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August 26, 2011

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

Subject: PCAOB Rulemaking Docket Matter No. 37

Dear Chairman Doty:

I write this letter as Chairman of the Audit Committee and on behalf of the Board of Directors of Kimball International, Inc., a NASDAQ-listed company. We are responding to the request for comment on a proposal by the PCAOB to consider a rule requiring mandatory auditor rotation every 5 years.

The idea of forcing companies to change auditors has been raised periodically in response to accounting scandals since at least 1977, when Senator Lee Metcalf suggested such a step in the wake of the scandal at Equity Funding. Such a requirement was considered by Congress in 2002 when it passed the Sarbanes-Oxley bill that established the accounting oversight board, but was not included in the final version. It has been bitterly opposed by accounting firms, which argue that such rotations would do little for audit quality but would drive up costs and create great problems for complex companies trying to explain their operations to a new set of auditors.

We strongly oppose mandatory audit firm rotation for two compelling, yet simple, reasons:

First, such a rule would impose an international impossibility on multi-national companies. It would be impossible for parent-level firms to coordinate and perform their locally-contracted statutory engagements in foreign companies, when those countries would not have such mandatory rollover requirements. With the current domination of the Big Four in all developed economies, there are really no viable rotation opportunities. In addition, their dominance in the scope and coverage gap with the smaller firms has only grown over the last decade, so rotation would likely further squeeze smaller firms out of the top-tier market.

Secondly, there is simply no viable evidence that audit firm rotation will work to improve audit quality. In a study by the General Accounting Office (now the Government Accountability Office), issued in November 2003, *Public Accounting Firms: Required Study of the Potential Effects of Mandatory Audit Firm Rotation*, the GAO concluded that the benefits of mandatory firm rotation were not certain and that more experience with the effects of Sarbanes Oxley's other requirements was needed. The study also acknowledged that nearly 99% of the Fortune 1000 public companies have no public accounting firm rotation policy. And the issue of audit firm rotation has not been limited to the United States, and considerable insight can be gathered from non-U.S. countries. Several countries (e.g., Spain, Turkey) have adopted and subsequently dropped mandatory audit firm rotation because it did not achieve public policy goals. In Italy, the Bocconi University Report concluded that audit firm rotation, which is mandatory in Italy, is detrimental to audit quality but does seem to have a positive effect on improving public confidence in the corporate sector.

These studies as well as simple common sense illustrate that the ultimate question about mandatory audit firm rotation is whether such a policy enhances audit quality by either detecting or reporting material misstatements in the financial statements. Usually proponents of rotation cite 3 problems which rotation would purportedly fix:

- Closeness to client management;
- Lack of attention to detail due to staleness and redundancy; and
- Client retention.

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None of these problems would be fixed by auditor rotation because:

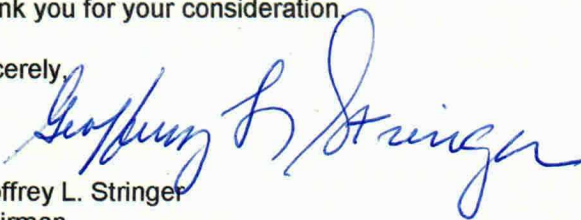
- Closeness to Management - The nature of auditing requires that auditors interact extensively with their clients. Long-term relationships naturally result in a degree of closeness between management and the auditor. But auditor rotation will not solve the problem. Auditors must interact with management on a daily basis during the audit, and a client must feel comfortable with an auditor and be willing to share information and discuss problems when they exist. The close relationship contributes to knowledge-sharing and is critical to the audit process. And Sarbanes Oxley changes have already remedied the closeness problem. Independent audit committees are now responsible for the appointment, compensation, and oversight of the company's auditing firm. Mandatory rotation of the audit partner is also required every five years. That is enough.
- Staleness and Redundancy - Having performed the prior-year audit often produces significant benefits that increase audit effectiveness. The familiarity the auditor has with a company provides a better understanding of the issues. It is difficult for an auditor to completely understand the complex business of most of today's companies in a short period of time. Audit failure rates are higher with new auditors. Incumbent auditors are more efficient. The auditor is not starting from scratch and there is less interruption to normal business.
- Client Retention - It must be admitted in every long-term business relationship that there is an inherent conflict of pleasing the client so as to retain the client. But with mandatory firm rotation, there is also a temptation that remains to please the client during the rotation period. With such a short-term focus, the auditor might be under even greater pressure to avoid losing the client. And the quality of service in the final year of the audit may suffer because the audit firm may be less motivated to serve a "lame-duck" client.

In summary, the idea of enhancing auditor independence through mandatory audit firm rotation appeals superficially to many, yet the net effects of rotation are far from certain. The impact of the Sarbanes Oxley reforms is not yet known, but certainly the 5 year rotation of the key decision maker on any audit – the audit partner – adds a significant degree of "rotational independence" to the audit process.

Safeguards are now in place to address many of the key concerns relating to the independence and objectivity of the audit firms. In addition, companies and their top management are taking a more active role in oversight of the system in place to prepare accurate financial statements and prevent abuse. Experience and further research related to both audit firm rotation and these changes may lead to a more informed decision on mandatory audit firm rotation than is now possible.

Thank you for your consideration

Sincerely,



Geoffrey L. Stringer
Chairman
Kimball International, Inc. Audit Committee