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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. 034*

Dear Board:

The Audit Committee of Cisco Systems, Inc. ("Cisco") appreciates the opportunity to comment on the PCAOB's proposed two new auditing standards, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*, and in addition, the related amendments to existing PCAOB standards (the "proposals").

As members of the audit committee of a large U.S. public company, we are responsible for ongoing oversight and independent appraisal of the financial reporting process and have a critical role in corporate governance. Therefore, we are very focused on ensuring that financial information is understandable, transparent, accurate and reliable. Similarly, we strongly support effective communication of financial information and understand that high-quality information is foundational to enhancing investor confidence.

The proposals are intended to "provide information that is specific to a particular audit" and "increase the informational value of the auditor's report to promote the usefulness and relevance of the audit and the related auditor's report". Outreach performed by the PCAOB has indicated that some investors are not satisfied with the content of the existing auditor's report, but believe the "auditors have unique and relevant insight" to provide "early warning signals regarding potential issues" and "knowledge that would assist them when making their investment decisions."

Overview

We support the PCAOB's decision to retain the existing pass/fail model on opinions on financial statements, which will continue to provide a clear and unambiguous message

for investors and other users of financial information. While we also support the PCAOB's objectives to improve the informational value of the auditor's report and to include additional language that clarifies the nature and scope of the audit, we do not support proposals that would alter existing reporting responsibilities for disclosing information about the company. We are concerned that the proposals may have the unintended effect of reducing transparency and critical dialogue within the corporate governance framework. Similarly, while some of the proposals are not intended to require additional audit effort, we expect that these proposals will result in significant additional audit procedures in the aggregate, which would unnecessarily lead to a combination of increased costs, added pressure on reporting deadlines, and potential dilution of audit quality resulting from the auditor's broader scope.

Critical Audit Matters

The proposals would require the auditor to communicate in the auditor's report "critical audit matters" addressed during the audit. Critical audit matters include matters that (1) involved the most difficult, subjective or complex auditor judgments, (2) posed the most difficulty to the auditor to obtain sufficient audit evidence, or (3) posed the most difficulty to the auditor in forming an opinion on the financial statements. This communication is intended to provide investors and other financial statement users with "previously unknown information about the audit."

Within the existing corporate governance framework, the audit committee has a very active role in the financial reporting process. At Cisco, we have a robust process for reviewing financial information each quarter, which includes regular interaction with management and our auditors through ongoing, open communication. Each quarter, Cisco's disclosure committee meets three times to review the Form 10-Q/10-K prior to filing with the Securities and Exchange Commission (SEC). The disclosure committee is comprised of senior management from several functional areas, the Chief Accounting Officer, internal counsel, investor relations, and various finance and other functions of the company and includes reviews with the Chief Executive Officer and Chief Financial Officer. Additionally, both our external counsel and auditors attend the disclosure committee meetings. The audit committee also meets twice a quarter with management and our auditors to review the financial information prior to filing. This process ensures that all relevant information about material items is readily available and thoroughly discussed among key stakeholders.

In our view, requiring auditors to independently report critical audit matters may result in some unintended consequences such as limiting the information exchange and the level of involvement by both the audit committee and the auditors in disclosure committee meetings if management is concerned that information may be separately reported in a manner or format that does not appropriately convey the needed context or detail. Additionally, as judgment is required to identify critical audit matters, we are concerned that inconsistencies would exist in the nature or extent of topics discussed.

It is also important to consider that the disclosure of Critical Accounting Estimates is an existing component of Management's Discussion and Analysis (MD&A). It is highly likely that a disclosure of critical audit matters would include some or all of the areas involving critical accounting estimates. Repeating the same information in the auditor's report does not add significant value for users and may actually create confusion. As noted in the proposals, existing PCAOB standards provide for emphasis paragraphs that can be utilized today by auditors to highlight critical audit matters.

We would also like to emphasize that it is the responsibility of the company's management to provide information about the company. The role of the auditor is to attest to this information. To the extent investors and users of financial statements have information needs that are not currently met through established financial reporting requirements, those needs should be raised for consideration in future standard setting and policy-making initiatives through the appropriate regulatory bodies. It is key to understand that the independent audit firm is involved in the financial reporting process and their feedback and perspectives are integrated and reflected in the company's filings.

Auditor Reporting on Other Information

The proposals are intended to "improve the auditor's procedures and enhance the auditor's responsibilities" with respect to information outside the financial statements within an annual report filed with the SEC under the Exchange Act (including Selected Financial Data, MD&A, exhibits, and certain information incorporate by reference). This would be accomplished by focusing the auditor's attention on the identification of material misstatements of fact or material inconsistencies between the information outside the financial statements and the company's audited financial statements.

We do not support increased audit procedures or reporting beyond those currently required to "read and consider" other information in certain documents that also contain the audited financial statements and the related auditor's report. Beyond the increased costs that would result from any incremental audit procedures, we are concerned that investors and other users will not properly understand the limitations associated with the "evaluation" of other information, especially in the context of non-financial, qualitative and forward-looking information in the MD&A. Until there is clear evidence of demand among investors and other users for additional audit procedures on information outside the financial statements, we believe the auditor's report should not be modified to suggest additional audit procedures beyond those currently required under existing PCAOB standards. We do not believe that it is in the best interest of shareholders to burden them with increased costs without a clear understanding of the problem statement and benefits that will be attained.

Elements of the Auditor's Report

The proposals would include "Auditor tenure" as a new element of the auditor's report and require disclosure of the year that the auditor began serving as the company's auditor. Consistent with our feedback on the PCAOB's Concept Release on *Auditor Independence and Audit Firm Rotation*, we are not aware of a clear linkage between the tenure of an audit firm and that firm's independence. Likewise, we do not believe that audit tenure is an indicator of audit quality and do not believe that this new element will bring added value to the auditor's report.

On the other hand, we do support clarifications to existing elements of the auditor's report that would improve users understanding of the nature of an audit, the auditor's responsibilities, and the purpose of the auditor's report. However, we suggest that the PCAOB not only improve the wording in the auditor's report, but also consider other mechanisms to raise public awareness of these important aspects.

Concluding Remarks

We support the PCAOB's continued outreach activities and encourage additional public roundtables with stakeholders to further discuss the merits of the proposals. These discussions are of utmost importance not only from a cost/benefit perspective, but also to ensure that the role of the audit committee and auditors is neither compromised nor diminished inadvertently. It is equally important to clearly demonstrate to investors and other users of financial statements that it is management's responsibility to communicate information about the company.

We thank the PCAOB for the opportunity to provide our comments on the proposals. If you have any questions regarding our response or would like to discuss our views in further detail, please feel free to contact us.

Sincerely,



Steven M. West

On behalf of the Audit Committee of Cisco:
Steven M. West, Chair
Roderick C. McGeary
Arun Sarin, KBE
M. Michele Burns