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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

Dear Members of the Board,

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Concept Release, *Independence and Audit Firm Rotation* ("the Concept Release"). We at General Motors support the Board's objective of strengthening auditor independence, objectivity and professional skepticism. These principles are the foundation of auditing and financial reporting and are integral to preserving the integrity of an independent audit. Yet, we do not agree with the concept of mandatory audit firm rotation. Our principal concerns with mandatory audit firm rotation are the potential negative impacts on audit quality, especially around the timing of the mandatory audit firm rotation, the increased costs to issuers and operational challenges we expect will result, and the fact that auditor selection and rotation should remain the responsibility of the audit committee of the board. There is a lack of empirical evidence suggesting any correlation between audit firm rotation and increased auditor independence. It is our opinion that the Board should not consider mandatory audit firm rotation until empirical evidence demonstrating the direct benefit of such a requirement exists.

Risks to Audit Quality

We believe institutional knowledge regarding a company has a direct and positive impact on audit quality. Substantial institutional knowledge regarding a particular audit client resides throughout an audit firm, in particular within the direct audit engagement team. The combination of industry and institutional knowledge enable auditors to effectively identify business risks and form well considered conclusions over complex accounting and reporting matters.

We believe that a mandatory audit firm rotation requirement would result in a decrease in audit quality, especially in the years immediately following an audit firm rotation. The newly appointed audit firm must quickly develop a minimum level understanding of the company's control environment, business operations and key risks, in order to conduct its initial audit. However, the learning curve is steep. We further believe there is a significant difference between the minimum knowledge of a company and its control environment required to conduct an audit in accordance with the standards of the PCAOB and the level and depth of such knowledge that is built and accumulated over time. Accumulated experience with a company provides an appreciation for historical transactions and trends as well as a deeper understanding of the company's accounting policies, procedures, practices, personnel and information systems.

It can take several years for a newly appointed audit firm to develop a robust understanding of the business and accounting risks of an audit client, particularly at a global multi-national company such as

General Motors where the audit work is performed by several audit firm offices and member firms. We are concerned that an audit firm's lack of in-depth knowledge of the company and its history may adversely affect audit quality and we believe in-depth institutional knowledge equips the audit firm to be far more effective in challenging management's judgments and estimates and in formulating its own independent perspectives and conclusions.

We believe the current five year rotation imposed on the lead audit partner and concurring review partner results in an effective "fresh look" at the audit client every few years. We believe this combination of partner rotation coupled with greater levels of institutional knowledge among the remainder of the audit engagement team and within the audit firm, provides a healthy balance to achieving the PCAOB's desired objective of independence, objectivity and professional skepticism. We also believe that current independence rules regarding partner rotation balance effectiveness and efficiency and limit re-occurring transition years that reset institutional knowledge and increase audit risk. While we strongly support the concept that audit committees should review as part of their charters the potential benefits of rotating the audit firm at least every 9 years, we do not believe that there should be a mandatory requirement to rotate the audit firm.

Increases in Costs

We believe there are both direct and indirect costs that will increase in a mandatory audit firm rotation environment. We are not convinced there will be direct benefits resulting from a mandatory audit firm rotation requirement sufficient to outweigh the expected increases in costs, unless, in the opinion of the audit committee, the firm is not performing their audits in an effective and efficient manner.

First, as a large multi-national public company, a mandatory audit firm rotation will result in significant interruption to our business as the new auditor builds its knowledge of our business operations and control environment on a global basis. During the years immediately following an audit firm rotation, auditor inquiries will place a heavy burden on our personnel throughout the business and most directly on the accounting function, including at the executive level. We strongly believe that the additional burden placed on our personnel during the transition period will result in management distraction due to competing time demands. This will negatively impact our ability to continue to improve our business and our overall control environment.

