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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
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:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) "Concept Release on Auditor Independence and Audit Firm Rotation" (the "Concept Release").

*Overall Comments*
Our firm is committed to achieving the highest level of independence, objectivity, and professional skepticism which are critical to the performance of public company audits. The concept of mandatory audit firm rotation discussed in the Concept Release will not achieve improvement in independence, objectivity and professional skepticism. We also have concerns with other concepts presented in the Concept Release.

We share the goal of improving audit quality. However, there is no indication that mandatory firm rotation will improve audit quality, rather there is evidence it could actually reduce audit quality. Mandatory firm rotation would introduce significant new risks, is more likely to jeopardize audit quality, and may create unintended consequences. It is vital that the Board carefully consider these consequences and their impact on public companies, audit committees, audit firms, and investors before further considering the concept of mandatory firm rotation. There are many attributes that drive audit quality, including firm quality control systems driven by audit and quality control standards, a high level of audit committee engagement, and the competencies of auditor and issuer personnel.

The Concept Release also acknowledges that there has been no demonstration that objectivity and professional skepticism are impaired by the tenure of the audit engagement. The Concept Release does not refer to any research demonstrating that longer audit firm tenure impairs auditor independence, objectivity, or professional skepticism. Mandatory firm rotation should not be pursued.

*Sarbanes-Oxley Act*
The Sarbanes-Oxley Act (SOX) created a number of changes to improve the accuracy and reliability of issuer financial statements and disclosures. SOX mandated independence requirements such as the requirement for partner rotation to occur after five years. The existing partner rotation requirements are effective and provide additional auditor objectivity and

professional skepticism.  While partner rotation does create some loss of knowledge when partner rotation occurs, it does not have the severe disruption and loss of institutional knowledge which a mandatory firm rotation requirement would have.  It is not clear how the disruption and loss of knowledge would be managed if there were both a requirement for audit firm rotation and partner rotation.

SOX introduced a new process for inspections of firms conducting public company audits.  We believe the inspection process has been a significant factor in strengthening the audit practice of annually inspected firms and in particular has enhanced the firms' ability to take appropriate action when needed to deal with difficult issues.

*Audit Committees*
Audit committees have an essential role in corporate governance.  The audit committee oversees the financial reporting process, effectiveness of ICFR, and the performance and independence of the independent auditor.  The audit committee represents the interests of investors in the entity as well as other stakeholders.

The independent audit committee oversees the hiring and retention of the most appropriate independent auditor for the entity, as an agent representing investors and other stakeholders of the entity.  Auditor independence monitoring by audit committees has been improved in recent years as a result of audit committee oversight on non-audit services.  Regulation that would eliminate the audit committee's right to determine when an entity should change auditors would be contrary to the spirit of SOX, and would weaken corporate governance.  We believe that the role of the audit committee should be supported and strengthened.

Mandatory rotation of the existing auditor would reduce choice available to the audit committee, and would eliminate from the audit committee's consideration the existing firm, which in fact may be the best choice as that entity's auditor.  This would be an unnecessary restriction on audit committee choice of audit firms.  That lack of choice could be made worse by other factors, which could result in selection of a firm that was not the best choice to meet the needs of the entity.

Mandatory audit firm rotation would undermine the role of the audit committee.

*Mandatory Firm Rotation Does Not Improve Audit Quality*
The Concept Release contains a presumption that deficiencies in audit quality might somehow be remedied by mandatory firm rotation.  But there is no evidence that mandatory firm rotation would result in improvement in audit quality.  Academic studies indicate that long tenured audits are accompanied by higher quality, and that shorter periods of auditor engagement result in lower quality.  We also have concerns that mandatory firm rotation could have unintended consequences that further reduce audit quality and increase costs.

An auditor's knowledge of a company and its operations is important in efficiently performing an effective audit.  Institutional knowledge and experience accumulates over time, and as an audit firm's knowledge increases over time, the auditor's ability to efficiently perform an effective audit improves.  Mandatory firm rotation would periodically eliminate that institutional accumulated knowledge and experience.  Mandated rotation would also significantly increase the number of audit firm transitions, which would strain issuer, audit committee, and audit firm resources.

*Cost and Concentration*

Mandatory firm rotation will create significant unnecessary costs and potential unintended consequences that will negatively impact audit firms as well as issuers and their audit committees. As pointed out earlier, it would also likely reduce audit quality. The Concept Release notes that the Government Accountability Office's "Required Study on the Potential Effects of Mandatory Audit Firm Rotation" concluded that mandatory firm rotation could result in significant increased audit costs. In addition to increased audit costs, there are other costs that will be incurred, such as the issuer providing significant resources to identifying and hiring a new audit firm that has the requisite expertise, and then having to devote significant time to educate a new audit firm on the company's business and operations, internal control, financial reporting systems, and other matters so the auditor has the requisite knowledge to perform a quality audit. There would also be significant additional costs incurred by audit firms.

A regulatory mandate that issuers should have mandatory firm rotation would have significant costly consequences for all parties associated with issuers. A comprehensive cost-benefit impact analysis should be performed prior to further consideration of any regulation that would create the significant additional costs that mandatory audit firm rotation would require.

The additional costs required by mandatory firm rotation would be disproportionately borne by smaller entities. Those issuers have fewer personnel who can provide the extensive assistance required to introduce a new auditor to an entity, and respond to inquiries. If mandatory audit firm rotation is to be pursued, the Board should consider reducing the regulatory burden on smaller public companies by scoping such entities out of any mandatory rotation requirement, similar to exceptions provided for the audits of internal control over financial reporting.

Mandatory audit firm rotation could lead to increased concentration of the audit market. This could result from a decreased number of audit firms competing for engagements as some audit firms with small issuer audit practices may determine it to be in their best interest to stop serving that market, and instead focus on private company audits. That change could be prompted by firms not being able to absorb the additional costs that mandatory firm rotation would create. This would also have a detrimental impact on the composition of the audit market.

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Crowe Horwath LLP supports the Board's efforts to improve audit and quality control standards. We hope that our comments and observations will assist the Board in its consideration of the matters in the Concept Release.

Cordially,

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