

THE DAVEY TREE EXPERT COMPANY

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December 13, 2011

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

Request for Public Comment
Docket Matter No. 37
PCAOB Release No. 2011-006
Concept Release on Auditor Independence and Audit Firm Rotation

Dear Board Members:

The Davey Tree Expert Company is pleased to offer its comments on the “Concept Release on Auditor Independence and Audit Firm Rotation.”

The Davey Tree Expert Company and its subsidiaries provide a variety of horticultural services to our customers throughout the United States and Canada. Our revenues for 2010 approximated \$592 million. Our Residential and Commercial Services provide for the treatment, preservation, maintenance, cultivation, planting and removal of trees, shrubs and other plant life; its services also include the practices of landscaping, tree surgery, tree feeding, and tree spraying, as well as the application of fertilizers, herbicides and insecticides. Our Utility Services are principally engaged in the practice of line clearing for public utilities, including the clearing of tree growth from power lines, clearance of rights-of-way and chemical brush control. We also provide other services related to natural resource management and consulting, urban and utility forestry research and development and environmental planning. We also maintain research, technical support and laboratory diagnostic facilities.

The Davey Tree Expert Company is employee-owned. Davey Tree's common shares are registered under Section 12(g) of the Securities Exchange Act of 1934. Under Section 12(g) of the Exchange Act, a company with (a) 500 or more holders of record of a class of equity security and (b) assets in excess of \$10 million at the end of its most recent fiscal year must register that class of equity security, unless an Exchange Act registration exemption is available. Therefore, our shorthand way of describing why Davey Tree is required to report to the SEC is because Davey Tree is an “Exchange Act Section 12(g)” registrant.

This is in contrast to a registrant with securities registered under Exchange Act Section 12(b) because its securities are listed on a national securities exchange, or a company that has issued securities to the public in an offering registered under the Securities Act of 1933. Davey Tree is an “accelerated filer” as that term is defined in Exchange Act Rule 12b-2. Davey Tree files periodic reports with the SEC and the Company is subject to the provisions of the Sarbanes-Oxley Act of 2002. We are not an “issuer” and we are not a “listed company.”

Our Summarized Comments

We found the Concept Release (the “Release”) to be comprehensive in scope. In addition, we found the Supplemental Materials—the Statements on Concept Release—provided by each PCAOB Member at the Open Board Meeting to be both informative and helpful. Comments of PCAOB Members set forth below are taken from the Supplemental Materials of the Open Board Meeting.

Below you will read that we:

- ▶ Believe that the quality of audits has never been higher;
- ▶ Believe that existing audit partner rotation rules, combined with the responsibilities of the audit committee, keep the relationship and the viewpoint between the audit firm and the preparer fresh and appropriately independent;
- ▶ Suggest that the Board evaluate and better describe inspection findings and encourage the PCAOB in its efforts to analyze the root causes of adverse inspection findings; and,
- ▶ Believe the Board should consider the passage of additional time to adequately evaluate audits that include consideration of PCAOB standards and guidance recently issued before proceeding with proposals to enhance auditor independence, objectivity and professional skepticism. We note that the audit profession is presently supported by robust independence rules and standards that promote independence and auditor skepticism.

Lastly, you will read that we reject mandatory audit firm rotation. We believe that mandatory audit firm rotation would be costly, disruptive and harmful.

The Quality of Audits Has Never Been Higher

Some believe, as the Board believes, that the reforms in the Sarbanes-Oxley Act (the “Act”) “have made a significant, positive difference in the quality of public company auditing.”

We agree with the Board that its findings have led to numerous significant improvements in firm audit methodologies, processes and related quality control systems. And, we encourage the Board in its efforts to seek to understand any quality control defects that underlie inspection and enforcement findings.

It is our observation and belief that the audit professionals of today—the independent auditors—carry out their responsibilities consistent with the highest professional standards.

It is also our observation and belief that the audit committee discharges its responsibilities consistent with the best of practices in addition to its statutory and regulatory responsibilities.

