WRITTEN TESTIMONY OF

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U.S. CHAIRMAN AND SENIOR PARTNER
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BEFORE THE
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

MARCH 21, 2012

Chairman Doty, members of the PCAOB and observers:

Thank you for inviting me to appear before you today to comment on the Board's Concept Release and to address the very important topics of auditor independence and audit firm rotation.

PwC acknowledges and applauds the Board's good work in achieving many of the goals set out by the Sarbanes-Oxley Act of 2002. I grew up within PwC as an auditor and remain a proud member of the accounting profession. Based both on my time as the engagement partner for many of PwC's largest audit clients and on my current role as the firm's senior partner, I can assure you that audit remains at the core of PwC's identity and that we consequently take our obligations to the financial markets and shareholders very seriously. The audit profession – including PwC – plays a key role in what is the world's most reliable system of investor protection. In recent years, the stewardship of the PCAOB and the SEC has ensured that the US retains the most sound and credible financial reporting in the world. We believe that the work of the PCAOB combined with other changes brought about by Sarbanes-Oxley, have helped maintain our markets as the envy of the world.

PwC is a firm of nearly 35,000 people, and we are part of a global network of 172,000. PwC's partnership and global network share an abiding commitment to the people of PwC – specifically we believe given our critical role in the financial markets, that we have an obligation to pass on to succeeding generations both a vibrant firm and a legacy of professionalism that meet the justifiably high expectations of our regulators and the public. Moreover, preserving the stature and appeal of the profession for the next generations is an essential ingredient to maintaining high quality audits today and into the future.

There is no question that audit quality has improved significantly over the past several years. And PwC remains committed to participating constructively in continuing discussions about how to sustain the gains made so far and how we might make further improvements to audit quality, with particular emphasis on auditor independence, auditor objectivity, and professional skepticism.

However, focusing on mandatory audit firm rotation obscures recent improvements and limits future enhancements to audit quality. We should focus instead on improving what we know drives financial statement and audit quality, including enhancements to audit processes and training, improving corporate governance, and enhancing the transparency and ease of use of corporate reporting -- all of which will further advance the goals of Sarbanes-Oxley. We also should be thinking about the longer term trends in our markets that will most certainly affect investor protection and that have significant implications for the accounting profession and its future role in auditing.

Listening carefully to the investor community – institutional investors, small investors and analysts – is essential for the success of this dialogue. We've learned, for example, that investors are asking for more detailed financial information and greater transparency into the auditing process; and they want more assurance that the interests of the board and shareholders are aligned. They want help sifting through mountains of financial data and complex technical disclosure. It's also clear that communication among auditors, boards, and investors has to improve. Because the corporate reporting process is complex and involves so many different participants, it's not always clear to investors what information is audited, what level assurance is provided with respect to management information, or why it is necessary to preserve the separation of roles between those responsible for the corporate information and disclosure, and those who audit the financial statements.

With this in mind, we believe it is important to consider the ideas introduced in the PCAOB's Concept Release within the proper context. We have set forth below principles we use to evaluate new proposals – principles that we believe will preserve the foundations underlying corporate reporting, governance, and auditing. These principles require that any changes must:

- improve audit quality and/or enhance the quality of publicly provided information;
- maintain or enhance the corporate governance process – including, preserving or further empowering the role of audit committees;

- be supported by objective evidence that changes being made will achieve their desired goals – evidence that must be in proportion to the magnitude of the impact likely to be caused; and
- preserve the separate roles of management and auditors, i.e., information about a company should first be reported by management or the audit committee, and if desired, the auditor can provide assurance with respect to such information.

1. MANDATORY FIRM ROTATION WILL NOT IMPROVE AUDIT QUALITY AND ITS COST CANNOT BE JUSTIFIED.

PwC fully supports the PCAOB's goals of improving auditor independence and objectivity while deterring poor auditor performance. We do not, however, believe that mandatory audit firm rotation helps achieve these goals.

