



December 20, 2011

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

RE: Public Company Accounting Oversight Board ("PCAOB" or the "Board") Concept Release on Auditor Independence and Audit Firm Rotation - Release 2011-006, Docket Matter No. 37

Chairman Doty,

I want to thank the Board for the opportunity to comment on the concept release related to auditor independence and the proposal for mandatory auditor rotation. As the Chief Accounting Officer of Rock-Tenn Company, I appreciate the relevance of this topic to both the investing and financial communities. Rock-Tenn Company is a New York Stock Exchange listed company engaged primarily in the manufacture of corrugated and folding carton boxes, primarily in the United States, Canada, Mexico and South America. Expected revenues for fiscal 2012 are approximately \$10 billion.

Mandatory auditor rotation has been a multi-faceted topic of interest to the accounting and investor communities for many years. The concept release includes a well documented summary of the history of mandatory auditor rotation and the many pros and cons that numerous parties have considered and expressed.

I believe that the Sarbanes-Oxley Act imposed changes to the audit process for public companies and the audit profession that reduce the need for mandatory audit firm rotation. These changes included the establishment of the PCAOB and its auditor oversight processes, the mandatory rotation of the lead audit partner after 5 years with a client and the increased reporting on internal controls. As noted in the concept release, at the time of drafting the Act, Congress considered mandatory auditor rotation but directed the GAO study and report on this topic – which they did in 2003 – with the conclusion that “mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality”.

At the beginning of Section III D of the Concept Release document the Board poses 4 over-riding general questions. In addition, later in section III D, the Concept Release poses an additional 8 questions and in section IV yet an additional 21 questions are asked. I have distilled the various questions down to four summary questions which I will respond to in this letter.

- 1) Would mandatory auditor rotation significantly enhance auditor’s objectivity and resistance management pressure?
- 2) Would a periodic “fresh look” at a company’s financial statements enhance auditor independence and protect investors?
- 3) What would be the impact on audit costs of mandatory auditor rotation, including the benefits of not having mandatory auditor rotation?
- 4) Should the PCAOB continue to address the topic of independence, objectivity and skepticism of auditors?

**Question 1: Would mandatory auditor rotation significantly enhance auditor's objectivity and resistance management pressure?**

No. An auditor's objectivity and resistance to management pressure relates directly to the integrity of the audit firm and to the people who work in it. These traits exist in the culture of a firm and its individuals independent of external forces. Audit committees of public companies oversee the qualifications, performance and character of the audit firms and their staff. Audit committees hire and select of auditors and oversee their activities. The ability of an audit firm's ability to provide certain non-audit services to audit clients has now been eliminated. The concept that an auditors' objectivity and ability and willingness to resist management pressure would be enhanced in the knowledge that a "stream of revenue" will eventually or soon come to a close, seems fallacious to us. If auditors, in the future, were to be mandatorily rotated, the stream of revenue from client A will most likely be replaced by a stream of revenue from client B, plus a partner with firm A can somewhat easily move to firm B if the client moves from firm A to firm B.

**Question 2: Would a periodic "fresh look" at a company's financial statements enhance auditor independence and protect investors?**

Yes, a periodic "fresh look" at a company's financial statements would, and does, enhance auditor independence and protect investors; however, **the current practice of mandatory partner rotation within an audit firm satisfies this need.** Rotation of an entire audit firm would not provide any significant incremental benefits. The lead audit partner sets the "tone at the top" for each year's audit. The lead audit partner approves the audit approach and decides on critical audit and accounting issues that come up during the course of an audit. By rotating lead audit partners periodically, each new lead partner brings their own "fresh look" to the client and the audit and its accounting issues. The PCAOB review process and "peer reviews" also assist in bringing a "fresh look" to a company's financial statements because such reviews, which involve significant "Q&A", force the in place audit team to think about their own plans, approaches and conclusions in a different light.

**Question 3: What would be the impact on audit costs of mandatory auditor rotation, including the benefits of not having mandatory auditor rotation?**

The costs of audits would increase significantly under a mandatory audit rotation structure. The majority of today's public companies are complex in their financial and operating organization structures, their financial policies, their financial processes and their financial systems. Many industries require specific and specialized industry accounting and financial knowledge. For example, an electric utility is simply not the same as a manufacturing company, which is not the same as a bank. A new audit firm requires significant time and effort to understand these topics when they initiate an audit of a new company. An audit firm that is highly knowledgeable of a company's industry, policies, systems, processes and organization design is of significant value. Audits need to be conducted effectively, objectively and independently and also efficiently. The greater the level of knowledge of the audit partners and audit team members of the company under audit, the more effective the audit of that company should be. This higher knowledge does not necessarily equate to being "overly-familiar" which then might lead to a belief in a potential degradation in the independence, objectivity and skepticism of the audit process. In addition to the audit process, one has to also consider the potential impact of mandatory audit rotation on the costs of any non-audit services. Many public companies today have contracted with public accounting firms that are not their auditor to provide non-audit services. If, at the time of mandatory rotation, the new public accounting firm candidate that is the prime candidate to provide audit services also happens to be currently providing non-audit services, then the cost to potentially unwind the non-audit service in order to hire the new public accounting firm as the auditor could become prohibitive.

**Question 4: Should the PCAOB continue to address the topic of independence, objectivity and skepticism of auditors?**

Yes, the PCAOB should continue to pursue its own independence, objectivity and skepticism when reviewing the various audit engagements that it selects. The PCAOB provides a service which has enhanced the overall audit process. We note that the concept release states that "the Board's inspections frequently find audit deficiencies that may be attributable to a failure to exercise the required professional skepticism and objectivity" and cites several examples. It then goes on to state that "this is not to suggest that most auditors are not committed to the principles of auditor independence, objectivity and professional skepticism. In fact, firms spend significant resources on quality control systems and programs to promote them. Nevertheless, even well-intentioned auditors, as with other people, sometimes fail to recognize and guard against their own unconscious biases". In our experience almost all populations are subject to bell curve distributions. This applies equally to the population of audits of public companies. However, the fact that the Board may determine, as a result of the Board's review, that certain audits land on the "right hand side of the bell curve" – i.e. in the "not enough professional skepticism zone", then these facts should not translate into a need to totally revamp the entire process for the entire population.

**Summary**

The current processes of today's public company audit environment are adequate and sufficient. The changes that have been made as result of, and since the enactment of, the Sarbanes Oxley Act, provide governance over auditor objectivity, independence and professional skepticism. The requirement for audit committees of public companies to appoint the independent auditor and oversee the audit engagement provides significant value to ensuring objectivity, independence and professional skepticism. Public company audit committees are comprised of members who have the financial and business acumen and experience that qualifies them to select an audit firm that best represents Public Company investors. Converting to a system or process that would require mandatory auditor rotation would not enhance objectivity, independence and professional skepticism and the additional cost of converting would not outweigh the benefits.

Thank you for the opportunity to submit these comments.

Sincerely,

A handwritten signature in black ink that reads "S Meadows". The signature is written in a cursive, somewhat stylized font.

Stephen Meadows  
Chief Accounting Officer