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PKF INTERNATIONAL

November 29, 2012

**Mayor and Council
Town of Milton
115 Federal Street
Milton, DE 19968**

Re: Audit Contract

Dear Mayor and Council Members:

Our contract as external auditors for the Town ends with the completion of the fiscal year September 30, 2012 audit. We are interested in extending our engagement to provide auditing services for the Town of Milton for the three year periods ending September 30, 2013, 2014 and 2015. As you know, per the charter professional audit services are not required to be bid out.

We hope this proposal demonstrates a sincere interest in and, just as importantly, our capability to continue to serve the Town of Milton as your independent auditors. We believe an extension of the audit contract would be beneficial to the Town for the following reasons:

- **PKS has and will continue to provide consistent personnel from year-to-year. Because of our audit team experience, it will not be necessary to train our people on your time.**
- **Continuity of staff is a key to a quality audit and is one of the items you should look at in incumbent auditors.**
- **Changes in auditors require significant additional time by Town personnel in completing the audit. The Town has limited staff already and does not have the luxury of staff time to train new auditors.**
- **PKS has been highly responsive to the Town's needs and requests for additional assistance.**
- **We understand the Town's financial systems, operations, policies and procedures which allows us to perform the audit efficiently.**

In addition, the American Institute of Certified Public Accountants (AICPA) has raised concerns regarding mandatory audit firm rotation. See attached recent article which states that audit firm rotation may hurt audit quality, and that quality increases with audit firm tenure.

Following is our proposal for audit services for the three years ending September 30, 2013, 2014 and 2015. Keeping in mind the current state of the economy, we have held our price for the first year to the same level as last year. The second and third years include a 4% increase.

September 30, 2013	\$18,000
September 30, 2014	\$18,720
September 30, 2015	\$19,469

The above fees do not include an audit in accordance with the Single Audit Act Amendments of 1996 and the provisions of OMB Circular A-133. These additional audit procedures and reports are required if the Town spends more than \$500,000 in Federal money in a single fiscal year. Should this situation arise, an additional fee will be added to the cost of the audit in each year that the additional audit requirements of OMB Circular A-133 apply.

If the terms outlined above are acceptable to you, please sign and date this letter and return one copy to us. A engagement letter for the year ending September 30, 2013 will be provided to you upon acceptance of this proposal.

If you have any questions on the above, please call us. We look forward to continuing a mutually rewarding and long lasting relationship with the Town of Milton.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Agreed to and accepted:

This letter correctly sets forth the understanding of the Town of Milton, Delaware with reference to audit services for the years ending September 30, 2013, 2014 and 2015.

By: _____

Date: _____

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AUDITING

AICPA Letter to PCAOB Raises Concerns About Mandatory Audit Firm Rotation

DECEMBER 14, 2011

The AICPA recommended that the PCAOB refrain from imposing mandatory audit firm rotation.

AICPA Chairman Greg Anton, and President and CEO Barry Melancon signed a [comment letter](#) sent by email Wednesday to the PCAOB stating that mandatory audit firm rotation is costly and has the potential to hinder audit quality rather than enhancing it.

In August, the PCAOB issued a [concept release](#) on auditor independence and audit firm rotation seeking comment. The release noted that proponents of rotation contend term limits could decrease client pressure on auditors and create opportunity for a fresh look at a company's financial reporting.

The AICPA letter supported the PCAOB's goals for enhancing auditor independence and objectivity, and professional skepticism. But the institute said the PCAOB should not impose mandatory audit firm rotation without evidence linking audit firm tenure to audit failures detailed in PCAOB inspection findings.

Even if such a link is indicated through further study, the AICPA would like the PCAOB to carefully weigh the costs associated with mandatory firm rotation and consider other potential enhancements that would be less costly and disruptive.

The AICPA cited research indicating that mandatory firm rotation may hurt audit quality and that audit quality increases with audit firm tenure. The letter also said:

Audit firm rotation may limit institutional knowledge and industry specialization, which the AICPA said increases during audit firms' relationship with a company and is crucial to a high-quality audit.

Mandatory firm rotation may unintentionally undermine the role of the audit committee by preventing the committee from selecting and retaining the most qualified audit firm to perform a company's audit.

Existing partner rotation requirements provide the necessary "fresh look" to ensure auditors' objectivity.

The PCAOB's release is part of the reason audit firm rotation has become a big issue in recent months. Last month, the [European Commission](#) proposed limiting to six years the period in which an outside audit firm can perform audits for public companies. Companies that opt for voluntary joint audits would be allowed a nine-year window; a four-year cooling-off period was proposed.

At last week's AICPA National Conference on Current SEC and PCAOB Developments, Anton said research indicates that mandatory audit firm rotation has the unintended consequence of increasing the propensity for fraud.

"We caution the EU member states and the European Parliament—as well as the PCAOB—to carefully consider the consequences of such proposals and focus on proven solutions to enhanced transparency, increased objectivity and improved audit quality," Anton said on Dec. 5.

Wednesday was the final day of the comment period. In March, the PCAOB will hold a public round table on auditor independence and mandatory audit firm rotation.

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