

December 13, 2011

**VIA ELECTRONIC MAIL (comments@pcaobus.org)**

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC20006-2803

Re: **PCAOB Rulemaking Docket Matter No. 37– PCAOB Release No 2011-006 - Concept Release on Auditor Independence and Audit Firm Rotation (the “Concept Release”)**

To Whom It May Concern:

I am the Chairman of the Audit Committee of Independent Bank Corp., a publicly-traded bank holding company (NASDAQ: INDB). Independent Bank Corp. has been a public company for over 25 years and currently has approximately \$4.9 billion in consolidated assets. Independent Bank Corp. is the parent of Rockland Trust Company, a commercial bank serving eastern Massachusetts and Rhode Island.

The Independent Bank Corp. Audit Committee is comprised of three Certified Public Accountants who are qualified and designated “audit committee financial experts” and two sophisticated and experienced business owners. Several of our Audit Committee members have also previously served on the audit committees of other publicly traded bank holding companies.

The Independent Bank Corp. Audit Committee appreciates the opportunity to comment upon the above-referenced Concept Release. For the reasons explained below, we believe that there is not a need for audit firm rotation and do not support requiring audit firm rotation.

The central presumptions of the Concept Release are that:

1. Deficiencies exist in the level of auditor independence, objectivity, and professional skepticism;
2. Deficiencies exist in the ability of an audit committee to effectively determine whether auditors are sufficiently independent, objective, and skeptic; and
3. These deficiencies are significant enough to warrant a drastic disruption to the marketplace in an effort to eradicate the deficiencies.

The concept that mandatory audit firm rotation is the most efficient and effective way to eradicate these assumed significant deficiencies, that mandatory audit firm rotation will enhance auditor independence, objectivity, and professional skepticism is flawed in many respects. Most significantly is that no correlation has been established that the perceived deficiencies result from an audit firm’s length of service and/or an audit committee’s inability to carry out its mandated responsibilities effectively. In fact, the Concept Release acknowledges that academic studies between audit firm tenure

and audit quality “tend to support the view that engagements with short tenure are relatively riskier” and the PCAOB’s own preliminary analysis shows “no correlation between auditor tenure and number of comments in PCAOB inspection reports.” Additionally, based on hundreds of inspections of registered public accounting firms each year “the Board believes that the reforms in the [Sarbanes-Oxley] Act have made a significant, positive difference in the quality of public company auditing.” As stated in the Concept Release, reforms that have had a positive impact on audit quality include placing the audit committee in charge of hiring the auditor and overseeing the engagement, auditors being prohibited from providing certain non-audit services, and the imposition of mandatory audit partner rotation.

While the Concept Release provides details as to why some parties believe that problems still exist and what these problems are, we believe one statement in the Concept Release identifies the underlying root issue: “Based on the Board’s inspections and other oversight activities, auditors still at times fail to display the necessary independence in mental attitude”. Our position is that:

1. Occasional failures to display an independent mental attitude “at times”, to the extent that they occur at all, do not warrant drastic disruption to the marketplace.
2. The onus and cost of fixing the mental attitude of auditors should not fall on the companies they audit.
3. Mandatory audit firm rotation will not stimulate “the necessary independence in mental attitude”.

If indeed a problem exists in the mental attitude of auditors that is significant enough to warrant action, the solution to this problem is targeted auditor education and training. Targeted auditor education and training has a far better chance of altering the mental attitude of auditors to be more skeptical when performing audits than would mandatory audit firm rotation. Education and training that addresses the matter of auditors having a more skeptical mental attitude when conducting audits could, for example, include forensic and fraud auditing training as part of the CPAs mandatory continuing professional education (CPE). A change that did occur in the recent past is mandatory CPE in professional ethics. Mandatory CPE in forensic or fraud auditing would better address mental attitude in conducting audits.<sup>1</sup> Targeted auditor education and training puts the responsibility and the cost of the solution to the PCAOB’s identified issues where they belong, on the audit firms.

