



AMERICAN WATER

December 13, 2011

VIA EMAIL TO: COMMENTS@PCAOBUS.ORG

Office of the Secretary
Public Company Oversight Board
1666 K Street, NW
Washington, D.C. 20006

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

Dear Board Members and Chairman Doty:

I am pleased to submit comments to the Public Company Oversight Board relating to the above referenced concept release. I write as Chair of the Audit Committee and on behalf of the Board of Directors of American Water Works Company, Inc.

Founded in 1886, American Water is the largest publicly traded U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs more than 7,000 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15 million people in more than 30 states as well as parts of Canada.

I support the intended result of this concept release as auditor independence, objectivity and professional skepticism are true requirements for audit quality. However, I question the effectiveness of mandatory auditor rotation in increasing audit quality considering the related significant unfavorable impacts.

Representing the largest company in a specialized industry makes me particularly sensitive to the ability of an audit firm to maintain continuity of specific company knowledge. High quality audits are a result of knowledgeable audit personnel who understand company and industry-specific risks and transactions. This knowledge base generally is gained from prior audit experience with the company. Therefore audit quality may suffer in the first year or years after an auditor rotation.

Generally, the process of changing audit firms is costly and distracting for both the company and the audit firms. The process puts significant additional administrative burden on the company to complete an effective auditor selection procedure. This requires the attention and focus of some of the company's most seasoned and technical

resources that would otherwise be devoted to the financial reporting process. After the new audit firm is selected, additional attention by company personnel is required to assist the new auditor in developing an understanding of the company's business, systems and processes.

The audit firm change process also taxes auditor resources. The process requires responses to proposal requests, preparation and attendance in company interviews and training, after selection. This process results in higher administrative costs at the audit firms and, consequently, higher company audit fees.

The final issue that I would like to highlight is the level of discretion that mandatory auditor rotation takes away from audit committees. Audit committees are responsible for providing oversight of management, monitoring the independence of the audit firm, and assessing the quality of the company's financial reporting and internal controls. The audit committee is ideally situated to understand the appropriate facts and circumstances that should be considered in whether and when to select a new audit firm. Mandatory rotation decreases this discretion and may lead to a flawed decision-making process.

In summary, the features of the current system including audit partner rotation, limitations on non-audit services, PCAOB inspections and fully independent audit committees, when combined with employee and executive turnover at the audit firm and the company, adequately promote and protect the audit firm's independence, objectivity and professional skepticism.

Audit committees, by their nature, clearly understand the importance of auditor independence and are in the best position to evaluate and ensure that independence. The responsibility to monitor auditor independence, performance, and rotation of audit firms should rest with the audit committee.

As stated earlier, I support the efforts of the PCAOB to improve audit quality. However, due to the limitations described above, I do not support mandatory audit firm rotation.

I appreciate this opportunity to comment on the Concept Release and look forward to your further deliberations.

Sincerely,



Martha Clark Goss
Chair of the American Water Works Company, Inc. Audit Committee