



Pfizer Inc.  
235 East 42<sup>nd</sup> Street  
New York, NY 10017-5755

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**Loretta V. Cangialosi**  
Senior Vice President and Controller

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

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Board Members:

Pfizer is a research-based, global biopharmaceutical company. We apply science and our global resources to improve health and well-being at every stage of life. We strive to set the standard for quality, safety and value in the discovery, development and manufacture of medicines for people and animals. Our diversified global healthcare portfolio includes human and animal biologic and small molecule medicines and vaccines, as well as nutritional products and many of the world's best-known consumer healthcare products. The Company's 2010 total revenues were \$67.8 billion and its assets were \$195.0 billion.

We appreciate the opportunity to present our comments on the Board's "Concept Release on Auditor Independence and Audit Firm Rotation" and we recognize the Board's efforts in service to financial statement users. Both investors and the Board rightfully require that independent auditors exercise objectivity and professional skepticism and understand and appropriately challenge accounting policies, interpretations or assumptions where needed; however, we do not believe that mandatory auditor rotation is a panacea for addressing a behavioral mindset concern. Moreover, we believe that such a practice, if enacted, will have a negative effect on both the cost and the quality of audits and financial reporting. We believe that issues of compliance around this critical mindset can be addressed in other, less drastic ways.

The Concept Release includes a discussion of the evidence that suggests that a lack of professional skepticism is a contributing factor in some audit failures. The evidence is anecdotal, and is presented as an informed judgment of those who have access to all of the inspection results and of inquiries into the causes of audit failures, but the report acknowledges that there is a lack of evidence to directly support the idea that mandatory auditor rotation will solve the issue. Without such evidence, it is difficult for us to accept that a problem exists that would justify such drastic measures as mandatory rotation of audit firms.

At Pfizer, we have had a long-term relationship with our auditors, and we have not seen evidence of a lack of professional skepticism or objectivity on their part. We are not convinced that the length of their service in any way undermines their ability to perform their role with integrity and independence. In fact, we and our independent auditors engage in regular discussion and debate on matters to ensure that there is transparency around issues and that facts or fact patterns are understood by both groups. What is, however, very clear to us, is that mandatory rotation would present both a significant burden and additional costs to registrants while adversely affecting the quality of the audit and undermining the corporate governance role of the audit committee who have been appointed to represent investors' interests.

### Audit Quality

While it is possible that some auditors may be less objective after spending several years on the same client, each Engagement Partner brings a diversity of thought, views and experiences to a client to enable him or her to consider what has been done in the past and what must be done for financial reporting currently. It has been our experience that a change in Engagement Partner and the engagement team brings a fresh set of eyes to the audit. Furthermore, it is certainly true that an auditor gains significant knowledge of the client's business, its risks and control processes, its accounting policies and practices, and the quality and integrity of its management and culture. With such knowledge, the auditor is better able to ask the right questions and to exercise professional skepticism from an informed perspective. Mandatory rotation would undermine audit quality by dismissing the value of this accumulated knowledge every seven years. The result is that the new audit firm would have a steep learning curve and is more likely to miss important areas as they attempt to ramp up the entire global audit team. It generally takes a new team several years to maintain a full awareness of issues. In the case of global registrants, audit teams in over 100 countries will need to learn the new client and understand the risks and areas of significance.

As the Board is fully aware, audits are not completed by an entire firm, but rather, rely on the observations, judgments and skills of its partners and staff performing the audit. A new firm with a less skilled partner would not increase audit quality. Likewise, with respect to objectivity, a partner who succumbs to management pressure and does not exercise professional judgment on one client is likely to repeat the behavior on another client.

A 2002 study by Geiger and Raghunandan (Geiger, Marshall A. and Raghunandan, Kannan, Auditor Tenure and Audit Reporting Failures, *Auditing: A Journal of Practice & Theory*, Vol. 21, No. 1, March 2002). Geiger and Raghunandan's analysis found that there was a negative correlation between the likelihood of audit failure and audit firm tenure, with significantly more audit failures during the early stages of the audit relationship.

