From:	Mark Bates
To:	Comments
Subject:	Mandatory Audit Rotation
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To the PCAOB:

If one is looking to improve the quality of the audit, audit rotation may or may not improve quality. Your organization undoubtedly received comments from observers who believe rotation would improve independence, and thus the inference that greater independence would improve audit quality. The AICPA, and others, will have commented that rotation hinders audit quality.

My suggestion is for the PCAOB to consider requiring each audit engagement of a public company to undergo specific peer review every three, five or seven years, with the peer review organization having the option of reviewing prior year workpapers on a specific audit issue for the each year since the last peer review. Such peer review results should be transparent to the public in some manner. I would phase in this peer review requirement based on some criteria of size, whether market capitalization, total revenues, or similar measure, creating a relatively level amount of peer review each year across the markets. The benefits to this approach are as follows:

1) Better Audit Firm Judgement - In my opinion, no accounting firm would be likely to cave to management pressure on a highly questionable accounting position knowing fully well a peer firm will be reviewing their work, and questioning their judgement, in the near future. My understanding is that currently when a firm undergoes peer review, generally each partner generally only has one client selected, and unless the partner works year-round on a single large public company client, public companies may go many years without such a specific client engagement being peer reviewed, and then the report is not transparent.

2) Less Cost to Public Companies and Audit Firms - Changing auditors is a major disruption to an organization that must go through the hassle of a RFP and bid process, then educate the new auditor team on business practices. This costs managers a great deal of time, and increases the cost of the audit because of the "first-time-through" costs (to the extent such costs are billed). Rotation would also require audit firms to be constantly bidding for every rotating audit, increasing expenses, and loss of profits to the extent such "first-time-through" costs are not fully billed to new clients. When NOT fully billed, first-time-through process can be less thorough and complete to minimize the lost billings that the audit staff would otherwise be generating on other clients.

Obviously, I am just a CPA (inactive, no less), so my suggestion does not carry the weight of the comments received from the AICPA. On the other hand, I have no conflicts of interest, as do the audit firms and AICPA. Further, having worked for ten plus years in Public Accounting with a Big 8 firm, I was exposed to mandatory audit rotation in the State of Ohio as a part of the Auditor of State's mandatory five-year rotation for municpal audits. I was active in presenting audit proposals to prospective clients, most of which were not a result of mandatory rotations, and many of which were to publicly traded companies. I was

audit manager on a handful of such publicly traded companies. Then, in private industry, I have served as a CFO/CAO for twenty years, I have engaged audit firms with long tenure, but I have also solicited audit bids and changed auditors as a result of those bids. I currently serve as Associate Vice President for Finance at Oberlin College, with financial and tax reporting responsibilities. Thus, I believe I have sufficient first-hand knowledge and experience with regard to audit tenure, mandatory audit rotation, and the impact of rotation on both an audit firm and an organization that is changing auditors.

Best,

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