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December 14, 2011

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

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

Via email: comments@pcaobus.org

Dear Board:

The Audit Committee of Cisco Systems, Inc. ("Cisco") appreciates the opportunity to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release"). As members of the audit committee of a large U.S. public company, we are very focused on ensuring high quality financial statement and internal control audits and the auditor maintaining independence by exercising objectivity and professional skepticism. The concept of auditor independence is not only critical to the PCAOB and the auditing profession, but is a cornerstone of the primary responsibilities of an audit committee. While we are supportive of the objective of the Concept Release to enhance auditor independence, objectivity, and professional skepticism, we are not supportive of mandating audit firm rotation as a means by which to accomplish that objective. The Concept Release acknowledges that based on the PCAOB's own inspection data, the preliminary analysis appears to indicate there is no clear linkage between the tenure of an audit firm and that firm's independence. The numerous negative implications of mandating auditor rotation without clear empirical evidence that such a requirement would actually enhance auditor independence, far outweighs any perceived benefit. In fact, this type of requirement may serve to undermine audit quality, unnecessarily increase costs negatively impacting shareholder value, and, in effect, may increase the overall risk of audit failure.

Role of the Audit Committee and Audit Quality

The responsibilities of the audit committee include appointing, retaining and overseeing the effectiveness of the audit firm. We believe that in performing these responsibilities, we are selecting an audit firm based on criteria which support the objectives of ensuring auditor independence, objectivity and professional skepticism. We believe that a requirement mandating audit firm rotation will not increase auditor independence and may actually result in reduced audit quality.

A strong relationship between the independent auditors and the audit committee is critical to the quality of the audit and is developed over time. The quality of the relationship between the audit committee and the independent auditors is a factor we consider when evaluating the audit firm's performance to ensure that the independent auditors are effectively completing the audit and communicating with the audit committee and company management. In performing our responsibilities as an audit committee, we have regular interaction with our independent auditors with ongoing, open communication. Throughout the fiscal year we meet with our independent auditors both with management present and in executive sessions. These meetings include reviewing the independent auditor's team, approach and scope as well as the nature of any non-audit services that may be provided. We also review with management and the independent auditors our quarterly and annual financial statements and disclosures, quality of critical accounting estimates and judgments, and the effectiveness of internal control over financial reporting. These discussions aid us in evaluating the audit firm's understanding of Cisco's business, their ability to resolve technical issues effectively and timely with management, and their ability to meet the company's changing

needs on a global basis. Performance criteria such as these are necessary to ensure the audit firm is providing the company with a quality audit. It is primarily these criteria, and not tenure, that are used to evaluate the effectiveness of the audit firm and the quality of the audit.

A critical element that needs to be considered in assessing the quality of the audit is the cumulative knowledge and experience of the audit firm with the company. In a large, complex multinational company it can take years to develop a sufficiently deep level of knowledge of the company which is required to adequately perform the audit. During the early years of an audit relationship, there may be a greater inherent risk on audit quality due to this lack of experience. A new audit firm may not have the ability to adequately and sufficiently challenge management's assumptions and judgments due to their limited history and understanding of the company. A more mature relationship involving several years of experience with the company mitigates risk and improves audit quality. As the knowledge base grows, the audit firm is better able to challenge management's judgments and assumptions that underlie significant accounting estimates and establish a better foundation from which the auditor can assess and test the company's assertions. Unduly prescribing changes to the auditor relationship would increase the overall audit risk and may serve to degrade audit quality. The current requirements to change audit engagement partners every five years effectively addresses the risk of a loss of objectivity and independence, while at the same time retains the cumulative knowledge in the remainder of the audit team that we believe is critical to ensure a consistently high audit quality. The loss of relationship and understanding of the company will take time to rebuild with the new firm and, for a period of time, the learning curve may result in a decrease in audit quality. A strong relationship between the audit firm and the audit committee developed over time allows the independent auditors to communicate effectively with the audit committee and management, raise new issues promptly, and effectively resolve the issues in a timely manner, all of which have a positive impact on the quality of the audit. Sacrificing this relationship due to length of service may be counterproductive to achieving the required level of audit quality that audit committees and the PCAOB expect.

The knowledge and experience of the audit committee puts it in the best position for evaluating the effectiveness of the independent auditors. Introducing arbitrary and mandatory audit firm rotations would limit the audit committee's ability to select and retain the best suited audit firm based on a comprehensive set of considerations that only the audit committee is in a position to evaluate. In fact, instituting a mandatory audit firm rotation rule will have the effect of reducing the audit committee's responsibility for this critical oversight role, thereby limiting its own effectiveness.

Increased Cost

Mandatory audit firm rotations would also lead to unnecessary and increased costs to companies and their shareholders. The increase in costs will result from higher audit fees as well as reduced company personnel productivity. In order to fully understand the audit risks, a new audit firm will need additional time to learn about the company, its business model, its control environment, the complex technical accounting and reporting issues it faces, and to develop the level of expertise and experience its personnel will need to effectively conduct the audit. This additional time getting up to speed and building an appropriate baseline understanding will surely be passed along to the company through higher audit fees. The Concept Release states that the PCAOB recognizes that the rotation requirement would risk significant cost and disruption and a 2003 GAO study has estimated an increase of 17% in audit fees as a result of a mandatory audit firm rotation model (Government Accountability Office, 2003, Required study on the potential effects of mandatory audit firm rotation). Internal costs will also increase due to a loss in productivity resulting from a company's internal staff spending additional time educating the new auditors about the company's processes, internal controls and accounting policies and practices. We do not believe that it is in the best interests of shareholders to burden them with these increased expenses without a clear understanding of the benefits.

Mandatory audit firm rotation would not only impact a company's audit services but would also impact the non-audit services performed by other independent accountants. The limitations on the types of non-audit services that audit firms can provide to audit clients makes the issue of mandatory audit firm rotation even more difficult. Cisco operates in a complex, multinational environment and uses several firms to perform non-audit accounting related services which are critical to its business. Rotating audit firms will

either limit the pool of available alternative firms due to existing relationships in place for non-audit services or require companies to also rotate the firms who provide the non-audit services thereby creating potential conflicts among service providers. Additionally, rotating audit firms will result in additional costs to the company as it would require changes not only in the audit firm, but also in the firms providing the non-audit services. This change is not only disruptive and cost prohibitive but will increase both audit and business risk to the company.

Proposed Solutions

While we are not supportive of mandatory audit firm rotation, we are supportive of the objective to enhance audit quality and we believe that the PCAOB should explore alternative ways to reach this objective. The Concept Release indicates that rules which require mandatory rotation of audit engagement partners and restrictions on non-audit services have enhanced auditor independence and the reliability of financial reporting over time. Additionally, the Board conducts annual inspections and the audit firms are subject to peer review, both of which contribute to improvements in the audit process and overall audit quality. Rather than focusing on mandatory audit firm rotation, we believe the PCAOB should focus its attention on the results of the annual inspections, increase the understanding of the root causes for the audit deficiencies it identifies, and communicate its findings in a timely manner to both the audit firms as well as to company audit committees. The communication of the specific inspection results to audit committees for their companies will provide the committees with information that would help to enhance their ability to oversee the effectiveness of the independent audit firm. This additional knowledge would allow audit committees to more effectively address any potential audit quality concerns. The timely and effective communication of the specific results to the audit firms would also enable the firms to implement changes in their audit process and increase their audit quality on a regular basis. Additionally, consideration should be given to implement requirements that audit firms communicate the specific results of the inspections to audit committees as well as related remediation plans in order to provide audit committees further insight into assessing the effectiveness of the audit firm and overall audit quality.

Concluding Remarks

Ensuring the objectivity and independence of the audit firm is a critical role of the audit committee. Mandating audit firm rotation without clear empirical evidence indicating that such a requirement would be effective is not in the best interests of companies and their shareholders. The requirement may be counterproductive to increasing audit quality as the audit risk may increase as well as increased cost and business disruption. Also, any concerns regarding auditor independence, objectivity, and professional skepticism should be considered within the context of the role of the company's audit committee which is ultimately responsible for that aspect of governance. We support the PCAOB's continued research into other potential approaches to improve auditor independence, objectivity, and professional skepticism in order to continue to enhance overall audit quality.

We thank the PCAOB for the opportunity to provide our comments on the Concept Release. If you have any questions regarding our response or would like to discuss our views in further detail, please feel free to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven M. West", with a long horizontal flourish extending to the right.

Steven M. West

On behalf of the Audit Committee of Cisco Systems, Inc:
Steven M. West, Chair
Roderick C. McGeary
Arun Sarin, KBE