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Mr. J. Gordon Seymour  
Public Company Accounting Oversight Board  
1666 K Street., N.W.  
Washington D.C. 20006-2803

December 2, 2011

**Re: PCAOB Rulemaking Docket Matter No. 37  
Concept Release on Auditor Independence and Firm Rotation  
PCAOB Release No. 2011-006**

Dear Mr. Seymour:

I am pleased to submit comments to the Public Company Accounting Oversight Board (PCAOB) regarding its concept release on auditor independence and audit firm rotation.

This response is not replete with academic research because the necessary research could not be professionally completed between the release of PCAOB Rulemaking on August 16, 2011 and the due date of this submission, December 14, 2011.

**This response is directed to five general questions:**

1. Is the PCAOB proposing mandatory audit rotation in response to 'urban legend' or in response to identified and documentable issues?
2. What practical 'human being' and administrative problems need be studied with respect to mandatory audit rotation and its long term impact on audit quality before implementation of such a policy? Could these resultant 'human being' and administrative issues significantly harm audit quality?
3. Would mandatory audit rotation require a major re-thinking of existing conflict of interest rules?
4. Would mandatory audit rotation force the major audit firms to deploy more financial and intellectual assets towards sales thereby reducing their ability to focus on audit quality?
5. Should the actions to date, since the passage of Sarbanes-Oxley by Congress and the rules and regulations adopted by the PCAOB with respect to the conduct of auditors and audits, be given a reasonable chance to impact audit quality before issuing new, impactful and dramatic new rules

such as mandatory rotation of auditors? Should not the impact of these changes be studied and documented before additional rules are implemented?

**This paper's recommendations are as follows:**

1. The PCAOB should ask the United States General Accounting Office (GAO) to update its November, 2003 report: *PUBLIC ACCOUNTING FIRMS, Required Study on the Potential Effects of Mandatory Audit Firm Rotation*.
2. In the PCAOB's request for the update mentioned above, the PCAOB should request that the GAO expand their report to specifically include a study of the effects upon audit quality of the PCAOB's previously implemented rules and regulations regarding audit partner rotation and the PCAOB's audit reviews on audits, partners and firms.
3. The PCAOB should commission its own study to determine the potential effects of mandatory auditor rotation on the accounting profession with respect to its ability to successfully provide superior industry expertise. The PCAOB should commission a study of the potential impact of mandatory rotation on audit staffing and the ability to recruit and keep quality talent at the various accounting firms participating in the public accounting marketplace. Note: this study should specifically address the issues of recruitment and retention of professional employees with respect to public companies and public accounting firms that are located away from the largest urban centers.
4. The PCAOB should commission its own study to determine whether the current independence rules combined with mandatory rotation would undermine the ability of public companies to find qualified independent auditors.
5. The PCAOB should commission its own study to determine the costs of adopting mandatory auditor rotation including both the internal costs to the public companies being audited and the resulting financial and intellectual costs of an additional five hundred or more audit services proposals annually, by the public accounting firms, to become successor auditors. (The preceding sentence assumes a proposed ten year mandatory rotation policy; the shorter the period for mandatory auditor rotation, the more proposals that would be required annually.)

**Audit Rotation – Urban Legend - Is the PCAOB proposing audit rotation in response to ‘urban legend’ or in response to identified and documentable issues?**

The definitive study with respect to rotation of auditors is: *Public Accounting Firm: Requested Study of the Potential Effects of Mandatory Audit Firm Rotation* prepared by the GAO. In that report, perhaps the most salient sentence with respect to auditor rotation is included on page 50 where the report states: "We believe that mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality, considering the costs of changing the auditor of record and the loss of auditor knowledge that is not carried over to the new auditor." Other research over the years has yielded the conclusion that audit risk is highest in the early years of an audit relationship while the auditing firm is developing both industry and entity expertise and knowledge.

In its recent PCAOB Release No. 2011-006 to which this letter responds, the PCAOB indicates that its consideration of auditor rotation is based upon the fact that the "Board continues to find instances in which it appears that auditors did not approach some aspect of the audit with the required independence, objectivity and professional skepticism."

