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December 13, 2011

Via email: comments@pcaobus.org

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

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

Executive Summary

U.S. Bancorp (USB) appreciates the opportunity to provide comments on the *Concept Release on Auditor Independence and Audit Firm Rotation* (the Concept Release). We understand the primary objective of the Concept Release is to solicit public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced as a way of reducing “audit failures.” The Concept Release focuses on mandatory audit firm rotation as one possible approach.

USB agrees that independence, objectivity and professional skepticism are critical to achieving audit quality and meeting the expectations of shareholders and the audit committees that represent them. However, in our view, other governance processes are more effective in ensuring auditor independence, objectivity and professional skepticism than mandatory rotation. We believe mandatory rotation could dilute the role of the audit committee, decrease the quality of audits, increase audit risk, and unnecessarily add costs. As a result, we believe mandatory auditor rotation would not be in the best interest of shareholders of public companies.

Shareholders have vested in the Audit Committee the responsibility for ensuring the effectiveness of independent audits. Our view is that an effective Audit Committee will have robust processes for approving the scope of the auditor’s engagement, assessing the auditor’s independence, and reviewing the quality of the auditor’s work. The results of those processes should guide determination of when auditor rotation is appropriate. The Audit Committee is best positioned to understand the audit needs of the company and the work of the audit firm, and to evaluate whether the auditor’s independence is, or appears to be, compromised. We believe that mandatory audit firm rotation would hinder the Audit Committee’s ability to oversee the financial reporting and audit process.

We believe the existing structure of checks and balances, which include i) the role and responsibilities of the Audit Committee, ii) the professional standards of independent auditors, iii) the PCAOB standards on auditing, quality control, independence and ethics, iv) the PCAOB inspection program, and iv) the requirements imposed by the SEC and other regulatory bodies, including those resulting from the passage of the Sarbanes-Oxley Act of 2002 (SOX), together provide a sufficient and appropriate framework to promote auditor independence, objectivity and professional skepticism. We believe the progress that has been made in recent years under this existing framework would be undermined if mandatory auditor rotation requirements were implemented.

We encourage the PCAOB to further study the causes of audit failures and to explore other avenues to address the issues that may exist related to independence, objectivity and professional skepticism of certain auditors. It is imperative that there be sufficient research performed to specifically identify the issues, ensure any proposed changes mitigate risk and do not have unintended consequences, and most importantly protect the interests of shareholders.

Further detail on our views follows:

Effective Audit Committees have robust processes for reviewing and approving the auditor's engagement and it is appropriately their responsibility to determine when auditor rotation should occur.

- We believe Audit Committees are best suited to select and oversee auditors. Audit Committees have a significant responsibility to reinforce the independence of the auditor. Our Audit Committee is aware of the audit needs of the company and the work of the audit firm. They are best positioned to evaluate whether the auditor's independence is, or appears to be, compromised. We believe mandatory audit firm rotation would hinder the Audit Committee's ability to oversee the financial reporting and audit process in the best interest of shareholders.
- Mandatory firm rotation may give rise to significant issues for global companies, limiting the ability of the Audit Committee to effectively ensure audit quality in large organizations. For example, USB needs to engage an auditor that can provide services in both the U.S. and in foreign countries. Practical difficulties would arise if regulations on auditor rotation are not aligned between the U.S. and those foreign countries. In addition, there may be a limited number of audit firms from which to choose because of factors such as geographic reach, industry expertise, sufficient capacity, and because other audit firms may be performing non-audit services that may impair their independence. The Audit Committee is in the best position to assess all of these factors.
- As an alternative to mandatory rotation, the PCAOB might consider publishing an outline of potential Audit Committee processes which can be effective at strengthening auditor independence and audit quality. Audit Committee practices which support, and in some cases go beyond, the SOX and SEC mandated requirements and promote auditor independence and objectivity may include:
 - The audit firm reviews the audit plan with the Audit Committee including a discussion of their assessment of key risks and the audit strategy. The Audit Committee also reviews the scope of audit services and related fees to be charged and considers the relative fee amounts for the various components of the audit engagement to the nature of services to be provided (e.g., control and interim review, substantive audit work SAS 70 reviews, standalone entity audits) and/or to the types of services to be provided (e.g., audit, tax, other). Any proposed changes to the audit plan, scope or fees must be reviewed with the Audit Committee.
 - On an annual basis, the Audit Committee reviews the historical performance of the auditor including an assessment of their effectiveness in communicating areas of accounting where management judgment is required, areas of the audit where auditor judgment is required, and sensitive matters relevant to the audit. As a part of this annual review, the Audit Committee members complete an evaluation consisting of a number of specific questions focused on assessing the quality of the audit firm's performance and these results are considered in the engagement of the auditor.



