December 10, 2011

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

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

Dear Mr. Seymour:

I was with Ernst & Young for 38 years, including 27 years as a partner in the Assurance Practice, serving publicly held companies primarily in the airline and retail industries. For the past three years I have been on the Board of Directors and Chairman of the Audit Committee of the Vitamin Shoppe, Inc., a publicly held company. Accordingly, my perspective regarding auditor independence, objectivity, and professional skepticism comes from both ends of the spectrum, i. e. as an audit professional and as someone responsible for ensuring that the audit firm and audit professionals serving Vitamin Shoppe, Inc. are independent, objective and professionally skeptical.

From my personal experience, I believe that audit quality and the application of objectivity and professional skepticism by auditors has improved significantly since 2002 with the passage of the Sarbanes-Oxley Act (the Act) and the creation of the Public Company Accounting Oversight Board (PCAOB). Having attended in excess of 100 audit committee meetings over a 27 year period and having conducted the audit committee meetings of Vitamin Shoppe, Inc. during the past three years, I have seen significant changes in audit committee performance and the rigor with which the audit process and auditor relationship is overseen and evaluated by audit committees.

A mandatory audit firm rotation model would not only give rise to substantial costs and disruptions at both audit firms and companies, but would also, I believe, undermine sound corporate governance and impair audit quality. The requirements of the Act, particularly with regard to the audit committee, made audit committees responsible for a company's relationship with the auditor and the audit process. This was a key reform that has significantly improved independence of auditors and overall audit quality. I believe audit committees are best suited to select and oversee auditors. Accordingly, the PCAOB should be looking to further strengthen audit committees, rather than undermine them, which would be the end result of a policy of mandatory audit firm rotation.

Mandatory Audit Firm Rotation

In my view, mandatory audit firm rotation will not promote auditor skepticism. I believe that, in general, auditors approach their responsibilities with a strong sense of professional skepticism. Moreover, there is no evidence that I am aware to suggest that mandatory firm rotation will improve audit quality and increase professional skepticism. Nor is there evidence that links audit firm tenure to audit failures or lack of auditor independence, objectivity and professional skepticism. The current SEC requirement that key audit partners rotate off audit engagements every five years and avoid association with the audited company for another five years has strengthened audit independence, objectivity, and professional skepticism. This requirement coupled with the periodic turnover of company finance teams and audit committees tends to keep the relationship between individual auditors and companies dynamic and fresh.

Mandatory audit firm rotation has, in my opinion, significant short-term and long-term costs and implications, including the following:

Limits the authority of the audit committee to carry out certain of its responsibilities The audit committee has the responsibility for evaluating the auditor's performance and determining whether and when a change in auditor would be in the best interest of shareholders. The audit committee is well positioned to make this judgment because it is aware of the audit needs of the company. It works closely with the audit firm and can evaluate it quality, the senior personnel assigned to the engagement, as well as the firm's application of independence, objectivity, and professional skepticism. As chairman of an audit committee, I would dismiss an audit firm if I determined that the auditor lacked these traits. A mandatory rotation requirement would override the audit committee's knowledge, perspective, and statutory responsibility. In addition, mandatory firm rotation would mean that audit committees would have fewer options from which to choose the audit firm that best meets the needs of the company. Audit firms can have different skill sets, industry expertise, and geographical reach, all of which are important considerations for an audit committee in selecting an independent auditor. Mandatory firm rotation would automatically disqualify the current audit firm from the pool of candidates, thereby restricting the audit committee's ability to choose the firm it believes is best suited for the company's shareholders. To be effective, audit committees should continue to have clear authority to oversee the audit process and to appoint, compensate, and remove the auditor.

Could diminish audit quality Due to the learning curve audit firms face on new engagements, mandatory audit firm rotation could reduce both the effectiveness and efficiency of an audit, while at the same time present a higher level of risk to a company. Audit quality may actually suffer in the early years of an engagement as a new auditor becomes familiar with a company's business, financial reporting and related controls and processes. Audit risk could also be higher at the end of an audit rotation period as well if companies are distracted with planning for the transition to the new audit firm and the audit firm being replaced is focused on the next post-rotation assignment. All transitions have their share of cost, disruption, and risk. In each new auditor-client relationship, the auditor and the company incur costs getting up to speed. These costs escalate when companies have many locations and operate in many different countries.

Results in the loss of institutional knowledge The loss of institutional knowledge and deep level of familiarity with a company could eliminate efficiencies developed over time, increase costs, and disrupt management due to the time and expense required to select and onboard a new auditor. A significant advantage of longer audit firm tenure is that the auditor attains significant knowledge and understanding of a company over time, as well as an awareness of its risks. In my opinion, the institutional knowledge and capital built up over time leads to improved audit quality, rather than an inappropriate willingness to accept management positions in order to avoid displeasing management or stemming from a level of coziness between the firm and management. In addition, I believe that the institutional knowledge that audit firm gains in long-term audit relationships can enhance professional skepticism as it helps the audit firm to identify broader issues and emerging risks.

Mandatory Retendering

I do not believe that mandatory retendering addresses any of the perceived issues with auditor independence, objectivity, and professional skepticism. Mandatory retendering would take some of the decision-making responsibility with respect to the appointment of auditors away from the audit committee. My audit committee considers annually whether the independent audit firm should be reappointed or request proposals from other audit firms. Replacing this practice with a regulatory mandate would be inconsistent with the basic principles of corporate governance. In addition, similar to mandatory audit firm rotation, mandatory retendering could result in audit firms having to continuously market their capabilities, which could divert the focus of their audit professionals. In addition, it could be costly and disruptive for both companies and audit firms and could consume management and audit committee resources.

Concluding Remarks

In my view, there is no compelling evidence that the many negative effects of mandatory audit firm rotation on corporate governance and on audit firms would be outweighed by any improvements in audit quality. Accordingly, mandatory firm rotation should only be considered after a comprehensive cost-benefit evaluation. Rather than imposing mandatory audit firm rotation, the PCAOB should work toward strengthening the interrelationships among audit committees, auditors, audit oversight authorities, and shareholders. The role of the audit committee should be enhanced, not undermined.

Sincerely,

Michael Becker

Michael Becker