In its discussion of the issues with respect to professional skepticism, the PCAOB produces language from a proposal to a prospective client by one of the largest accounting firms:

- Your auditor should be a partner in supporting and helping (the issuer) achieve its goals, while at the same time helping you better manage risk;
- Support the desired outcome where the audit team may be confronted with an issue that merits consultation with our National Office and
- Stand by the conclusions reached and not second guess our joint decisions

While all would admit that the above language is regrettable and unlikely to be meaningful in the conduct of any actual discussion with any firm's national technical experts, it is instructive with respect to the very concept of 'skepticism' in auditing. The language quoted by the PCAOB is not from a long tenured auditing firm, but from a proposal to serve from a *new* accounting firm.

Skepticism in auditing is a matter of training, experience and personal honor. There is no evidence to indicate that professional skepticism is either enhanced or reduced as the result of mandatory auditor rotation. The nexus of this analysis to the proposal cited above is that a change of auditors is unlikely to instill additional skepticism. Here we have a document espousing everything to the contrary.

One thing that is clear is that the reduced filing time for all SEC filings over the past decade does detract from, at best, the available time period for an auditor to be skeptical. We do know that in the first year of the audit relationship, the reality of the learning curve makes skepticism an equal partner with learning the business and that the more complex the organization, the more learning time that is required to learn and understand the business as well as the industry. The larger the organization, the more complex the learning curve.

We know that big firm audit partners are generally terrified that the PCAOB is going to comment upon their work. Note: the PCAOB reviewer is not constrained by SEC filing time lines put in place on the auditor. If there was an additional need for skepticism beyond the audit professional's desire to be a competent professional and the long existing internal review processes by all large accounting firms, the additional activities of the PCAOB's current outside reviewers of partners and firms should complete the necessary trilogy of skepticism incentives.

The PCAOB suggests that professional skepticism is limited by the concern that the auditor will lose his or her client. Note: there will be identical client retention issues for the auditor in virtually every year of any audit unless mandatory audit rotation is annual. Losing a new client in year two of a five or ten year mandatory auditor rotation policy would be no different to an individual partner than losing that client where there was no mandatory audit rotation policy. Note: there are no proposals to force a company to maintain its audit firm for the entire period between mandatory audit rotations.

The ground for and against audit rotation has been firmly tilled by all sides solely based on the anecdotal and instinctual. There is no evidence to confirm that mandatory audit rotation would do anything to enhance skepticism. It is not unfair to conclude that without research and documentation, a conclusion that audit rotation will increase or decrease professional skepticism is nothing more than urban legend.

**Audit Rotation – Human Being and Administrative Issues - What practical 'human being' and administrative problems need be studied with respect to mandatory audit rotation and its long term impact on the profession? Could these resultant 'human being' issues significantly harm audit quality?**

The PCAOB release does not define independence with respect to mandatory auditor rotation. This vacuum leaves the reader with two possible interpretations of independence.

Interpretation A – The rotation of firms would impose an independence requirement that would preclude any personnel from moving from one firm to another to work on an audit if during the required rotation time period, they had previously worked on that particular audit for another accounting firm.

Interpretation B - The rotation of firms would not impose an independence requirement that would preclude any personnel, exclusive of partners, from moving from one firm to another to work on an audit if during the required rotation time period, they had previously worked on that particular audit for another accounting firm.

A Realistic Fact Pattern:

Note: Every city is not New York City. Many public companies are located in fairly small markets. (This example is based upon a generalized view of a specific city in the United States.)

- City A has a single major industry. Within that single industry, there are six public companies headquartered in City A. The specific single major industry is (1) highly regulated, yet the regulations are inconsistent state to state and nation to nation, (2) is highly complex and (3) operates on a world-wide basis.
- Because of its industry expertise, City A has a single dominant public accounting firm, a Big 4 firm. This firm is the auditor for five of the six public companies and provides services to the sixth public company that preclude this dominant firm from becoming the auditor of this sixth public company.
- City A's second largest accounting firm, also a Big 4 firm, provides audit services for the remaining public company in the city. It also provides accounting services to the other five public companies that preclude it from serving these firms as a successor auditing firm.
- The remaining two Big 4 accounting firms have very limited presence in City A and generally use staff from other cities to augment their City A staff in performing audit services in the city.
- Because of the specialized nature of the industry and the complexity of the public companies' international operations, it is unlikely that any non-Big 4 accounting firms could develop the necessary international expertise to audit any of these public companies to assure a potential client of sufficient industry expertise to be selected as a succeeding audit firm.

