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December 21, 2011

Submitted Electronically

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

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

Dear Members of the Public Company Accounting Oversight Board:

Vanguard¹ appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB") *Concept Release on Auditor Independence and Audit Firm Rotation* (the "Concept Release"). The Concept Release asks whether more should be done to enhance auditor independence, objectivity and professional skepticism. In particular, the Concept Release requests comment as to whether imposing a requirement of mandatory audit firm rotation would serve the PCAOB's goals of protecting investors and enhancing audit quality. We support the PCAOB's objectives of enhancing auditor independence, objectivity and professional skepticism. However, for the reasons discussed below, we do not believe that mandatory audit firm rotation would meaningfully improve audit quality and, in contrast, could negatively impact investors by disrupting the existing audit process in a way that could decrease audit quality and significantly increase audit costs without corresponding benefits.

We agree with the PCAOB that audit quality is dependent on auditor independence, objectivity and professional skepticism. In our view, however, audit quality can only be meaningfully improved through narrowly tailored changes that address specifically identified problems in the audit process. For example, the Sarbanes-Oxley Act of 2002 included narrowly tailored provisions designed to bolster auditor independence, including the requirements of: (i) an independent audit committee that appoints and determines the compensation of the auditor, (ii) the prohibition on auditors from providing certain non-audit services to clients, and (iii) mandatory audit partner rotation. In Vanguard's experience, these requirements have proved successful in increasing audit quality and have served investors and users of

¹ Vanguard offers more than 170 U.S. mutual funds with total assets of more than \$1.6 trillion. We serve approximately 9 million shareholders.

financial statements well, in large part because they were narrowly tailored to address specifically identified concerns around audit quality, auditor independence and roles and responsibilities of audit committees. We do not believe that mandatory audit firm rotation would provide meaningful benefits in the area of auditor independence beyond those benefits that have already resulted from Sarbanes-Oxley, and would instead be burdensome on financial statement issuers and possibly detract from overall audit quality.

We also question whether imposing mandatory audit firm rotation responds to the PCAOB's identified concerns around auditor objectivity and professional skepticism. The Concept Release notes that the root causes of audit failures are complex and vary in nature and that the PCAOB will continue to deepen its understanding of the causes of these failures in upcoming inspections.² We encourage the PCAOB to continue to work to identify the causes of audit failures. If through this additional work the PCAOB concludes that there are specific deficiencies in relation to auditor objectivity or professional skepticism, we would then encourage the PCAOB to craft specifically tailored solutions (e.g., modify audit standards and enhance enforcement of those standards) to address those deficiencies.

In addition, we encourage the PCAOB to craft any and all changes to the audit process only if such changes prove necessary, and only in a way that avoids unintended negative consequences that could harm investors. In this regard, we believe that mandatory audit firm rotation would disrupt the existing audit process in a way that could decrease audit quality, significantly increase audit costs without corresponding benefits, and ultimately harm investors. For example, under mandatory rotation, the audit committee would not be able to effectively carry out its responsibilities under Sarbanes-Oxley for selecting and evaluating a company's independent auditor, as the audit committee would be deprived of using its judgment to determine that continuing with a firm's current auditors is in the best interest of investors.

Mandatory rotation would also introduce significant disruption and risk into the existing audit process, both by requiring issuers to invest substantial time and effort into educating new auditors on a rotating, periodic basis, as well as by creating unnecessary audit risk during the early years of a new audit relationship during which there would be a significant learning curve for the new firm. This would be especially cumbersome for investment company complexes like Vanguard, which operates in a highly specialized industry for which there are only a few audit firms with meaningful audit expertise, and where annual audits are required for each of our over 170 regulated mutual funds.

In addition, mandatory rotation would significantly increase costs, since audit firms would need to spend substantially more time on audits during the early years of a new audit relationship, inevitably resulting in increased audit fees. For investment company complexes like Vanguard, these increased costs would be especially high given the sheer number of audits, and would harm investors as these costs

² PCAOB Release No. 2011-006, p. 6, 16 August 2011.

would ultimately be passed on in the form of increased fund expenses. In our view, all of these consequences of mandating audit firm rotation produce new inefficiencies and increased risk and costs that could serve to *degrade* rather than improve audit quality and, accordingly, not serve the best interests of investors.

We believe that there are additional, very practical considerations that limit the usefulness of a proposal to prescribe mandatory audit firm rotation. Specifically, as mentioned previously, Vanguard operates at a very large scale in a specialized, highly regulated industry, and there are a very limited number of firms with appropriate audit expertise and industry experience to serve the needs of Vanguard and its regulated mutual funds. This already very limited number of available firms is further reduced by Sarbanes-Oxley and the other auditor independence rules promulgated by the Securities and Exchange Commission that both prohibit an accounting firm from performing both audit services and non-audit services (including consulting and internal audit outsourcing services) for the same audit client and prohibit accounting firms from performing audit services for issuers in which the audit firm or any employees or family members have any material direct investment. Because Vanguard relies from time to time on firms with appropriate expertise to provide us with necessary non-audit services, and because accounting firms and their employees and family members have investments with us through pension plans, IRAs, college savings accounts, and other investments, mandatory audit firm rotation would necessarily result in extremely limited choices of firms that we would be permitted to engage for audit work.

For these reasons, we do not support the concept of mandatory audit firm rotation, and we urge the PCAOB to proceed with extreme caution before enacting any new requirements that would impose significant burdens and costs without corresponding benefits. We would also add that we strongly support the comments submitted by the Investment Company Institute in its letter to the PCAOB dated December 14, 2011.

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If you have any questions about Vanguard's comments or would like additional information, please contact Caroline Cosby, Associate Counsel, at 610-503-2279.

Sincerely,

/s/ Glenn W. Reed

Managing Director,
Strategy and Finance Group