



GPO Box 9985  
Sydney NSW 2001  
AUSTRALIA

Tel) +61 2 9090 5600  
Fax) +61 2 9262 5469

December 14, 2011

**VIA ELECTRONIC MAIL**

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

**Re: Request for Public Comment on Concept Release on Auditor Independence and Audit Firm Rotation (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking Docket Matter No. 37)**

Dear Mr. Seymour:

The Global Accounting Alliance (GAA) is pleased to comment on the *Concept Release on Auditor Independence and Audit Firm Rotation* (the "Concept Release").

The GAA was formed in November 2005 and is an alliance of leading professional accountancy bodies in significant capital markets. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration where possible with other international bodies, especially the International Federation of Accountants (IFAC). The GAA represents over 775,000 professional accountants in 165 countries through 11 member bodies, namely:

- The American Institute of Certified Public Accountants (AICPA)
- Chartered Accountants Ireland (CAI)
- Canadian Institute of Chartered Accountants (CICA)
- Hong Kong Institute of Certified Public Accountants (HKICPA)
- Institute of Chartered Accountants in Australia (ICAA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants of Scotland (ICAS)
- Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)
- The Japanese Institute of Certified Public Accountants (JICPA)
- New Zealand Institute of Chartered Accountants (NZICA)
- South African Institute of Chartered Accountants (SAICA)



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The GAA supports the PCAOB's overall objective to enhance auditor independence, objectivity and professional skepticism. Independence, objectivity and professional skepticism are the foundation of a high quality audit. Audit is critical to the effective operation of the capital markets and audit quality should be central to any proposed developments. We should aspire to the highest quality of reporting and an audit which inspires confidence in that reporting. We believe it is important not to consider the audit in isolation, but in the context of the underlying reporting and governance mechanisms within an entity. We support continuous review and improvement in respect of the role of corporate governance; financial reporting; audit; the quality of audit and enhancing the auditor's ability to exercise professional scepticism.

The PCAOB suggests that one possible approach to enhance audit quality is through mandatory audit firm rotation. We have serious concerns that such an approach will not result in the intended goal of enhanced audit quality but rather, could result in lower audit quality as well as other unintended consequences. Moreover, we question why the PCAOB would consider such a measure when there appears to be no evidence that the PCAOB's inspection findings have any direct correlation with audit firm tenure. The PCAOB itself acknowledges that the preliminary analysis of its inspection findings show no correlation between audit tenure and the number of comments in the inspection reports. We would urge the PCAOB to focus on analyzing such findings and determine the root cause before proceeding any further on mandatory firm rotation. There are many drivers to audit quality. For example, in addition to objectivity and professional skepticism, a quality audit depends on drivers such as the auditor's competence and experience, as well as high quality auditing standards and quality control standards. Until a thorough analysis of the inspection findings has been performed, the PCAOB should not pursue mandatory firm rotation.

In considering this issue, it is essential that the PCAOB be mindful that an audit is a global service with implications in the global environment. Capital moves freely around the globe. Investors make decisions in a global market. Leading companies operate in many parts of the world. Auditing these and other significant entities has to be addressed globally and locally. Clearly, the major firms that conduct these audits approach them globally. Mandatory firm rotation could result in significant issues for global companies, especially if regulators around the world adopted mandatory firm rotation with differing rotation periods. For example, multiple rotation regimes for multi-national companies could result in multiple audit firms and varying audit methodologies used on a particular audit. In addition, audits of global companies often involve complex business structures and transactions that require the auditor to develop and maintain expertise in specialized industries. If mandatory firm rotation is imposed, the company and new auditor would have to devote significant resources and incur increased costs in order for the new auditor to gain the necessary knowledge and expertise to perform the audit. Moreover, the potential loss of industry knowledge and expertise would be exacerbated in some countries where audit firm choice is already limited and therefore, it may be impossible to implement.

Furthermore, numerous studies and academic research indicate that mandatory firm rotation could actually reduce audit quality and increase the likelihood of fraud. Research shows that there is an increase in the potential for fraud during the first three years of a new audit



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engagement. Firm rotation would also result in significant costs and inefficiencies for companies and their shareholders. Due to the fact that there is no sound empirical data supporting the notion that firm rotation enhances audit quality and that the PCAOB has not yet demonstrated a correlation between its inspection findings and audit tenure, we urge the PCAOB to consider alternative measures if evidence exists that audits are being performed without the requisite independence, objectivity and professional skepticism.

One possible measure could be to enhance the role of the audit committee. The audit committee is a fundamental component of a sound corporate governance structure that forms judgments and operates independently from the management function. On a global level the role of the audit committee has evolved significantly in the last ten years and will continue to evolve. It has moved from being a fairly limited function primarily focused on the completion of the audited financial statements to having much broader and integrated responsibilities. Drivers of this evolution include regulatory and market expectations and better practice initiatives including more engagement and, in particular, timely communications with auditors. We believe that further enhancements can and should be made to the role of the audit committee.

The audit committee should remain responsible for and be able to exercise its discretion and judgment in determining audit firm selection and tenure. Firm tenure should be one of the factors considered by the audit committee when determining if the audit firm should be reappointed. The PCAOB may wish to consider recommending further involvement by the audit committee in evaluating and ensuring the independence and objectivity of the auditor. Specific questions could be developed for the audit committee to discuss with the audit firm that could assist in assessing whether the audit was performed with the necessary professional skepticism. The auditor could also provide communications to the audit committee regarding the PCAOB's inspection activities when the audit is selected for inspection. For example, it would seem appropriate for the audit committee to be notified that the company has been selected and to receive periodic updates on the status of the inspection and any resulting findings. Communication between auditor and the audit committee is imperative, as is communication between the audit committee and the company's stakeholders. In our view there is merit in enhancing the reporting of the audit committee, in particular around its relationship with the external auditor. Enhanced communications between the audit committee and stakeholders should address the audit committee's processes for appointing, evaluating and re-appointing the audit firm.

In closing, we would ask the PCAOB to carefully weigh the significant costs and consequences of mandatory firm rotation against any potential benefits. In doing so, we would recommend the PCAOB perform an economic impact analysis and at a minimum, quantify the costs associated with such a requirement. In addition, if the PCAOB's analysis of its inspection findings provides evidence that a lack of objectivity and professional scepticism was the root cause for the inspection findings, we would strongly encourage the PCAOB to consider other measures to enhance auditor objectivity and scepticism that would not result in the significant disruption brought on by mandatory firm rotation.



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The GAA appreciates the opportunity to comment on the Concept Release and would be happy to discuss our comments with the Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Harrison', is written over a light blue horizontal line.

**STEPHEN HARRISON** AO FCA FAICD  
Chief Executive Officer