

December 13, 2011

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

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

Dear Office of the Secretary:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Concept Release on Auditor Independence and Audit Firm Rotation* ("Concept Release"). We are supportive of the Board's continuous efforts to enhance auditor independence, objectivity and skepticism with the goal of increasing audit quality and further protecting the interests of investors. This letter includes our views on the proposal set forth in the Concept Release for mandatory audit firm rotation along with our views on alternatives for enhancing auditor independence, objectivity and skepticism.

Mandatory Audit Firm Rotation

We do not support mandatory audit firm rotation, as we do not believe it will serve to advance the Board's goal of improving audit quality. Currently, there is no objective evidence that supports a correlation between audit firm tenure and audit quality nor do we believe such a correlation exists. In addition, we have concerns that the impact of such a mandate would result in unintended consequences leading to a deterioration of audit quality and a significant increase in costs. Given the uncertainty surrounding the benefits that may be achieved through mandatory firm rotation, and the magnitude of the potential unintended consequences summarized below, mandatory firm rotation would not be, in our opinion, the most efficient or effective means of bolstering auditor independence.

Potential Unintended Consequences

In our view, mandatory audit firm rotation will not yield the desired improvements to audit quality but instead result in unintended consequences, including the following:

- The learning curve and heightened audit risk inherent in all new audit engagements will lead to a significant increase in costs with potential for a decrease in audit quality. Companies who operate in complex industries and those who enter into transactions that

require the application of complex accounting rules would face a compounded increase in costs.

We anticipate strains on both company and firm resources due to the additional time associated with transitioning to a new audit firm.

- The disruption of the work force caused by continuous turnover of clients may make it increasingly difficult for firms (and the profession) to attract and retain the best talent. This would result in increased costs related to staffing, such as recruiting costs, expenses associated with relocation of personnel, severance payments and, in short, make the human element of public accounting very difficult to manage.

Enhancing Auditor Independence and Audit Quality

Under existing rules and regulations, many of which were enacted through the passage of the *Sarbanes-Oxley Act of 2002*, there are numerous measures in place that are designed to promote auditor independence, including:

- The PCAOB inspection process
- Audit committee responsibility for appointing, compensating and overseeing the audit engagement
- Mandatory rotation of lead and concurring audit partners after serving for five years
- Prohibition of certain non-audit services to public company audit clients
- Compliance of firm's internal quality control systems with PCAOB rules and standards on quality control. These internal quality control systems reinforce auditor independence, objectivity and skepticism through policies and procedures that require multiple layers of independent quality reviews and internal inspections, among other requirements

While we believe current rules and standards are effective means of assuring auditors approach the audit with the required independence, objectivity and skepticism, we support the Board's goal of continuous enhancement in this area. In our view, this goal would best be achieved by the following:

- Strengthen audit committee effectiveness. We believe audit committees are in the best position to evaluate audit quality and to assess the objectivity and skepticism applied by audit teams. In general, oversight of the audit by the audit committee has been an effective tool in promoting auditor independence. Exploring ways to further strengthen the effectiveness of audit committees would be beneficial to investors as it would be an

efficient and effective means of further enhancing audit quality and bolstering auditor independence.

- Impose mandatory annual training requirement for auditors on professional skepticism. Although professional skepticism is currently incorporated in many firm trainings, requiring annual training specifically related to exercising professional skepticism would reinforce its critical importance to an effective audit.
- Impose further restrictions on non-audit services to prohibit all non-audit services for public company audit clients except for current permitted tax services and audit-related services.

We appreciate the opportunity to express our views for the Board's consideration. If you have any questions or would like to discuss these matters further, please contact Steve Rafferty or Doug Bennett at 417.831.7283, or by email at srafferty@bkd.com or dbennett@bkd.com.

Sincerely,

BKD, LLP

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