



IntegrYS Energy Group, Inc.

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

Rulemaking Docket No. 37

IntegrYS Energy Group, Inc. respectfully submits our comments on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Auditor Independence & Audit Firm Rotation* (the "Release"). IntegrYS Energy Group is a diversified holding company with six wholly owned regulated utility subsidiaries, wholly owned nonregulated subsidiaries, and a 34% equity ownership interest in an electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois.

We appreciate the opportunity to offer our support and opinions on ways to enhance auditor independence, objectivity, and professional skepticism, including through mandatory rotation of audit firms. Auditor independence, objectivity, and professional skepticism are central to the role that auditors have in our financial system. Therefore, any proposed changes to current practice must be evaluated to determine whether the benefits obtained exceed the costs to implement.

We do not believe that mandatory audit firm rotation is the most cost-beneficial method to enhance auditor independence, objectivity, and professional skepticism, as discussed further below. The PCAOB's research was inconclusive as to the cause of audit deficiencies noted during their inspection process. The PCAOB noted that these deficiencies could be a result of a lack of auditor independence, objectivity, and professional skepticism, or they could be a result of a lack of auditor technical competence or experience. We believe more analysis is needed to determine the cause of these audit deficiencies before any costly changes are implemented.

Current Requirements Supporting Auditor Independence, Objectivity, & Professional Skepticism

The Securities and Exchange Commission (SEC) and PCAOB both maintain standards on auditor independence, objectivity, and professional skepticism, including:

- Auditor communications with audit committees regarding independence;
- Prohibitions on hiring former auditors, including cooling-off periods; and
- Prohibitions on the types of services auditors can provide, including providing tax services to those in financial reporting oversight roles

The Sarbanes-Oxley Act (SOX) also implemented additional changes to improve auditor independence, objectivity, and professional skepticism. These changes include mandatory audit partner rotation, restrictions imposed on services provided by audit firms, and related impacts on both audit quality and the quality of reported financial information. Due to mandatory audit partner rotation and normal staff turnover, the audit firm already benefits from a "fresh look" at the company's financial reporting practices. In addition to auditor turnover, management and audit committee members also change over time, providing additional insights. The passage of SOX also had a significant effect on the role of the audit committee, including a requirement to review the independence and qualifications of auditors prior to retaining the auditor and their responsibility to pre-approve all audit and non-audit services provided by the auditor.

We believe that the existing standards, the changes brought forth by SOX, and the PCAOB oversight of external auditors, all serve to encourage sufficient auditor independence, objectivity, and professional skepticism. As a result, the quality of public company-reported financial information is useful, relevant, and reliable for decision-making purposes.

Mandatory Audit Firm Rotation

We believe that any change undertaken, including mandatory audit firm rotation, must significantly enhance auditor independence, objectivity, and professional skepticism and increase audit quality in order to overcome the high costs and disruption to reporting companies. We do not believe that mandatory audit firm rotation will improve these objectives and we do not support it for the following reasons.

- Mandatory rotation removes the knowledge base and understanding of the entity's operations developed by the audit firm, which threatens audit quality and effectiveness. Knowledge of our highly regulated and specialized industry can only truly be developed over time and experience. Therefore, for a large, complex company, it is very difficult for a brand new audit team to fully understand and address all of the audit risks in the first year and still perform a quality audit.
- Mandatory rotation may decrease specialized industry experience. For the electric and natural gas utility industry, two of the largest four firms audit the majority of the companies. This kind of expertise cannot be supported without multiple audit engagements within this specialized industry. Audit firms may not be willing to absorb the costs to make the substantial investments it needs to build this expertise if they no longer have the client base in these specialized industries.
- Companies are required to use multiple firms for audit and non-audit services in order to maintain independence. In specialized industries such as ours, our choice of firms will be limited under mandatory audit rotation. We may have to sacrifice needed advisory services in order to comply with the independence and mandatory rotation requirements.