Issues Raised From This Realistic Fact Pattern:

Interpretation A or B – Specific to the realistic fact pattern:

- ✓ The audit practice of the dominant firm in City A essentially would be doomed the moment mandatory audit rotation was approved. With a mandatory rotation period of ten years, it would be a slow grinding death.

The 'human being' results of the dominant firm losing the bulk of its auditing practice in a marketplace devoid of other replacement clients would be devastating:

- All professional accountants would have their employment placed at risk within their firm
  - Possibly, there would be no professional accounting opportunities for them with other accounting firms in City A
  - Not only accounting personnel, but most or all other non-accounting personnel in the office from the receptionist to the janitors could or would be unemployed at some point in the continuum
  - Families planning to spend the rest of their lives in City A where they were born and raised would be put in jeopardy
- ✓ There is no guarantee that either of the other Big 4 accounting firms would move full time personnel into City A to audit a single or even two or three of the public companies. These firms might determine to audit these companies with staff from other urban locations if a single audit or two new audits were not a sufficient base to move personnel on a full time basis. Decisions to not move permanent personnel to City A would also effect the families of the successor firm audit personnel as their families would find their accounting spouse out of town for extended periods of time.
  - ✓ The industry expertise of the partners working on these industry specific clients would be lost with the inability to transfer their assignments to other clients in the industry. Note: Two of the most important elements of a successful audit process are knowledge of the industry and the company being audited. Both would be lost. Further, the industry expertise of the national technical gurus within these firms who have dealt with the industry as review partners and SEC technicians in distant offices would no longer be available to enhance audit quality on these accounts and would effectively be permanently lost to the accounting profession.
  - ✓ After mandatory rotation, all senior audit firm personnel auditing these six public companies would be new to the relationships and have no company specific experience and likely, given the fact pattern drawn, little or no industry expertise.

#### Interpretation A or B –Generic issues

- ✓ Geographic – One likely result of mandatory rotation is a new geographic reality of the business model. Career auditing personnel can likely expect to move locations on a regular basis as mandatory rotation is achieved in an unbalanced manner across the country. (If mandatory auditing rotation occurs, there is no reason to expect that mass disruptions of audit practices in individual cities will not regularly occur in non-urban centers. There is no reason to believe that winners and losers of forced rotation companies will

fall perfectly into place to support existing office locations of the various firms.) Audit personnel will need to be located where the changing audit practices are located. The most logical manner to ameliorate the mandatory auditor rotation model would be move to an urban base model with resultant audit personnel in hotels throughout the country.

- ✓ Small Firm Models – In any market where there are only a few public companies, smaller firms would likely be unwilling to build staffs to audit public companies with the reality that despite the quality of performance, the audit relationship could not exceed the specified number of years.
  - ✓ During the end of the rotation period, it would be difficult for either the dominant firm or the second firm to recruit personnel or encourage personnel to learn the specialized industry of the clients that will be leaving the firm as the result of rotation.
- a. Interpretation B – Specific to Interpretation B
- ✓ The best way for the succeeding auditing firm to insure industry expertise would be to hire the personnel from the dominant firm to staff the new audit for the succeeding auditor. If this were the case, there would be no effective change of firms from the current model as the personnel on the individual audits would remain unchanged and as the partners are already required to change, the effect of mandatory rotation would be muted. Add to that model that the staff moving to the succeeding firm would not be knowledgeable of that firm's audit methodology.
  - ✓ One could imagine the negotiations either during or after a mandatory rotation between the successor firm and the audit teams of the predecessor firm. This could not be good for anyone.

**The 'human being' toll, the family implications and the potential of making public accounting a less desirable career cannot be understated as a possible result of mandatory audit rotation.**

**Audit Rotation - A Perhaps Impossible Search For Independence - Would audit rotation require a major re-thinking of existing conflict of interest rules?**

There is universal agreement that auditor independence is essential to the auditing process. The concept of auditor independence has been broadened over the past decades. A study must be conducted to determine whether mandatory auditor rotation could be implemented without significant changes in the independence rules. In this proposed study, it needs to be understood that the world has changed with working spouses, former accounting firm partners being sought after to provide audit committees with deep accounting expertise, a smaller number of firms that can competently audit complex, multi-national audits and firms that are not independent of potential audit clients because of other services performed by them. This paper chooses to describe these issues in outline form:

#### Independence

##### Existing relationships and independence issues

##### 1) Entity being audited

##### a. Board of Directors

- i. Many members of public company boards of directors are former large accounting firm partners currently receiving pensions. Where boards of directors include retired accounting professional, this limits the number of firms eligible to become the successor auditors.
  - ii. Many members of public company boards are not independent of one or more public accounting firms because of existing business relationships. This limits the number of firms eligible to become the successor.
  - iii. Many members of public company boards of directors have family members who are not independent from at least one accounting firm. This limits the number of firms eligible to become the successor auditors.
- b. Executives of the Company
  - i. Many public company executives are former large accounting firm partners currently receiving pensions. This limits the number of firms eligible to become the successor auditors.
  - ii. Many public company executives are former large accounting firm partners who have recently left their former firms. This limits the number of firms eligible to become the successor auditors.
  - iii. Many public company executives are not independent of one or more public accounting firms because of existing business relationships. This limits the number of firms eligible to become the successor auditors.
  - iv. Many public company boards of executives have family members who are not independent from at least one accounting firm. This limits the number of firms eligible to become the successor auditors.

Public companies through their board members and executives often have independence issues with accounting firms who are not currently providing services that require independence. Mandatory rotation could therefore cause individual or multiple accounting firms to be unable to perform services that require independence.

## 2) Successor Accounting Firms

- a. Partners
  - i. Many accounting firm partners have family members who are executives at public companies. Some have spouses who are partners in other major accounting firms. This limits the number of firms eligible to become the successor auditors.
  - ii. Many accounting firm partners have existing investments in public companies. This limits the number of firms eligible to become the successor auditors.
- b. Accounting Firm Staff

- iii. Many accounting firm staff members have family members who are executives at public companies. This limits the number of firms eligible to become the successor auditors.
- iv. Many accounting firm staff members have existing investments in public companies. This limits the number of firms eligible to become the successor auditors.

Public accounting firms through their partners and staff often have independence issues with public companies who are not currently providing services that require independence. A requirement to require mandatory auditor rotation of firms could therefore cause individual or multiple firms to be unable to perform services that require independence.

- c. Other Services Currently or Previously Provided
  - i. Tax Services - The provision of tax planning services precludes a firm as a successor auditing firm.
  - ii. Management Consulting Services - Many management consulting services preclude a firm as a successor auditing firm.
  - iii. Providing other services may be more lucrative to a potential successor auditor than providing audit services.

### **Summary of resulting independence issues**

- i. Are there sufficient independence issues that there may not be a qualified independent auditor other than the current provider or a firm with significantly less industry experience or necessary geographic capabilities?
- ii. Are there sufficient independence or lack of financial opportunity issues that a qualified auditing firm will determine not to accept a proposal opportunity to become the successor auditing firm?
- iii. Is it 'fair' or reasonable to expect that individuals related to accounting firm personnel would need to change jobs, injure careers, liquidate investments etc. on an accelerated basis because of increased auditor change velocity?

### **Potential solutions (Costs)**

- i. Eliminate the independence issue for retired partners collecting pensions
- ii. Eliminate or contract the independence issue for family members
- iii. Eliminate some of the issues that cause prior activities for accounting firms to cause them to be not independent

**Mandatory audit rotation research must address whether without modification to the independence rules, there would exist a sufficient number of qualified accounting firms to have a reasonable competition to become successor auditors.**

**Audit Rotation – Sales – Is It In Anyone’s Best Interests To Have the Major Public Accounting Firms Making 500 Or More Audit Proposals Annually**

Today, there are between 5000 and 6000 US Companies subject to the auditing standards of the PCAOB. With a ten year mandatory audit rotation policy, that would result in 500 to 600 of these companies would be annually changing accounting firms with a mandatory ten year auditor rotation policy (and more if the mandatory audit rotation period was shorter.)

The costs of making a proposal to serve as the auditor for a public company are always significant. For any public company, the proposal process by the potential successor firms begins with an independence check and a determination if the company is one with whom the firm wants to do business. Next, there are reviews of existing financial statements, determination of firm expertise, gathering of a team of qualified professionals, multiple meetings with the executives of the company to be audited and often multiple meetings with the company’s audit committee. Some of these actions are in particular depth as the proposal process must include an understanding of the entire accounting and business of the potential client to determine the number of hours, often in the thousands, required to timely complete a competent and timely audit.

For one of the United States’ largest public companies, the time commitment to develop a competent proposal might reach into thousands of hours and consume significant sums of money. Even for a small public company, the value of the time and actual dollar costs might run to \$250,000 simply for a competent proposal.

