

**From:** [Jan Moraru](#)  
**To:** [Comments](#)  
**Subject:** Mandatory audit firm rotation  
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Dear Sirs/Madams,

I am writing this as a proposition regarding the rotation of auditors.

Most people outside the accounting profession are not aware of the full scope of auditing and all its underlying factors.

For an audit to be effective, a number of issues have to be properly handled, but one is not to only pay attention to planning, risk assessment and testing, because there is a need to see the bigger picture.

This bigger picture shows that the above three have to be sat on a foundation of ethics, objectivity and professional skepticism.

If this foundation is nonexistent, audit will be no more than a business, be it done well or not. If audit will be viewed as a business and not as a liberal profession, performed by highly skilled people, the whole of the accounting profession will have to suffer the consequences.

Basically, the two directions in which the discussion is going are:

- 1) If we are don't rotate, objectivity is at risk due to familiarity and other similar types of threats;
- 2) On the other hand, if we rotate, there will be a loss in the quality of the audits (due to the poor understanding of the entity and the risks), and an unsaid, but implicit statement that a lot of money will be lost.

I am a strong believer in the rotation of auditors, because even in the first year audit, there is a battle between performing professionally, and keeping the client for another year. This is, in no way, an independent audit, and compromises WILL be made. Some smaller, some bigger - and the result is that ALL Big Four companies are implicated in at least a few scandals of "closing an eye".

The "closing an eye" audit is not the audit mandated by the standards, and if a proper rotation is not in place, the temptation will always be there. And where there is temptation, to some degree it will turn to negative action. If the standards allow this, can we sincerely say that we give an independent opinion?

I thought of a system which, in my opinion, would provide the best quality an audit could have, and here are its characteristics:

- Annual rotation would be mandatory (the firm would not have an incentive to keep the client for the next year, and will focus only on the audit);
- There would have to be a proper understanding of the audit risks, so it would have to be reglemented that you have to provide your risk assessment to the successor auditor, and provide any assistance requested by them;

- There would have to be an active, international body for quality control; it would have to be "not-national", like the referees at the world cup - if the match is between country A and country B, the referee would be from the neutral country C, so that they wouldn't be biased.

The controls should assess whether the planning and risk assessment is sound, and the audit opinion is indeed, not just in theory, sufficiently and appropriately documented.

The quality control should also assess whether the nature, timing and extent of procedures were appropriately set (and I'd like to stress the importance of the TIMING - the killer deadlines put in place to cram as many clients as possible, but which have a big negative impact on the quality of the audit).

These controls should result in ratings, based on which the auditor would be allowed to negotiate clients with higher fees. This would turn the fight from "**quality versus keeping the client**", to "**quality in order to have clients**".

Annual rotation would significantly diminish threats to objectivity, and with proper controls in place, quality would be if not increased, at least maintained. It's a win-win situation.

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Best regards,

**Jan Moraru**

+40 (729) 701 587

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