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November 22, 2011

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006-2803

**RE: PCAOB Rulemaking Docket Matter No. 37**

**Concept Release on Auditor Independence and Audit Firm Rotation**

Norfolk Southern Corporation (“NS”) is one of the nation’s premier transportation companies and is a publicly held corporation with its common shares listed on the New York Stock Exchange. Its Norfolk Southern Railway subsidiary operates approximately 20,000 route miles in 22 states and the District of Columbia, serving every major container port in the eastern United States, and provides efficient connections to other rail carriers. NS operates the most extensive intermodal network in the East and is a major transporter of coal and industrial products.

NS commends the Public Company Accounting Oversight Board’s (“PCAOB” or “the Board”) continued efforts to enhance auditor independence, objectivity and professional skepticism. NS appreciates the opportunity to provide feedback on the PCAOB’s Concept Release on Auditor Independence and Audit Firm Rotation (“PCAOB Release No. 2011-006” or “Concept Release”).

**Audit Firm Rotation**

The Board is interested in whether mandatory auditor rotation would significantly enhance auditors’ independence and objectivity, and has requested feedback with respect to certain general issues (which have been reproduced here in italics). NS respectfully submits the following responses to these selected questions raised by the Board.

- *Should the Board focus on enhancing auditor independence, objectivity and professional skepticism? How significant are the problems in those areas relative to problems in other areas on which the Board might focus? Should the Board simply defer consideration of any proposals to enhance auditor independence, objectivity and professional skepticism?*

NS believes that the Board should continue its focus on improving overall audit quality. While auditor independence, objectivity and professional skepticism are inherent as part of the overall quality of an audit, current auditing standards, mandatory engagement partner rotation, the Board’s inspection process, and other efforts aimed at improving audits have helped promote a current environment in which high quality audits are generally achieved.

NS does not believe that mandatory auditor rotation would enhance auditor independence, objectivity and professional skepticism. NS is concerned that mandatory rotation could lead to degradation in audit quality during the initial years of a new audit firm's engagement, due to the new audit team's diminished knowledge and understanding of the company, its processes and controls, and the unique risks of the company and the industry in which it operates. We believe that mandatory audit firm rotation would make it increasingly difficult to select an audit firm that would have the expertise in specialized areas of accounting, including those applicable to the railroad industry.

- *Would audit firm rotation enhance auditor independence, objectivity and professional skepticism?*
- *What are the advantages and disadvantages of mandatory audit firm rotation? If there are potential disadvantages or unintended consequences, are there ways a rotation requirement could be structured to avoid or minimize them?*
- *According to the 2003 GAO Report, large firms estimated that a rotation requirement would increase initial year audit costs by more than 20 percent. What effect would a rotation requirement have on audit costs? Are there other costs the Board should consider, such as the potential time and disruption impact on company financial reporting staff as a result of a change in auditors? Are there implementation steps that could be taken to mitigate costs? The Board is particularly interested in any relevant empirical data commenters can provide in this area.*

As noted previously, NS does not believe that mandatory audit firm rotation would enhance auditor independence, objectivity and professional skepticism. Under existing rules and regulations, including many of those enacted as part of the Sarbanes-Oxley Act, there are numerous provisions aimed at promoting auditor independence. Presently, the audit committee (not management) is charged with hiring and selecting the auditor and overseeing the auditor's activities, including the auditor's plan. Additionally, the auditor's ability to provide certain non-audit services has been eliminated and audit partners that serve on the engagement are now subject to mandatory rotation requirements. We believe that these existing rules adequately address any concerns with respect to the independence of the auditor and sufficiently promote objectivity and professional skepticism in the performance of an audit. In addition, NS is not aware of any evidence to suggest that the tenure of an audit firm is directly correlated with an audit that is deemed deficient and, as such, remains unconvinced that mandatory firm rotation would enhance auditor independence, objectivity and professional skepticism.

The disadvantages of mandatory audit firm rotation far outweigh any perceived advantages. NS has significant concerns about increased audit costs as a result of a rotation requirement. A change in audit firms would undoubtedly result in additional audit time and fees in order to bring a new audit firm up to speed. NS believes that a rotation requirement would increase the audit costs in the successor firm's early years due to the investment in time needed for the successor to learn a company's background, operating practices and procedures and its application of accounting policies. Furthermore, the population of audit firms that would have the requisite experience and qualifications to meet a company's needs may be limited in certain geographic markets. As such, a company could be forced to engage an audit firm outside of its local market to meet the rotation requirement, thereby incurring additional audit-related travel and other costs. In the case of NS, the Norfolk market in which we are headquartered is served by only one of the "Big Four" audit firms. A change in auditors forced upon NS by such a requirement would more than likely result in the Company having to utilize an audit firm from either Richmond or Washington D.C. and leading to additional audit-related travel and other costs. Furthermore, there are concerns about whether an audit firm from the Richmond or Washington D.C. markets would be able to satisfactorily meet the service requirements that NS expects of its auditors.

