

**Public Company Accounting Oversight Board**  
**Public Meeting on Auditor Independence and Audit Firm Rotation**  
**June 28, 2012**  
**San Francisco, California**

**Statement of David Follett, Chief Practice Officer**  
**Moss Adams LLP**

**Introduction**

Moss Adams LLP is the largest accounting firm based in the western United States and the auditor of many middle-market and smaller public companies. In addition, we serve privately held and public interest entities, including those that plan to seek capital in the U.S. equity markets in the future. We have been inspected by the Public Company Accounting Oversight Board (PCAOB) three times, including our initial inspection six years ago.

My firm appreciates the opportunity to participate in the PCAOB's public meeting on auditor independence and audit firm rotation to further the discussion on ways to enhance auditor independence, objectivity, and professional skepticism. We are committed to ongoing efforts to continually improve audit quality in our firm and in the profession.

We believe the Sarbanes-Oxley Act of 2002 has had a positive effect on audit quality. The creation of the PCAOB and the strengthening of the role of the audit committee have built a solid foundation for enhancing investor protection. I serve as the signing engagement partner on the audits of issuers and believe that audit quality has improved since the enactment of the Sarbanes-Oxley Act, including enhanced oversight and participation of audit committees.

Auditor objectivity and professional skepticism are at the root of audit quality. The PCAOB and the profession should continue to seek ways to improve objectivity and skepticism. Actions taken for improvement by the PCAOB should be supported by objective evidence of the costs to implement and, more important, the achievement of the benefit of improved audit quality.

As I will discuss further, we do not believe mandatory firm rotation achieves the objective of improving auditor objectivity and professional skepticism, and therefore, we, along with the majority of stakeholders who have commented on the concept release, are opposed to the PCAOB's proposed concept.

**Mandatory Firm Rotation**

We believe mandated firm rotation would undermine the authority of the audit committee, whose role has been enhanced by the implementation of the Sarbanes-Oxley Act. Audit committees are essential to maintaining an appropriate oversight of the issuer-auditor relationship. Mandatory firm rotation inappropriately prohibits an entity's ability to continue with its existing auditor, even if the audit committee determines it is in the best interest of the entity's shareholders.

Further, research does not support audit firm longevity as a root cause for audit failures or lack of objectivity or skepticism. Mandatory rotation would cause significant disruption and an increase in costs. We believe there would be a disproportionate burden on middle-market and smaller public companies as a result of mandatory rotation.

### **Sarbanes-Oxley Act**

The Sarbanes-Oxley Act has improved audit quality. In response to the increased responsibility placed on management to assess and report on internal controls over financial reporting, SEC issuers have been more responsive to improving upon internal control deficiencies. Audit committees have also become more involved in understanding the internal control deficiencies identified by management and the auditor, and more insistent in requiring changes be implemented to address these deficiencies. In addition, requiring audit committees to be responsible for the hiring, retention, and termination decisions of the independent registered accounting firm has created a better oversight to the relationship between management and the auditor. Finally, the PCAOB inspection process has helped firms identify areas to improve audit quality.

Overall, these areas create foundations, and opportunities, for continued improvement.

### **Alternatives to Mandatory Firm Rotation**

As noted in many of the comment letters received by the PCAOB, there are alternatives to mandatory firm rotation that involve less risk and less cost. We recommend the PCAOB focus its efforts on constructive dialogue with stakeholders to determine alternative approaches to mandatory firm rotation that will have a positive impact on auditor independence, objectivity, and professional skepticism, such as:

- Engaging with audit committees to improve their corporate governance practices, including training, evaluation of auditor performance, and sharing of best practices.
- Performing root-cause analysis of audit deficiencies identified during internal and PCAOB inspections and providing more open collaboration between the PCAOB and the profession on steps to be taken in response to these findings.
- Increasing transparency between the auditor and audit committees.
- Enhancing audit firm quality control and training, with a focus on continual improvement of objectivity, professional skepticism, and overall audit performance.

The profession has come a long way over the last ten years, but we also recognize that continued improvement is necessary. Moss Adams looks forward to the opportunity to participate in the efforts to further improve audit quality.

We appreciate the opportunity to participate in these important roundtables and look forward to the discussion.