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**(Filed electronically at [comments@pcaob.org](mailto:comments@pcaob.org))**

December 13, 2011

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

**Subject: PCAOB Rulemaking Docket Matter No. 37**

Dear Chairman Doty:

I appreciate the opportunity to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation. Input from audit committees, their members and directors, who represent shareholders, is very important to the PCAOB in its deliberations.

My comments are based on my current and past experiences as the audit committee chair of four medium or smaller-size public companies, all occurring since the passage of the Sarbanes Oxley Act ("SOX Act"). Prior to serving on boards of directors, I spent my entire 35-year professional career at one of the four largest CPA firms, including seven years as a partner in that firm's National Office Risk & Quality Group following 16 years as an audit partner. I also hold the National Association of Corporate Directors' Board Leadership Fellow credential and am chairman of its Colorado chapter. These experiences allow me to respond on an informed basis to the Concept Release. My comments are solely my own and should not be attributed to any organization.

I, and the vast majority of audit committee members to whom I have spoken about this subject, do not believe that mandatory audit firm rotation is needed. I base my personal opposition on a number of reasons of which the main ones are discussed in this letter.

**Mandatory auditor rotation does not improve independence.**

The Concept Release states that the PCAOB in its hundreds of inspections each year continues to find instances "in which it appears that auditors did not approach some aspect of the audit with the required independence, objectivity and professional skepticism". The Concept Release

then only offers anecdotal evidence at best that any such failures of “independence, objectivity and professional skepticism” are related to tenure of an auditor. Many of these conclusions were certainly a difference in judgment between the PCAOB inspectors and the audit firms. The PCAOB admits that its conclusions do not mean that the related financial statements are, in fact, misstated. Most studies that have been performed on the matter of auditor rotation have concluded for various reasons that mandatory auditor rotation is not recommended. Certainly, existing authority within the PCAOB allows it to take appropriate remedial actions when an audit firm is clearly failing to exercise the required “independence, objectivity and professional skepticism”, whether tenure related or not.

**Mandatory auditor rotation would significantly reduce the responsibilities of audit committees and boards of directors.**

Audit committees have changed substantially for the better since the passage of the SOX Act in 2002. I have had the opportunity to sit on both sides of the audit committee table; and, in my opinion, audit committee members in recent years take very seriously their legal and fiduciary responsibilities to shareholders and the public. The SOX Act and subsequent actions by the PCAOB significantly improved and strengthened audit committees by clearly defining their responsibilities. Those responsibilities, as they relate to an audit committee’s relationship with the external auditor, include, among others:

- Have only members who are independent according to specified criteria and who are financially literate.
- Be directly responsible for appointing, compensating, retaining and overseeing the work of the auditor, including receiving various required communications from the auditor.
- Have the authority to determine appropriate funding needed from the company to pay the company’s auditor for audit services.
- Disclose whether at least one audit committee member is considered an “audit committee financial expert” as defined in the law.
- Pre-approve the limited permissible non-audit services by the auditor after considering if those permissible services would affect the auditor’s independence.

My experience since enactment of the SOX Act is that auditors fully realize that audit committees are their “client”, not management, and that audit committees and auditors now devote significant efforts to make sure that all major issues related to accounting and auditing matters are discussed with the audit committee and its chair. I have seen no indications that an auditor’s independence is impaired in any way by a company’s management now that the SOX Act sets forth the audit committee’s expectations. The dialogue between audit committees and auditors is substantive and auditors use the audit committee as necessary when difficult matters arise between the auditors and management.

Imposing a specific length for auditor appointment would remove a major responsibility from the audit committee and would diminish and weaken the role of the audit committee. Mandatory rotation would prevent an audit committee from selecting the best audit firm for

the company if, in that audit committee's judgment, the existing audit firm is the best when considering industry experience, technical expertise, proven skepticism and cumulative knowledge of the company's operations and controls.

Based on personal experiences, finding qualified directors to serve on the already burdened audit committee is a challenge for many companies. Forcing audit committees to spend arguably unproductive time on mandatory auditor rotation and the coincident time-consuming proposal evaluation process may encourage more directors to avoid audit committee service and possibly board service in general.

**Audit quality will suffer, especially in the initial years of an auditor change.**

The auditor's institutional knowledge of a company's operations, internal controls and capabilities of accounting and reporting personnel develops over time and is lacking initially when audit firm rotation occurs. Although the current mandatory rotation of the audit partners can be problematic; the cumulative knowledge of the entire audit team mitigates the risks of those rotations to some extent. Inherent risks of an auditor "missing something" in initial audits are already naturally high; a sudden forced influx of audit firm changes could lessen investor confidence, not increase it, when the predictable numbers of resulting financial statement restatements occur.

Specialized industry expertise, especially that of complicated accounting and reporting matters, technical competence and professional skepticism, are not the same among all audit firms. This is particularly problematic when only a few audit firms are located in the city where a company is headquartered. This could be especially troublesome for smaller public companies located in those cities as non-resident audit firms may not be willing to incur the commuting costs of its staff knowing that the engagement is only for a specific number of years. Conversely, if they do, substantial additional costs will be incurred by these smaller companies.

**Audit costs, including those of smaller companies, will increase substantially.**

Other responders have made more than adequate arguments that costs will increase if there is a mandatory auditor rotation policy whether that cost is that of the audit firms, which eventually will be passed onto its clients, or the internal costs of the company changing its auditor. The Concept Release acknowledges this significant cost increase. Much of the arguments about these costs relate to large, multinational companies and their auditors; however, smaller companies, which can least afford such costs, will likely incur more costs proportionately than larger companies. Chief Financial Officers and Controllers of smaller companies will be distracted from their normal duties during the rotation periods.

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Dedicated audit committee members, as well as directors of public companies in general, agree, as I do, that the PCAOB's efforts to improve audit quality and auditor independence are

appreciated and encouraged. Nevertheless, there is no evidence that mandatory audit firm rotation accomplishes either. I believe that the PCAOB should discontinue further efforts to require auditor rotation in a specific time period.

I would be pleased to discuss any aspect of my letter should you wish to do so. I may be reached at (303) 388-5836 or [taylor\\_simonton@msn.com](mailto:taylor_simonton@msn.com).

Sincerely,

A handwritten signature in blue ink that reads "Taylor Simonton". The signature is written in a cursive, flowing style.

J. Taylor Simonton