To the extent the issues described in the Concept Release exist, the PCAOB should be able to address them itself by reviewing its disciplinary authority and practices in order to determine whether its disciplinary proceedings sufficiently address the gravity of the risks inappropriately accepted by auditing firms that commit audit failures.

Zero tolerance is laudable in theory and generally is, we believe, the mindset of the vast majority of auditors, audit committees, and management teams. However, a zero error rate in conducting audits nationwide is unattainable given the frailty of human nature. A sweeping mandate of audit firm rotation will not achieve perfection, will increase the costs of those being audited, and is unlikely to change the fact that “unconscious biases” can occur and a few rogue auditors will always exist. The focus of the

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<sup>1</sup> This statement is not suggesting that annual audits of public company financial statements should focus on detecting fraud. Forensic and fraud auditing, however, do involve a certain state of mind that is the same or extremely similar to the mindset of skepticism.

PCAOB should instead be to establish an environment that enhances the ability of auditors to recognize and guard against unconscious biases and minimizing the number of rogue auditors. This focus should be on appropriate education and training, which are proven methods of changing the mindsets of individuals and, when warranted by egregious circumstances, PCAOB disciplinary action.

**Response to Specific PCAOB Questions in the Concept Release**

The PCAOB requested advice and comment on mandatory audit firm rotation and other matters presented in the Concept Release. Our views on the “General” and “Possible Approach to Rulemaking” questions are contained in the Attachment to this letter.

Thank you for considering our comments. We trust the PCAOB will, after careful consideration of this matter, come to the conclusion that mandatory audit firm rotation will not provide a clear and strong benefit to the public.

Respectfully submitted,

Independent Bank Corp. Audit Committee

A handwritten signature in black ink, appearing to read "Donna L. Abelli". The signature is fluid and cursive, with a large initial "D" and "A".

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Donna L. Abelli, CPA, Chairman

## Attachment

### III.D. Audit Firm Rotation, General Questions (paraphrased or key question noted)

- Should the Board focus on enhancing auditor independence, objectivity and professional skepticism?

Based on the information presented in the Concept Release, the matter of auditor independence, objectivity, and professional skepticism appears to have been sufficiently addressed by the reforms mandated by the Sarbanes-Oxley Act. The findings resulting from the PCAOB's inspections of audit firms seem to identify two specific problem areas – the appropriate levels of professional skepticism and technical competence, rather than the broader issue of auditor independence, objectivity, and professional skepticism. Therefore, the Board should narrow its focus on these specific matters. Also, the Board acknowledges that inspections are targeted and it “may be looking at the most error-prone situations.” We have difficulty drawing a direct connection between the Board's limited (albeit troublesome) findings of error-prone situations to a broader statement that auditor independence, objectivity, and professional skepticism need to be further enhanced.

We believe the Board should not “simply defer” consideration of proposals to enhance auditor independence, objectivity, and professional skepticism. The specific matter of deliberating mandatory audit firm rotation needs to permanently come to an end. The lengthy history of consideration given to audit firm rotation as the answer to improve audit quality and the end result always being there is more than sufficient reason to not impose mandatory audit firm rotation itself proves that further consideration of this matter is not a productive use of the Board's time and efforts.

- Would audit firm rotation enhance auditor independence, objectivity, and professional skepticism?

We concur with the conclusion reached by many experts over the lengthy history (from 1997 to present day) of considering this matter – that audit firm rotation would not enhance auditor independence, objectivity, and professional skepticism.

- What are the advantages and disadvantages of mandatory audit firm rotation?

#### Advantages –

- Quiets what appears to be a very small minority view that this mandate would further enhance audit quality.
- May erode the stigma associated with changing audit firms, which is typically construed as opinion shopping, and aid in making audit committees more inclined to dismiss auditors whom they feel have underperformed.
- May result in convergence amongst the firms on subjective accounting matters, leading toward increased comparability of financial statements.

