PCAOB Ends Mandatory Rotation Project

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At an SEC meeting on Wednesday, February 5, James Doty, Chairman of the Public Company Accounting Oversight Board, stated that the PCAOB is no longer actively pursuing its project on mandatory rotation for public company audit firms. The PCAOB first proposed to look at mandatory rotation in August 2011 and held several public roundtables on the subject in 2012. Mandatory rotation engendered substantial opposition from companies, audit committees and accounting firms. The House of Representatives passed a bill barring the PCAOB from implementing it. While it has been evident for some time that the PCAOB likely would not move forward with a mandatory rotation or related proposal (such as mandatory re-tendering), Chairman Doty's comments represent an official acknowledgement of that fact. According to news reports, Chairman Doty added that the PCAOB would "continue to think about what impacts independence."

While mandatory rotation appears to be dead in the United States, the European Union continues to move towards it. In December, representatives of the EU member states approved a requirement that audit firms rotate engagements with public-interest entities every 10 years—with provisions for longer periods when engagements are put out for bid or joint audits are performed. Public-interest entities include banks, insurance firms, and listed companies. The new regulations are subject to further EU legislative approvals.