



THE READER'S DIGEST ASSOCIATION, INC.  
750 THIRD AVENUE  
NEW YORK, NY 10017

Mr. J. Gordon Seymour  
Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

---

December 10, 2011

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

Dear Mr. Seymour:

Readers Digest Association (RDA) appreciates this opportunity to submit comments to the Public Company Accounting Oversight Board (Board) on its concept release on auditor independence and audit firm rotation.

As more fully described below, we believe the existing professional standards and practices concerning auditor independence and audit firm rotation are sufficient to ensure auditor independence and we strongly encourage the Board not to mandate audit firm rotation. To that end, we offer our following comments:

#### Existing Practice Has Been Effective Self-Regulation

We believe the existing body of regulations and professional standards work well and ensure that the audit firm is independent, objective and that it observes professional skepticism. Further, Audit Committees composed of independent financial expert members are effectively monitoring the audit firm's independence, objectively and skepticism. We note frequent interactions between the audit firm and the Audit Committee in this regard (i.e. required communications and periodic updates throughout the course of the audits).

#### Independent Audit Committees Are More Effective And Should be The Decision Makers

We believe that the independent director members of the Audit Committee effectively carry out their role of oversight of the audit firm. They have a legal fiduciary responsibility to discharge their roles responsibly and ably. RDA has a very active Audit

Committee with whom the audit firm meets regularly. The Audit Committee members continually monitor the audit firm's independence and objectivity and they are best suited to determine audit firm rotations.

#### Mandatory Rotation Would Be Hugely Inefficient and Costly

As you may know, RDA does business on a global scale (we are in nearly 80 countries) and we require audits in multiple jurisdictions. RDA is also an SEC registrant and the audit of its consolidated financial statements is a global effort that requires significant coordination in planning and execution. There are only a few firms that have the depth and capabilities to perform these audits. It takes years of hands on experience to truly understand the various businesses, systems and local policies and practices which are RDA. We cannot fathom, nor do we think it practical, to have a mandatory rotation simply for the sake of rotation. We believe, in our case, a mandatory audit rotation would be hugely inefficient, causing much redundancy of learning curve experience. This will also be a significant and unnecessary burden on our global staff who are already time constrained given operational requirements.

RDA, as an SEC registrant, is also subject to reporting under the Sarbanes Oxley Act. This too is a global effort requiring significant coordination in planning, controls and execution. It takes many years to accumulate the detailed knowledge necessary to understand the internal control framework at RDA. Mandatory rotation would potentially be a set-back and certainly a risk in quality of the Sarbanes Oxley initiatives.

The Board should also consider the implications of mandatory auditor rotations during periods with significant transactions. Of concern would be cases where the auditee may be engaged in an IPO, Recapitalization or M&A transaction. Under such circumstances it may not be prudent or practical for mandatory rotation. We would think investors would be ill served under such circumstances and doing so would like add to the transactional costs.

#### Audit Quality Will Certainly Suffer

RDA has changed firms in the past and members of its current financial management also have a wide range of experiences with auditor rotations. We believe that audit quality will suffer in the event of mandatory rotation and that there would be no effective way to mitigate this risk based on our experiences. It is likely a new audit firm would need two years to fully assess and have an appreciation for our global business. These two years will likely be a period primarily of education for the new firm's staff. With all due respect to the audit firm, we believe audit risk would be needlessly increased and audit quality may degrade during this learning curve period. All things being equal, a business would not choose voluntary audit rotation as a policy given the unacceptable risks and costs it brings.

### Mandatory Audit Rotation Will Inherently Increase Audit Risk

As mentioned above, RDA is a multinational company with presence in nearly 80 countries. We have over 400 systems and thousands of contracts and agreements. It is apparent to us that starting from scratch – in the event of mandatory rotation every few years - would be a significant challenge and introduce a higher level of audit risk. In our view there would be great probability of the auditor missing an issue or not having enough grounding in the business and its systems to ascertain a conclusion. In order to manage such risk, the level of consultations with their firms' national practice subject matter experts would necessarily rise, thus increasing demands on already overtaxed resources.

### Mandatory Audit Partner Rotation Is Just As Effective

We believe the existing rules requiring audit partner rotation are just as effective and far more efficient than requiring mandatory audit firm rotation. Based on our collective experiences, we believe the risks and uncertainties which we enumerated above are mitigated when the audit partner is rotated. Under a regime where partners are rotated after mandatory rotations, the cumulative knowledge does not leave and there is no learning curve for an entire audit team and firm. The resident knowledge at the firm continues, thus making a change at the top far more efficient and effective with no incremental cost. Under existing practice, the transition is smooth and seamless with the two partners working closely to ensure there are no gaps in understanding and coverage. Further, we have seen from first-hand experience that the audit partner rotation has an invigorating impact on the audit approach, ensuring that audits do not get stale.

### Mandatory Audit Rotation Will More Than Likely Lead To Higher Audit Fees

In order for the audit firms to maintain their profitability, they would more than likely have to raise their audit fees to capture the costs of the inefficiencies inherent in a mandatory audit rotation model. We believe it is likely to increase fees 10% to 20% since firms will have to price into their models the upfront investments in learning curve and audit documentation over shorter periods of tenure. The larger and more complex the audit (such as RDA), the more likelihood of higher incremental fees.

### Perception versus Reality

Too often regulation is established as an overreaction to perception rather than factual circumstances. Regulation of audit firm rotation should not be based on perception alone. We believe there is no hard evidence linking audit firm tenure to audit failures or significant audit deficiencies. We acknowledge the audit firm has a special standing that requires it to be above reproach and we believe that the audit industry is among the best self-regulated professional services in the world. There is no demonstrated factual need to burden the audit model with a mandatory rotation requirement. To do so risks mistaken perception becoming a costly reality.

### Audit Firm Rotation Should Be Left As a Business Decision

In the end, it is our conclusion that the audit firm rotation should be left as a business decision to be made by the Audit Committee based on all merits and not solely based on the passage of time. We strongly encourage this view.


### Current Payment Model Is Not Broken

We believe the current payment model is adequate. The Audit Committee of the Board oversees the audit fees and related payments by the company. Fees are negotiated and agreed to with the advice and consent of the Audit Committee. There is no room for conflict with management in our view. Additionally, RDA continually surveys the marketplace to ensure a comparable level of fees are considered.

### Further Limitations On Audit Firm Services Will Degrade Audit Service And Likely Limit Audit Talent

We do not believe further restrictions as to services provided by audit firms is warranted. We believe the prior actions taken by the Board and those enumerated prohibited services continue to be relevant and adequate. We are concerned that further restrictions will adversely impact audit quality and will likely limit audit talent. As an example, RDA has a complex legal and tax structure encompassing hundreds and jurisdictions. RDA maximizes its efficiency and effectiveness by consulting with the tax subject matter experts at its public accounting firm. Meanwhile the audit engagement team benefits by having real time access to the tax experts so they can spot any concerns or issues proactively rather than solely reactively based on audit detective procedures. Should the Board restrict tax services, RDA would lose the synergies of the current service model, thus adding to the burdens and costs of an audit.

It has been our pleasure to provide you our comments above in response to the Board's concept statement. We look forward to the next stage of your deliberations.



Paul Tomkins  
Executive Vice President and  
Chief Financial Officer



Bryan Berndt  
VP and Controller