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

Subject: PCAOB Rulemaking Docket Matter No. 37

Dear Board Members:

Thank you for the opportunity to comment.

First an introduction; my name is Anthony W. Luchtefeld. I have over 40 year of work experience, with the first quarter as an Engineering Technician, including my serving in the US Army during the Vietnam era. I am a CPA (Illinois) and a CGMA, and over the last 30 plus years have experience working with/for: Fortune 500; large, medium, small, startups; publicly held; private companies and not for profit organizations. I have served in roles ranging from property accountant to Controller and CFO. My work product has been reviewed and audited by the big 8, the remaining 4, large and small CPA firms and the SEC. I have experienced the challenges faced when there are changes in audit staff and audit firms. It is from these experiences and acquired knowledge that I offer my comments.

This concept release is seeking comment on mandatory audit firm rotation as a possible way auditor independence, objectivity and professional skepticism could be enhanced. While this Matter is related to public held companies, the comments could, and maybe should be, applied by quasi-public companies and organizations. (Government entities, schools, universities, not for profits, churches and others that receive public funds)

When I review the AICPA Code of Professional Conduct and Bylaws, I am drawn to ET Section 55, Article IV .03 which reads in part "*Such a member who provides auditing and other attestation service should be independent in fact and appearance.*" While some of the comments and reasoning cite the Sarbanes-Oxley Act and point to audit committee's as a move in the right direction, I still am unable to reply to a question which was asked of me several years ago, "*How can you be independent when you are paid by the party which you are auditing?*" Use of this reasoning leads one to conclude that a relationship which at least has an appearance of not being independent exist between; the Company, the Board (unless not paid by the company for any services) and the auditor. Public perception must play an equal role in this discussion.

This reason alone should be enough to strongly consider mandatory audit firm rotation as part of the solution to ensure that public confidence is not lost in audits, a position I support. A workable solution and implementation is going to be a daunting task. It cannot and should not occur overnight, it will require study, and clear minds not driven by profits or political ideological processes. Add IFRS, an auditor independent with rotation become even more important.

First, I believe we must have audit firms only.

This needs to be followed by selection of the audit firm, not determined by any party, which is not independent or having the appearance of not being independent.

This could follow the broad concept:

Those firms required to have auditor rotation would contribute (based on a formula) to a national "audit fee pool" which would cover the cost of the annual audit.

A pool of qualified auditing firms, whom based on certain criteria (to be determined) would be available to perform audits. The firm would be selected by a "lottery" system.

Given the foregoing as a baseline, following are my replies to specific questions ask by the Board.

#### **A. Term of Engagement**

As is evident from the above, various term lengths have been suggested at various times. The length of the term would be a key variable in any proposed rule. A term that is too long might not enhance independence to a sufficient degree to make the rule worthwhile. At the same time, a term that is too short risks increasing costs and causing unnecessary disruption. A starting point for consideration of an appropriate term is current data on auditor tenure. For the largest 100 companies, based on market capitalization, auditor tenure averages 28 years. Average tenure for the 500 largest companies is 21 years. Based on these considerations, the Board is particularly interested in comment on the advantages and disadvantages of terms of 10 years or greater.

Questions:

1. If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length? *The term should not be greater than 10 years.*

2. Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based

on? *The term should be not shorter than 5 years, using characteristics such as; change in stock grants to officers/related parties; increases in debt; operations added; mergers/acquisitions.*

3. Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?

*There is a "learning curve" for anyone, external or internal; I believe that with proper "transition" from one firm to another, the auditors will be effective year one of the audit.*

4. Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term? *I believe that the audit may not be as easy in year one, because of learning, it will not be less than profession. In addition, because of the pass off to another auditor, the final year may in fact be the best documented.*

5. How much time should be required before a rotated firm could return to an engagement? *The firm could return after one rotation. (based on audit only firms)*

## **B. Scope of Potential Requirement**

Another fundamental decision is whether to consider a rotation requirement for all audits conducted pursuant to PCAOB standards or whether to limit the audits to which the requirement would apply. For example, the Board could consider applying the rule only to audits of the largest companies. Such an approach could minimize the costs of the rule, while preserving much of its benefits. On the one hand, it could reduce market-wide implementation costs because the vast majority of companies and firms would not be affected. On the other hand, by focusing only on companies with the largest market capitalization, could the Board obtain significant benefits for investors?

Question:

6. Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries? *All public trade companies should be included.*

### C. Transition and Implementation Considerations

Any rotation rule would also need to be considered in light of the fact that for many companies, particularly large, multinational ones, there may be a practical limit to the number of audit firms to choose from. Even among the larger firms, different firms may have different capacities and areas of expertise. Independence rules restricting the kinds of non-audit services a firm may provide its audit client might further limit a company's choice of auditor. For example, a large company might employ one large firm as its auditor and another (or more than one other) to provide various non-audit services that its auditor is prohibited from providing. If rotation were required, the company's choice of a new auditor might be limited unless it terminated existing prohibited non-audit services, which it might not be able to do in a timely manner.