With a mandatory auditor rotation policy, the decision to make or not make a proposal would have to be considered with more thought to geographical issues. Undiscussed to date is the possibility that geographic issues could lead to significantly higher fees or a decision not to bid with respect to public company audits where the headquarters are in cities where the bidding firm essentially has no significant presence.

Four separate issues arise from the increased sales and marketing efforts that would be required to propose on ten percent or more of the public companies in the United States.

- The additional proposal costs would ultimately be borne by the public companies.
- A reasonable estimate would be that at least ten to fifteen percent of every audit partner that currently serves public companies would need to be made available to allow them to participate in the numerically expanded audit proposal processes. Note: no prospective audit client is going to accept a new partner who they have not interviewed and who has not demonstrated significant knowledge of their company and their industry. This time would be lost to these partners' existing clients. This would be a permanent change to the landscape of the public accounting profession.

**It is not in the best interests of audit quality to have the accounting firms focus significantly more resources towards marketing and sales to insure that they do not lose market share as the result of mandatory auditor rotation. It is not in the best interests of audit quality for audit partners to**

**be increasingly pulled away from their auditing activities to participate in the proposal/sales activity. It is not in the best interests of audit quality to have the new stars of the auditing profession be the 'rainmakers' who can attract and close new business.**

**The very nature of the large accounting firms gearing up personnel and outside consultants to attract a continuing share of the audits that would be rotating every year is appalling in a professional view. It cannot be in the best interests of audit quality for top management to be allocating its time to all of the issues of maintaining market share in an industry where ten percent of its largest clients are lost every year.**

**Audit Rotation - Actions to Date - Should the actions to date, since the passage of Sarbanes-Oxley by Congress and the formation of the PCAOB with respect to the conduct of auditors and audits, be given a reasonable chance to impact audit quality before issuing new, impactful and dramatic new rules and regulations? Should not the impact of these changes be studied and documented before additional rules are implemented.**

Congress set the framework for the PCAOB:

1. Sarbanes Oxley, which created the Public Accounting Oversight Board (PCAOB) was passed in July, 2002.
2. The PCAOB held its first meeting in January, 2003.
3. Under Section 101 of the Sarbanes-Oxley Act, the PCAOB was granted the power to:
  - ✓ register public accounting firms that prepare audit reports for issuers;
  - ✓ set auditing, quality control, ethics, independence and other standards relating to the preparation of audit reports by issuers;
  - ✓ conduct inspections of registered public accounting firms;
  - ✓ conduct investigations and disciplinary proceedings concerning, and impose appropriate sanctions were justified upon, registered public accounting firms and associated persons of such firms (including fines of up to \$100,000 against individual auditors, and \$2 million against audit firms);
  - ✓ perform such other duties or functions as the Board (or the SEC) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and their employees;
  - ✓ sue and be sued, complain and defend, in its corporate name and through its own counsel, with the approval of the SEC, in any Federal, State or other court;
  - ✓ conduct its operations, maintain offices, and exercise all of its rights and powers in any part of the United States, without regard to any qualification, licensing or other provision of State or municipal law;
  - ✓ hire staff, accountants, attorneys and other agents as may be necessary or appropriate to the PCAOB's mission (with salaries set at a level comparable to private sector self-regulatory, accounting, technical, supervisory, or other staff or management positions);
  - ✓ allocate, assess, and collect accounting support fees that fund the board; and
  - ✓ enter into contracts, execute instruments, incur liabilities, and do any and all other acts and things necessary, appropriate, or incidental to the conduct of its operations and the exercise of its powers under the Sarbanes-Oxley Act.
4. Under Section 103 of the Sarbanes-Oxley Act of 2002, PCAOB was to establish auditing and related attestation, quality control, ethics, and independence standards and rules to be used by registered

public accounting firms in the preparation and issuance of audit reports as required by the Act or the rules of the Securities and Exchange Commission.