Research by Jackson, Moldrich, & Roebuck (Jackson, Andrew B, Moldrich, Michael and Roebuck, Peter, Mandatory Audit Firm Rotation and Audit Quality (July 12, 2007), *Managerial Auditing Journal*, Vol. 23, No. 5, 2008) concluded that "there are minimal, if any, benefits of mandatory audit rotation."

We believe that the current mandatory rotation of certain engagement partners coupled with the established company knowledge retained throughout the remainder of the audit engagement team allows for both a fresh perspective and knowledge that is necessary to perform a high quality audit. There is no clear evidence that longer audit firm tenure adversely impacts an auditor's independence and objectivity, but there is some evidence to suggest that audit quality would be damaged by mandatory rotation.

#### Audit Efficiency / Cost

The 2003 GAO study estimated an increase of 17% in audit fees as a result of a mandatory audit firm rotation model (Government Accountability Office, 2003, Required study on the potential effects of mandatory audit firm rotation). This cost impact reflects the cost the audit firms incur, and pass on to their clients, resulting from the inevitable inefficiency of performing a complex audit process for the first time with a new client. We note that the study was pre-SOX §404 and therefore the actual increase may be even higher. In addition, the study does not reflect the considerable cost and disruption borne by the client to assist the auditor in learning its businesses, its processes, its systems and its accounting policies in its headquarters and multiple global markets.

Auditor rotation would adversely affect a company like Pfizer in many ways. As a multinational, we would be forced to change statutory auditors in each of our subsidiaries around the world, and since we engage each of the major as well as some second tier audit firms for non-audit services on an ongoing basis, we would be faced with a challenging process of realignment and renegotiation every time our audit firm came up for rotation due to the rules around auditor independence. Because we use the other Big 3 firms for non-audit work, we may find that we must go to a second tier firm which does not have the global presence necessary to do a multinational client or lacks significant talent in various countries or US locations, and as a result, audit quality may suffer. Similarly, we do not believe that firms are staffed to handle the extra levels of effort to learn new clients and industries on a rotating basis and may, in fact, need to supplement staff at certain times or reduce staff when mandatory rotation occurs at a large client (especially in a smaller market). Such reduced staff at one firm may then migrate to the new firm who has picked up the engagement, thereby negating the perceived benefit of a rotation.

It is, in fact, the significant barriers to auditor rotation which provide the auditor with the leverage needed to express their views if they have different opinions than their client. Both the independent auditor and the registrant are aware of the difficulties of making a change which, in our view, compels them to work through issues. The perception that a registrant will pressure an auditor to change his or her opinion on a matter due to the auditor's loss of revenue seems unrealistic as the registrant has much to lose in the equation of rotation as well.

Finally, we are concerned by the impact on audit quality in the final year prior to a mandatory rotation cycle. As the auditor seeks to replace lost revenue and the engagement and other market Partners look for their next "assignments", there may be less engagement of the firm, Partners and audit staff and there may be less of a willingness to challenge issues as they know that they are rotating off.

## Corporate Governance

Today, audit committees are responsible for the selection of the audit firm and they can make changes in auditors when appropriate. Mandatory auditor firm rotation would set a specific date for auditor rotation, and would thereby undermine the role of the audit committee in this key process of corporate governance. We also note that such a mandatory change may force an audit committee to make decisions which may not be in the best interests of shareholders. For example, if a company decided to spin off a business, the spin might span over two years requiring multiple audits and updating of the registration statement. Under a mandatory rotation, the audit committee would be forced to change the auditor mid-stream resulting in inefficiencies and delays in actually getting the transaction completed as new auditors start to learn. The value of the transaction to shareholders will be at risk during the delayed period and the additional costs will also impact the value. Audits which are not completed by the time the change must occur may require that a company pay twice for the same audit. Similarly, debt offerings could be delayed by such a mandatory change.

Another example would be global tax or strategic work that another audit firm is performing could prevent the audit committee from considering a firm that they believe would be the best firm to rotate to as the impact of changing the work to another firm would potentially cause disruption in the normal business of the company. Rather than weaken the role of the audit committee in oversight of the auditors, the PCAOB should seek alternatives that enhance and build upon that role. Currently, our audit committee reviews the qualifications of our independent auditors each year along with reviewing how they compare to the other Big 4 firms in terms of size, stature, review report findings, litigation pending and other relevant factors as well as the nature and transparency of the discussions that the Committee engages in with our external auditor.

