Atlas Pipeline

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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

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

Dear Board Members,

As Chief Financial Officer and Chief Accounting Officer of Atlas Pipeline Partners, L.P., a NYSE-listed company, I am writing in response to the Public Company Accounting Oversight Board's ("PCAOB") request for comments on their concept release on auditor independence and audit firm rotation.

We at Atlas Pipeline Partners, L.P. read the Concept Release with great interest noting the various arguments for and against mandatory audit firm rotation. After careful consideration of all the information presented, we find ourselves opposed to mandatory audit firm rotation. We understand inspectors continue to find deficiencies in important areas, which seem to call into question auditors' independence, objectivity and professional skepticism. However, the factors described below clearly do not support the notion of moving towards mandatory audit firm rotation.

- The Government Accountability Office ("GAO") concluded, as part of their 2003 study, *Public Accounting Firms: Required Study of the Potential Effects of Mandatory Audit Firm Rotation* (the "GAO study"), that (1) mandatory audit firm rotation may not be the most efficient way to enhance auditor independence; (2) the benefits of mandatory firm rotation are not certain; and (3) more experience with the effects of the Sarbanes Oxley Act's other requirements is needed.[1] Furthermore, the GAO study revealed that most of the public accounting firms and Fortune 1000 companies and their audit committee chairs surveyed believe either the audit firm partner rotation requirements of the Sarbanes-Oxley Act as implemented by the SEC, or those partner rotation requirements coupled with other requirements of the Sarbanes-Oxley Act that concern auditor independence and audit quality, will sufficiently achieve the benefits of mandatory audit firm rotation when fully implemented.[2] Since this study was performed, there has yet to be definitive evidence that mandatory audit firm rotation will work to improve audit quality and reduce the risk of audit failure. Until a clear link can be established, we do not believe this is a viable alternative.
- In the Concept Release, the PCAOB states that "although the PCAOB's 2010 inspection reporting cycle is not yet complete, so far PCAOB inspectors have continued to identify significant deficiencies related to the valuation of complex financial instruments, inappropriate use of substantive analytical procedures, reliance on entity level controls without adequate evaluation of whether those processes actually function as effective controls, and several other issues."[3] We agree with the PCAOB that in addition to the fact that many of these issues (i.e. valuation of financial instruments) are complex in nature, the Board's inspections are not random and may be looking at the most error-prone situations. In order to conclude on the population of audits being

[1] Barbara Arel, Richard G. Brody, and Kurt Pany, "Audit Firm Rotation and Audit Quality", The CPA Journal Online, January 2005, pgs. 1-8
[2] United States Government Accountability Office, "Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation", November 2003, pg. 5
[3] PCAOB Release No. 2011-006, "Concept Release on Auditor Independence and Audit Firm Rotation", August 16, 2011, pg. 6

performed, one would think a random and broader sample of audits needs to be inspected to draw the conclusions necessary to enforce mandatory audit firm rotation. Until such time, evidence is lacking to support mandatory audit firm rotation.