And, with respect to the financial statement preparer—management—it is our experience and belief that Section 404(a) of the Act, Management’s Assessment of the Effectiveness of Internal Control over Financial Reporting, and Section 302 of the Act—“Disclosure Controls,” among other sections of the Act, have contributed greatly to the quality of financial reporting and to the quality of audits by facilitating the efforts put forth by the independent auditors in discharging their responsibilities.

In summary, we believe the quality of audits has never been higher.

Audit Partner Rotation Keeps the Viewpoint “Fresh” and, Combined with Audit Committee Oversight, Keeps the Relationship Appropriately Independent

The Commission on Auditor’s Responsibilities (established by the American Institute of Certified Public Accountants), better known as the Cohen Commission, in its 1978 report, as described in the Release, “believed that ‘the cost of mandatory rotation would be high and the benefits that financial statement users might gain would be offset by the loss of benefits that result from a continuing relationship,’ recommended against mandatory audit firm rotation. Instead, the Cohen Commission’s view was that the audit committee is in the best position to determine whether rotation is appropriate. The Cohen Commission Report also stated that ‘[m]any of the asserted advantages of rotation can be achieved if the public accounting firm systematically rotates the personnel assigned to the engagement.’”

In addition, as set forth in the Release: “The SEC staff touched on these issues in 1994, when it included a brief discussion of mandatory firm rotation in a wide-ranging report on auditor independence. The staff report responded to a congressional request for the Commission to study auditor independence and provide any recommendations for legislation or conclusions ‘regarding changes in the Commission’s rules that may be required for the protection of investors or in the public interest.’ In its report, the SEC staff indicated its then-current view ‘that the [profession’s] requirement for a periodic change in the engagement partner in charge of the audit, especially when coupled with the [profession’s] requirement for second partner reviews, provides a sufficient opportunity for bringing a fresh viewpoint to the audit without creating the significant costs and risks associated with changing accounting firms that were identified by the Cohen Commission.’ Ultimately, the report concluded that neither legislation nor ‘fundamental changes’ in the Commission rules were necessary at that time.”

Today and since 2004 under the Act, the lead audit partner and the concurring audit partner responsible for reviewing the audit are required to rotate off the audit every five years. It has been our experience that existing audit partner rotation rules provides a “fresh” viewpoint to ensure that the audit is performed consistently with high quality standards.

Given the audit committee's oversight role, and statutory and regulatory requirements, we believe that the audit committee should be free to appoint the audit firm that best meets their needs at the time they believe appropriate.

In summary, we believe that existing audit partner rotation rules, combined with the responsibilities of the audit committee, keep the relationship and the viewpoint between the audit firm and the preparer fresh and appropriately independent.

All "Audit Failures" Are Not Audit Failures: Inspection Findings Should be Better Described and We Encourage Efforts to Analyze Root Causes

The PCAOB has conducted inspections of audit engagements for more than eight years.

"Since the PCAOB began its work, [PCAOB] inspectors have identified hundreds of audit failures (emphasis added)."

We suggest that the Board evaluate the manner in which it describes and characterizes findings—referred to as "audit failures"—in its inspection and enforcement programs. By better describing and characterizing the findings, we believe that both the PCAOB and all interested parties will better understand the nature of the findings, which would contribute greatly to understanding audit quality.

Specifically, we believe that the characterization of "audit failure" should be reserved for those rare instances where the audit firm issues an incorrect report and the financial statements require restatement. Said differently, a documentation deficiency differs greatly from a "blown audit." The former may require a memorandum prepared by the independent auditor; the latter may require the preparer to recall, restate and reissue the financial statements.

PCAOB Members have indicated, the "root causes" of findings should be pursued and analyzed. We encourage the PCAOB in its efforts.

PCAOB Chairman James R. Doty indicated: "We have published summaries of what was wrong about each engagement in the public portion of our periodic inspection reports....To ascertain why those failures have occurred, we consider surrounding circumstances. We look for common themes. We try to infer root causes."