Perceived benefits arising from mandatory rotation most certainly come with a cost, a cost that we believe far outweighs the benefits. We offer the following examples of potential costs:

- Under mandatory rotation, management will be disrupted from running the Company as they incur many hours helping the audit team understand the company in order for them to perform a satisfactory audit.

- Audit fees will significantly increase under mandatory rotation. Audit firms will have to charge companies higher fees to get up to speed on client issues and risks, understand the industry, develop initial audit plans and workpapers, and to audit opening balances. Currently, audit firms typically absorb these costs in exchange for a longer-term commitment from clients.

Alternative Approaches

While we are not convinced that changes to improve auditor independence, objectivity, and professional skepticism are necessary, we offer the following alternative approaches to mandatory audit firm rotation to consider. These alternatives primarily focus on the PCAOB's reviews of auditors' work and the audit committee's role.

More frequent inspection of the auditor's work may be the most cost effective method to improve auditor independence, objectivity, and professional skepticism and may result in more measurable improvements in audit quality than mandated rotation of audit firms. The auditor peer review process could be used to ensure additional oversight of audit firms by mandating a review be done on a periodic basis. Alternatively, the PCAOB could ensure that all large issuers are inspected on at least a rotational basis.

In the Release, it was stated that there have been instances in PCAOB inspections where evidence of a bias towards supporting management's positions was identified and/or professional skepticism was not applied by the auditor. The PCAOB review procedures could be enhanced to focus on these specific areas or other areas of deficiencies noted within inspection reports. More timely disclosures of all PCAOB inspection findings to the respective audit committees could also enhance these problem areas. The public disclosure of findings may serve as an incentive to auditors to more strictly adhere to audit standards and would also provide audit committees with direct insight into the quality with which their company's audits are performed. The PCAOB could also consider requiring public disclosures of all inspection findings as this approach would provide additional information to companies, audit committees, and the user community about areas where audit quality of other audit issues were identified. This public information could also create a forum for audit firms to discuss and determine how those areas could be addressed.

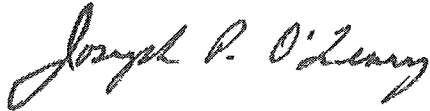
As discussed above, SOX resulted in additional responsibilities being placed on audit committees, including the responsibility to appoint and monitor the activities of the independent auditor. Our audit committee takes this responsibility very seriously and actively engages with the audit teams and thoroughly reviews their reports. The PCAOB has considered whether changes should be made to auditors' required communications to audit committees. These communications could be enhanced to provide additional details regarding the independent corroboration and evidence the audit team has evaluated related to the most significant and judgmental areas in the financial statements. If further enhancements to this process are necessary, further guidelines or requirements could be issued for audit committees or auditors to comply with. Finally, there has been significant consideration of the current composition of audit committees and the type of financial or accounting expertise represented. If there are concerns about the ability of the audit committee to perform its auditor oversight role, these discussions could be revisited.

Conclusion

Integrus Energy Group appreciates the opportunity to comment on the Release. We appreciate your consideration of this issue and our comments. While we support enhancements of the attributes of auditor independence, objectivity and professional skepticism, we feel that costs incurred to support those enhancements must be justified by the benefits. We do not believe that mandatory audit firm rotation would provide sufficient benefit to overcome the significant cost and operational issues it would create. The changes to audit committee responsibilities and qualifications and auditor requirements mandated by SOX (including mandatory partner rotation, expanded audit committee communications and prohibition on performing certain non-audit activities) are sufficient at this time to ensure that the attributes of independence, objectivity and professional skepticism are appropriately applied in performing audits. To the extent audit issues are identified in PCAOB inspections, the enforcement actions available to the PCAOB appear sufficient to address them.

Sincerely,

Integrus Energy Group, Inc.

A handwritten signature in cursive script that reads "Joseph P. O'Leary".

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer