



December 14, 2011

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

VIA E-MAIL TO [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB) Release No. 2011-006, Concept Release on Auditor Independence and Audit Firm Rotation dated August 16, 2011, and we commend the PCAOB for its outreach to financial statement stakeholders to help improve auditor independence, objectivity, and professional skepticism.

**About Gildan**

Gildan Activewear Inc. ("Gildan") is a publicly listed company whose common shares are listed on the Toronto Stock Exchange and New York Stock Exchange. Our corporate head office is located in Montreal, Canada. We are a marketer and globally low-cost vertically-integrated manufacturer of quality branded basic apparel. Gildan® is the leading activewear brand in the screenprint market in the U.S. and Canada and we are continuing to grow our presence in Europe, Mexico and the Asia-Pacific region. The Company sells T-shirts, sport shirts and fleece as undecorated "blanks", which are subsequently decorated by screenprinters with designs and logos. The Company is also one of the world's largest suppliers of branded and private label athletic, casual and dress socks sold to a broad spectrum of retailers in the U.S. Gildan markets its sock products under a diversified portfolio of company-owned brands, including Gold Toe® and the Gildan® brand. With approximately 30,000 employees worldwide, Gildan owns and operates highly efficient, large-scale, environmentally and socially responsible facilities in Central America and the Caribbean Basin and has begun the development of a manufacturing hub in Bangladesh to support its planned growth in Asia and Europe. For our most recent fiscal year ended October 2, 2011, our consolidated net sales and assets were approximately US\$1.7 billion and US\$1.9 billion respectively.

**Our Views on Mandatory Auditor Rotation**

Our response is generally limited to the main question at hand, which we believe is essentially whether the benefits of mandatory audit firm rotation (the "proposed change") outweigh the costs and risks. We are of the view that capital market stakeholders would be better served by not implementing the proposed change, and continuing to leave the selection of auditors with the independent audit committee of each reporting issuer. We have elaborated on this view below.

The arguments for and against mandatory audit rotation are well established, as noted in the introduction to the concept paper:

*“As described in detail below, one possible approach that might promote such a shift is mandatory audit firm rotation, which has been considered at various times since the 1970s. Proponents of such a requirement believe that setting a limit on the continuous stream of audit fees that an auditor may receive from one client would free the auditor, to a significant degree, from the effects of management pressure and offer an opportunity for a fresh look at the company's financial reporting. Opponents have expressed concerns about costs that changing auditors could impose on certain issuers. The risk of increasing issuer audit costs may be a consideration that merits particular discussion during a period of economic weakness and heightened global competition. Opponents have pointed to academic research and comment, discussed below, to argue that audit quality may suffer in the early years of an engagement and that rotation could exacerbate this phenomenon.”*

We believe that there is really no debate on these points per se, as we would expect proponents of both sides to acknowledge the arguments for the opposing position. What is of course debatable is whether the benefits of mandatory auditor rotation outweigh the costs and risks of doing so.

In our view, it is highly likely that the proposed change would result in higher costs for issuers, and also increase the risk of audit failure in the first few years following the change in auditors. However, what we find to be less certain is whether the change would have a significant impact on auditor independence and objectivity. Moreover, we strongly believe that any improvement in auditor independence would not represent a “fundamental shift” in the auditor-client relationship. Accordingly, we expect that the outcome of implementing mandatory auditor rotation would be, at best, a marginal improvement in auditor independence, but with an overall decrease in audit quality and higher audit fees and internal transition costs for issuers. We suspect that many respondents have submitted arguments to support a view that auditor rotation will not dramatically reduce the impact of the fundamental conflict caused by the auditor-client relationship (for example, the new audit firm will still be paid by the client, and could be motivated to develop a relationship with the client that will improve its chances of obtaining other services and being reappointed as auditors in future years).

We found the following quotation from the Concept Release, which is an argument for mandatory auditor rotation, to be particularly relevant in establishing our view on this issue:

*“Had Arthur Andersen in 1996 known that Peat Marwick was going to come in 1997, there would have been a very different kind of relationship between them and Enron. Clearly, they would have wanted to have their work papers in order, all of the deals documented and well explained. They might well have challenged Enron's management in that early period where Enron was changing its accounting. ... I would think that there is a very high probability that had rotation been in place at Enron with Arthur Andersen, you would not have had the accounting scandal that I think we now have...”*



In our view, the current PCAOB inspection process is clearly a much more effective and less costly deterrent (against auditors failing to exercise proper professional scepticism, etc.) than the “fear” of knowing that another auditing firm will eventually be awarded the audit mandate due to mandatory rotation requirements. We believe that the PCAOB should consider building up on this process, which has had positive effects. Consideration should be given to expanding on the number of reviews performed each year, or the depth of the reviews.