PCAOB Member Jay D. Hanson also addressed the issue: "...the Board's inspection activities have resulted in findings that include situations we define as audit failures...However, in order to determine whether such failures can be prevented by enhancing auditor independence, [the PCAOB] need[s] to take a close look at the audit failures to determine what the trends are. Is audit quality improving or declining? Is the significance of audit failures increasing or decreasing? How significant were the audit failures? How many of the failures resulted in restatement, and how many restatements were related to Fortune 500 companies, systemically important banks, banks that received TARP funds, or companies that ultimately filed for bankruptcy or were provided a bail-out. Were investors harmed?" Mr. Hanson also commented: "Most importantly, what are the 'root causes' of our findings?"

We suggest that the Board evaluate and better describe inspection findings, as mentioned above, and we encourage the PCAOB in its efforts to analyze the root causes of inspection findings.

The Passage of Additional Time is Necessary to Adequately Evaluate Audits that Reflect Recently-Issued PCAOB Standards and Guidance

One of the general questions in the Release asks: Should the Board simply defer consideration of any proposals to enhance auditor independence, objectivity and professional skepticism?

We believe that Mr. Hanson addressed the question by referring to the PCAOB's adoption, in August 2010, of the suite of eight auditing standards related to the auditor's assessment of, and response to, risk in an audit as well as other PCAOB documents; to wit: "Many of these new requirements bear directly or indirectly on auditor objectivity and professional skepticism, but their effects have not yet been reflected in the audits [the PCAOB] has inspected."

Thus, we believe the Board should consider the passage of additional time to adequately evaluate audits that include consideration of PCAOB standards and guidance recently issued before proceeding with proposals to enhance auditor independence, objectivity and professional skepticism.

We also note that the audit profession is supported by robust independence rules and standards that promote independence and auditor skepticism. PCAOB Member Daniel L. Goelzer commented "...the SEC's independence rules, and the Board's standards, are designed to promote independence and skepticism. For the minority who are inclined to cut corners, there are criminal, civil, or administrative sanctions and monetary liability in appropriate cases."

Mandatory Audit Firm Rotation Would be Costly, Disruptive and Harmful

As indicated in the Release, mandatory audit firm rotation would "risk significant cost and disruption." Both direct costs and indirect costs would be significant. We believe the audit fee increases alone—excluding all other direct costs and indirect costs—would exceed any benefits, real or perceived.

PCAOB Member Daniel L. Goelzer commented that "...cost-benefit analysis will be central to this project, although the calculus will be complex. Firm rotation would not be cheap for American business."

Thus, solely on the basis of cost-benefit considerations, we believe that mandated audit firm rotation should be rejected.

In further rejecting mandatory audit firm rotation, we were most struck by the "first, do no harm" comment of PCAOB Member Lewis H. Ferguson. Mr. Ferguson commented: "...that in this, as in all other instances where we consider regulatory change, we take seriously the Hippocratic maxim, that has application to anyone attempting to ameliorate anything, of 'first, do no harm.'"

We believe that mandatory audit firm rotation will be disruptive and harmful. Audit services are not fungible. In addition, mandatory audit firm rotation could produce unintended consequences which would be detrimental to the audit profession specifically and to the accounting profession in general.

Lastly, we encourage the Board to continue to monitor developments in jurisdictions throughout the world as they relate to auditor independence. As indicated in the Release, the European Commission earlier this year issued a Green Paper, which recommends consideration of, among other things, mandatory auditor rotation. And, while we believe that the European model is not the paradigm to be pursued, we do note that in Spain, as the Release points out, mandatory audit firm rotation was abandoned after seven years due to the increased costs incurred by issuers in connection with audit firm rotation.

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We appreciate the opportunity to present our comments. We would be pleased to address any questions.

Very truly yours,



Nicholas R. Sucic
Vice President and Controller



David E. Adante
Executive Vice President,
CFO, and Secretary