The idea of mandatory auditor rotation is not new. For years, it has been discussed as a way to provide a "fresh look" at a company's financial reporting, risks, systems and internal controls. It has reappeared in the wake of the financial crisis as a possible way to improve auditor skepticism and audit quality. While we believe it is important to learn from events as serious as the recent financial crisis and ensuing recession, any potential lessons for changing auditing rules should first be evaluated with regard to whether there is any evidence that audit failures were a root cause of the crisis. If so, we should then ask whether the proposed fix of mandatory firm rotation will measurably improve audit quality relative to what has already worked or is currently in place in terms of improvements in audit performance.

PwC wishes to emphasize that we are not disputing the need – or in any way qualifying our support – for improvements in audit quality. We think, however, that there is no evidence that among the root causes of the financial crisis was a failure of the accounting profession to audit adequately. More critically, we think there has been no support for the proposition that mandatory firm rotation is the right way to improve audit independence, objectivity and professional skepticism. The PCAOB's inspection process and enforcement tools have been working, and we agree with the Board's assessment that the reforms included in Sarbanes-Oxley "have made a significant, positive difference in the quality of public company auditing."[1] Additional improvements in audit performance and in the quality of financial reporting should progress from this strong base.

For example, audit partner rotation provides a fresh, impartial look at a company, without significantly disrupting the expertise, knowledge and resources already assembled to conduct a high quality audit. Together these factors support and encourage the independence, objectivity and professional skepticism that, in turn, help promote high-quality audits. We also believe that the accounting profession can provide recommendations and additional leadership focused both on further raising the level of professional skepticism, objectivity and independence – as well as on improvements in audit quality more broadly.

Since the passage of the Sarbanes-Oxley Act, there is clear evidence that audit committees are the best qualified parties to choose the auditor. But, contrary to one of the key

[1] Public Company Accounting Oversight Board Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Release No. 2011-006, August 12, 2011, p2

evaluation standards referenced above in connection with assessing these new proposals, this crucial corporate governance role would actually be weakened by mandatory rotation. At best, it would limit audit committees' ability to select the most qualified and specialized firm to perform the company's audits. Audit committees appoint, compensate and oversee a company's independent auditor, and they are consequently in the best position to know whether to retain or dismiss an auditor. Audit committees today have the best insight into the expertise and quality of the audit firm and are best situated to assess whether erosion in expertise, quality or professional skepticism warrants replacing that firm.

Mandatory rotation would also harm audit quality because audit firms would lose critical knowledge gained from years of experience at an audit client. Familiarity with, and knowledge of, a company help auditors develop expertise that achieves efficiencies, as well as higher audit quality. The reality is that it takes time to learn where to look and whom to ask about the problems and issues that typically arise in audits of public companies. Putting the right programs, processes and training in place should be complementary to, but no substitute for, knowledge accumulated by a skilled audit team.

It is neither possible nor even desirable to "standardize" the audit process. Experience, industry specialization, institutional knowledge, and a thorough understanding of a company's management, systems and controls are essential underpinnings of audit quality. There is no compelling evidence to conclude that familiarity and experience of an audit firm with a company equates to an absence of skepticism and objectivity. The tradeoff between the knowledge and experience gained from familiarity with a company and the presumed

freshness and skepticism that accompanies a new audit firm's engagement, may well come at a cost in quality. Indeed, there is little evidence that mandatory rotation on some set schedule strikes the right balance between the supposed decline in objectivity on the part of a tenured audit firm and the direct and indirect costs of appointing a new auditor.

Taking on a new audit is a complex process that requires careful consideration of all the factors that distinguish one company from another. This is why companies carefully prepare for changes in their audit firm. As one respondent to the Concept Release put it, "…Apple's audit committee successfully undertook such a change in its auditors in recent years. However, we believe arbitrarily mandating a change in audit firms on a predetermined basis would be in direct conflict with our ability to manage this responsibility effectively."[2] The churn of audit firm changes resulting from mandatory rotation would undermine what is now a carefully considered decision. Doing so would also create misplaced incentives, because even an audit firm delivering high quality audits in the judgment of the audit committee would nevertheless be mandatorily replaced.

As illustrated in the comments of the above respondent -- and echoed by many other respondents[3] -- companies invest substantial manpower and money to ensure the most qualified new audit firm is chosen and that there is an orderly, efficient transition. That changes in audit firms take place from time to time is undeniable; but our experience is that the decision to change and the selection and transition processes are carefully planned so as not to disrupt the companies' own resources or competitive focus. There will very likely be an

[2] See PCAOB rule making docket 037, Concept Release on Auditor Independence and Audit Firm Rotation, Comment No. 259.
[3] As examples, see comment letters Nos. 380, 411 and 529, PCAOB rule making docket 037.

increased threat to financial statement quality because mandatory firm rotation will add so many more transitions that company staff otherwise focused on preparing financial information will instead need to devote a significant amount of their time to managing the transition to a new audit firm.

Audit committees select new auditors based on many factors, including the depth of knowledge in the industry sectors in which the company operates and the strength and scale of expertise in particular geographic locations. It takes time for audit firms – even very large audit firms – to redeploy properly skilled people and resources where they are needed. A constant state of training and redeploying audit teams so that they are properly reconfigured for the needs of an ever changing portfolio of audit appointments is inconsistent with the focus needed to achieve higher levels of audit quality.

Putting a mandate in place requiring constant audit firm rotation would also cause substantial disruption on a personal level, because significant numbers of people would have to be relocated. We believe difficult and constant relocations would adversely affect both the professionals who would be routinely dislocated as well as the companies they audit, and would eventually make it more difficult to hire and retain the best people in this profession.

It is important to note that human capital issues such as these were a central focus of the Department of the Treasury's Advisory Committee on the Auditing Profession. In its report, the Advisory Committee stated, "The Committee devoted considerable time and effort surveying the human capital issues impacting the auditing profession…The Committee views

the accelerating pace of change in the global corporate environment and capital markets and the increasing complexity of business transactions and financial reporting as among the most significant challenges facing the profession as well as financial statement issuers and investors. To ensure its viability and resilience and its ability to meet the needs of investors, the public company auditing profession needs to continue to attract and develop professionals at all levels who are prepared to perform high quality audits in this dynamic environment."[4]

Little, if any, evidence shows that rotation improves audit quality. In its comment letter responding to the current PCAOB Concept Release, the Government Accountability Office (GAO) stated that: "…Even if the PCAOB could clearly establish that a lack of independence or objectivity is causing audit quality problems, it is unclear that such a problem would be prevented or mitigated by a mandatory audit firm rotation requirement. Finally, if based on the audit deficiency data and inspection results, the PCAOB is able to establish the above links, then additional analysis would be needed to evaluate the impact and the costs and benefits of a mandatory audit firm rotation policy, and whether other alternatives exist that would address the issues."[5] In fact, research shows that financial restatements do not increase when an auditor has been at the client for longer periods of time.

Experiences from other countries also do not support a link between mandatory rotation and increased audit quality. While some countries have adopted or experimented with mandatory rotation, their economies and regulatory frameworks differ considerably from those in the United States. In virtually every case, the number, size and international scale of

[4] The Department of the Treasury, Advisory Committee on The Auditing Profession, Final Report, October 6, 2008, Page VI:1

[5] PCAOB Docket, Comment letter 390.

the public companies in these countries were not remotely comparable to those in the US market. And in some cases, countries that tried mandatory audit firm rotation subsequently concluded it was not effective and eliminated the requirement.[6] The Board should be extremely cautious in attempting to draw comparisons to those markets where mandatory rotation (or some variation of mandatory rotation) has been employed. We do not believe any meaningful improvement in audit quality or other justification can be discerned from those experiences.

