

Corporate & Financial Weekly Digest

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PCAOB Solicits Comments on Mandatory Audit Firm Rotation

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On August 16, the Public Company Accounting Oversight Board (PCAOB) issued a Concept Release in which it proposed mandatory audit firm rotation as a method to enhance auditor independence, objectivity and professional skepticism. The PCAOB stated that its inspections frequently indicated audit deficiencies that may be attributable to a failure by an audit firm to exercise the required independence, professional skepticism and objectivity by putting the interests of company management before that of investors. The PCAOB stated that a mandatory audit firm rotation requirement, by ending an audit firm's ability to turn each new engagement into a long term income stream, could fundamentally change an audit firm's relationship with its audit client and might, as a result, significantly enhance the audit firm's ability to serve as an independent gatekeeper.

The PCAOB is soliciting comments regarding, among other questions, what effect a rotation requirement would have on audit costs and whether (i) mandatory audit firm rotation would enhance an audit firm's objectivity and ability and willingness to resist management pressure, (ii) a periodic review of a company's financial statements by a new audit firm engaged by a company due to a mandatory audit firm rotation requirement would enhance auditor independence and protect investors, and (iii) the current state of the audit profession, in light of rules requiring the rotation of an engagement partner of an audit firm and audit committee practices following the passage of the Sarbanes-Oxley Act, as well as recently promulgated and pending changes to the PCAOB's auditing standards, may have rendered some of the historical arguments for mandatory audit firm rotation no longer relevant. Additionally, the PCAOB is soliciting comments on numerous considerations in connection with a rotation requirement, including the length of the term of an engagement by an audit firm prior to mandatory rotation.

The issuance of this Concept Release may indicate that significant changes may be forthcoming under new PCAOB Chairman James Doty as it follows a Concept Release issued by the PCAOB on June 21, as reported in the July 8 edition of [Corporate & Financial Weekly Digest](#), in which it proposed potential alternatives for changing the content of audit reports in order to "provide investors with more transparency into the

audit process and more insight into the company's financial statements or other information outside the financial statements."

Comments on the Concept Release should be received by the PCAOB by December 14. The PCAOB expects to hold a public roundtable in the first quarter of 2012 to discuss the proposals addressed in the Concept Release.

To read the PCAOB Concept Release, click [here](#).

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