

Procter & Gamble

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December 14, 2011

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

Dear Mr. Secretary

We are pleased to provide this letter in response to the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation. The Procter & Gamble Company is a publicly traded multi-national consumer good company with approximately \$80 billion in annual sales to approximately 180 countries, on-the-ground operations in approximately 80 countries, approximately 500 legal entities and approximately 130,000 employees globally.

We appreciate the PCAOB's efforts to improve the overall quality of the audits by assessing ways to enhance auditor independence, objectivity and professional skepticism. However, we do not believe mandatory auditor rotation will accomplish the PCAOB's goals. We do not believe that mandatory auditor rotation will enhance auditor independence, objectivity and professional skepticism, and there is risk it could be eroded. Conversely, we believe mandatory rotation would result in dramatic ongoing disruption and added costs in terms of both fees and internal resources required to on-board and train new firms. We believe current independence requirements, including actions taken under Sarbanes Oxley to shorten the mandatory rotation timing of lead partners and to place limits on audit firms' ability to perform non-audit services, were appropriate and will improve auditor independence, objectivity and professional skepticism in the long run. Accordingly, we do not believe mandatory rotation would pass any reasonable cost-benefit analysis, and thus are strongly opposed to the concept.

Independence, Objectivity and Professional Skepticism Considerations

The overall design and execution of our audit is very complex, requiring our audit team to have an extensive understanding of our business model, legal entity structure, processing systems, and our internal controls systems and accounting processes and policies. This knowledge cannot be effectively gained over the period of one or two years. It is built over much longer periods of time, by an extensive audit team, essentially becoming institutional on the part of our audit firm.

For perspective, we have a global footprint with on-the-ground operations in approximately 80 countries. As a result, we operate through more than 500 legal entities of various types, including entities primarily involved in areas such as manufacturing, sales, service, holding and finance. The sales, supply chain, personnel and financing needs of a company of our size and footprint necessitates a very complex legal entity structure, business model and accounting/systems infrastructure. The accounting and systems infrastructure must handle the normal flow of transactions with external customers and suppliers, financing and tax activities and internal employee compensation and benefits. However, in terms of the actual processing of financial data, the infrastructure must also handle a multiple of that normal flow to accommodate the various legal entity intercompany flows and management reporting needs. The underlying system of controls, process and technology required to effectively manage the

overall process are very extensive and complex, involving both internal and externally sourced systems and personnel. In addition to externally sourced services for significant portions of our accounting and transactional processes, we still directly employ approximately 7,000 technical and professional staff in our finance and accounting function.

The structure of our audit team must mirror our organizational and global footprint. Our audit team is comprised of over 900 audit and tax professionals in 75 countries, including 170 partners and 200 managers. They directly involve professionals with a number of specialties, including tax, treasury and financial instruments, actuaries, valuation experts, systems experts and general audit and controls professionals. Their work is coordinated globally and coordinated with our own internal audit programs to attain a continuous, integrated audit cycle.

Based on P&G's complexity and global footprint, we believe a forced periodic auditor rotation will be detrimental to overall audit quality. Institutional knowledge of our company allows the audit firm to more thoroughly assess inherent risk, to design the most effective audit procedures and to more effectively and efficiently perform those procedures. The institutional knowledge built over a longer relationship period enables our auditors to more effectively identify trends and patterns in our operating and control structure – both positive and negative. It also allows auditors to both anticipate audit issues and provide valued comments to management to help us address issues and improve underlying controls on a timely basis. We believe benefits will be lost or greatly diminished with forced rotation. We believe this loss will far outweigh any perceived benefit that rotation will have on auditor independence, objectivity and professional skepticism.

Further we strongly object to the notion in the Concept Release that rotation only be required for the very largest companies or for audit firms that have been in place for an extended period of time (for example 10 years). Many of the types of complexities discussed in the preceding paragraphs are magnified in the largest multi-national companies. Many of the largest companies have completely different and multiple versions of similar ERP systems. The effort required to gain the understanding of those systems needed to effectively plan and execute a quality audit cannot be underestimated. Accordingly, we believe mandatory rotation of the larger (or only the largest Companies) would be relatively more disruptive and carry relatively higher risks to audit quality than for smaller companies. Thus, we would not support mandatory rotation on any set time frame, whether it be for example 10 years or shorter.

We also want to comment on a couple of key independence and audit quality considerations and consequences resulting from the concept of mandatory rotation:

- As a large multinational company, we employ all of the "Big 4" accounting firms- -one as an independent auditor and the other three through various consultative capacities (i.e., tax, information systems, internal controls, general management, statutory reporting in foreign subs, consulting, etc.). Requiring us to rotate auditors on a regular basis would have a detrimental impact on our ability to source our non-audit consulting needs. At a minimum, we would need to effectively decide on our auditors one to two rotations out in order to insure the new auditors are independent at the time of rotation. This would effectively lock us into our next auditor and eliminate any fee leverage we have in selecting our auditors. This could dramatically increase the audit costs and be harmful to our shareholders.

