

December 12, 2011

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

Glenn P. Barba
Vice President, Controller
and Chief Accounting Officer

RE: PCAOB Rulemaking Docket Matter No. 37

We appreciate the opportunity to comment on Public Company Accounting Oversight Board (PCAOB) Release No. 2011-006, *Concept Release on Auditor Independence and Audit Firm Rotation* (the Concept Release). This letter contains the comments of both CMS Energy Corporation and Consumers Energy Company.

CMS Energy Corporation, whose common stock trades on the New York Stock Exchange, is a domestic energy company engaged in electric and natural gas utility services and independent power production, operating through subsidiaries in the U.S., primarily in Michigan. CMS Energy Corporation's consolidated assets are \$16 billion and annual operating revenues are \$6.4 billion. Consumers Energy Company, the principal subsidiary of CMS Energy Corporation, provides electricity and/or natural gas to more than 6 million of Michigan's 10 million residents and serves customers in all 68 counties of Michigan's Lower Peninsula.

We support the PCAOB's continuing efforts to enhance auditor independence, objectivity and professional skepticism. We do not, however, support mandatory audit firm rotation as a means of achieving such improvements. In our opinion, the costs and disadvantages of mandatory audit firm rotation would outweigh any benefits, for these three reasons:

1. Mandatory audit firm rotation may not appropriately address the problem cited by the PCAOB;
2. Mandatory audit firm rotation could limit firms' ability to retain qualified auditors; and
3. Mandatory audit firm rotation would increase audit costs.

Mandatory Audit Firm Rotation May Not Appropriately Address Cited Problem: Over the last eight years, the PCAOB has conducted inspections of over 2,800 engagements of the largest audit firms and has found several hundred cases of audit failures or other audit deficiencies. In some of these audit failures, the PCAOB inspectors cited a lack of professional skepticism and objectivity on behalf of the auditor; however, as stated in the Concept Release:

The Board does not suggest that *all* of the audit failures or other audit deficiencies its inspections staff has detected necessarily resulted from a lack of objectivity or professional skepticism. Audit failures can also reflect a lack of technical competence or experience, which may be exacerbated by staffing pressures or some other problem. And, as the Board's inspections are not random, the Board may be looking at the most error-prone situations. The root causes of audit failures are complex and vary in nature and continue to be explored by the Board.

The Board plans to deepen its understanding of root causes in upcoming inspection seasons.

We note that the PCAOB, in its inspections, deemed the majority of audit engagements to be effective and, of those deemed ineffective, only “some” appeared to have been caused by a lack of professional skepticism or objectivity on behalf of the auditor. Despite these findings, the PCAOB is soliciting comment on whether more can and should be done to enhance auditor independence, objectivity, and professional skepticism and, in particular, on mandatory audit firm rotation as a means to that end.

In our reading of the Concept Release, we failed to see a conclusive link between the audit deficiencies and an insufficient level of auditor independence, objectivity, and professional skepticism. Thus, we believe that mandatory audit firm rotation may address an assumed but unproven cause of audit failures and suggest that, before the PCAOB move forward with any proposals that could fundamentally shift the auditor-client relationship, it focus on uncovering the actual causes of the audit deficiencies found. If, for example, audit deficiencies resulted from a lack of technical competence or experience in a given industry or from staffing or timing constraints, the mandatory rotation of audit firms would only exacerbate such problems.

Mandatory Audit Firm Rotation Could Limit Ability to Retain Qualified Auditors: Mandatory audit firm rotation would effectively limit the auditor’s ability to develop extensive and in-depth knowledge of a company, generally accumulated through years of experience with the company and its industry. We believe that the quality of an audit directly correlates with the auditor’s understanding of the company’s operations, processes, and internal controls, as well as the specialized accounting rules and practices of the industry in which the company operates. Mandatory audit firm rotations would repeatedly result in the loss of all knowledge and experience gained by one auditor, while introducing another to a steep learning curve. As a result, we believe that the quality of audits could suffer.

Furthermore, in the case of companies operating in specialized industries, there may be a practical limit to the number of qualified firms from which to choose. For example, in the electric and gas utility industry, the majority of companies are audited by two of the “Big Four” firms, as these firms have the most extensive industry experience. In fact, any of the audit firms that may otherwise have the scale to handle a large, publicly traded investor-owned utility may at any time conclude that market forces make it undesirable or unfeasible to invest in specific industry expertise. Therefore, as a practical matter, mandatory audit firm rotation may simply result in a pattern of alternating between only two audit firms, which seemingly would not address the perceived auditor independence issue cited by the PCAOB.

Additionally, it is not uncommon for companies to engage a second “Big Four” firm to provide internal audit services, and a third for systems work or other consulting activities. In practice, mandatory audit firm rotation could indirectly require companies to rotate the firms engaged for these other non-audit functions as well. Due to the large size of these engagements and the unique characteristics of the industry in which we operate, the mandatory rotation of audit firms could make it difficult for us to select and engage a suitable firm for audit purposes, as well as for non-audit and advisory purposes.

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Mandatory Audit Firm Rotation Would Increase Audit Costs: In our experience with auditor changes over the past ten years (we have changed auditors twice), we note that the new auditor's fees have followed a pattern of gradual and consistent decline over the years following initial engagement. This decline is possible because the auditor gains efficiencies in its audit procedures as it obtains a better understanding of the company's processes, systems, and controls. It is likely that such a pattern of declining fees would no longer exist under mandatory audit firm rotation.

For the reasons given above, we believe the disadvantages of mandatory audit firm rotation outweigh any perceived benefits. As an alternative, the PCAOB should continue its inspections of audit firms, focusing on the underlying reasons for specific audit failures. For the engagements reviewed, we encourage the PCAOB to disclose the results of individual inspections directly to the firms' audit committees; such observations would assist audit committees in carrying out their responsibility of overseeing and evaluating their auditors.

In conclusion, while we appreciate the PCAOB's effort to enhance the quality of public company audits, we do not believe that mandatory auditor rotation is the most appropriate way to achieve this objective, as the costs and disadvantages of such a requirement would outweigh any advantages. Thank you for the opportunity to comment on the Concept Release.

Sincerely,

A handwritten signature in black ink that reads "Glenn P. Barba". The signature is written in a cursive, flowing style.

Glenn P. Barba
Vice President, Controller and Chief Accounting Officer
CMS Energy Corporation and Consumers Energy Company