These potential Advantages, however, are greatly outweighed by the many significant Disadvantages:

Disadvantages –

- Imposes a broad-reaching, disruptive, and costly mandate that is, at best, speculative in its proposed benefit of improving audit quality.
- Assumes that a new regulatory mandate will be more effective than the relatively new mandates imposed on audit committees (independent committee members, financial expertise of the committee, selection of audit firm; overseeing the engagement; ensuring auditor independence and objectivity).
- Requires consideration of many more disruptions in the market place, such as the role of the audit committee, non-audit services, mandatory audit partner rotation, auditor consents, reliance on the work of the prior auditors, the level of reliance on the work of internal auditors, audit fees, approach to and positions taken by different audit firms on judgmental audit areas such as valuations, impairments, and levels of reserves, peer review, and likely a host of other areas that need to be considered for change if this mandate of audit firm rotation is imposed. Unintended consequences could be broad and deep.
- Diminishing the relevance of free market forces in selecting the best audit firm for a particular engagement, based on such fundamentals as expertise, service levels, and cost, would be counter-productive and reward undeserving firms.
- Increased cost of maintaining independence with two audit firms and the incremental time and cost of obtaining consents from auditors for the prior periods that they audited.
- The recent financial crisis, which in-part appears to be the impetus for this proposal, would not have been prevented by mandatory audit firm rotation. The crisis was precipitated by the collapse of the housing bubble and the complex interaction of valuation and liquidity in the financial system, which seems to exceed the scope of a financial statement audit.

We believe there is not a way to structure a rotation requirement to avoid or minimize the disadvantages or unintended consequences of such a mandate.

- Should the Board conduct a pilot program to further study mandatory rotation?

Given all the facts and circumstances presented in the Concept Release, we believe that conducting a pilot program is not an efficient use of the Board's time and efforts and that little would be gained from such a study versus evidentiary studies and educated opinions that already exist.

- What effect would a rotation requirement have on audit costs?

The Sarbanes-Oxley Act was a sweeping mandate that caused our audit fee to increase over 88%, from \$210,000 in 2003 to \$395,500 in 2004. Another sweeping regulatory mandate such as mandatory audit firm rotation would likely result in the same type of significant fee increase.

We believe that a relatively common practice is for audit firms to underbid new audit engagements, with the goal of more efficient audits in future years compensating any losses taken in the earlier audit years resulting from the time and effort required to learn a new engagement. Therefore, we believe that mandatory rotation of audit firms will result in

significantly higher audit fees as auditors will now need to cover their costs in the early years as they will not have the ability to develop audit efficiencies over multiple years.

Additionally, we agree with the studies that have proven audit risk is higher in the early years of audit engagements. Given that audit firms will now always be conducting relatively short-lived audit engagements, the firms will need to price services according to this higher level of risk. Trying to mitigate these risks or associated costs gets us back into the loop of further mandates and potentially unintended consequences.

As for company financial departments, a significant amount of effort is required to “train” new auditors, and to produce the varying schedules that different firms may require. Financial reporting teams will likely spend substantially more time to prepare for audits and audits will likely take substantially more time to complete under a mandatory audit firm rotation scenario. Given that financial reporting teams already spend substantial effort in regards to audits, a company will be likely faced with higher audit fees and higher staffing costs.

Not discussed at all in the Concept Release is the potential impact on the use of internal auditors. How do companies (and audit committees) determine and manage the appropriate level of staffing and expertise of internal audit departments given that different audit firms may have different policies for utilizing and relying on the work of internal audit departments. While the composition of the internal audit team is more driven by the size and complexity of the organization, internal audit departments’ involvement in the audit will be impacted under a mandatory audit firm rotation environment.

- To what extent have audit committees considered implementing a policy of audit firm rotation?