- The GAO study also indicated auditor tenure does not affect the manner in which auditors deal with material financial reporting issues. The GAO study found almost all public accounting firms and *Fortune 1000* public companies surveyed did not believe long-term auditor relationships increase the risk of audit failures. The groups surveyed also indicated the costs of mandatory audit firm rotation will likely exceed the benefits.[4] We believe there would be a significant rise in audit costs due to mandatory audit firm rotation. Each time an organization would be mandated to change audit firms, significant costs would be incurred from the new audit firm, as a result of additional time billed to learn the business and industry as well as gain familiarity with the client. As a result, all the client-specific knowledge accumulated in prior years with the predecessor auditor would be lost. In addition, cost would arise from management's need to provide supporting documentation and follow-up discussion regarding significant accounting decisions concluded upon in prior years, which would cause resources to be diverted from on-going normal accounting, finance, and financial reporting operations. This would exacerbate mid-cap entities, such as ours, where management's resources are already fully committed to the quarterly and annual filing requirements.
- The American Institute of Certified Public Accountants has opposed mandatory audit firm rotation, arguing it will increase rather than decrease the number of audit failures and citing statistics that indicate higher than average audit-failure rates in the first years of an audit relationship.[5] We believe the transition years of changing audit firms would lead to inefficiencies and decreased audit quality. We have concerns pertaining to the last year of an audit in which the predecessor audit firm would be handing over the engagement to a new audit firm. Without the incentive of a continued relationship, there is concern that inefficiencies, delays and missed deadlines would arise. Specifically, experienced and capable engagement management may be reallocated to new clients. We have similar concerns in the first and second years of audits performed by the incoming firm as the risk of error would increase in these initial years when the successor audit firm is becoming familiar with the organization, its processes and industry. The steep learning curve would continually put audit quality at risk. We believe there are too many complexities within the client/auditor relationship for mandatory audit firm rotation to be efficient and effective. Many organizations select their auditors based on requisite expertise needed in a particular industry and the ability to staff the audit engagement appropriately, both within the United States and abroad. We do not view the public accounting firms as commodities, and our audit committee, in conjunction with management, has selected our audit firm with a specific intent and purpose. A mandatory rotation system may reduce audit quality and increase the risk of audit failure as we may be forced to select an audit firm with less expertise in our industry or at a substantially higher cost.

In light of the concerns expressed above, we believe current regulations in place achieve the objectives of ensuring auditor independence, objectivity and professional skepticism. Currently, the PCAOB performs inspections of audit firms and these audit firms are required by Generally Accepted Auditing Standards ("GAAS") to vary the nature, timing and extent of audit procedures. In addition to this, the audit partner is required to rotate every five years, which in almost all cases, achieves the same objective as mandatory audit firm rotation since personal relationships are hindered by this rotation. Finally, Sec. 301 of the Sarbanes-Oxley Act of 2002 states "the audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of

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[4] Barbara Arel, Richard G. Brody, and Kurt Pany, "Audit Firm Rotation and Audit Quality", The CPA Journal Online, January 2005, pgs. 1-8

[5] Barbara Arel, Richard G. Brody, and Kurt Pany, "Audit Firm Rotation and Audit Quality", The CPA Journal Online, January 2005, pgs. 1-8

disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee." We believe the audit committee is the appropriate body to determine the need for audit firm rotation and we do not see the need to modify the responsibilities of audit committees. Atlas Pipeline Partners, L.P.'s Audit Committee Charter specifically includes language that states the audit committee:

- Is responsible for appointing the Partnership's independent auditors and exercising oversight thereof. This also includes reviewing and evaluating the lead partner of the independent auditors;
- Shall monitor the integrity and ensure the transparency of the Partnership's financial reporting processes and systems of internal controls regarding finance, accounting and regulatory compliance;
- Shall ensure the qualifications and independence and monitor the performance of the Partnership's independent auditors and internal auditing function. This includes reviewing the independent auditors' audit scope and approach, including coordination, if any, of audit effort with internal audit;
- Shall provide an avenue of communication among its independent auditors, management, the internal auditing department and the Board.
- Shall review and evaluate the lead partner of the independent auditors and ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.
- Shall review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors. This includes reviewing reports describing any material issues raised by the most recent internal quality-control reviews and peer reviews of the independent auditor, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and to review all relationships between the independent auditor and the company in order to assess the auditor's independence.
- Shall institute and oversee special investigations as needed.

In summary, we believe the current regulations in place along with appropriate audit committee oversight are sufficient to achieve the desired objectives of mandatory audit firm rotation. Companies and senior management are taking a more active role in oversight of their processes in place to prepare accurate financial statements and prevent misstatements due to error or fraud. Based on the factors outlined above, we believe the costs of implementing mandatory audit firm rotation significantly outweigh the benefits of this proposed Concept Release. We sincerely hope you reconsider this proposal until further experience and research introduce evidence that proves otherwise.

Sincerely,

Robert W. Karlovich, III
Chief Financial Officer and Chief Accounting Officer
Atlas Pipeline Partners, L.P.