarity with the company before an effective audit can be conducted. This may also increase the chances of errors in the audit leading to poor recommendations and hence audit failure.

In addition to this, mandatory audit firm rotation would also lower the quality of the audit. The auditor and clients usually develop a professional audit relationship after working together for a while. The client needs to feel comfortable and be open with the auditor in order to share information and talk about any problems that may arise during the audit. Mandatory audit rotation would lead to a company having new auditors more often. New auditors are unlikely to have the necessary openness and professional relationship that would enhance knowledge sharing. This would lead to an audit of poor quality and therefore high risks of audit

failure. It would also increase likelihood of undetected fraud by management and the management would be more likely to mislead the new auditors.

A lot of uncertainties still remain on how a mandatory audit firm rotation would be carried out if it is to be implemented. The main one is the difference in the sizes of the audit firms. The big four firms would more likely have enough auditors to conduct an audit of a large company and would therefore most likely just rotate among themselves. The big four firms would gain greater market shares compared to the smaller audit firms and the audit fees would also begin to rise. This would have a negative impact on the audit profession as a whole.

In conclusion, I suggest that mandatory audit firm rotation not be implemented because it would be costly and it would lower the quality of the audit. It will also bring along a lot of uncertainty in the audit profession. I feel like its disadvantages are greater than the advantages.

Reference

The CPA Journal

<http://www.nysscpa.org/cpajournal/2005/105/essentials/p36.htm>

Audit Firm Rotation as a Good Governance Practice for Non Profit Organizations

<http://www.understand-accounting.net/AuditFirmRotation.html>

Journal of Accountancy

PCAOB Opens Discussion on Audit Firm Rotation

<http://www.journalofaccountancy.com/Web/20114481.htm>