Finally, there is evidence that the cost of mandatory audit firm rotation exceeds any benefits. According to the GAO, there would likely be increased direct costs for first-year audit fees of at least 20%.[7] But the potential indirect costs we anticipate – such as diminished audit quality and less reliable financial reporting – could exact an enormous price, and the risks associated with such a fundamental change in one of the pillars of our market policing mechanisms could well create the completely opposite result from the broader objective that both PwC and the PCAOB are trying to achieve – fundamental improvements in audit quality and performance.

In fact, the GAO has not once, but twice, come out against mandatory audit rotation because of this cost/benefit calculus. In a 2003 study required by the Sarbanes Oxley Act, the GAO concluded that: "Mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality considering the additional financial costs and

[6] See US General Accounting Office, Report to the Senate Committee on Banking, Housing ,and Urban Affairs and the House Committee on Financial Services, Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation, November 2003, page 48.

[7] IBID, Page 27.

the loss of institutional knowledge of a public company's previous auditor of record. The potential benefits of mandatory audit firm rotation are harder to predict and quantify."[8]

As we stated earlier, the PCAOB deserves credit for a number of initiatives planned or underway that would improve audit quality and that we support. The Board is taking steps to further improve audit quality through its current project on enhancing existing quality control standards and through recently issued risk assessment standards. It is also considering improvements in the auditors' reporting model including requiring "emphasis of a matter" paragraphs as well as expanding auditor association to information beyond the financial statements, particularly related to managements' judgments and estimates. Finally, as also proposed by the PCAOB, better communications guidance for auditors and audit committees can also help achieve higher-quality audits.

We support ongoing consideration by the Board of proposals to continually improve audit quality and we look forward to participating in that process. Instead of building on this legacy, however, mandatory audit rotation may undo much of what has been achieved. The great insight of Sarbanes-Oxley was that even within its rigorous tenets – limits on certain non-audit services to audit clients, mandating external oversight in the form of the PCAOB – it enshrined the mandate of the board of directors as representatives of shareholders, via the independent audit committee, to decide which audit firm was best qualified to produce a quality audit for a given company. Infringing on this ability of the audit committee could potentially lead to various unintended consequences.

[8] IBID, page 8.

2. THE CONSEQUENCES OF MANDATORY FIRM ROTATION NEED TO BE CAREFULLY STUDIED.

Perhaps the greatest potential for unintended consequences lies in the significant disruption that would be caused through the vast number of audit firm changes that would result from mandatory firm rotation. Today, numerous audit firm changes take place based on the governance process or natural business decision-making. The issue is not the ability of any particular company to successfully change audit firms from time to time. Rather, it is the very likely disruption and high cost that would be caused by displacing so many resources and skilled people when the number of changes is significantly multiplied – even if extended over a 10 year cycle.

For example, many large US companies now have operations in more than 100 countries, some in developing countries such as Indonesia or Vietnam, where the presence of experienced audit professionals is very limited. Mandatory rotation risks putting in motion a global game of musical chairs that will have audit firms scrambling to staff important global audit appointments, while leaving many professionals without an assignment.

Additionally, the complexity of the largest US companies means that audits have become much more complicated. The expansion of US companies to fast-growing markets and the use of new types of technology, such as cloud computing, to capture, share and control financial information, creates extraordinary and ever changing demands on the expertise and types of resources needed to perform high quality audits.

For example, it is not uncommon for manufacturing companies to stretch their supply chains and operations across entire regions for a raft of operational or risk management-related reasons. Components might be manufactured in one country but assembled in another. Or they might have disparate facilities to minimize the impact of natural disasters or political instability.

Similarly, financial information is now widely-spread and increasingly shared using mobile and wireless technology. Audits of complex operations such as these require professionals knowledgeable in tax and transfer pricing, information technology security, and – above all – a company's unique set of audit risks around the world.

To properly gauge those risks, an engagement team must possess deep awareness of a company's presence in developing economies that often lack the culture and system of investor protection that exist in the US. PwC's global network of firms was developed and continuously evolves to address these and many other needs for specialized knowledge and resources required to audit in such complex environments. Mandatory rotation, however, would disrupt – perhaps severely – the ability of *all* the major audit firms to effectively serve clients whose global operations and audit risks they have come to know very well.

