January 2, 2014

The Honorable Senator Charles E. Schumer
United States Senate
Washington, DC 20510

Dear Senator Schumer,

On behalf of New York State Society of Certified Public Accountants, would like to express our strong support for S. 1526, the *Audit Integrity and Job Protection Act*, introduced by Senators Pat Toomey of Pennsylvania and Joe Manchin of West Virginia. This bipartisan legislation would limit the Public Company Accounting Oversight Board (PCAOB) from requiring mandatory audit firm rotation for public companies and bring the lingering firm rotation debate in the U.S. to a swift conclusion. We ask that you sign on as a co-sponsor of this bill.

We remain concerned that mandatory audit firm rotation could have unintended consequences and ultimately *reduce* audit quality. Mandatory firm rotation will limit the accumulation of knowledge and experience upon which an audit firm develops an understanding of a specific company's operations.

Smaller multi-disciplinary firms could abandon their public company audit practice in favor of providing non-audit services to public companies or focus instead on private company practice if the firm is unable to absorb the additional administrative and financial burdens associated with mandatory firm rotation. For the public company, audit committee and audit firm, the cost burden of adapting to a rotation schedule would be damaging.

In August 2011, the PCAOB issued a Concept Release that included the possibility of mandatory firm rotation (MFR) with the express intent to increase auditor independence, objectivity and professional skepticism. During the comment process, nearly 700 comment letters were sent to the PCAOB, with 91 percent of respondents opposing rotation. The vast majority of the letters were adverse to mandatory firm rotation, citing costs, negative impacts on audit quality, enhanced fraud risks and uncertain benefits. Despite the overwhelming evidence and the decidedly one-sided feedback, the PCAOB has not finalized the process.

Further, the *Sarbanes-Oxley Act* (SOX) mandated reforms to strengthen auditor independence and improve audit quality. One such reform includes the rotation of the lead audit *partner* on an audit engagement every five years found in Section 203. The discussion on audit firm rotation was raised during the SOX debate, however Section 203's partner rotation was determined to be the better pursuit.

In SOX, Congress also sought additional information on the question of MFR. The bill required the U.S. General Accounting Office (GAO, now named the Government Accountability Office) to study the question of audit firm rotation. In 2003, the GAO issued a report (GAO-04-216) in which stated that the "GAO believes that mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality…"

In fact, the report raised concerns that audit quality may be strained by firm rotation, specifically in the first few years of a new audit engagement. The GAO further concluded that implementation of SOX and an understanding of its impact are necessary precursors to a firm rotation requirement, and "GAO therefore believes that the most prudent course of action at this time is for the Securities and Exchange Commission and Public Company Accounting Oversight Board to monitor and evaluate the effectiveness of existing requirements for enhancing auditor independence and audit quality." Eight years later, following the PCAOB's issuance of its Concept Release on audit firm rotation, the GAO commented that "...we are not convinced that the audit quality issues identified by the PCAOB in its Concept Release are caused by a lack of auditor independence or professional objectivity (http://pcaobus.org/Rules/Rulemaking/Docket037/390_GAO.pdf)."

The PCAOB has provided little indication that mandatory firm rotation would improve audit quality. In fact, we firmly believe mandatory firm rotation will likely harm audit quality, cost businesses, disrupt the economy and introduce other unintended consequences into the audit process. For these reasons, we ask that you cosponsor S. 1526.

Thank you for your consideration of this important matter.

Sincerely,

J. Michael Kirkland, CPA
President, New York State Society of Certified Public Accountants