Flow

December 7, 2011

Public Company Accounting Oversight Board (PCAOB)
Attn: Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Rulemaking Docket Matter No. 37

To Whom It May Concern:

On behalf of the Audit Committee of Flow International Corporation ("Flow"), I appreciate the opportunity to comment on the PCAOB's Rule making Docket No. 37 Concept Release on Auditor Independence and Audit Firm Rotation.

Flow, which is a NASDAQ listed company, is a pacesetter in the development and manufacture of ultrahigh-pressure (UHP) waterjet technology, and a leading provider of robotics equipment. As the Audit Committee of Flow, we take our role in the oversight of the Company's independent audit firm very seriously and met today to discuss the pros and cons of the referenced Concept Release at length.

In summary, while we believe that there could be merit to some of the points made with respect to auditor independence and mandatory auditor rotation, overall, we do not believe that it will ultimately enhance audit quality as outlined in the Concept Release. Furthermore, we believe that the cost of requiring a mandatory auditor rotation would far outweigh any benefit.

Auditor Rotation and Enhanced Audit Quality

We have had experience with changing from one Big 4 audit firm to another. Overall, while we were pleased with our newly appointed auditors, we found that it took some time for our new auditors to understand our business model and accounting systems, which increased the likelihood that errors could remain undetected. As the tenure of our "new" auditors and their insight of our business has increased, there has been a significant enhancement in their audit plan and approach; providing us the assurance that our audit quality is in fact improving.

We also respectfully note that truncating the length of auditor-client relationship could reduce auditors' incentive to invest in learning about their clients, resulting in lower-quality audits. Further, mandatory audit firm rotation in order to enhance investors "perception of auditor independence" would put additional burden on audit partners as they attempt to familiarize themselves with an increasing number of new clients – and potentially new industries. Further, the proposed rules may increase the number of relocations or commuting

23500 64th Avenue South, Kent, Washington 98032 USA
tel 253.850.3500 | *fax* 253.813.3285 | www.flowcorp.com

to other offices to cover client assignments. While larger audit firms or practice locations may have multiple partners having specific industry expertise, smaller firms or practice locations may not have multiple partner experts in all industries.

Costs to Comply with Mandatory Rotation

From our perspective, both the direct and indirect costs of compliance with mandatory audit rotation should be carefully considered. Namely:

- Direct Financial Costs – once more, we draw on our experience to note that there is a remarkable increase in the direct financial costs associated with having a new audit firm (i.e., an entirely new audit team) familiarizing itself with a client's business environment, internal controls and financial reporting policies. This higher cost of compliance would be borne by the client and ultimately result in a reduction of shareholder value.
- Indirect Costs - there are also the potential costs associated with reduced familiarity, namely a less competent and hence, lower quality audit. Additionally, the transition period would result in an immense disruption to the client as an extraordinary amount of time and effort would need to be expended in bringing the new audit firm up to speed. Time that would be better spent on managing risks and insuring the integrity of the business.

In conclusion, we believe that mandatory auditor rotation would <u>not</u> result in improved quality of earnings and that the costs to comply with such rotation would far outweigh any benefits that might be gained from this requirement. We believe that rather than exploring mandatory rotation, reliance should be placed on the role of the Audit Committee in the oversight of the audit engagement, which includes determination of when a change in audit firms might be considered necessary.

I would be pleased to provide any additional information on the issues addressed in this letter.

Sincerely,

Richard P. Fox
Chairman of the Flow Audit Committee