## Suggested Alternatives

We believe if the PCAOB has evidence that auditor independence, objectivity and professional skepticism is a sweeping perceived issue, then there are alternatives to mandatory rotation that could more effectively and efficiently enhance auditor independence, particularly around the concern of increasing professional skepticism.

### *Audit Firms*

- Audit firms should institute specific mandatory training for staff on the process of exercising professional skepticism and the types of questions to consider. The PCAOB could work with firms on content, if deemed necessary or desirable.
- Audit firm internal review processes and other oversight mechanisms should be utilized to ensure that the firm's partners and staff are fully aware and mindful of the vital importance of their independence. If there is any doubt at all that audits are being conducted with appropriate professionalism, skepticism, and objectivity, the firms should be expected to increase their internal programs of training and oversight to address this issue.

- Assurance practices must continue to send consistent messages around auditor independence to staff from the top down. This means ensuring that the firm is reflecting its role as independent auditor, first and foremost, rather than the focus being on building revenue for the practice.
- Audit firms might consider the effectiveness of establishing a separate “compliance” group to specifically deal with independence matters including professional skepticism and objectivity if they do not already have one. To that end, assurance practices should reframe what “partnering” with a client means in their work proposals and be more specific about what they hope to achieve. For example, statements might include: we will work to achieve deadlines set out by the company, we agree to listen, review, discuss and debate difficult accounting issues, etc
- Compensation systems should be linked to the lack of effective professional skepticism or independence. Both the Firm and its Partners need to be held accountable for their behaviors. They know the guidelines and expectations set out by the PCAOB.

### *Registrants*

- Companies might consider enacting policies to refrain from dinners, lunches or other social interactions with the independent auditor. This reinforces the need for professional independence both in fact and appearance.
- Companies might consider enacting policies to only use the independent auditor for assurance and specific tax services (i.e. compliance, etc). This reinforces the importance that the company places on independence and demonstrates that they want the independent auditor to focus in those areas.
- Companies should ensure that the independent auditor has the freedom to access management and any personnel they deem necessary to perform the audit including the ability to access the audit committee if a matter is not reaching a satisfactory resolution.

### *PCAOB*

- Through its inspection process, the PCAOB is well-positioned to report such issues. Clearly greater transparency in these matters would create substantial pressure to drive behavior in the desired direction. Moreover, audit committee assessments of independence might benefit from greater transparency of findings.
- The Concept Release includes a discussion of the powerful influence a successor auditor might have on the behavior of the current auditor – the knowledge that another auditor will soon be in a position to evaluate the decisions of the current auditor is envisioned as a powerful inducement. But surely the PCAOB inspections process is at least as powerful, if not a more powerful influence. If it is not, then the PCAOB must focus immediately on addressing this gap. Recognizing there are limitations under the law today, we would also support more timely disclosure of its inspection results directly to a Company’s audit committee and management. We believe audit committees are generally effective in their oversight of the auditors and believe that this additional information would be useful in the audit committee’s assessment of the auditor’s effectiveness and would increase the opportunity for effective dialog around this critical issue.

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In summary, we do not see evidence of a significant problem with auditor independence that would require mandatory rotation and we hope that the PCAOB will pursue less costly and more effective alternatives to the mandatory rotation of audit firms in addressing what is a perceived or real behavioral issue. We are very concerned that mandatory rotation would be a significant burden to companies and their auditors, would adversely affect the quality of audits, and would undermine the role of the audit committee in oversight over this important corporate governance process. Audit firms should be required to increase their internal training and oversight to support independence and competency, and the PCAOB should leverage its inspection and reporting practices to raise the pressure on firms to perform more effectively. Compared with these reasonable alternatives, mandatory rotation is simply too drastic to be considered in the circumstances.

Once again, we appreciate this opportunity to comment on this concept release and encourage the Board to continue to engage its constituents. We would be pleased to discuss our perspective on these issues with you at any time.

Very truly yours,

*Loretta V. Cangialosi*

Loretta V. Cangialosi  
Senior Vice President and Controller

cc: Frank D'Amelio  
Senior Vice President and Chief Financial Officer