Our audit committee has given limited consideration to audit firm rotation, in the context of discussions that occurred during the times of changing auditors. Changing auditors is a decision not to be taken lightly and change should not occur just for the sake of change. We believe extensive discussions are required in considering whether to change audit firms and which firm to select. This matter requires considerable audit committee effort and expertise – assessing the need/reasons for change, assessing the cost/benefit of change, understanding the qualifications of various audit firms, undergoing the bid process, selecting the firms to interview, conducting the interviews, and final selection. Changing auditors requires considerable time, effort, and disruption for the audit committee and the company. A policy of audit firm rotation seems counterproductive as there is no known benefit of firm rotation. Our audit committee is confident that current processes, procedures, and regulatory mandates ensure sufficient auditor independence and objectivity, such as having the audit committee responsible for engaging and overseeing the auditors, mandatory audit partner rotation, limits on non-audit services, audit firm peer review, PCAOB audit firm inspections, limits on auditor investments in public companies, and other related mandates.

- Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity, and professional skepticism?

Addressing the alternatives as presented in this question:

*Joint audits* – On extremely large and complex engagements, joint audits may carry some benefit, such as different firms being responsible for different segments of a company to ensure the necessary level of expertise and sufficient resources for auditing each segment. Perhaps this area is worth further study.

*Solicit bids after set number of years* – Soliciting bids addresses the issue of cost only. Stating that soliciting bids after so many years will enhance auditor independence, objectivity, and professional skepticism is an unrealistic stretch.

*Enhancement of audit committee oversight* – Our audit committee meets in four separate executive sessions with (1) its members only, (2) the auditors, (3) the management team and the internal auditors; and (4) the internal auditors only. All four executive sessions occur at each audit committee meeting. These executive sessions allow the committee members to discuss and contemplate matters among its members only; provide the opportunity for the auditors, management, and internal audit to share information and discuss concerns privately; and allow the committee members to ask frank questions of each party and go into further depth on any matters of interest. Conducting executive sessions at each meeting (as opposed to, for example, annually) allows all parties to address matters on a timely basis. The onus is and should be on the audit committee to ask pertinent questions and be alert to the relationships and attitudes between the auditors and management.

One potential alternative procedure that may enhance the mindset of the auditor is to have partners, managers, and/or staff sign their name (not audit firm name) on a letter to the audit committee stating their independence and objectivity was not compromised and that they retained a sufficient level of skepticism throughout the engagement. Such a letter would be similar to representation letters that auditors require from company management teams. Company management is required to personally sign representation letters; they are not allowed to take cover under the umbrella of an organization's name. The same should be required of the audit team, with audit team representation letters directed to the audit committee.

- Should the Board continue to seek to address its concerns about independence, objectivity, and professional skepticism through its current inspection program?

As we stated above, the findings resulting from the PCAOB's inspections of audit firms seem to identify two specific problem areas – the appropriate level of professional skepticism and technical competence, rather than the broader issue of auditor independence, objectivity, and professional skepticism. Our summary includes our belief that education and training would be a more effective way of changing the mindset of auditors. Ongoing education and training would be an effective method of addressing auditor technical competence as well. We do not know the details of the PCAOB inspections, but perhaps additional focus on what type, level, and frequency of education and training an auditor receives would be a productive area of focus. Whether consolidated into current CPE requirements or separately addressed, focused and relevant education and training would better prepare auditors on knowing how to seek evidentiary matter to support audit conclusions, what is the appropriate level of audit scope for each critical/high-risk areas of an audit, better assessing the effectiveness of internal controls, how to be skeptical when assessing managements statements and assertions, and conducting more effective assessments of a company's practice of revenue recognition, fair value accounting, and management's estimates. Addressing the matter of auditor education and

training<sup>2</sup> does not necessarily have to lead to costly mandates. Focus on these areas may reveal that the existing CPE requirements or existing firm training simply need to be enhanced or refocused to ensure they are up-to-speed with the current environment in which businesses operate.

#### IV. Possible Approaches to Rulemaking

1. If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term of length?

We believe the Board should not move forward with development of a rotation proposal. If the Board does decide to move forward, rotation should be no less than 10 years.

2. Should different term lengths for different kinds of engagements be considered?

If the Board is stating that auditor tenure has a direct and negative impact on auditor independence, objectivity, and skepticism, having different term lengths seems counterproductive.

