

December 12, 2011

Public Company Accounting Oversight Board
Via Email: comments@pcaobus.org

Dear Mr. Seymour:

Re: PCAOB Rulemaking Docket Matter No. 37

British Columbia Investment Management Corporation (bcIMC) is pleased to submit comments to the Public Company Accounting Oversight Board (PCAOB or Board) on its concept release on auditor independence and audit firm rotation (the Concept Release). With approximately \$86.9 billion under management, bcIMC is one of Canada's largest institutional fund managers. bcIMC manages 67 pooled investment funds in all major asset classes with investments in domestic and international markets. A large number of our private equity investments are U.S. based and subject to U.S. auditing standards.

Our Views

We agree that an audit only has value when it is performed by a competent third party who is independent, objective and who applies an appropriate level of professional skepticism. However, we do not believe that mandatory audit firm rotation should be adopted at this time based on the following arguments:

- In 2003, the General Accounting Office (GAO) reported that Fortune 1000 companies have used the same audit firm for an average of 22 years, with some having tenures of more than 50 years. These tenures may, at first blush, seem disconcerting; however, there is no empirical evidence to support the contention that these long tenures have caused a lack of objectivity and professional skepticism. In fact, the data suggests that audit failures tend to be higher in the early years of an auditor's tenure with a new client. Since auditor rotation would result in more new tenures on a regular basis, the data would imply that mandatory audit firm rotation would result in more audit failures.
- The Concept Release states that the causes of audit failures are complex and vary in nature and continue to be explored by the Board. Discussions at open meetings between the Board and PDCAOB staff revealed that ongoing research to determine whether audit deficiencies could be linked to a lack of independence, objectivity and professional skepticism were inconclusive. Implementing mandating audit firm rotation, which would be a significant disruption and cost for both companies and auditors, in the absence of clear evidence as to the cause of audit failures, would appear to be premature.
- A number of standards related to auditor independence were put in place as a result of the Sarbanes-Oxley Act of 2002 (i.e. audit committee oversight of auditor independence, audit partner rotation requirements, and scope of service limitations). There is general consensus that these measures have had a positive effect on the quality of public company audits. Two more standards have recently been released that may further enhance professional skepticism and objectivity: Auditing Standard No. 7, *Engagement Quality Review* (AS No. 7), and Auditing Standards No. 8 to No. 15 (Risk Assessment Standards). AS No. 7 provides a framework for a quality assurance reviewer to objectively evaluate the

significant judgments made and conclusions reached by the engagement team when forming an overall conclusion. The new Risk Assessment Standards deal with the risk assessment process for audit planning. AS No. 7 is effective for audits of fiscal years beginning on or after December 15, 2009 and the Risk Assessment Standards are effective for audits for fiscal years beginning on or after December 15, 2010. Given the short period of time these standards have been in place, it is unlikely that their effect has shown up in the PCAOB inspection process. The PCAOB also plans to propose new quality control standards in 2012 which may further reduce the risk of audit failures. Given sufficient time, these standards may collectively address the independence concerns expressed by the PCAOB. This further demonstrates the premature nature of the proposed mandatory audit firm rotation policy.

- Mandatory audit firm rotation would cause significant cost and disruption for both corporations and audit firms. Tendering audits and changing auditors would involve a huge effort for corporations, distracting management from operating the company. Similarly, audit firms will be involved in an endless stream of audit engagement proposals that will be both costly to prepare and require significant time from senior resources that will be distracted from their audit responsibilities. The increased costs associated with these tenders will ultimately be passed on to clients.
- Mandatory audit firm rotation could inadvertently increase audit failure as audit firms near the end of an audit engagement. Audit firm attention may be distracted by the pursuit of replacement engagements in the final year or two of an engagement, and audit firms may be tempted to move their best and brightest staff to newer engagements where their staff will have greater development opportunities.
- Similarly, mandatory audit firm rotation will increase the risk of lower quality audits in the first few years of an engagement as new auditors acquire in-depth knowledge of the client. For very large clients this learning curve may be very steep and extend over several years. Therefore mandatory auditor rotation could result in an audit engagement cycle that has lower quality audits in the early years, a few strong audits in the middle years, and then lower quality audits in the final years - a far from ideal result.
- Mandatory audit firm rotation could also result in pressure on auditors to decrease fees to win engagements, which, in turn, could result in lower quality audits as audit firms try to minimize costs to remain profitable over the term of the engagement.
- Audit Committees and Boards are responsible for appointing auditors, and should make sure that auditors are independent. Mandatory audit firm rotation could undermine corporate governance by reducing Board and Audit Committee statutory responsibility for overseeing the audit function.

The Concept Release also raises the potential for other policy changes such as mandatory periodic audit retendering and joint audits. Mandatory periodic audit retendering has many of the same disadvantages and inefficiencies as mandatory audit firm rotation (i.e. significant cost and disruption for corporations and audit firms). Joint audits would result in significant additional cost and reduced efficiency due to duplication of work, and increased audit risk due to a greater chance of things falling between the cracks.

Concluding Remarks

We agree that auditor independence is imperative to the efficient functioning of capital markets and that strengthening that independence is a worthwhile initiative. However, we do not, at this time,

agree with mandatory audit firm rotation given: the lack of conclusive evidence that recently implemented, or pending, standards will not significantly improve auditor independence; the significant increase in cost and administrative effort; and the potential for inadvertently increasing audit risk. Instead, we recommend that the PCAOB give the new standards time to take effect and then reassess auditor independence. In the meantime, the PCAOB should focus on determining the root causes of audit deficiencies and, where reviews indicate that audit deficiencies have resulted from a lack of professional skepticism or objectivity, take meaningful disciplinary action that will clearly demonstrate to audit firms and corporations, and their Audit Committees and Boards, that there will be serious consequences where auditor independence is impaired.

Sincerely

A handwritten signature in cursive script that reads "D Woodward".

David Woodward
VP Finance and Operations