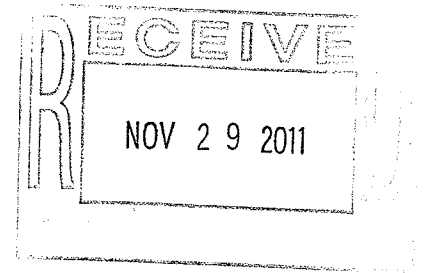


PCAOB - Docket 37
Comments from an Investor

November 9, 2011

Public Company Accounting Oversight Board
Attention – Office of the Secretary
1666 K Street, N.W.
Washington DC 20006-2803



Re: *Concept Release on Auditor Independence and Audit Firm Rotation*, PCAOB Rulemaking
Docket Matter 37

I am an investor of public companies. I have read the concept release and have the following comments. In summary, the concept of audit rotation is mis-guided, and I have prepared thoughts on alternatives. My intent is to be candid and forthright.

Observation One

The Concept release states that the topic is about independence as an objective, and then immediately leaps to an assertion that auditor rotation is the cure, and there is no thoughtful discussion. The PCAOB demands that auditors test the accuracy of assertions made by clients; however the PCAOB has elected to throw out an assertion (auditor rotation) that is untested, not based in facts, but is consistent with the constant campaigning by the PCAOB Chairman to wholly endorse auditor rotation. In fact, auditor rotation will cause more problems that it will solve, as noted in Observation Three. If the PCAOB and the SEC truly believes there is a fundamental issue that requires a radical step, then I would suggest that the audit profession be nationalized and that audits be managed and conducted by the PCAOB.

Observation Two

The PCAOB, and by association the SEC, continues to focus on what I call detective measures, such as relying upon inspection reports to rationalize the changes proposed. It would be a much richer and interesting conversation if in fact preventative measures would be used. The PCAOB continually asserts that audits are not effective, but I am not personally aware of a huge number of restatements that the PCAOB has caused through inspection. However., if the goal of the PCAOB is zero tolerance, then the PCAOB needs to declare that as the goal. In any event, because of the current approach which relies on detective measures and speeches, the PCAOB is less effective. A more thoughtful approach would include:

- The SEC needs to focus on registrants – today, the burden of enforcement is placed on audit firms, and there are no documentation rules imposed on registrants or standards on internal controls or any standards on detecting or preventing fraud. This lack of will by the SEC combined with the PCAOB beatdown of the Firms has caused untenable tension in the relationship.
- Enforcement and penalties – today’s penalties and enforcement activities are ineffective. To the extent that the PCAOB finds negligence in an inspection, or there is Fraud etc, then the penalties have to be severe and well publized, including incarceration for intentional malfeasance.
- Help the profession – It is with amazement that the PCAOB and the Chairman speak non-stop of the issues with the audit profession, never failing to mention that the profession needs to do better. However, when I have spoken with several senior leaders of the Big 4, they tell me the PCAOB is unwilling to provide practical advice as to how the Firms can improve. The reaction they get from the Chief Inspectors is that that would “a conflict of interest”. If the PCAOB actually wants to help the profession to get better, I would suggest stop the speeches and grandstanding, and roll up your sleeves and conduct workshops with each of the Big Four and other large Firms, which would provide a broad coverage of the audit universe.

Observation Three

Audit rotation will create more problems that it solves, including:

- The soft underbelly of audit firms that are currently subject to rotation is that Firms that continually lose out when bids are issued to replace incumbent firms will engage in irrational behavior to capture market share. For example, I am aware of several Firms that have offered up fixed fee proposals for up to a 10 year period that are 70% less than the incumbent fees. In summary, there is no conceivable way that a Firm could ever make money on these audits, and as a result will take short-cuts and the low-brow people will staff the engagement.
- Rotation will cause significant disruption for the partners and managers involved with a big Firm, and as a result the profession will even become more unattractive than we have today, which has been a flight of talent caused by the chest-thumping of the PCAOB which continuously decries the incompetency of the profession. In summary, auditor rotation will ensure that the PCAOB will have even more inspection findings, providing a never ending source of talking points for the speech makers from the PCAOB Board.

Observation Four

In order to enhance independence, the following ideas are easy to implement, and offer better solutions that audit rotation:

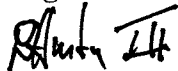
- Kill non-audit services , including tax services – this will eliminate any doubt that the audit effort is the only effort that matters.
- Force the Firms to spin-off their consulting services – regardless of the rhetoric of the Firms, having a consulting practice does not enhance their ability to deliver an audit. The reality is that having a consulting practice is a financial strategy to create a diverse portfolio of operations.
- Ensure that Firms don't engage in predatory pricing, because it destroys the ability of the Firms to thrive, attract reasonable talent, and creates an environment where short cuts are taken.

Final Observation

Audit rotation is a silly and misguided notion that creates an unrealistic comfort the the problem is "fixed". It is unwieldy and unworkable. And the problems will remain, as audit failures will continue, because people do bad things. Even a Partner under a 10 year rotation will be motivated to keep the client. I believe that there are alternatives that are attractive, including a PCAOB that actually steps up to the plate and helps the profession rather than being stand off-ish. If that does not work, then just nationalize the profession.

Lastly, I would be amazed than any individual would want to be part of the current circus of public accounting, where accountants are regulated by lawyers. When I was in college, a job with the Big Eight was pure gold, and now it is pure tin, and I have advised my children to avoid this profession at all costs.

Regards,



Duncan Harrison III