One of our key principles for evaluating new proposals involves asking whether the change is supported by objective evidence. This is especially important when the proposal under consideration is so broad that it would have a significant and disruptive impact on the accounting firm and the companies they audit. In our view, mandatory audit firm rotation

would fail this standard. With a subset of every public company in a constant state of changing auditors there are potentially huge financial and human costs that need to be carefully studied and quantified before a change of such magnitude is put in place.

3. WE SUPPORT IMPROVING AUDIT COMMITTEE PERFORMANCE AND ENHANCING CORORATE GOVERNANACE

There have been significant improvements in corporate governance and audit oversight by audit committees as a result of both Sarbanes-Oxley and subsequent SEC actions. Today audit committees are responsible for hiring the audit firm, monitoring the scope and quality of the audit, and overseeing the auditor's relationships with management. Auditor independence and objectivity have improved as a result of audit committees' oversight of performance. Limitations of non-audit services to audit clients have reduced the potential for, or appearance of auditor conflicts of interest. Audit partner rotation has increased objectivity. And the creation of the PCAOB itself has led to enhanced audit quality through both its inspection program and standard setting efforts.

Rather than making changes that could well undermine the significant improvement to corporate governance enabled by Sarbanes-Oxley, we support building on those changes. Additional mechanisms need to be created to identify and more widely share audit committee best practices that would improve corporate governance across the board. Increased transparency into auditor oversight should also be considered. Such reforms might include the following:

- In keeping with our evaluation principle to enhance the corporate governance process, we support increased disclosure to shareholders concerning a change in independent accounting firm, beyond the current requirement to report on disagreements between the audit firm and the company, to include more information on the audit committee's decision to change;
- Audit quality would also improve with more systematic disclosure by audit firms about quality controls, independence safeguards and behavioral incentives. A requirement that each firm auditing the financial statements of more than 100 public companies publish an annual report describing the firm's system of quality control, the steps it takes to safeguard independence, the basis for audit partner compensation, and the firm's governance and legal structures, would meet this principle;
- The governance process could be further improved with more direct involvement by the Audit Committee in approving the audit partner replacing a rotated partner. The audit committee could be involved in assessing his or her technical qualifications, industry and geographic experience. They could also be involved in assessing the new partner's ability and stature to be professionally skeptical and challenge management;
- Disclosure to audit committees by the independent accounting firm of any pending PCAOB enforcement proceeding in which the firm or any of its partners is a respondent is a step that would improve both corporate governance and audit quality; and
- Moving forward with changes to the auditor's report, particularly on the greater use of emphasis-of-matter paragraphs would not only improve disclosure to shareholders

and investors, but it would also preserve a key tenet of financial reporting and auditing: separating the roles of management and auditors.

These suggested disclosure and communication reforms would encourage discussion of auditor independence, objectivity and professional skepticism, and advance the quality of corporate governance in public companies.

4. WE SUPPORT EXPANDING AUDITOR REPORTING

In addition to new requirments for matter emphasis paragraphs as a way of providing additional information and more transparency, the PCAOB is considering other changes to the auditors' reporting model.[9] These include: a requirment for emphasis of matter paragraphs; an "Auditors' Discussion and Analysis" as supplement to the auditor's main report; and expanding audit association to information outside of the financial statements (e.g. management's judgments and estimates, including Management's Discussion and Analysis).

The notion of improving the quality and transparency of publicly provided information to shareholders and investors is a good one, fully consistent with the principles PwC applies to evaluate proposed changes. Further engagement with the investor community mentioned earlier might also help to identify other ways to improve corporate reporting -- including eliminating redundant or unecessary information. PwC believes that there should be

[9] See PCAOB Release No. 2011-003, Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements, June 21, 2011.

continuous engagement with both preparers of corporate information and investors to see where such information can be streamlined or improved.

