From:	Kurt Erikson
To:	Baumann, Martin
Cc:	Gurbutt, Michael; Lesser, Jacob
Subject:	Potential Empirical Evidence to Support PCAOB Rel. No. 2011-006. Docket Matter No. 37
Date:	Saturday, March 31, 2012 7:20:39 PM

Dear Mr. Baumann,

I strongly approve of the mandatory audit rotation in order to prevent companies and auditors from "Going Native" with their clients I remember vividly watching the news of an old lady who lost her retirement funds in Enron. She gambled everything to make ends meet, and lost everything in a "Blue Chip" company. Can we identify who made that "Blue Chip" call and sealed her fate?

Yale professor, Irving Janis, identified the risk of ***GroupThink*** *(I.e. Going Native)* as the key management risk objective of President Kennedy which prevented a war with Russia over Cuba, but whose lack of risk management had led years before to the *Bay of Pigs* Invasion. The mandatory rotation would help mitigate the risk of "nuclear meltdowns" by bringing in new brooms ("New brooms sweep better than old one.") to mitigate *long-term bonding* of those where the *final responsibility* lay . Previous meltdowns caused by auditor-client GroupThink have wiped out the retirement funds of old people--people who do not have the youth and strength to start over again. What happens to them?

A closely related phenomenon to *GroupThink* which tangents on **independence** is the ***Stockholm Syndrome***. Because of the *dependency relationship* Patty Hearst had with her captors, she sympathized with them to the point of joining them. In her eyes, her existence depended on it.

I agree with most of the comments about reduced quality, higher audit fees, and the need for more audit time in the initial year's engagement. Perhaps an Expected Present Value analysis of losses (e.g. Enron, Worldcom....) versus the incremental costs of first year audits could put a number on just "How Bad" the cost is to society. By putting a measurement number (Expected PV) on the auditor rotation, we can minimize the emotions and the extrapolating politics in the debate.

One way to reduce the learning curve in a rotation and its related cost may be to require in the initial year a mandatory (paid-by-the-client) hand-off between old and new auditors, using as a basis the previous year's auditor work papers (a complete copy should be given to the new auditors). This hand-off will reduce the "learning curve" cost just as it does **within** an audit firm between old and new auditors. The disadvantage is, the new auditors will not see the client's situation with *entirely* “new eyes". I hope though this disadvantage would be offset by a different audit firm culture, good, but broad, audit planning *before* the hand-over, and the new auditors' desire to "find mistakes", especially when they relate to a competitor.

Also, only material mistakes should be reported to the PCAOB in order to prevent the feeling of "ratting on the other guy" by the new reporting auditor. However, the previous auditors should be able to "learn" from ***all*** the findings of the new auditors related to the previous year. This friendly quality feedback loop between"colleagues" is normally appreciated. It should never be allowed to become public, even in discovery, as an incentive to the new auditor to be honest and open and as a learning tool and quality-control instrument for the receiving auditor.

I understand that there is to-date little empirical evidence which directly supports the auditor rotation proposal. I believe though the common sense of new brooms and the above intensely studied social behaviors of ***GroupThink*** and the ***Stockholm Syndrome*** do gave a scientific basis in support of rotation. These relationships should be formalized though.

I may have another idea or two; but have now written enough, especially given the commentary deadline has ended months ago, and this email may be worthless in the general debate. In any case, I hope this generates a few new ideas and helps keep the "Big Picture" in mind.

Good Luck!
Kurt Erikson, CPA, EA