Considered from another perspective, however, rotation could "operate as a catalyst to introduce more dynamism and capacity into the audit market." That is, if the largest firms were periodically displaced from their positions auditing the largest companies, more firms might develop additional capacity and expertise in order to compete for those engagements. If so, auditor choice would be increased. It is also at least possible that some firms would develop "audit only" practices so that prohibited non-audit services would never interfere with their ability to compete for new audit engagements, which would become available much more frequently if rotation were required. On the other hand, independence could suffer if firms—knowing that their audit engagement is about to come to an end—begin to focus on marketing future non-audit services to the audit client.

The Board's purpose in adopting any rotation requirement would be to enhance auditor independence, objectivity and professional skepticism, a goal directly in line with the Board's statutory mission "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports." If a consequence of a rotation requirement were an increase in the number of firms capable of auditing, and willing to audit, the largest public companies, however, that may benefit investors and, more generally, the financial markets.

#### Questions:

7. To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios? *The business model of CPA audit firms, using the audit only firm approach, will change. I can envision that more than one firm could be involved in a audit, that specific topics could be audited by one firm; i.e. derivatives; by a specialist firm or firms with specific industry expertise would become available, a "team" approach with one firm serving as the "general" – issuing firm.*

8. If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice? *Using the audit only firm approach solves this issue.*

9. If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so? *It is my belief that the market will allow firms to "rise to the demand". It is possible that the resource base for firms would open to experienced (well qualified personnel) labor forces, not driven by recent college graduates only.*

10. Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how they have been managed? *I can imagine that unique challenges exist and I am not able to discuss implementation and cost issues.*

11. Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones? *By use of the audit firm only model I foresee firms and the market adjusting and these issues would be resolved.*

12. Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services? *This is one of the driving forces to have audit only firms,*

13. Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors? *By use of audit only, services offered and available outside of audit firm would be enhanced.*

14. Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping? *These issues become a no issue by establish the "lottery" system of selection.*

15. What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality? *By use of the audit only model and "lottery" selection system I believe the quality of audit and the public perception of independence are achieved.*

If the Board determined to move forward with development of a rotation proposal, it would also need to consider whether a rotation requirement should be accompanied by any complementary changes to existing requirements. For example, if, as some have suggested, audit risk is greater in the early years of an auditor-client relationship, the Board could consider additional quality control or other procedures to mitigate that risk. Such procedures could include, for example, heightened internal supervision or oversight requirements for the first year or two of a new engagement, increased required communications between predecessor and successor auditors or other steps auditors could be required to take during the transition from one firm to another.

The Board is also interested in the view expressed by some that audit committees should be prohibited from removing the auditor without good cause prior to the end of the allowable term. Some measure of tenure protection during the term might further bolster the auditor's ability to resist management pressure.

The Board invites commenters' opinions on the advantages and disadvantages of such a limitation and how it might be imposed. Because implementation of some aspects of a rotation requirement could involve complementary changes to SEC rules, development of any rotation rule could require particularly close coordination with the SEC. The Board would also need to consider how to transition toward any requirement in this area. For example, if the Board determined to move forward, it could stagger a new requirement's effective date to avoid mass rotation in a single year.

#### Questions:

16. Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks? *I believe that the firms' quality control systems for audit only firms will be such to mitigate any of these risks.*

17. If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs? *Current, I believe that firms sometimes lessen audit supervision during the terms of the audit for various reasons. Once again the need to have audit only firms, so there is no distraction. During my reading there are indications of costs rising 20%, I believe that this needs to be viewed in a micro level, such as amount/per share. As an example, one of the largest corporations had audit and audit related costs in 2010 of \$31,100,000 and outstanding shares of 4,979,000,000 (\$.0062/share), even if the cost rose by 50% the audit and audit related costs are less than 1 cent a share. The public would be well served.*

18. If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company? *There should be even now, complete and open communication between predecessor and successor auditors, including candid and frank conversations.*

19. Are there other audit procedures that should be required to mitigate any risks posed by rotation? *I believe current properly executed audit procedures will mitigate any risks.*

20. If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC? *There must be provision for removal of the auditor for cause. Cause is not; the company disliking the procedures used, questions raised or opinion given. Furthermore, the SEC must be involved in this process of auditor rotation.*

21. What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues? *This process of auditor rotation will need to occur over a period of time (years), such as staggering by size, industry, even/odd years, etc.*

Thank you for allowing me to reply.

Respectfully submitted,

Anthony W. Luchtefeld