Our vision of enhanced auditor reporting in the context of today's corporate reporting model retains what is working well but makes it better by:

- Highlighting the significant judgments disclosed by management in preparing the financial statements through the use of emphasis paragraphs in the auditor's report, as discussed earlier in this testimony.
- Expanding auditor involvement to provide additional assurance on, or other auditor association with other aspects of a company's corporate reporting, where the benefits of that additional assurance are worth the cost.
- Clarifying certain aspects of, and adding other information to, the standard auditor's report, principally to reduce any perceived expectations gap.

Such proposals for change should be addressed holistically by all participants in the financial reporting chain to achieve meaningful change.

Requiring an Auditors' Discussion and Analysis is intended to provide investors with a more nuanced assessment of a company -- for example, unique risks it might be facing or areas where subjective assumptions might have been applied to things like loan or credit reserves. The idea is to provide something more descriptive than what some regard as "pass-fail" auditor reports. Unfortuately, despite the merits of providing additional information to investors, we don't believe an auditor prepared discussion and analysis is a workable

approach. As stated in our comment letter on the Concept Release, we believe this alternative has the potential to undermine audit quality and diminish clarity and quality of financial reporting to the detriment of investors. As such, this is not the proper role of the auditing profession. As we stated at the outset, a foundation for the quality of audits, and for the quality of publicly provided information are the separate roles of auditors and management.

There are other ways to enhance the quality of publicly provided information. Communicating information on financial performance and related enterprise metrics extends well beyond the preparation of the financial statements. Investors find valuable information in earnings releases, management's discussion and analysis, corporate filings and in various other venues where companies speak.

The value of this information is a function, in part, of the confidence investors have in its completeness and reliability. Feedback from investors indicates that they might value an auditor's assurance of information in certain areas outside of the financial statements. The most commonly suggested areas for additional assurance include management's discussion and analysis, disclosures of a company's critical accounting estimates, non-GAAP information, and earnings releases.

For instance, management's discussion and analysis ("MD&A") comprises multiple elements. Some have proposed that an initial focus on specific elements of the MD&A would be helpful with an assumption that the degree of assurance on that aspect of the financial reports would expand over time.

Expanding auditor reporting to include assurance of information outside of the financial statements could increase both the reliability of that information as well as confidence in the

broader financial reporting system. However, PwC realizes that any changes to the information upon which an audit firm might provide assurance must be carefully evaluated to ensure the benefits to investors justify the cost.

5. CONCLUSION: WE WANT TO WORK WITH THE BOARD ON CONSTRUCTIVE IMPROVEMENTS TO AUDIT QUALITY

We have worked constructively with the PCAOB to improve audit quality and have supported a number of the Board's most important initiatives. We believe that, today, PwC is indeed performing at a higher level and that the quality of our audits has improved significantly. We will continue to support changes in the professional standards and the Board's rules that will result in further improvement in audit quality and performance. But those proposed changes must be assessed in a sensible way and be supported by reasoned evidence.

At the beginning of this testimony, we proposed evaluating changes based on some overarching principles that would guide us toward achieving outcomes with which everyone could agree. We proposed principles requiring that any change would: improve audit quality; enhance corporate governance; preserve the separate roles of management and auditors; and be supported by sufficient, objective evidence. We evaluate the PCAOB proposals on the basis of these principles, and we suggest that this or a similar approach be applied to future changes.

Mandatory audit firm rotation is not consistent with these principles. It would be a massive change that could significantly disrupt large networks of resources and expertise – built to deliver the very level of audit quality the PCAOB and other regulators are looking for. Moreover, there is no new evidence that would contradict the GAO's previous conclusion that additional costs would be incurred as a result of mandating audit firm rotation with little additional benefit. And indeed, since the GAO's study, large global companies have grown in complexity as they have entered new markets and adopted new information technology; therefore the cost of mandatory rotation would likely be greater.

