From:	larry henry
To:	Comments
Cc:	Intelligent Investor
Subject:	Required auditor rotation
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This requirement of rotating public auditors is one of the most important and beneficial changes ever considered by any auditing authority.
Where there is a new audit firm, there is always a fresh look at things, company controls. personnel, conservative vs aggressive
accounting, etc. However when the audit firm has been doing the audit for a long period, there is much closer relationship, from the top of both
entities down to lower level personnel. Call it a "family" attitude. Even if the audit partner changes, there is this culture that exists, don't shake things up too much.

Suppose the audit firm and corporation have a long relationship and a new partner rotates to this corporation. Is he or she going to provide a really fresh look at things?
Even if the new audit partner has concerns, there is great baggage from rocking the boat. Specifically, how will these concerns, if expressed openly, be viewed by
the prior audit partners? Does rocking the boat threaten the loss of revenues from this client? From the standpoint of the audit firm, this long term client relationship might viewed as a wonderful "annuity." What audit partner wants to take the chance of losing such a valuable asset as an annuity?

These long-term relationships can create other problems, e.g., "expansionary accounting issues." Suppose an audit partner has concerns but in prior years these have
been treated as immaterial, etc. There may be a tendency by the corporation to modestly grow these issues to maximize earnings. Over time these
issues can grow very large. But in any one year the issue may be smaller. The audit partner doesn't see any damage done by these issues and kind of
looks the other way. When a new partner rotates in, there will pressure on him or her to maintain the silence, even though the magnitude of the issues
has become very material.

How do we achieve a fresh look at the accounting, controls, personnel, conservative vs aggressive accounting? Changing audit firms is the clearest, most direct solution. Corporations and audit firms will oppose this requirement because of the required "FRESH LOOK." When a new audit firm does the audit for first time,
all aspects are reviewed. There is no existing, long term relationship to "paste over" the issues. The issues are what they are. Since audit rotations are
required, the audit firm can no longer view this relationship as an annuity. Each audit stands on its own merits.

I urge you to pass this requirement.

On the other hand I also urge you to look again at huge requirements of Sarbaines-Oxley. In my opinion this requirement of auditor rotation is a much stronger
tool for honest financial reporting than anything in Sarbanes-Oxley. Moreover a review and reduction in such requirements would ameliorate the corporate reaction to the audit rotation requirement.

I am a former CFO of a Fortune 500 company, Envirodyne Industries, Inc. and also a former employee of Peat Marwick from many years ago.
I spent most of my life in the accounting and financial world of corporate America and I have also taught accounting and finance courses
at a local university, Benedictine University. I have been an active investor for many years. I see both sides of the arguments and strongly recommend that
you move ahead with this proposal.

The Wall Street Journal article on this issue indicated that 94% of responses opposed this proposal. This is not surprising since virtually all audit and corporate people will
certainly oppose it (for their self-interest). I expected more support from investors. However most investors haven't worked in CPA firms, as I have. I have enormous respect for auditors.
However you at the PCAOB need to remember human nature: When confronted with an accounting issue, an audit partner, like any human, maybe swayed by
the possible loss of a paycheck or profit-sharing. Knowing that the audit relationship has a limited term will strengthen the resolve of an audit partner.

The requirement of audit rotation could have an unintended good consequence: Smaller CPA firms might be able to expand, picking up larger clients. Increased competition should be healthy for the industry and perhaps lower fees.

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p.s. Whenever I receive proxy materials, I always vote to reject retention of the auditors, reflecting the rationale above.