

June 28, 2012

Office of the Secretary
PCAOB
1666 K Street, NW.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation

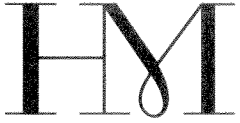
Dear Chairman Doty:

I appreciate the opportunity to provide my comments to the Board with respect to its Concept Release on Auditor Independence and Audit Firm Rotation.

My comments are my own. I am not speaking on behalf of any organization that I am or have been associated. My opinions are based primarily on my education and experience, including:

1. Undergraduate and graduate degrees in accounting
2. More than 40 years of experience as an auditor and consultant in public accounting
3. Audit committee chair and member of audit committees for public companies and non-profits
4. Testifying as an expert in many "audit failure" disputes, including audits involving financial statements of:
 - Sunbeam Corporation
 - Enron Corporation
 - Xerox Corporation
 - Parmalat S.p.A., and
 - MiniScribe Corporation
5. My testimony on "audit failure" proceedings has included testimony on behalf of:
 - The U.S. Securities and Exchange Commission
 - The FDIC
 - The Resolution Trust Corporation, and
 - The Public Company Accounting Oversight Board

As a result of the experiences provided by my investigation and testimony experience, I have reviewed an enormous quantity of audit working papers and related documents from auditing firms that are national, regional and small in size. These audits were performed not only in the United States, but in Europe, Canada, Asia, South and Central America and India. As a



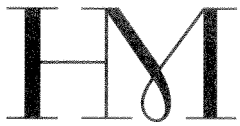
consequence, my comments will focus on how mandatory firm rotation would serve the Board's goals of protecting investors and enhancing audit quality by strengthening auditor independence, objectivity and professional skepticism.

The Concept Release includes statements that:

- The Board has now conducted annual inspections of the largest audit firms for eight years. The Board's inspectors have reviewed portions of more than 2,800 engagements of such firms and discovered and analyzed several hundred cases involving what they determined to be audit failures.
- Although the PCAOB's 2010 inspection reporting cycle is not yet complete, so far PCAOB inspectors have continued to identify significant deficiencies related to the valuation of complex financial instruments, inappropriate use of substantive analytical procedures, reliance on entity level controls without adequate evaluation of whether those processes actually function as effective controls, and several other issues. PCAOB inspectors have also identified **more** issues than in prior years. In any event, the Board is troubled by the volume of significant deficiencies, **especially in areas identified in prior inspection** [emphasis added].
- The Board's inspections frequently find audit deficiencies that may be attributable to a failure to exercise the required professional skepticism and objectivity.
- The lack of professional skepticism appears to stem from the [f]irm's culture that allows, or tolerates, audit approaches that do not consistently emphasize the need for an appropriate level of critical analysis and collection of objective evidence.
- Placing too much reliance on management's responses to the teams' inquiries and not sufficiently challenging or evaluating management's assumptions, and that they may not be applying an appropriate level of professional skepticism in subjective areas susceptible to management bias.

These findings of the PCAOB are also consistent with my experience in my investigations and related testimony. The frequency of the PCAOB's audit failure findings should be very concerning to those persons relying upon or associated with the audit process. It is even more troubling that the PCAOB is identifying more issues currently than in prior years and that those significant deficiencies which had been identified in prior year inspections are being repeated.

In the audit failures that I have witnessed, it is likely that many would have either not have occurred, or would have been revealed sooner had there been a firm rotation policy in place. This result flows primarily from members of the audit team being more likely to follow PCAOB Standards, and rejecting improper GAAP methods because of their knowledge that a new audit firm would be performing the audit in the future. In addition, if the current auditor failed to detect material misstatements, then the new auditor, using new audit methods, and not being vested in previously issued financial statements, is likely to reject the accounting improprieties.



Many have said that the requirements of partner rotation have provided appropriate protections to ensure compliance with PCAOB Standards. Given the volume of deficiencies noted by the PCAOB inspectors, and from my own experience, partner rotations have often proved ineffective. This ineffectiveness flows from several factors, including:

- The new partner is self-selected by the audit firm and sometimes by the client. This selection process often assures continued acquiescence of flawed accounting practices by the client.
- The new partner is rotating into an engagement which if he or she finds that the client's previously issued financial statements have been materially misstated, then a restatement of those financial statements will be required. This will likely result in great cost to the firm, as well as to certain of its partners and others that had worked on the prior audits. The costs can include the expense of litigation, loss of reputation, the loss of the client and perhaps the ability of the involved auditors to continue to perform audits. Such consequences bring great pressure on the new partners to accept the continued use of improper accounting by the client in the hopes that they will be avoided.

Other Comments

Cost Benefit Analysis - Opponents of firm rotation express concerns about added costs. But firms frequently have changed auditors in the past and often at reduced fees from the auditor. The PCAOB will need to assess whether fees will be increased and if so, whether the benefits of audit firm rotation would offset such costs.

Cost Reductions and Other Audit Quality Enhancements – Predecessor auditors currently may not provide successor auditors with their working papers, including those that relate to their risk assessments and related audit findings and conclusions. The PCAOB should consider requiring predecessor auditors to provide these working papers to the successor auditor in order to enable the new auditor to more efficiently and effectively plan and execute its audit.

Implementation of the Rotation – I encourage the PCAOB to implement a fair method of rotation that does not cause each registrant to rotate in the same calendar year. For example, the PCAOB may determine that rotation will occur after 7 years, but that it will determine when each registrant will begin that 7 year cycle. The beginning of the cycle might begin in 3, 4, 5 or 6 years for selected registrants depending on the PCAOB's assessment of each registrant's facts and circumstances which bear upon the timing of each registrant's rotation needs.

Thank you for your consideration of my comments.

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