Aside from the impact on our personnel, the direct cost of the external audit will likely increase significantly under a mandatory firm rotation requirement. In today's world of voluntary audit firm changes, a newly appointed audit firm will typically absorb a significant portion of the incremental audit time they incur, particularly in the first year, while learning the business and establishing their baseline understanding of the control environment. We are concerned that a mandatory audit firm rotation requirement will change this dynamic such that more of these transition costs, which will be incurred even more frequently, will be directly billed to companies as a cost of the audit. Another driver of increased cost is directly related to the global nature of our operations and the various statutory audits around the world that are required for many of our subsidiaries. In order to maintain some level of audit efficiency and effectiveness, we would likely need to change our statutory auditors in each of these countries to our new parent-company auditor, resulting in many audit firm changes, not just one.

Audit Firm Rotation is an Audit Committee Decision

The audit committee is responsible for the appointment, compensation, retention and oversight of the independent auditor. We believe the audit committee is in the best position to manage the external audit relationship, decide which audit firm is best able to serve the company and its shareholders, and determine when a change in auditor is necessary. We are concerned that mandatory audit firm rotation will preclude the audit committee from effectively fulfilling this important governance responsibility as the requirement will place limits on the audit committee's discretion regarding whether and when to make a change in audit firm.

For example, there may be times when a change in external auditors is not in the best interest of the organization and shareholders and may actually have a negative impact on quality. For example, a mandatory audit firm rotation may fall on an atypical audit year (for example, during significant changes in the business or when a company may desire to access the capital markets) creating unique challenges for the successor auditor, predecessor auditor and management. In the absence of significant audit quality concerns, the audit committee may elect in these circumstances to renew an audit engagement or defer a bidding process until after the atypical risks have passed. The inability for an audit committee to exercise professional judgment and manage these decisions could negatively impact audit quality and/or complicate the coordination efforts (for example, obtaining a consent from both the predecessor and successor audit firms in connection with accessing the capital markets).

Operational Challenges

There are currently only a limited number of audit firms that could reasonably conduct our audit in a high quality manner. Some limitations include the industry specific expertise and the extent of audit firm international operations aligned with our company's requirements. A further limiter could be our use of several audit firms other than our external auditor to provide various non-audit services. At any point in time, we could be using one or more of the Big 4 audit firms other than our external audit firm to provide a variety of non-audit services that our external audit firm is not permitted to perform. In such an environment, mandatory audit firm rotation would create numerous operational challenges to ensuring we have a sufficient number of audit firm choices from which our audit committee could select a new auditor. We believe this would involve cost and quality hurdles, which, while not insurmountable, create significant risk in service delivery in these non-audit service areas. In order to meet independence requirements, the successor audit firm would have to discontinue any current impermissible non-audit services before the start of the audit period, including those that might otherwise overlap the audit period in the ordinary course. This could have a significant downstream impact as the services currently provided by such firm would need to be transitioned to a new service provider, involving both time and likely incremental cost in the process.

Other Recommendation

We recommend the PCAOB evaluate requiring audit firms to report to audit committees their PCAOB inspection results, at both an audit firm level as well as, where applicable, an engagement-specific level. We believe that enhanced visibility to potential audit quality issues on a timely basis will enable the audit committee to better evaluate the performance of the external audit firm and make decisions that are in the best interest of investors. This may result in an audit firm rotation if the audit committee believes, given the facts and circumstances, it is warranted. However, we strongly believe it should be their decision.

We ultimately feel that the risks to audit quality, the significant incremental costs associated with audit firm rotation, and the fact that the audit committee does not have the opportunity to exercise their judgment would outweigh any perceived benefits of mandatory audit firm rotation. We appreciate the opportunity to provide the Board with our comments and recommendations for consideration. We are happy to discuss this letter in further detail at the earliest convenience of the Board. Should you have any questions or need to discuss this letter, please contact me at (313) 667-3434.

Sincerely,



Nick S. Cyprus
Vice President, Controller, and Chief Accounting Officer
General Motors Company

cc: Martin F. Baumann, Chief Auditor and Director of Professional Standards