The PCAOB immediately went to work in an effort to achieve the goals of its mission. The following lengthy list is a recitation of recent steps by the PCAOB to insure increased audit quality

1. The PCAOB has been fully engaged in its activities since formation and has accomplished the following activities with respect to audit standards:
  - ✓ AS No. 1: References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board
  - ✓ AS No. 3: Audit Documentation
  - ✓ AS No. 4: Reporting on Whether a Previously Reported Material Weakness Continues to Exist
  - ✓ AS No. 5: An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements
  - ✓ AS No. 6: Evaluating Consistency of Financial StatementsAS No. 7: Engagement Quality Review
  - ✓ AS No. 8: Audit Risk
  - ✓ AS No. 9: Audit Planning
  - ✓ AS No. 10: Supervision of the Audit Engagement
  - ✓ AS No. 11: Consideration of Materiality in Planning and Performing an Audit
  - ✓ AS No. 12: Identifying and Assessing Risks of Material Misstatement
  - ✓ AS No. 13: The Auditor's Responses to the Risks of Material Misstatement
  - ✓ AS No. 14: Evaluating Audit Results
  - ✓ AS No. 15: Audit Evidence
2. The PCAOB has been fully engaged in its activities since formation and has accomplished the following activities with respect to independence standards:
  - ✓ 3501 Definitions of Terms Employed in Section 3, Part 5 of the Rules
  - ✓ 3502 Responsibility Not to Knowingly or Recklessly Contribute to Violations
  - ✓ 3520 Auditor Independence
  - ✓ 3521 Contingent Fees
  - ✓ 3522 Tax Transactions
  - ✓ 3523 Tax Services for Persons in Financial Reporting Oversight Roles
  - ✓ 3524 Audit Committee Pre-approval of Certain Tax Services
  - ✓ 3525 Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting
  - ✓ 3526 Communication with Audit Committees Concerning Independence
3. The PCAOB has carefully superseded previous guidance and offered interim standards in many areas:

## **AUDITING Standards**

- ✓ AS No. 2: An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements

## **Interim Standards**

- ✓ AU 311 Planning and Supervision
- ✓ AU 9311 Planning and Supervision: Auditing Interpretations of Section 311
- ✓ AU 312 Audit Risk and Materiality in Conducting an Audit
- ✓ AU 9312 Audit Risk and Materiality in Conducting an Audit: Auditing Interpretations of Section 312
- ✓ AU 313 Substantive Tests Prior to the Balance Sheet Date
- ✓ AU 319 Consideration of Internal Control in a Financial Statement Audit
- ✓ AU 326 Evidential Matter
- ✓ AU 339 Audit Documentation
- ✓ AU 9339 Audit Documentation: Auditing Interpretations of Section 339
- ✓ AU 9350 Audit Sampling: Auditing Interpretations of Section 350
- ✓ AU 9411 The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles: Auditing Interpretations of Section 411
- ✓ AU 420 Consistency of Application of Generally Accepted Accounting Principles
- ✓ AU 431 Adequacy of Disclosure in Financial Statements
- ✓ AU 9420 Consistency of Application of Generally Accepted Accounting Principles: Auditing Interpretations of Section 420

### **Interim Standards No Longer in Effect Based on Their Respective Effective Dates**

- ✓ AU 230A Due Professional Care in the Performance of Work
- ✓ AU 312A Audit Risk and Materiality in Conducting an Audit
- ✓ AU 9312A Audit Risk and Materiality in Conducting an Audit: Auditing Interpretations of Section 312A
- ✓ AU 316A Consideration of Fraud in a Financial Statement Audit
- ✓ AU 329A Analytical Procedures
- ✓ AU 333A Management Representations
- ✓ AU 9333A Management Representations: Auditing Interpretations of Section 333A
- ✓ AU 339A Working Papers
- ✓ AU 9339A Working Papers: Auditing Interpretations of Section 339A
- ✓ AU 341A The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern
- ✓ AU 9341A The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern: Auditing Interpretations of Section 341A
- ✓ AU 722A Interim Financial Information

### **ETHICS AND INDEPENDENCE STANDARDS**

#### **Interim Standards**

- ✓ ISB Standard No. 1 Independence Discussions with Audit Committees
- ✓ ISB Interpretation 00-1 The Applicability of ISB Standard No. 1: When "Secondary Auditors" Are Involved in the Audit of a Registrant
- ✓ ISB Interpretation 00-2 The Applicability of ISB Standard No. 1: When "Secondary Auditors" Are Involved in the Audit of a Registrant, An Amendment of Interpretation 00-1

### **QUALITY CONTROL STANDARDS**

#### **Interim Standards**

#### **SEC Practice Section (SECPS) - Requirements of Membership**

- ✓ SECPS §1000.08(f) Concurring Partner Review of the Audit Report and the Financial Statements of Commission Registrants

