Elizabeth Mora
Chief Financial Officer

December 6, 2011

Mr. J. Gordon Seymour
Secretary
PCAOB
1666 K Street N.W.
Washington, DC 20006-2803

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

Dear Mr. Seymour:

The Charles Stark Draper Laboratories, Inc. (Draper), is a 501(c)(3) nonprofit entity that derives its revenue from performing on U.S. Government contracts. We appreciate the opportunity to respond to the Concept Release dealing with Auditor Rotation.

Draper supports the PCAOB's efforts to improve the quality of audits of financial statements. However, we believe that mandatory audit firm rotation will not improve the quality of audits, add significant costs to organizations being audited by public accountants and may in fact **decrease** audit quality on an overall basis. The reasons for these conclusions are detailed in the following paragraphs.

Quality of Audits/Independence

There are numerous statements based on inspection done by the PCAOB that call into question the independence, and professional skepticism of firms audited by the PCAOB. While the concept release cites 2,800 inspections done on high risk areas and "several hundred" "audit failures', it is unclear if the cited audit failures caused a restatement. While there can be differences of opinion regarding what is competent evidential matter, it is not possible to tell how many of these failures were in fact "wrong" versus a difference in judgments.

There is also an underlying premise that auditors are not challenging management's judgments or estimates enough and thus not being independent. Our experience is that with rotation of the audit partner and senior staff, there is a process, generally effective, to transfer knowledge from one year to another and that enables the auditors to focus on high risk areas. In other words, the continuity of the firm gives them better insight into our operations and thus pose questions that deal with significant matters and not rely solely on management judgment.

Draper does not believe that audit firm rotation will solve the audit independence and quality concerns expressed in the Concept Release to any appreciable degree.

The Charles Stark Draper Laboratory, Inc.
555 Technology Square, Cambridge, Massachusetts 02139-3563
Telephone: 617-258-4308 Fax: 617-258-2626
Internet: emora@draper.com

Cost

The concept release references a GAO report from 2003 that estimated that the cost of audit firm rotation will increase in the first year by about 20%. That cost relates only to increased fees paid to the CPA firm. The larger cost is the time of Draper employees educating auditors on our business systems. With revenue less than $1B, our accounting staff is fairly small and so changes in an audit firm would require significant internal staff time to fully explain the business systems, controls, and risks of the business. While one might argue this is a "one time" cost, in a period of shrinking government procurement dollars, the impact would be truly significant. In addition, finding a firm that has expertise in both not-for-profit area and government contracting will not be easy. Staff may have to be flown in from outside the local area which would again increase audit fees possibly more than the 20% figure estimated by GAO.

Finally, during the last year or two of the audit, what incentives would an audit firm have to maintain a reasonable cost structure? They know they will not be doing the audit again and so may justify using inexperienced staff so the better trained auditors can be at other clients where they have a longer time to receive revenue. This may not be a designed cost increase but what is the outgoing firm's motivation for reducing fees in the last year of any engagement?

Cost of financial statements will rise under a mandatory auditor rotation requirement and there appears to be limited, if any, benefit to the users of financial statements since the quality will actually be lessened in the beginning years and possible in the last year of the audit.

Potential Decrease in Audit Quality

In our opinion, the first and second year a new firm does the audit, there is much to learn and understand. The likelihood of undiscovered, inadvertent errors is far greater. Additionally, our ability to retain a firm that has strong experience in our niche market (not-for-profit, government contractor) is highly uncertain. If audit firm rotation is mandatory but no other firm has the unique skills to audit a not-for-profit government contractor, how will the users of our financial statement be able to obtain a high level of assurance the financial statements are accurate?

The concept paper does not recognize the knowledge gained by a firm over time auditing the same client. Considering there are often many complex accounting issues at most organizations, there may be many discussions on how one of these complex items should be treated. Without significant knowledge of our industry, a new firm will have difficulty assessing the acceptability of the accounting for complex transactions.

There is also a concern that when the audit firm's mandatory rotation is ending, what quality of service will be provided. There will be no incentive to give priority to an organization if it is the last year being audited by the CPA firm. Obtaining new clients may be more of a focus for the

The Charles Stark Draper Laboratory, Inc.
555 Technology Square, Cambridge, Massachusetts 02139-3563
Telephone: 617-258-4308 Fax: 617-258-2626
Internet: emora@draper.com

senior audit team and thus leave potential complex transactions reviewed by less experienced managers.

Draper believes that mandatory auditor rotation will decrease audit quality; a result contrary to the PCAOB's expectation.

Summary

The concept release identifies all the studies that have been done over the years when the issue of audit firm rotation was raised. For about 35 years, the issue was raised and rejected. The current environment, with the advent of SOX, SAS # 112, audit partner rotation and increased involvement and scrutiny by the Audit Committees, leads us to believe that there is no compelling case to require mandatory audit firm rotation now or in the foreseeable future.

Draper believes that the requirement to rotate audit firms, regardless of the term of that rotation, will not lead to improved quality and independence, will increase costs by a significant amount and in the long run will decrease audit quality.

Sincerely,

Elizabeth Mora
Chief Financial Officer
Draper Laboratories

Richard White
Chair, Audit Committee
Draper Laboratories

The Charles Stark Draper Laboratory, Inc.
555 Technology Square, Cambridge, Massachusetts 02139-3563
Telephone: 617-258-4308 Fax: 617-258-2626
Internet: emora@draper.com