



Introductory Statement of W. David Rook
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PCAOB Public Meeting on Auditor Independence
and Audit Firm Rotation
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Introduction

On behalf of Weaver and Tidwell, LLP I am pleased to have the opportunity to participate in this panel and to present Weaver's views on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation.

Over the past 62 years Weaver has become the largest public accounting firm headquartered in Texas with approximately 450 team members located in 7 offices throughout the state. We consistently rank in the top 50 Accounting Firm's in the U.S. as reported by *Accounting Today* and *Inside Public Accounting Report*. We offer audit, tax and consulting services to a diversified client base operating in a variety of industries. Our clients include both privately-held and publicly-traded companies typically headquartered in or around Texas, some with national and international operations. We have provided services to publicly-traded companies for over 40 years.

Summary of Our Views

We agree that independence, objectivity and professional skepticism are critical to the viability of auditing as a profession and provide the foundations for a high quality audit. We also agree with the Board's assessment that the reforms included in Sarbanes-Oxley "have made a significant, positive difference in the quality of public company auditing" (page 2 of the Board's Concept Release). These reforms include many measures intended to improve the auditor's independence and objectivity, including:

- audit committee oversight of the audit process
- limitations on non-audit services to audit clients
- audit partner rotation requirements
- creation of the PCAOB

Since the enactment of Sarbanes-Oxley there have been regulatory and other developments that have improved audit quality, such as:

- adoption of PCAOB auditing standards
- development of the PCAOB inspection program

We believe that these efforts and the Board's on-going standard setting agenda will continue to improve audit quality.

While we support the Board's on-going efforts to improve independence, objectivity and audit quality we do not believe that mandatory audit firm rotation is a concept that will work and, if enacted, could raise significant risks and result in unintended consequences. We have always believed that the danger of a failed audit is greater when the auditor does not fully understand the client's business than from the auditor being too familiar with the client's business. We agree with the General Accounting Office's 2003 conclusion which said in part "*mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality considering the additional financial costs and the loss of institutional knowledge of a public company's previous auditor of record.*"

Auditor Independence

Independence, objectivity and professional skepticism are fundamental to audit quality. Our reputation and our people are our most important assets. We strive for audit quality in all that we do and continually challenge our staff to regularly employ a healthy level of skepticism in performing our responsibilities. As stated in the Concept Release "*PCAOB inspectors have continued to identify significant deficiencies related to complex financial instruments, inappropriate use of substantive analytical procedures, reliance on entity level controls without adequate evaluation of whether those actually function as effective controls and several other issues.*" Whether the "root causes" of these deficiencies relate to a lack of professional skepticism or some other factors such as a lack of experience, lack of technical competence or lack of training on the part of the auditor is difficult to determine. We believe that additional study of these "root causes" should be done before such a drastic measure as mandatory audit firm rotation is mandated. As noted in the Concept Release a preliminary analysis of inspection results "*appears to show no correlation between auditor tenure and number of comments in PCAOB inspection reports.*"

Until these “root causes” have been studied and identified we believe the appropriate actions to improve independence, objectivity and professional skepticism should be directed toward continuing to strengthen auditing standards, quality control policies, responsibilities of audit committees, continuing professional education requirements and other drivers of audit quality. The worst possible scenario would be to implement a drastic measure such as mandatory audit firm rotation and see no improvement in audit quality.

Mandatory Audit Firm Rotation

The premises on which mandatory audit firm rotation is based are two assumptions: 1) a long-term relationship between a company and its audit firm would impair independence and objectivity, and 2) because of that impairment mandatory audit firm rotation would improve audit quality. There is no evidence that supports either assumption.

Several preventive measures to combat complacency in the auditor/client relationship have already been introduced, such as:

- engagement partner rotation
- audit committee oversight of the audit process
- audit committee pre-approval of allowed non-audit services
- Auditing Standard No. 7, *Engagement Quality Review*
- Auditing Standards No. 8 – 15, *Risk Assessment, Planning & Supervision, and*
- Auditing Standard No. 16, *Communications with Audit Committees.*

As noted in the Concept Release auditor performance during 2009 formed the basis for the PCAOB’s 2010 inspections and its 2011 reports. These inspections and the related reports all occurred prior to the effective dates of the 10 new auditing standards listed above. We believe that the recently adopted standards will improve audit quality and should be evaluated through one or more inspection cycles before the Board considers more drastic measures such as mandatory audit firm rotation.