

## **Prepared Remarks of Jack Parsons, Independent Financial Consultant:**

Thank you for the opportunity to participate in this panel to discuss the Board's Concept Release on Auditor Independence and Audit Firm Rotation.

During my career, I've been an audit partner with one of the major firms, a Professional Accounting Fellow at the SEC, CFO of several public companies, an executive with two startup entities, a financial consultant, and an investor. As a result, I've been in the role of auditor, regulator, preparer and user of financial statements. I'm currently an independent financial consultant with a focus on corporate governance and risk management. Recently, I had the opportunity to sit in on a Standing Advisory Group (SAG) meeting where the current Board initiatives were discussed and I've been actively following the various Board initiatives.

First, let me commend the Board for taking up the many important issues on its docket. Many of these issues have been discussed over a long period of time yet still remain unresolved. I'm sure we would all agree that auditor independence, objectivity and professional skepticism are essential to audit quality, financial reporting and the effective functioning of the capital markets. We also know that the investor community is looking for more from the auditor and that some changes appear necessary. One potential change involves the issue posed by the Board in this Release regarding whether audit quality would be improved by requiring auditor rotation and, if so, how such a requirement should be implemented.

This proposed solution seems to be the result of various audit issues identified by the Board during its inspections over the past 9 years or so where it appeared to the Board that the auditors hadn't evidenced the appropriate level of objectivity and skepticism in performing their procedures. However, as I noted in my comment letter on this topic dated Dec 14, 2011, the Board stated in the Release that it has found no correlation between auditor tenure and the number of comments in its inspection reports. And my own personal view is that while major, long-standing clients are likely to be given priority service and assigned the firm's best people, I don't believe that the partners assigned to these accounts are compromising their skepticism or objectivity because of that long-standing relationship. I firmly believe that the CPA profession is comprised of individuals with the highest integrity who perform their work in a very ethical, dedicated and uncompromising manner. So, it's not clear to me that mandatory rotation would solve the perceived issue here.

However, I am concerned that we've seen far too many instances where companies have failed without any advanced warning from the auditor, which has caused some level of erosion in public confidence in the role of the auditor. And to me, it's the confidence that the investor community has with the audit process that this issue is all about. If there's a perceived lack of independence when the same audit firm has been issuing audit opinions on a registrant for an extended period of time, then I believe we should take action and do something about that. Keep in mind that the tenure of the company-auditor relationship is not something that is disclosed to shareholders in the normal course but it will definitely get highlighted if something goes wrong. And if that tenure is long-standing, the reaction from others will no doubt be that independence was impaired, whether true or not.

So the question in my mind becomes what should we do to address the perception problem. Mandatory rotation is certainly one alternative but, after giving considerable thought to this proposed solution, I'm not convinced it's the best solution to solve the perception issue, particularly given the costs and disruption that it would cause. I'm just not comfortable with a rule that requires companies to change auditors at the end of some arbitrary period as I firmly believe the company and its audit committee should be the parties making the decision regarding auditor selection and retention based on their informed evaluation of all relevant factors. Plus, I don't see this as a burning topic for investors nor am I convinced they'd be willing to spend the money and incur the disruption that making these regular changes in auditors would involve. I would suggest that there are other topics that are more relevant and more deserving of significant change. However, I do believe investor confidence can be improved in this area with a fairly simple fix that includes enhanced communication with shareholders.

My recommendation is that instead of requiring mandatory auditor rotation, the Board should work with the SEC to impose a requirement that a company put its audit out to bid after some defined period, say 10 or 15 years, and require that the audit committee communicate the details of this process, and the basis for its final decision, to the company's shareholders in its proxy statement and, possibly, in its Form 10K. That way, there's an expectation that the Company will be making periodic changes in its audit firm but if it decides to retain the existing firm, it will need to provide the reasons for that decision in written communication to shareholders. And, as part of this communication, it should be required to disclose how long the audit firm has been its auditors. As a result, shareholders will have this additional information on auditor tenure when they vote on the auditor appointment each year.

Another solution proposed by some is for the company to engage the auditor under a multi-year commitment rather than the current annual commitment. Some believe this would increase auditor objectivity and skepticism because the auditor would be protected for some defined period from being dismissed for taking tough positions. I think it would be worth hearing commenters' views on the pros and cons of this solution. My view is that this approach has some merit, particularly when combined with the requirement to put the audit out for bid after some defined period.

In conclusion, my view is that some action should be taken at this time to address this issue rather than defer it again to a later date but I don't support mandatory auditor rotation. My recommendation is that the Board work with the SEC to implement a mandatory bid process after some defined period with enhanced shareholder communication. I believe that approach highlights the issue with shareholders and evidences that the audit committee is considering auditor tenure when it makes its evaluation and recommendation regarding auditor appointments. I also believe that the extended engagement term approach is something the Board should pursue further.

That concludes my prepared remarks. Thanks again to the Board for allowing me to participate in this panel discussion and I look forward to our further discussion on this topic.