



Office of the Secretary
PCAOB
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Stockholm 19th December 2011

PCAOB Rulemaking Docket matter No. 37: Concept release on Auditor Independence and Audit Firm Rotation

Far, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the *Concept Release on Auditor Independence and Audit Firm Rotation*.

Far's general remarks

Far has considered the arguments for and against audit firm rotation as presented in the Concept Release. In Far's response to the *European Commission's Green Paper on Audit Policy: Lessons from the Crisis* dated December 8, 2010, Far's views on compulsory rotation in audit firms were presented.

Far generally supports activities aimed at enhancing auditors' independence as well as audit quality. Far believes that even though it initially may seem appropriate to introduce audit firm rotation in order to strengthen auditors' independence, such an action must be considered in light of the requirements already introduced regarding independence. From Far's perspective, in Sweden independence is highly regulated by national law and by applying IFAC's Code of Ethics. Far assumes that the US regulations on independence are at least as demanding. Far's view is that a strict regulation of which services an audit firm can perform is preferable to compulsory audit firm rotation.

Regarding the familiarity threat that may develop under many years' relation between the audit client's auditor and its employees, it should be considered that the threat is not only affected by rotation of audit firms, but also by rotation of individuals within the company. Far believes that too little attention has been given to the effect of the latter situation. In many situations the rotation of individuals within a company is in itself a factor which reduces the risk of a familiarity threat.

Even if compulsory audit firm rotation should have an effect on the auditor's independence, Far is very concerned that such rotation would threaten the quality of the audit. It takes considerable time for an audit team to build up their knowledge of a business in order to perform an audit of high quality. In Far's eyes the risks with a lower audit quality surely outweigh an eventual advantage in terms of independence. Also, Far is not aware of any studies that provide evidence that compulsory audit firm rotation would enhance the auditor's independence.

If a legislated audit firm rotation were to coincide with, for example a change of management, the entity would simultaneously lose a considerable amount of the knowledge of an entity that has been accumulated with both the audit team and the management team. The risk that such a situation can occur should be carefully considered since it could severely harm the entity.



In summary, Far strongly claims that, instead of introducing compulsory audit firm rotation, a much better way to enhance the perception of an auditor's independence is to strengthen the shareholders' power in the process of appointing an auditor.

Finally, Far wishes to point out the importance of harmonized audit rules on the international marketplace. If the PCAOB is to proceed with compulsory rotation of audit firms in the US, it should be noted that different rotation periods are suggested in different parts of the world. PCAOB is suggesting a 10 years or longer rotation period. Simultaneously, the European Commission is suggesting a rotation period of 6 years. Far strongly recommends that initiatives worldwide with regard to audit firm rotation are coordinated to ensure an international harmonization, and if audit firm rotation is introduced it would benefit audit quality if the rotation period is at least 10 years.

Far

A handwritten signature in blue ink, appearing to read 'Anna-Clara af Ekenstam'.

Anna-Clara af Ekenstam
Chairman of Far's section for large entities

A handwritten signature in blue ink, appearing to read 'Dan Brännström'.

Dan Brännström
Secretary General