Additionally, there would be a significant constraint placed on a company's internal resources (including financial reporting and internal audit personnel, senior management, and the Audit Committee). The expectation is that these resources would expend additional effort coordinating the audit, reviewing historically significant events, and educating new auditors about significant accounting policies and transactions. The additional time that would be spent transitioning to a different audit firm because it is mandatorily required to do so would be unnecessarily disruptive and serve as a distraction and an impediment to the goal of producing error free financial statements. The impact of the learning curve of the new audit firm, in addition to the strains on internal resources, could jeopardize the timing of both earnings releases and SEC filings.

- *Because there appears to be little or no relevant empirical data directly on mandatory rotation available, should the Board conduct a pilot program so that mandatory rotation of registered public accounting firms could be further studied before the Board determines whether to consider developing a more permanent requirement? How could such a program be structured?*

NS has concerns on how such a pilot program could be conducted to allow the Board to further study mandatory rotation of accounting firms. Among those concerns are whether there would be a sufficient amount of participants to effectively formulate a conclusion as to the impact of mandatory rotation on audit effectiveness. Furthermore, it remains unclear as to how an objective set of criteria would be established to determine whether an audit failure was the result of mandatory rotation or issues related to the execution of the audit (including technical competence of the auditor and adequacy of the design and execution of audit procedures).

- *Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity and professional skepticism? For example, should broader alternatives be considered that relate to a company's requirement to obtain an audit, such as joint audits or a requirement for the audit committee to solicit bids on the audit after a certain number of years with the same auditor? Could audit committee oversight of the engagement be otherwise enhanced in a way that meaningfully improves auditor independence?*

- *Should the Board continue to seek to address its concerns about independence, objectivity and professional skepticism through its current inspection program? Is there some enhanced or improved form of inspection that could better address the Board's concerns? If mandatory rotation were in place, could an enhanced inspection, perhaps focused particularly on professional skepticism, serve as a substitute in cases in which it would be unusually costly, disruptive or otherwise impracticable to rotate auditors?*

NS believes that the independent audit committee, with responsibility for oversight of the audit firm, remains the most qualified to appoint and retain the audit firm. The audit committee has the statutorily mandated responsibility to select the audit firm and is in the best position to monitor the objectiveness and independence of the auditor. A requirement for mandatory audit firm rotation would undermine the audit committee's oversight power, as the retention of an audit firm performing its responsibilities effectively would be precluded based on tenure.

The Board, as regulator of auditors of public companies, has the ability to determine through its audit inspections if audit firms have the appropriate structure, processes and procedures in place to facilitate the performance of an audit in an objective and independent manner. Presumably, these inspections focus on the auditor's documentation with respect to conclusions reached on accounting matters and whether all contradictory evidence was considered when formulating those conclusions. Additionally,

the inspections should encompass a review of the audit firm's procedures that ensure that engagement team members are independent with respect to the audit client. As such, the Board should continue to address concerns about independence, objectivity and professional skepticism through its current inspection program.

• *A 2003 report by the Conference Board Commission on Public Trust and Private Enterprise recommended that audit committees consider rotation when, among other factors, "the audit firm has been employed by the company for a substantial period of time – e.g., over 10 years." To what extent have audit committees considered implementing a policy of audit firm rotation? If audit committees have not considered implementing such a policy, why not? What have been the experiences of any audit committees that have implemented a policy of rotation?*

The Audit Committee of NS has not implemented a policy on audit firm rotation due to the increased costs associated with the introduction of a new audit firm, the limited number of qualified audit firms available to perform the audit at the level expected by the Audit Committee and management, and the substantial investment of time and commitment of management, auditors, and the Audit Committee needed to effectively implement a rotation requirement. Furthermore, there is no evidence that such a policy would improve the quality of the audit or enhance auditor independence, objectivity and professional skepticism.

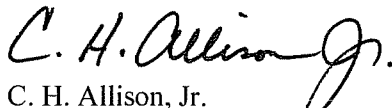
As part of PCAOB Release No. 2011-006, the Board also solicited feedback with respect to specific questions on various aspects of rotation requirements including the term of engagement, scope of potential requirement, and transition and implementation considerations. However, given that a decision on a requirement for mandatory audit firm rotation has yet to be made, NS believes that it is premature to discuss how such a requirement should be implemented. NS requests that the Board first consider commenters' feedback on the general issues and, if a requirement of mandatory rotation is deemed necessary by the Board, that the feedback on the specific implementation questions be solicited at that time.

Thank you for this opportunity to comment on the Concept Release. If you would like to discuss this further or would like additional information, please feel free to call Mr. Allison at (757) 629-2765.

Very truly yours,



Burton M. Joyce  
Audit Committee - Chair



C. H. Allison, Jr.  
Vice President and Controller