Demonstrable progress has been made improving audit committee performance and corporate governance. Audit Committees now hire the audit firm and can replace it if the right expertise is not in place, if there are independence infractions or if audit quality slips. They comprise independent directors who are accountable to shareholders and better qualified to understand and oversee audits of complex companies. Given the sheer number and complexity of companies that undergo audits, the goal should be to enlist audit committees as even more integral to audit oversight – they are certainly best situated to fulfill such a role. Further enhancing the role of Audit Committees would be consistent with our principles for evaluating change.

There is also significant evidence that other reforms introduced with passage of the Sarbanes-Oxley Act – including the success of the PCAOB – have worked well. They provide a solid foundation for considering additional reforms:

- Improving communications between auditors and audit committees along the lines of the rule recently proposed by the PCAOB would improve audit quality and enhance corporate governance;
- Initiating a formal, more robust program of outreach and communications with the investor community about the strengths and weaknesses of the corporate reporting process and the level of assurance provided in the information they receive is another mechanism for enhanced governance, one that could also identify ways to improve corporate reporting;
- Creating a process for sharing best audit committee practices, including sharing the most effective and comprehensive audit committee charters and most effective ways of pre-qualifying audit committee members, would rapidly spread good corporate governance practices and provide a more robust dialogue around audit quality;
- Fully implementing quality control and risk assessment standards; and requiring firms that audit more than 100 public companies to prepare an annual quality control report that would be publicly available are consistent with all of our evaluation principles;
- Moving forward with changes to the auditor's report for expanded usage of emphasis-of-matter paragraphs and providing additional assurance on management's discussion and analysis would improve disclosure and preserve the separate roles of management and auditors.

Mr. Chairman and members of the PCAOB, PwC would like to engage in a constructive dialogue with you about these changes, which would improve audit firm oversight and therefore audit quality.

I would be happy to answer any questions you may have.

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

March 12, 2012

RE: PCAOB Meeting on Auditor Independence and Audit Firm Rotation, March 21, 2012, Submission of Written Testimony of Robert E. Moritz, U.S. Chairman and Senior Partner, PricewaterhouseCoopers LLP

Dear PCAOB Chairman and Board Members,

PwC is pleased to submit its written testimony for the PCAOB's upcoming meeting on Auditor Independence and Audit Firm Rotation, and we support the PCAOB's goals of improving auditor independence and objectivity while deterring poor audit performance. We believe PwC has played a constructive role in the Board's focus on improving audit quality, including enhancements to audit processes and training, improving corporate governance and enhancing the transparency and ease of use of corporate reporting.

However, PwC does not support mandatory firm rotation as a way of achieving these goals. We are very concerned that it will undermine the effectiveness of audit committees and, through its disruptive impact on developing and deploying expertise, will harm audit quality. Neither of these potential outcomes would be a good result for investors. Under mandatory firm rotation, the scale of audit firm changes would far exceed what is now occurring within the present environment, one in which audit firm changes are carefully considered and take place as a result of improved governance processes and natural market decision making and policing mechanisms. Over time, such a fundamental change could well create the completely opposite result from the broader objective that both the PCAOB and PwC are trying to achieve -- further improvement in audit quality and performance.

Instead of taking such a drastic measure, we suggest building from PCAOB's strong track record of effective reform. This could include:

- Additional improvements in corporate governance, including increased disclosure to shareholders about changes in independent accounting firms, and more disclosure by audit firms around the quality control process, independence safeguards and behavioural incentives;

- More direct involvement by audit committees in the selection of the audit partner when replacing a rotated partner, including the audit committee's views about that partner's ability to be professionally skeptical and challenge management as appropriate;

- Expanding audit reporting, including additional "matter emphasis" in the auditor's report, and expanding auditor association to additional information when needed and cost beneficial; and

- Improving communications between auditors, audit committees and investors.

For these and future changes, we believe it is also important for all parties to agree on the outcomes they are seeking. We have recommended applying a principles-based approach to evaluating changes in which any proposed changes would be evaluated on whether they: improve audit quality, enhance corporate governance, preserve the separate role of management and auditors, and are supported by sufficient, objective evidence.

We look forward to working with the PCAOB on changes that will improve audit quality and auditor independence.

Sincerely,