

Auditor Rotation --- Inside-Out July 25, 2012

By Tom Crouch, CPA, CIA, CISA, and Attorney

There is terrific resistance in some quarters to mandatory auditor rotation. If those folks really believe what they say, they might be happy with this approach.

First, PCAOB can divide the various industries into 10 groups. Second, the least risky group would be assigned to year one. The other groups would be assigned to the other nine groups by the industry risk assigned so that the most risky group would be assigned to year 10.

Third, the most risky group would be told to contract with their current CPA so that they would be their external auditor every year through year 10. They **could not change the auditors** until the year 10 contract expired. Fourth, the second most risky industry would be expected to sign nine year contracts. Fifth, the other industry groups would have to execute similar contracts to carry them through to their assigned year.

Sixth, the companies would not be permitted to change their external auditor until their assigned year. Seventh, each industry group could only change their external auditors during their assigned year.

Eighth, each company would be required to disclose in their annual report **their external auditor during each year of the past 30 years**. Investors may be able to make logical inferences from the disclosure. For example, if a company has had the same auditor for 30 years, the investor may decide that the relationship between the company and the CPA firm is too cozy. If a company has changed auditors every 3 to 6 years, the company may be using aggressive accounting practices, which may be causing conflict with their auditors. If such disclosures were required, the information might indirectly push for more appropriate practices. "

My hunch is that the CPA firms and publicly traded companies would oppose such disclosure. Why so? It might embarrass both the CPA firms and publicly traded companies. My hunch is that they would want to add words to sugarcoat the 30 year listing. The two parties might feel that such a 30 year listing indirectly presents them in a bad light. Such a listing just seems like transparency that the various stakeholders should know. My hunch is that there are not any legitimate arguments against the 30 year listing. There might be some rather nervous CPA firms and publicly traded companies if the 30 year listing disclosure is required.

The Public Company Accounting Oversight Board requires public disclosure in the annual financial report of the CPA firm that audited each of the last thirty audited annual financial reports. The listing below meets that requirement:

1981 financial statement audit by the firm Crouch, Hines, and Swanson,
1982 financial statement audit by the firm Crouch, Hines, and Swanson,
1983 financial statement audit by the firm Crouch, Hines, and Swanson,

1984 financial statement audit by the firm Crouch, Hines, and Swanson,
1985 financial statement audit by the firm Crouch, Hines, and Swanson,
1986 financial statement audit by the firm Crouch, Hines, and Swanson,
1987 financial statement audit by the firm Crouch, Hines, and Swanson,
1988 financial statement audit by the firm Crouch, Hines, and Swanson,
1989 financial statement audit by the firm Crouch, Hines, and Swanson,
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2004 financial statement audit by the firm Crouch, Hines, and Swanson,
2005 financial statement audit by the firm Crouch, Hines, and Swanson,
2006 financial statement audit by the firm Crouch, Hines, and Swanson,
2007 financial statement audit by the firm Crouch, Hines, and Swanson,
2008 financial statement audit by the firm Crouch, Hines, and Swanson,
2009 financial statement audit by the firm Crouch, Hines, and Swanson,
2010 financial statement audit by the firm Crouch, Hines, and Swanson

No additional comments about the above disclosure are to be made pursuant to the disclosure rules.

The above approach might provide an easy and fair way to put additional pressure on companies and their auditors to move gradually toward mandatory auditor rotation.