- We are concerned that audit quality could be comprised due to audit teams being distracted by a constant stream of proposals for new audit engagements. In the current environment, audit professionals at large companies can focus exclusively on the audit needs of their clients. In an environment wherein audits are constantly rotating, those professionals will need to spend a significant amount of their time investigating, analyzing and proposing on new audit engagements. At best, this will divert time they could be spending on their existing client base. At worst, if turnover is institutionalized, auditors may inadvertently or unintentionally ease up on existing audit clients to focus on competing for their next engagement.

Disruption and Cost Considerations

There are clear negative cost and disruption impacts of mandatory rotation of auditors. While we do not have data to support the impact on audit fees, we believe that the GAO report noted in the Concept Release that estimated initial year audit fees would increase by more than 20% is directionally accurate as a starting point. However, we believe this captures only a portion of the added cost – likely the “investment” an audit firm makes in their learning curve for new clients. In a mandatory rotation environment, we doubt the firms would be willing to make such an investment on an ongoing basis given the lack of a long-term relationship.

There are other factors impacting the audit fee. As noted in the preceding paragraph, for most large companies, the need to maintain one independent firm “in the wings” would eliminate any notion of a competitive bidding process likely resulting in significantly higher fees. This issue could become more acute for larger companies with significant operations in remote locations. We have situations wherein a significant portion of the audit staff in an affiliate country or city is dedicated virtually year-around to our audit. The mandatory rotation of our audit would have dramatic consequences to that office, and carry significant risk to the incoming audit firm in staffing up to service our account. This could add significantly to the 20% impact noted in the GAO report – and importantly could represent an ongoing (rather than initial year) impact. In the context of a large audit with annual fees in the tens of millions of dollars, we question whether this is in the best interest of the shareholders.

The disruption to companies’ internal resources must also be considered. The drain on company staff to train new auditors would be significant. While training of new audit staff is part of the existing equation due to the turnover in most audit firms, that training effort has become manageable due to 2 primary factors: 1) the limited amount of turnover of a given audit staff, and 2) the institutional knowledge gained by the incumbent that is passed down to new staff through supervision of new staff by more experienced professionals and carryover work-paper files. Neither of those exists in a mandatory rotation environment. This shifts the “learning curve” burden to company staff and in a limited resource environment, reduces the amount of time available for ongoing responsibilities. This issue would be exacerbated in the initial interim review and annual audit cycles as companies strive to meet ever stretching filing timeline requirements.

Importantly, the costs discussed in the preceding paragraphs would only be incurred by registrants whose auditor is regulated by the PCAOB. Foreign competitors would not be subject to such costs, giving them a cost-related competitive advantage. The same would be true for the largest companies relative to smaller domestic competitors in the event the Board only requires mandatory rotation for the largest companies.

Summary

In summary, we are not supportive of the PCAOB moving forward with development of or a rotational proposal, including consideration based on the length of the rotation period, the size of company or industry. While our response does not address each of the detailed questions posed in the Concept Release, we have attempted to address what we believe are the most significant issues, and in doing so indirectly addresses many of the side issues raised in the individual questions. Not only are we not convinced of any benefit but in fact (in our own situation) believe it would decrease audit quality and increase both audit fee costs and internal costs resulting from the disruption in service.

While acknowledge certain constituents feel that long-term relationships can diminish independence and objectivity and result in an element of "coziness" between the auditor and the company, we believe this is mostly a "perception." In those limited instances where this might be true, we certainly do not believe it justifies the costs inherent in mandatory rotation across all companies. We believe actions taken under Sarbanes Oxley to shorten the mandatory rotation timing of lead partners and to place limits on audit firms' ability to perform non-audit services were appropriate and over time should help this issue.

However, if the PCAOB wishes to pursue avenues to enhance auditor independence, objectivity and professional skepticism, we believe it should re-focus its efforts in other areas. For example, the Board could further explore the recommendation identified in the Concept Release from former Chairman Breeeden (or derivatives thereof) that auditors be engaged for 3-4 year periods (versus the current 1-year period), with a mandatory proposal process at the end of that period so audit committees can assess what other firms have to offer. The Board could also consider limiting an audit firm's ability to expend funds to entertain clients. Many companies have already placed internal restrictions in this area in order to improve independence, both in appearance and fact.

We thank you for the opportunity to comment on this Concept Release. We would be happy to discuss any of the views or ideas expressed in this letter. Please feel free to contact Ken Robinson, Vice President, Global Internal Audit (513-983-2061, or Mick Homan, Vice President, Corporate Accounting (513-983-6666).

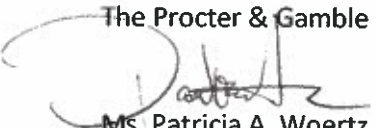
Regards,



Mr. Jon R. Moeller

Chief Financial Officer

The Procter & Gamble Company



Ms. Patricia A. Woertz

Chairman, Chief Executive Officer and President

Archer Daniels Midland Company &

Chair, Audit Committee of the

Board of Directors

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