

# Memo

**To:** PCAOB  
**From:** Joy Hidalgo & Ashley Parker  
**Date:** December 11, 2011  
**Subject:** PCAOB Rulemaking Docket Matter No. 37

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We feel that mandatory audit firm rotation would be beneficial for companies. This will give the audit firms the ability to have a fresh look at the information at hand. This rotation will also improve audit quality as well as enhance the firm's objectivity and professional skepticism. The rotation requirement should not be limited to audit tenures of more than ten years or those larger issuer audits. Furthermore, it is important to have audit firm rotation in all industries.

When rotating in a new audit firm, they can bring new ideas to the client that the previous auditor may not have suggested. There is less of an incentive to try to commit fraud or misstate financial statements when an auditor knows their work will be challenged and judged in the future. This will also help all auditors to remain ethical in their work because they will not be able to cover up the fraud or misstatement of financial statements during their tenure when time is limited.

While there are advantages to mandating audit firm rotation, there are also some disadvantages. Some would say the rotation will decrease audit quality because clients will have to continuously explain their procedures to new audit firms. It may also be that the rotation will create problems which do not exist when the same firm is with the client for years. Rotating can also hurt relationships with clients because partners will be less invested in the people they are working with. At the same time, the rotation can be cost ineffective because of the training costs that will go into explaining procedures to the new audit firm every five years.

**Background:** We are both students at Louisiana State University. We were enrolled in an auditing class during this semester where we covered the topic at hand. Using the knowledge we acquired in this class we have come up with the aforementioned comment on auditor independence.