NATIONAL ASSOCIATION OF
Manufacturers

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J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

RE: PCAOB Release no. 2011-06, *Concept Release on Auditor Independence and Audit Firm Rotation*

Dear Mr. Seymour:

The National Association of Manufacturers (NAM)—the nation's largest industrial trade association representing small and large manufacturers in every industrial sector and in all 50 states—appreciates the opportunity to comment on the *Concept Release on Auditor Independence and Audit Firm Rotation* released in August by the Public Company Accounting Oversight Board (PCAOB). A significant number of our members are public companies and mandatory firm rotation, if required, would negatively impact these companies and the quality of their audits.

NAM members agree with the PCAOB on the importance of auditor independence, objectivity and professional skepticism. At the same time, as outlined in more detail below, manufacturers believe that the current system works and have serious concerns about a mandatory audit rotation requirement. In particular, any potential benefits of requiring companies to change auditors are far outweighed by the costs.

Current Rules Are Sufficient

Manufacturers believe that there currently are adequate checks and balances in the system to ensure auditor independence, objectivity and professional skepticism. In particular, the Securities and Exchange Commission (SEC) and the PCAOB already have rules in place to preserve the independence of auditors, including required communications with audit committees, prohibitions on hiring former auditors and limitations on the types of services auditors can provide. While the PCAOB has oversight responsibility for auditors, which involves inspection and regulatory procedures, companies' independent audit committees are required to monitor the independence and quality of auditors.

Moreover, other changes in audit committee responsibilities that stemmed from enactment of the Sarbanes–Oxley Act (SOX) have strengthened the system. In particular, SOX requires audit committee pre-approval of all audit and non-audit services and requires the audit committee to engage, approve compensation and oversee the work of the independent auditor. In addition, SOX requires mandatory rotation of the lead audit partner and engagement quality review partner after five consecutive years and other audit partners after seven years, which helps foster auditor independence and audit quality. The changes required by SOX should be allowed to mature further before the drastic change discussed in the Concept Release is considered.

Potential Changes Would Cause Significant Problems

Many NAM members, particularly companies with complex, worldwide operations, are concerned about the loss of experience and the knowledge base of existing auditors and the potential impacts on audit effectiveness and quality that would result if they are required to switch auditors. Auditing large and complex companies requires a level of business and industry knowledge that is not easily obtained. Mandatory rotation of the entire audit team on an engagement would result in the complete loss of all accumulated knowledge by that team. In addition, the new auditor would need to very rapidly become familiar with the company. This transition likely would reduce audit quality.

Moreover, the costs of mandatory firm rotation would be considerable and include the audit firm's start-up and transition costs, the time needed for company personnel to educate new auditors on company specific information and the time and cost of designing requests for proposals, meeting with potential new auditors and reviewing proposals. There are a host of other potential problems that could stem from mandatory audit rotation. These include the difficulties of changing auditors in multiple countries when the company has worldwide operations (including lack of available audit firms), the complications of rotating auditors when a company is undergoing a corporate reorganization, the impact of management turnover on audit rotation and the potential lack of sufficient choice among audit firms that specialize in a particular industry.

The potential benefits of the changes proposed in the Concept Release do not outweigh the impact on audit quality, the practical difficulties for large and complex companies and the increased cost of audits.`

An Additional Regulatory Burden

On a broader note, NAM members are concerned about the imposition of another unnecessary and burdensome regulation on the manufacturing sector. NAM welcomed the Administration's initiative announced earlier this year directing agencies to review existing and proposed rules to impose the least burden on society and to maximize net benefits. NAM members believe that mandatory audit rotation as described in the Concept Release is not consistent with these goals because it would decrease the competitiveness of manufacturing in the United States and divert resources from businesses that could be better used for investment and jobs, without producing significant gains in auditor independence or audit quality that would outweigh these costs.

In summary, NAM members believe that the current rules in place are adequate to further the independence, objectivity, and professional skepticism of auditors. Conversely, requiring mandatory audit firm rotation will impose additional costs and administrative burdens on companies with little or no benefit to the quality of audits. Consequently, we strongly urge the PCAOB to withdraw the Concept Release.

Thank you for the opportunity to comment.

Sincerely,

Dorothy Coleman

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