



December 12, 2011

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

PCAOB Rulemaking Docket Matter No. 37
Concept Release on Auditor Independence and Audit Firm Rotation

Chairman Doty:

On behalf of Apple Inc.'s ("Apple" or the "Company") Audit and Finance Committee ("Audit Committee"), we appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Rulemaking Docket No. 37, *Concept Release on Auditor Independence and Audit Firm Rotation* (the "Concept Release").

Independence, objectivity and professional skepticism are fundamental and essential aspects of the audit process in providing reliable information to investors. We support the PCAOB's continued efforts towards these goals, whether it is through their continued revisions to the auditing standards or through their annual inspections process. However, we have significant concerns that the proposal for mandatory audit firm rotation will return little, if any, benefit at significant cost in both resources and audit quality. Any decision to change auditors should continue to be at the discretion of the Audit Committee whom the shareholders have entrusted with that fiduciary responsibility.

We do not believe the PCAOB's proposal to require audit firm rotation has been shown to definitively address the primary root cause of a large portion of audit failures. We understand that there continues to be an unacceptable number of audit failures as identified by the PCAOB inspections; however, as noted in the Concept Release:

"The Board does not suggest that all failures or other audit deficiencies its inspections staff has detected necessarily resulted from a lack of objectivity or professional skepticism. Audit failures can also reflect a lack of technical competence or experience, which may be exacerbated by staffing pressures or some other problem."

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Mandatory auditor rotation seems to burden all preparers with the problems of a very small number of audit failures. Given the gravity and potential impact of the proposed solution requiring mandatory audit firm rotation, we believe there must be clear and incontrovertible evidence linking audit failures to a lack of auditor independence, objectivity and professional skepticism. Further, it should also be clear that mandatory audit firm rotation would actually address such deficiencies. To better determine the root cause of any audit failures, we would encourage the PCAOB to deeply analyze current and future inspection results and expand inspection procedures to identify the root causes of identified failures. Clear and convincing evidence of the causes of audit failures will support development of an effective solution that is more likely to be supported by preparers, auditors and financial statement users.

We believe a standard mandating a company change their audit firm on a fixed periodic basis has costs that might well far exceed any clear and certain benefits. In our view, the most significant costs include the loss by auditors of critical institutional knowledge, a potential reduction in audit quality, an increase in audit fees and the disruption of management. Our experience has shown the existing mandatory rotation requirements for the lead engagement and concurring partners already results in a thorough review of the accounting decisions, policies and controls, without the significant cost impacts of a change in audit firm.

For Apple, a significant investment of time and effort from an accounting firm is required, in order for the firm to fully grasp and address the complexities of our business, operations, accounting systems and the overall risks associated with our expanding multi-national presence. We believe mandatory audit firm rotation and the resulting recurring loss of this significant investment and institutional knowledge by our predecessor auditor will likely diminish overall audit quality.

As new auditors attempt to learn about new clients, they inevitably are less efficient and incur start-up costs. In the current environment, these start-up costs are viewed as an investment by the audit firm and are effectively recovered over a long-term audit relationship. In a mandatory rotation environment, the cost of increased churn will ultimately be borne by all companies. Additionally, for several years following each auditor transition, companies would need the consent of their predecessor audit firm with their financial statements, which can result in delays in the filing process and incremental audit expenses. These delays and costs could be significant in an environment of converging international accounting policies mandating retroactive restatement of the predecessor audit firm's year(s).

In addition to an expected overall increase in audit fees, a mandatory audit firm rotation will also cause significant disruption, and thus cost, to a company's management (and a board's audit committee) in support of the audit transition process. It is critical to perform a robust assessment in selecting a new auditor and then quickly educate a new auditor on all matters necessary to conduct an effective audit, including a comprehensive overview of the company's background, policies, systems, controls, historical accounting, and significant transactions. These efforts are necessary to ensure as efficient a transition as

possible and require a significant investment by a company's management. Further, significant efficiencies are developed as an auditor continues on with a client, which contributes to the overall efficiency of the audit process. These efficiencies would be lost and have to be redeveloped continually in an environment of mandatory audit firm rotation.

As the Audit Committee, we have a very important fiduciary responsibility to the Company and its shareholders. Those responsibilities currently include the assessment of our auditor's performance, independence and objectivity. This evaluation occurs on an ongoing basis. In addition, the Company has a policy of formally reviewing the appointment of our auditor every five years. Indeed, Apple's Audit Committee successfully undertook such a change in its auditors in recent years. However, we believe arbitrarily mandating a change in audit firms on a predetermined basis would be in direct conflict with our ability to manage this responsibility effectively.

However, we would support reforms that enhance our responsibility to the Company and its shareholders. To the extent audit inspection results identify pervasive problems which can be clearly attributed to specific deficiencies related to a specific audit of an issuer, we support appropriate solutions be put in place. Further, we would support the PCAOB's development of an outreach program to better understand the role of audit committees and to work jointly towards enhancing the overall audit effectiveness.

In conclusion, we support measures that improve audit quality and enhance the overall financial reporting environment, but we do not believe that mandatory audit firm rotation is necessarily an effective or efficient way to address these objectives. We support continued PCAOB inspections and studies to evaluate other alternatives to improve audit quality. However, we strongly believe that any decisions related to changes in audit firms should continue to rest with the Audit Committee.

Thank you for your time and consideration.

A handwritten signature in black ink, appearing to read "Ronald D. Sugar". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ronald D. Sugar
Apple Inc.
Audit and Finance Committee, Chair