- The Audit Committee meets with the auditor numerous times, regularly throughout each year. Regular interaction, including meeting in executive sessions, provides a forum for effective dialogue between the Audit Committee and the auditor. It also allows the Audit Committee an opportunity to continually assess the auditor's independence and objectivity and the quality of the audit.

Mandatory rotation could decrease the quality of audits.

- Due to the learning curve audit firms face on new engagements, mandatory audit firm rotation would reduce both the effectiveness and efficiency of the audit. We believe that mandatory rotation of audit firms would increase the risk of an audit failure in the early years of the auditor-client relationship because of the auditor's steep learning curve. We view audit firm tenure as an advantage because the auditor gains significant knowledge and understanding of a company over time which is particularly critical in their ability to assess risk and the adequacy of controls to address those risks. This knowledge enhances audit quality.

Audits are becoming more complex, in large part because of the increased level of financial information which inherently requires the auditor to use professional judgment in performing the audit work (including valuation judgments that require an assessment of financial projections and assumptions). An auditor's institutional knowledge of the company and its industry allows the auditor to spend additional time in the most challenging areas of the audit rather than on obtaining an understanding of the company. Mandatory audit firm rotation would remove this benefit and have negative implications for audit quality, investor protection and the integrity of the financial system.

- Market expectations call for most large public companies to engage a "Big 4" CPA firm for the audit. Many large companies use most of these firms for non-audit services, particularly where they have specialized expertise. Mandatory rotation could severely limit a company's ability to switch audit firms without extensive disruption to other activities of the company, or alternately significantly limit a company's ability to utilize appropriate expertise for non-audit services. For example, in today's environment many banks engage one or more of the "Big 4" CPA firms for regulatory-related services. To force a game of musical chairs with audit firms switching roles between audit and non-audit services would be inefficient and not increase the quality of audit and non-audit services provided.

Mandatory rotation would unnecessarily add costs.

- Efficiencies develop over time as the audit firm gains specific business knowledge and experience with a client. These are lost upon rotation, thereby increasing the costs of maintaining the same level of audit service quality. Each time rotation occurs, management faces the disruption, expense, and time involved in changing its audit firm. These costs include the startup efforts of the firms, the transition support time of company personnel, and the proposal oversight by the Audit Committee. Mandatory audit firm rotation could add significant costs and disruption to companies without a commensurate benefit.

The existing structure of checks and balances provide an adequate and appropriate framework to promote auditor independence, objectivity and professional skepticism.

- We believe the current checks and balances for company/auditor relationships sufficiently promote auditor independence, objectivity and professional skepticism. These include Audit Committee independence and control processes introduced under Sarbanes-Oxley, professional standards that promote audit firm objectivity and ethics policies, audit partner rotations (as required by the SEC) and PCAOB inspections.



- We believe the five year mandatory audit partner rotation has strengthened auditor independence, objectivity and professional skepticism. This requirement, coupled with the natural turnover that occurs within a company's own finance teams and Audit Committee, can be effectively leveraged to keep the audit relationship dynamic and fresh.

We encourage the PCAOB to further study the causes of audit failures and to explore alternative avenues to address concerns regarding independence, objectivity and professional skepticism of certain auditors.

- We recognize the PCAOB has concerns about whether audit deficiencies may be potentially attributable to a failure to exercise the required professional skepticism and objectivity. The PCAOB acknowledges the specific reasons for audit deficiencies are often complex and a preliminary analysis of inspection results did not show a correlation between auditor tenure and the number of issues identified in inspections. In addition, the PCAOB acknowledges further analysis of its inspection results and other relevant information is necessary before it is appropriate to conclude that a lack of auditor objectivity, independence and professional skepticism are significant contributors to audit failures.

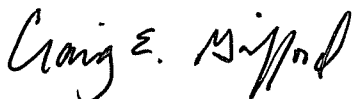
We recommend the PCAOB consider how its concerns about auditor independence, objectivity and professional skepticism could be addressed through enhancements to its inspection program. For example, perhaps a more targeted approach to recommending auditor rotation would be appropriate. Under this approach, the PCAOB could recommend an Audit Committee consider auditor rotation when specific inspection findings conclude the audit firm did not perform the audit with the appropriate level of independence, objectivity and professional skepticism.

- We also encourage the PCAOB to consider whether there are any enhancements that could be made to the processes and procedures that auditors must comply with in performing their role. For example, there may be merit in considering the implementation of certification requirements for audit partners to confirm their individual compliance with the relevant generally accept auditing standards (GAAS) that address the areas of concern. GAAS includes, among other things, the requirement that "the auditor must maintain independence (in fact and appearance) in mental attitude in all matters related to the audit." An analogy could be made to the formal certifications that individual company management members are required to make under SOX 302 and 906.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-5238 with questions or if you need additional information.

Sincerely,



Craig E. Gifford
Executive Vice President and Controller

