



WORLD HEADQUARTERS
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057

December 13, 2011

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

RE: Auditor Independence and Audit Firm Rotation
PCAOB Release No. 2011-06
Rulemaking Docket Matter No. 37

Dear Board members:

This letter is in response to the PCAOB's request for comment on the proposed rules that would require mandatory auditor rotation. I write to you as the Chairman of the Audit Committee of the Board of Directors of H. J. Heinz Company, a New York Stock Exchange listed company, and draw upon over thirty years of public company experience. My comments reflect my perspectives developed not only at Heinz, but also as retired Chairman and CEO of The Chubb Corporation and director of two other public companies, AGL Resources and Fluor Corporation. Moreover, my opinions take into consideration my business experience as Chairman Emeritus of the United States Council for International Business, former member of the President's Foreign Trade Advisory Committee, and previous Chairman and Director of the U. S.-India Business Council. I appreciate the opportunity to comment on the PCAOB Concept Release on Auditor Independence and Audit Firm Rotation.

I believe that the proposed rule would be extremely burdensome if not unrealistic to implement for large multinational companies such as Heinz. Given that we regularly engage each of the big four firms for audit, tax, and advisory services around the world, mandatory rotation would significantly hinder our ability to ensure auditor independence under the Sarbanes-Oxley Act of 2002 and NYSE requirements.

Additionally, I believe that mandatory audit firm rotation is unlikely to achieve the PCAOB's goal of enhancing auditor independence, objectivity, and professional skepticism. As other commentators have noted, the GAO has studied, considered, and rejected this rotational measure in the past. I concur with previous reports and the opinions of many commentators that such a requirement would serve only to accomplish the following:

- increase the risk of audit failure;

- unnecessarily divert management time and attention away from the business;
- usurp the authority and role of the corporate audit committee; and
- increase audit costs.

Impracticability for Large Multinationals

For large multinationals such as Heinz, frequent mandatory rotation is difficult if not impossible to implement. In reality, global companies may choose from only four large audit firms with the expertise, size, and geographic presence necessary to handle the multitude of issues facing such enterprises. For example, Heinz must undertake approximately 70 statutory audits in addition to the U. S. consolidated audit, and therefore needs a firm well-versed in the legal and accounting structures of multiple jurisdictions. Additionally, in order to preserve the firm's independence, certain non-audit services must be performed by the remaining large firms. If mandatory rotation is adopted, large issuers will be required to use only two of the remaining three firms for non-audit work in order to ensure that one firm always remains independent at the end of the rotation period or sooner should the committee determine that a change is required prior to the mandatory close of the engagement term, or if the engagement firm resigns. The end result of this framework is likely higher audit costs and complacency, as the big four firms remain the only viable option and issuers follow a predictable audit rotation pattern.

Also, Heinz currently uses firms affiliated with its U.S. independent auditor to perform the majority of the required foreign statutory audits. In our view, use of the same global network of firms ensures clear communication regarding audit issues around the world and across business units and enhances overall audit quality. If the engagement firm were to be rotated every five years, and the new firm could handle the statutory audits, the transition costs, already forecasted to be high, would expand at an exponential rate to include local audits. However, if we retained the unaffiliated local firms to conduct statutory audits, we would increase complexity and compromise lines of communication among multiple audit firms, which I believe would detract from audit quality.

Increased Risk of Audit Failure

Many maintain that implementation of firm rotation would actually increase the risk of audit failure, particularly in the early years of an engagement. As a new firm attempts to understand the issuer, its history, and the questions facing the organization, there is a possibility that potential control weaknesses and fraud may be overlooked given the scope of the audit and the sheer volume of information to be disseminated, absorbed, and analyzed. Long-term engagements permit the firm to focus on the most pressing issues and risks facing the company's financial profile.

Also, a longer engagement endows the auditor with a deep understanding of the issuer and ability to quickly identify the more subtle problems. The required audit partner rotation every five years which exists today results in increased investment of time and brings a fresh perspective to the audit engagement while still allowing the firm to retain critical historical

knowledge of the Company around the world. Requiring a rotation of the firms would result in loss of this critical cumulative knowledge which would potentially increase risk of audit failure.

Diversion of Management and Board Time

If enacted, the rotation will necessitate that corporate board members, management, and staff be required to repeatedly devote substantial time and effort to conduct a firm search, interview candidate firms, and on-board a new audit team. The time and effort required in the audit tender process is significantly greater for a global company like Heinz where the qualifications of the audit firm in each of the markets around the world must be evaluated. During my years of public company experience, I have worked through a number of new audit engagements, and cannot over-emphasize the amount of work that is necessary to select the firm with the best fit and ensure a smooth transition. Every minute spent on this long process is time that is unavailable for attending to business issues which contribute directly to shareholder value.

Usurpation of Audit Committee Function

Overlaying this new rule upon the existing regulatory framework conflicts with the audit committee's duties imposed by both Sarbanes-Oxley and the NYSE. Sarbanes-Oxley charges the committee with the obligation to select auditors and monitor independence. Failure to execute against these directives can result in significant liability, and I can assure you that the obligations and risks are taken very seriously by audit committee members.

Every audit committee meeting at Heinz includes an executive session where members and auditors meet without management present. Supervising the performance of the audit firm, including its objectivity and independence, is a responsibility that is not taken lightly by the audit committee.

I believe that requiring firm rotation usurps the audit committee's functions of selecting and evaluating auditors. Maintaining the current structure brings the full weight of the oversight function to bear on the audit committee, highlighting the committee's duty to actively monitor the engagement.

Increased Costs

Finally, I note that Sarbanes-Oxley implemented a number of reforms designed to enhance the quality of public audits, including the creation of the PCAOB and the requirement that lead audit partners be rotated every five years. When Sarbanes-Oxley was enacted, Congress expressly rejected the idea of mandatory audit firm rotation. Congressional failure to adopt this measure reflects the Cohen Commission's 1978 statement that "[m]any of the asserted advantages of rotation can be achieved if the public accounting firm systematically rotates the personnel assigned to the engagement," and resulted in the adoption of the firm partner rotation rule.

In 2003, the General Accounting Office reported that mandatory firm rotations would result in an estimated 20% increase of first year audit costs. These costs are incurred as the firm

necessarily undertakes to familiarize itself with the company's business and its structure, financial controls and procedures, filings, and personnel. These costs will be passed directly along to the issuer and impact the Company's bottom line. Further, start-up costs could be compounded during transition years as two firms invest incremental time to debrief and transition the engagement. In Heinz's fiscal year 2011, the Company's total audit fees were \$7.4 million. A 20% increase would mean an incremental \$1.4 million in costs on the 2011 audit fees, if not more. In light of the current fragility of the global economy, it is unwise to increase these fees, as such expense would surely lead to lower earnings per share, thereby adversely impacting all shareholders, including large pension funds upon which many of the most vulnerable depend.

The opening statement at the August 16, 2011 open meeting regarding the Concept Release cited the PCAOB's identification of "hundreds of audit failures." A measure as potentially transformative and costly as mandatory firm rotation should be designed to address a prevalence of serious, documented audit failures and public harm. Indeed, the Sarbanes-Oxley rules themselves were intended to guard against just such damage as had resulted from the Enron and WorldCom debacles. However, I have not seen any evidence that the audit failures referenced at the open meeting were of this magnitude, caused significant damage, or even resulted in restatement of financials. Without such rationale, the PCAOB should focus on enhancing its investigative and enforcement capabilities to address documented failure; it should not subject all corporations to an expensive and restrictive regulatory scheme without evidence of wrongdoing on the part of the issuer or auditor and demonstrated efficacy of the proposed rule.

Conclusion

I strongly believe that mandatory firm rotation will diminish the effectiveness of the audit process and cannot reasonably be implemented by large multinationals. As noted earlier, Congress has passed on the opportunity to adopt this measure. Other countries which ventured down this path eventually abandoned the rule. Spain, for example cited increased audit costs, and Turkey found the rule did not achieve public policy goals. The Italian Bocconi University report found that rotation is detrimental to audit quality. In lieu of adopting an approach which has been considered and, in some cases adopted and rejected, I respectfully suggest that the PCAOB focus on determining the root causes of audit failures and leveraging its investigative and enforcement capabilities as contemplated by Sarbanes-Oxley. Once reliable data has been accumulated over time, the PCAOB will be in a position to evaluate whether particular issuers or firms should be placed on a mandatory rotation, or whether management of firm and issuer, as well as audit committee members, are discharging their duties.

Very truly yours,



Dean R. O'Hare