## **ATTESTATION STANDARDS**

### **Interim Standards**

- ✓ AT 501 Reporting on an Entity's internal Control Over Financial Reporting
- ✓ AT 9501 Reporting on an Entity's Internal Control Over Financial Reporting: Attest Engagements Interpretations of Section 501

## **GUIDANCE**

### **Staff Questions and Answers on Auditing Standard No. 2**

- ✓ Questions 1 – 26 (June 23, 2004, Revised July 27, 2004)
  - ✓ Questions 27 – 29 (Oct. 6, 2004)
  - ✓ Questions 30 – 36 (Nov. 22, 2004)
  - ✓ Question 37 (January 21, 2005)
  - ✓ Questions 38 – 55 (May 16, 2005)

4. The PCAOB has carefully provided guidance in many areas:

### **STAFF AUDIT PRACTICE ALERTS**

- ✓ Alert No. 1: Matters Related to Timing and Accounting for Option Grants (July 28, 2006)
- ✓ Alert No. 2: Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists (Dec. 10, 2007)
- ✓ Alert No. 3: Audit Considerations in the Current Economic Environment (Dec. 5, 2008)
- ✓ Alert No. 4: Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments (April 21, 2009)
- ✓ Alert No. 5: Auditor Considerations Regarding Significant Unusual Transactions (April 7, 2010)
- ✓ Alert No. 6: Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm (July 12, 2010) Alert No. 7: Auditor Considerations of Litigation and Other Contingencies Arising from Mortgage and Other Loan Activities (Dec. 20, 2010)
- ✓ Alert No. 8: Audit Risks in Certain Emerging Markets (Oct. 3, 2011)

### **STAFF QUESTIONS AND ANSWERS**

- ✓ Audits of Financial Statements of Non-Issuers Performed Pursuant to the Standards of the Public Company Accounting Oversight Board (June 30, 2004)
- ✓ Attest Engagements Regarding XBRL Financial Information Furnished Under the XBRL Voluntary Financial Reporting Program on the EDGAR System (May 25, 2005)
- ✓ Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor (June 9, 2006)
- ✓ Auditing the Fair Value of Share Options Granted to Employees (Oct.17, 2006)
- ✓ Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees (April 3, 2007)

- ✓ References to Authoritative Accounting Guidance in PCAOB Standards (Sept. 2, 2009) Auditing Standard No. 7, Engagement Quality Review (Feb. 19, 2010)

**• OTHER STAFF GUIDANCE**

- ✓ Preliminary Staff Views – Comment letters
- ✓ Preliminary Staff Views – An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies (Oct. 17, 2007)
- ✓ Staff Views – An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies (Jan. 23, 2009)

**OTHER BOARD RELEASES**

- ✓ Policy Statement Regarding Implementation of Auditing Standard No. 2: An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements (May 16, 2005)

5. The PCAOB is currently investigating many topics:

**CURRENT STANDARD SETTING AND RELATED RULEMAKING ACTIVITIES**

- ✓ Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards
- ✓ Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards
- ✓ Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits
- ✓ Proposed Auditing Standard on Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards
- ✓ Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards
- ✓ Concept Release on Possible Rulemaking Approaches to Complement Application of Section 105(c)(6) of the Sarbanes-Oxley Act of 2002
- ✓ Proposed Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards
- ✓ Proposed Auditing Standard on Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards
- ✓ Concept Release on Auditor Independence and Audit Firm Rotation

The amount of work, the number of recent rules and regulations from the PCAOB guiding the accounting profession has been prodigious. While, it is unarguable that these efforts of the PCAOB have had a significant and mostly positive impact upon the accounting profession and the quality of auditing, it is essential that the impact of these actions be studied and understood before the additional step of mandatory audit rotation is fully considered. The possibility that the combination of the recent rules and regulations combined with the specter of audit rotation could cripple the existing audit providers, dramatically increase audit costs and provide the potential for some public companies to be unable to find capable independent auditing firms needs be considered carefully.

**Without any research being conducted on the impact of the current rules and regulations, a draconian step such as mandatory audit rotation is unwarranted and unsupportable. The**

**impact of recent changes needs to be studied and documented before additional rules are implemented. The possibility that mandatory audit rotation could have a crippling impact on recruiting, personnel retention, the ability to maintain independence and the ability to achieve sufficient industry expertise needs to be studied far more diligently before any such action is taken.**

**Respectively Submitted**

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