3. Does audit effectiveness vary over an auditor's tenure on a particular engagement?

"Effectiveness" does not seem the appropriate choice of a word. We believe that the vast majority of auditors are likely effective whether at the beginning, middle, or end of a client relationship. "Efficient" and perhaps "focused" seem to be more relevant in this regard. An auditor is more likely than not less efficient at the beginning of a new client relationship as there is a learning curve. How efficient or how long it takes to become the most efficient is likely tied to the complexity of the client company, as well as the experience of the audit team. Auditors could perhaps lose focus over the course of years with a client. Mandatory audit partner rotation, normal staff turnover, and questioning audit committees are the deterrents to losing focus (or effectiveness) over the course of time.

4. Would auditors become more or less diligent towards the end of their term?

We believe that an auditor's level of diligence is independent of the length of the term. The level of diligence is more likely a matter of firm practice. If there is any correlation to diligence and length of term, the correlation is probably a matter of mindset of a particular individual auditor.

5. How much time should be required before a rotated firm could return to an engagement?

Depending on the location, industry, complexity, and types of transactions of the company, choice of auditors in a mandatory firm rotation environment may be limited to just two truly qualified audit firms. Therefore, limits on when a rotated firm could return to an engagement should not be imposed. Even if a broader choice of qualified audit firms is available, there

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<sup>2</sup> In this context, we are referring to education and training of auditors in audit firms, not the education provided in colleges and universities, which is an entirely different matter that may need to be looked at as well.



seems to be no basis for placing limits on when a rotated firm could return to an engagement. If tenure is the concern of the PCAOB, tenure has been broken after one rotation.

6. Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers?

The cost/benefit of required audit firm rotation is an issue regardless of company size. Additionally, imposing mandatory rotation on only the largest of companies would probably increase audit risk and reduce audit quality. The largest of companies are usually the most complex, hardest to audit, and take the longest to gain any type of audit efficiencies. Benefit to investors seems non-existent.

If the Board decides to target only the largest of firms, perhaps considering joint audits based on company business segmentation would be a more effective approach than firm rotation.

7. To what extent would a rotation requirement limit a company's choice of an auditor?

We believe that a rotation requirement is highly likely to limit a company's choice of a qualified audit firm. Using our industry as an example, how many firms are expert in auditing multi-billion dollar banks and is such expertise widespread throughout all regions? We do believe that the increased risk assumed with audit firms taking on clients that are larger or more complex or in different industries than their normal portfolio will result in some firms deciding to abandon audits of public companies. Already, many firms have made the decision to not audit public companies because of the expertise required and assumed increased risk. Additionally, a smaller audit firm could be negatively impacted to an unacceptable level if they incurred a loss of many clients in one year due to mandatory audit firm rotation but was unable to replace these losses with other clients in any given year.

8. Are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements?

The real question is why would a company want to abandon non-audit services in order to perform audit services for a company? Firms generally perform non-audit services because they have expertise in particular areas and the engagements are profitable. The scenario more likely to emerge is that otherwise qualified firms do not want to become involved with a company on a rotating audit basis.

9. Would audit firms have the capacity to assign appropriately qualified personnel to new engagements?

This question is best left answered by the audit firms. One observation, however, is that due to the ever decreasing entry of college students into the accounting profession developing the qualified expertise and capacity to manage new engagements under mandatory firm rotation would be difficult.

If mandatory audit firm rotation was required, companies would be required to select a new auditor regardless of an available qualified firm and the staff of that firm would receive on-the-

job-training (OJT) in that industry. OJT in first year audits does not seem to be an efficient or appropriate path for firms to develop qualified personnel. The alternative is additional investment in training; but why would a firm do that only to lose the engagement a few years later when its rotation is up?

A question that comes to our mind is “what’s to keep audit staff at the current audit firm from just rotating to another audit firm so that they can stay on the engagement?” If this occurs, retention issues at audit firms are further exacerbated and the goal of “fresh look” from audit firm rotation is not achieved.

