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# CITY of LARGO



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LARGO, FLORIDA EST. 1905  
FINANCE DEPARTMENT

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December 14, 2011

Office of the Secretary, PCAOB  
1666 K Street,  
N.W., Washington, D.C. 20006-2803.  
Re: PCAOB Rulemaking Docket Matter No. 37

Dear Board Members,

I would like to comment on the proposal for mandatory auditor rotation.

Many local governments have required mandatory auditor rotation for years. The City of Largo has rotated its auditors every five or six years for over 20 years. I respectfully suggest that the Board survey local government finance officers and auditors about their experience with mandatory auditor rotation.

I believe most professionals with actual auditor rotation experience would cite reduced audit quality as a major detriment to auditor rotation, especially in the first year or two of an engagement, and even in the final year. The benefit of providing, "fresh eyes", can be achieved by rotating engagement partners, managers and audit staff, which, unfortunately, occurs too frequently now in public accounting.

An auditor's bias toward management or a lack of professional skepticism is likely not caused by the length of an auditor's relationship with the client. I believe the main cause is, frankly, the money.

How does an audit firm maintain a sense of independence and objectivity when they are paid by the same company they are auditing? No other profession is required to operate with such a conflicting set of responsibilities and incentives, where fulfilling their professional responsibility to protect the public, may jeopardize their business relationship with their client.

As mentioned in the Board's Concept Release, there are as many incentives for an auditor to want to maintain an ongoing business relationship with a client in the first year of an engagement as there are after many years; namely, the audit fees. Therefore, focusing on auditor rotation is a red herring.

Focusing on auditor tenure and mandatory rotation will detract from conducting meaningful discussions on the main problem, which is, audit fees. And, if mandatory auditor rotation is required, it will only provide a false, temporary sense of accomplishment, which will delay implementation of a meaningful improvement.

I agree with the Concept Release's suggestion of limiting fees earned by a firm from a single client; however, I believe a 10% limit is too high to be effective. For a fee limit to be truly immaterial, and thus effective, I believe the limit must be at most, 5% of firm's revenue, and preferably even lower.

The potential of losing even 5% of a firm's revenue could still foster a bias toward management and cloud the professional judgment of many auditors. However, limiting the fees earned from any single client, by whatever amount possible, will begin to address the main factor that can impair an auditor's independence and objectivity.

Sincerely,

*Kim Adams*

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City of Largo, Florida