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April 18th 2012

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

PCAOB Rulemaking Docket Matter No. 37

Dear Sir/Madam:

I am writing to comment on PCAOB Rulemaking Docket Matter No. 37, which deals with your proposal for mandatory audit firm rotation. I recognize that the Board wants to ensure both the effectiveness and independence of the external auditors. I concur with the Board's objective as I believe confidence in the integrity and quality of financial statements is critical. However, I oppose mandatory audit firm rotation as I believe the proposal creates greater risks to the quality of financial statements and increases the likelihood of lower confidence in financial statements by users. Through Sarbanes-Oxley and the PCAOB's work, many improvements in financial statements have been made. Supporting these quality upgrades are Board Audit Committee oversight; lead audit partner and reviewing partner rotation; and both internal audit firm and PCAOB reviews of work performed.

One fundamental recommendation that would satisfy the intention of the PCAOB's proposal on audit firm rotation would be to prohibit internal corporate oversight of the external auditors from residing with The Chief Financial Officer or the CFO's staff or the General Counsel. While Sarbanes-Oxley requires Audit Committee oversight of the external audit firms, the reality is most Chief Financial Officers own the internal administrative coordination responsibility including negotiating audit fees, reviewing engagement letters and proposals, and submitting proposed audit firm services to the Audit Committee for approval. Ideally, such internal oversight should rest with the internal audit function as it has similar skill sets to the external auditors and should have a direct line reporting relationship to the Board Audit Committee. Such a reporting relationship would eliminate possible conflicts of interest between preparers and reviewers of financial statements; align skill sets; and provide the Board Audit Committee with increased assurance that the external auditors had an independent internal communication channel and that the external auditors were being assessed by skilled reviewers.

By way of background, I am an investor concerned with the accuracy, adequacy and integrity of financial reporting. I am intellectually interested and concerned with ensuring our capital markets, of which financial reporting is a critical component, operate in a manner above repute and which also sets the standards for the world.

I have held a number of positions in the internal auditing profession in which I was heavily involved with Audit Committee and other Committees of the Boards of Directors and with our external auditors. Additionally, I dealt with Bank Regulators in the US including the Federal Reserve; the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Deposit Insurance Corporation and state banking regulators as well as banking regulators in at least 20 countries. I was also significantly involved with the implementation of the Sarbanes-Oxley Act and the New York Stock Exchange listing standards. Among the positions I held, prior to my retirement, were:

- Executive Vice President and General Auditor, State Street Corporation
- Senior Vice President, Director of Audit and Chief Compliance Officer, First Nationwide Bank FSB
- Vice President in internal audit covering the worldwide Consumer Bank of Citigroup

More detailed comments on the proposal follow:

1. **Independence and Objectivity.** I concur with the Board's position on ensuring both the independence and objectivity of the external auditors as it is only through such measures that the investing public, Boards of Directors and corporate management can have confidence in the financial statements. The Sarbanes-Oxley Act emphasized and mandated actions to strengthen independence by clarifying expectations and requiring external auditor oversight by Board Audit Committees, although a number of corporations already had such policies in place.
2. **Working Relationships.** Although not always well recognized, internal auditors and external auditors have similar and often overlapping responsibilities for ensuring the effectiveness of the internal controls over financial reporting as well as over disclosure controls. Both also have the duty to assess, evaluate and report on such controls. Ideally the internal auditors have a direct reporting relationship to the corporate Board's Audit Committee as mandated for external auditors. An trusted and close working relationship between the internal auditors and external auditors is critical to the efficacy of their efforts.
3. **Mandatory Audit Firm Rotation.** I oppose the proposal to require mandatory audit firm rotation for the following reasons:
    - Changes in audit firms are immensely disruptive and costly to Corporate America. Costs consist both of the need for additional staff to work with the new audit firm to educate them in the business; financial processes and systems. The disruption impacts senior managers who will be distracted by a new firm's staff as they try to learn the business.
    - The change in audit firms will also be disruptive to the working relationships between internal auditors and external auditors resulting in less knowledge transfer and less leverage of skills and knowledge of the parties.
    - Studies over the years have shown that financial reporting errors occur at a higher rate in the first two years of a change in audit firm. By requiring mandatory audit firm rotation, the propensity for financial reporting errors and

restatements will geometrically increase. The net result would be a loss of confidence by the general public and especially the investing public in financial statements.

- There would be a significant loss in knowledge about each specific corporation. To be truly effective audit firms need detailed and in depth knowledge of their corporate clients to understand the accounting and audit issues of their clients particularly for large and/or multi-national corporations.
- New auditors would confront steep learning curves and distract corporate managers from their day-to-day tasks. The audit firms would incur additional costs resulting from these transitions which would be passed on to their audit clients
- Knowing that the duration of their assignments with corporations was absolutely limited, the audit firms would have limited incentive to either negotiate or be cost efficient thus increasing corporate costs.
- Current mandatory rotation of lead audit partners and reviewing partners accomplishes the major goal of the proposal without the significant and costly disruptions of a firm rotation.
- Efforts by audit firms supported by the PCAOB's reviews have improved audit quality as well as addressing the supposed deleterious impacts of long term audit relationships.
- Increased oversight by Board Audit Committees coupled with increased direct and confidential access to the Committees for both internal auditors and external auditors have increased independence and highlighted areas of possible concern or disagreement. The requirement for Audit Committees to approve services provides an additional effective and corporate knowledgeable oversight.
- Facing mandatory audit firm rotation would to a degree detract from the independent focus and oversight currently provided by Audit Committees.

I appreciate the opportunity to comment on this significant proposal.

Sincerely,