

December 14, 2011

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Response e-mailed to [www.pcaobus.org](http://www.pcaobus.org)

RE: PCAOB Rulemaking Docket Matter No. 37 - CONCEPT RELEASE ON AUDITOR INDEPENDENCE AND AUDIT FIRM ROTATION

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to provide comments to the Concept Release on Auditor Independence and Audit Firm Rotation. We collaborated with a number of internal audit thought leaders in the United States and globally in developing our comments. Furthermore, our comments are based on research, surveys and discussions conducted by a core team of audit professionals who serve on The IIA's Professional Issues Committee. These professionals consist of Certified Public Accountants, Chartered Accountants and Certified Internal Auditors who have worked in the public and private sectors, internal and external auditing, and small, medium, large domestic and multinational SEC registered companies.

Auditor independence, objectivity, healthy professional skepticism and ultimately overall audit quality are very important as internal auditors work very closely with the external auditors. Our internal audit profession's *International Standards for the Professional Practice of Internal Auditing* requires the Chief Audit Executive to share information and coordinate activities with internal and external assurance providers to ensure proper coverage and minimize duplication of efforts. As such, external auditor independence and audit firm rotation could significantly impact the relationship between the external and internal auditors, how their audits are planned, coordinated and performed, and how the external auditors leverage the knowledge, experience and expertise of the internal auditors to enhance overall effectiveness.

We commend the Board's efforts to again explore mandatory auditor rotation by first soliciting comments on all aspects of the issues discussed in this concept release that we understand will culminate with a public roundtable meeting in March 2012. Our primary comments and observations are summarized below. Responses to the general questions on various aspects of a potential rotation requirement are included in Appendix A. Responses to the specific questions may be found in Appendix B.

- The Board should continue to focus on ways to enhance auditor independence, objectivity and professional skepticism. These are key attributes in ensuring overall audit quality while not diminishing the role of audit committees.

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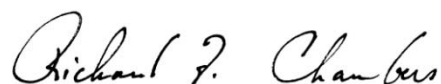
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- It is not clear whether mandatory audit firm rotation will enhance auditor independence, objectivity and professional skepticism when considering the cost/benefit trade-offs.
- There are alternatives to mandatory audit firm rotation based on the passage of time that the Board should consider. These include the following:
  - Circumstances where the Board would require audit firm rotation such as in the case of material restatements (restatements which result in the Company's filing an 8k removing reliance on a prior filing), significant frauds in the companies audited, or other indicators of audit failure which impact investors.
  - Increased disclosure about the audit committee's role in overseeing the quality of the audit, including its periodic evaluation of auditor independence.
  - Providing audit committees the ability to request the PCAOB perform a directed inspection of the company's audit with reporting directly to the audit committee.
  - A requirement that the audit committee solicit bids from other auditors every X years.
  - Greater use of internal audit as outlined in the next bullet point.
- The internal audit profession is experiencing more inquiry from and providing greater assistance to audit committees in providing perspective on the financial auditor independence and overall audit quality. We encourage the Board to consider ways effective internal audit activities can contribute to the financial auditor's independence, objectivity, professional skepticism and ultimately audit quality; additionally, the costs and risks could be reduced by having the new auditor leverage the knowledge, skills, experience and expertise of internal audit and place appropriate reliance on internal audit results.

The IIA welcomes the opportunity to discuss any and all of these comments with you. We offer our assistance to the PCAOB in the continued development of the concept release to include participation at your upcoming public roundtable meeting in March 2012.

Best regards,



Richard F. Chambers, CIA, CGAP, CCSA, CRMA  
President and Chief Executive Officer

**About The Institute of Internal Auditors -**

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 173,000 members across the globe and has 105 institutes in 165 countries that serve members at the local level.