



BEACHFLEISCHMAN

April 20, 2012

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

Re: PCAOB Rulemaking Docket Matter No. 37

Dear Office of the Secretary:

We would like to take this opportunity to offer our comments and concerns regarding the issues being addressed by the Board. BeachFleischman PC has locations in Tucson and Phoenix, Arizona, servicing primarily nonpublic entities in the states of Arizona, California, New Mexico and Texas. The majority of our clients are closely-held businesses or local not-for-profit interests. Our clients range from multi-million dollar medical/hospital practices and manufacturers to bio-tech companies and construction contractors.

BeachFleischman PC agrees with the Board's commitment to improve audit quality, including independence and objectivity. The profession and public accounting firms like ourselves spend significant time and resources to support auditor objectivity and independence.

General Comments

Our Firm does not believe there is current evidence to support the Board's assertion that mandatory audit firm rotation would improve audit quality. In fact, there is some evidence to the contrary, indicating that more audit quality issues arise in the first couple of years after a new audit firm is selected. The issues arise because the new firm must get up to speed on the client's industry, their internal control practices and potentially unique accounting methods, generally in an extremely short period of time due to quarterly reporting requirements.

As to industry knowledge, this alone should be a significant factor in the analysis. In industries where there are few competitors (i.e. automotive manufacturing, airlines), there are a limited number of firms with sufficient industry knowledge to qualify them as a replacement auditor. To regulate auditor rotation would be a disservice to investors, as industry expertise is an important factor in properly planning and executing an effective audit in accordance with existing auditing standards, which require the auditor to gain an understanding of the client and their industry. When companies change auditors, there is a loss of significant amounts of institutional knowledge. It generally takes one to two years to attain the same level of understanding that was held by the long tenured prior firm. During this period of transition, we believe there can be an increased likelihood of an audit failure.

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Currently, the PCAOB selects audits for inspection based upon risk and then reviews the areas within the audit that are the most complex and challenging. The root causes of audit failures are not only complex, but vary in nature. Mandatory firm rotation could expose new auditors to these very same complex issues they may not be familiar with. As such, we don't see the value or "security" added for investors in making a change for the sake of change.

As further support for this argument, consider the PCAOB's own findings with respect to any link between audit tenure and audit failures: PCAOB concept release Part III. C states "Preliminary analysis of that data appears to show no correlation between auditor tenure and the number of comments in PCAOB inspection reports." The eight largest accounting firms have similar comments based on their experience with PCAOB inspections. These comments indicate that mandatory rotation would not appear to solve the issue.

Another of the arguments in support of mandatory auditor rotation is the assertion that if the audit firm knew another audit firm would be reviewing their work in the next couple of years, audit quality would be improved. We find this analysis flawed in that it asserts that auditors will cut corners if they think no one is looking. Not only are audits subject to a firm's internal inspection procedures and external peer review, they are also at all times potentially subject to PCAOB inspections. We believe these three different review processes that audit files could be subjected to, coupled with mandatory five-year audit partner rotation, already provide the accountability and "fresh look" at complex audit areas that the Board is looking to achieve with mandatory auditor rotation.

As there is no documented support that a lack of auditor independence and objectivity is the root cause of audit failures, we question whether mandatory audit firm rotation is the solution. Each company's audit committee has the obligation to evaluate the auditor on an annual basis and can switch auditors at anytime they feel the auditor is not performing an audit that meets PCAOB and Generally Accepted Auditing Standards, which include the provisions of independence and objectivity. To insist on mandatory auditor rotation is to take away decision making ability from the audit committee, regulating instead that the PCAOB knows the best interests of the company, not the audit committee.

Finally, mandatory audit firm rotation would result in significant financial and nonfinancial costs to the filers and to the audit firms during transition, with little or no evidence that it would improve audit quality and protect investors. The costs themselves will immediately reduce investor returns across the board, as all companies struggle to comply with the regulation. The rules audit firms and filing companies are subject to in the United States are already some of the most costly in the world. The initial implementation of the Act resulted in profound costs for the companies subject to the current standards and the economy. We believe requiring mandatory auditor rotation would have a similar economic impact, therefore there should be clear and documented evidence that the move would improve audit quality before such measures are taken.

The PCAOB, in the release, is relying on data that is several years old. In the meantime, the PCAOB has issued several new audit standards and continues to work to improve the inspection process, the goal of both measures being an improvement in audit quality. We believe that continued efforts on the part of the PCAOB through the inspection process has greater potential for improving audit quality than that of mandatory auditor rotation. At a minimum, we suggest the PCAOB wait for data to become available to determine if improvements are being made as a result of the recent changes and inspection program efforts before regulating the drastic and costly process of mandatory auditor rotation.

Conclusion

Our firm and the profession remain focused on audit quality and continue to invest large amounts of resources to maintain and improve quality. There is no documented support that mandatory audit firm rotation would provide the benefits being asserted by the PCAOB.

We would be pleased to respond to any questions the Board or its staff may have in regards to these comments.

Sincerely,

BeachFleischer PC