Another quotation that we wish to comment on:

*“One final argument you will hear against the rotation of audit firms is that they already do an internal rotation of audit partners on the companies they audit. ... But once a firm has issued a report on the financial statements of a company, there is an inherent conflict in later concluding that the financial statements were wrong. This is especially true if the company has accessed the capital markets using those financial statements and as a result, that the accounting firm has significant exposure to litigation in the event of a restatement of the financial statements. By bringing in a new firm every 7 years, you get an independent set of eyes looking at the quality of the financial reporting that have no ‘skin in the game’ with respect to the previous accounting.”*

While we accept that the benefits of partner rotation are questionable, and that a new audit firm can bring a fresh perspective, we note that the new auditing firm will still be subject to the inherent auditor-client conflict.

We believe that the changes implemented pursuant to the Act have resulted in significant improvements to both auditor independence and audit quality, including the strengthening of the composition and authority of audit committees, the implementation of the PCAOB inspection practices, and the “cooling-off” period restrictions for hiring audit staff. We were somewhat surprised that the importance of the cooling-off period rules was not highlighted in the Concept Paper, as we understand that the hiring of audit staff was an important factor that affected auditor independence in the Enron case.

We also note that the issue of audit firm rotation has been carefully considered by various organizations in the past, with an essentially consistent conclusion that mandatory audit firm rotation is not necessary or desirable. Accordingly, we respectfully question whether there have been any events, developments or trends since the Act was implemented that would support a different conclusion at this time. Moreover, we believe that audit quality is trending in the right direction, and we note that the Board acknowledges this in its concept paper (“... we believe that the reforms of the Act have made a significant, positive difference in the quality of public company auditing”).

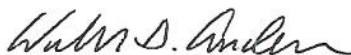
We also wish to highlight that the time period for rotation poses a dilemma. A long rotation period would mitigate the costs and risks to some extent, but at the same time would reduce the intended impact. Conversely, a short rotation period would possibly have a more meaningful impact on auditor independence, but would exacerbate the costs and risks.

In our case, we are satisfied that our auditor has been independent and objective in the performance of their audits, not only through their conduct during audit engagements but also through their interactions with our independent audit committee. For instance, our auditor has direct access to the audit committee at all times and regular communications are held throughout the year. We are also satisfied that accounting issues which arise during the course of the audit are dealt with objectively, independently and transparently by our auditor. In fact, we believe that the knowledge of our business and operations which has been accumulated by our auditor over the years adds significant value in the review of complex accounting issues that are dealt with during the audit. This knowledge results in increased assurance that the ultimate resolution of accounting issues is the correct conclusion in accordance with generally accepted accounting principles, with thorough consideration given to the facts and circumstances of the accounting issue at hand as they relate to our business operations and our industry. We believe that this value added “knowledge of our business” would be diminished in the first few years in which a new audit firm would perform the audit, which would increase the risk of incorrect conclusions being reached on complex accounting issues.

#### Closing Comments

We believe that the decision to select and change auditors should continue to rest with the independent audit committee, and that the PCAOB inspection practice should continue to serve as an additional key control over the implementation and maintenance of high standards of audit quality as well as the fundamental conflict of auditor independence. To the extent that the current level of inspections is not considered adequate, we believe that it would be more appropriate to consider increasing the volume of inspections instead of implementing mandatory audit firm rotation. We recognize that this would result in increased PCAOB fees for issuers, but this cost would be marginal compared to the costs that would be incurred as a result of mandatory firm rotation, both from an audit fee perspective, and the costs that would eventually result from the increased risk created by a rotation requirement.

Yours truly,



William D. Anderson  
Chairman of the Audit and Finance Committee  
Gildan Activewear Inc.



Laurence G. Sellyn  
Executive Vice-President  
Chief Financial and Administrative Officer  
Gildan Activewear Inc.