10. Would rotation create unique challenges for audits of multinational companies?

No comment, except that mandatory audit firm rotation may be yet another factor that companies will consider in deciding whether to go (or stay) public in the United States. The increased costs and mandates seem endless.

11. Would increased frequency of auditor changes disrupt audit firms’ operations or interfere with their ability to focus on performing high-quality audits?

We believe mandatory audit firm rotation will cause audit firms to become increasingly internally focused to the detriment of performing higher quality audits.

12. Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits?

Audits are still the bread and butter of most audit firms. Audits are required through good economies and bad. A move to more non-audit services and less audit would be high risk. Whether the firms would have the ability to focus on improving quality is questionable, however, given their need to focus on the significant impact of not knowing what engagements and how many engagements (what level and type of resources) the firm will have (need) year to year.

13. Would rotation have any effect on the market for non-audit services?

We can see two scenarios potentially occurring – audit firms are no longer able to perform non-audit services; or audit firms decide to focus more on non-audit services given the short-lived cycle of audits. If the former were to occur, the impact on companies would be devastating. Companies rely on the expertise provided in non-audit services, which tend to focus on highly complex areas of accounting or tax. Without this external expertise, will companies be forced to develop/hire internal expertise even in just one area, an extremely costly move? If the latter were to occur, then the already minimal choice of qualified audit firms to choose from would become that much more limited.

14. Would opinion shopping be more or less likely if rotation were required?

We believe opinion shopping is an extremely rare situation and would continue as such.

15. What effect would a rotation requirement have on competition for audit engagements?

As previously stated, we believe that audit firms will become internally focused as a result of mandatory firm rotation. Internally focused on competing for the next engagement, preparing audit proposals on an ongoing basis, worrying about levels of staffing year to year as the firms will be unable to predict the quantity (or quality) of client engagements year to year, dealing with the high costs of staff turnover resulting from fluctuating levels of client engagements, the firms cannot possibly give more attention to audit quality.

Competition would likely be fierce in some industries/markets as audit firms vie for coveted clients. If pricing wars result, then audit quality could be negatively impacted as firms strive to reduce costs due to lower revenues. Fierce competition could lead to other compromises that negatively impact audit quality as firms focus turns to winning.

16. Are there any requirements the Board should consider to mitigate any risks posed by rotation?

Mitigating risk will have a cost just as mandating audit firm rotation will have a cost. Rather than spending energy on considering what additional risks may result from rotation, the concept of mandatory rotation should be put to rest.

17. Should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement?

Government regulation deciding the best staffing and supervision levels of an audit seem an inappropriate role of the PCAOB. Audit firms have the required expertise to staff their engagements as deemed appropriate for each unique client situation.

18. Are existing standards relating to communications between predecessor and successor auditors sufficient?

The PCAOB states that one purpose of mandatory audit firm rotation is to obtain a "fresh look" at companies' financial statements. Having predecessor auditors provide successor auditors, as the Concept Release suggests, "a written report outlining audit risks and other important information about the company" seems to defeat the purpose of a fresh look.

19. Are there other audit procedures that should be required to mitigate any risks posed by rotation?

No comment.

20. Should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term?

If the PCAOB is going to mandate the selection of auditors as well as the ability to terminate the auditors, then coordination with the SEC is imperative given the PCAOB would be changing the current role and responsibilities of the audit committee.

We are unclear as to why the PCAOB seems to believe that the audit committee is not qualified or otherwise capable of selecting auditors and determining if and when they should be rotated or terminated.

21. What other transition issues might arise in the first year of a rotation requirement?

The Concept Release seems to identify the most significant transition issues. What remains of significant concern is underdeveloped identification and assessment of potential unintended consequences of a sweeping mandate for audit firm rotation and potential long-term negative impacts on audit firms and public companies. Additionally, the PCAOB has underweighted the impact of losing the expertise audit teams develop when auditing complex organizations over extended periods of time.