



November 4, 2011

Sent via e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Re: PCAOB Rulemaking Docket Matter No. 37

The audit committee of AT&T Inc. ("AT&T") appreciates the opportunity to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release"). We are supportive of the PCAOB's goals of continuously increasing audit quality and protecting investors. We believe that mandatory audit firm rotation would be ineffective in accomplishing those goals. We also believe there are potential unintended consequences that the PCAOB should consider, including the potential for decreasing audit quality and increasing costs.

The Concept Release questions whether mandatory audit firm rotation requirements could reduce audit failures, but also acknowledges there is not a clear link between auditor tenure and audit failures. The release notes that the root causes of audit failures are complex and that the PCAOB plans to explore those causes further in upcoming inspections, a logical next step in the evolution of the PCAOB's inspection process. A similar approach has already proven to be effective in creating improvements in firm audit methodologies, processes and related quality control systems. Obtaining more information about the underlying factors associated with audit failures could improve the remediation process and provide the additional insight into potential enhancements discussed in the Concept Release.

We are concerned that mandatory audit firm rotation will create unnecessary burdens on companies and audit firms while diminishing the benefits of the audit committee's role in engagement oversight. An audit firm makes a substantial resource commitment in order to audit a Fortune 500 company, from significant staffing requirements to development of industry specific expertise. In our opinion, industry expertise combined with institutional knowledge gained over time significantly enhances the quality of the audit. It is possible that mandatory audit firm rotations could create a shortage of audit firms that would possess the requisite industry expertise, and certainly would require selection of an auditor with less knowledge of specific company risk areas. Ironically, required rotation could create a complacent attitude among firms who might be "guaranteed" a place in the rotation simply as a function of supply and demand. Registrants might find themselves competing against other registrants in the industry as we attempt to secure bids from audit firms with adequate industry knowledge. Ultimately, we believe the audit committee is in the best position to evaluate the selection of our independent auditor, and mandatory rotation could require choosing a less qualified auditor with less institutional knowledge. This may actually decrease audit quality, while creating significant administrative burdens and additional costs associated with firm rotation.



The Concept Release does not consider how the limitation of audit terms will affect a firm's approach to non-audit services, but it seems highly likely that an audit firm would pursue non-audit services with former audit clients in order to make up for lost fees as a result of rotations. As such, there will be a continuing interest on the audit firm's part to maintain a satisfactory relationship with the client, even towards the end of an audit term as they attempt to replace lost audit fees with new non-audit services. Given the challenges addressed above, as well as the PCAOB's authority, it is unlikely the PCAOB would try to limit a firm's ability to engage in non-audit services as that could exacerbate the problem. But, without such a limitation, the position of the audit firm is the same, with or without the imposition of audit term limitations.

We believe the current rigorous PCAOB inspection process provides a strong incentive to perform quality audits. In addition, audit firms maintain an extensive internal quality review process, and partner rotations are mandatory, which reinforces auditor independence and objectivity. We do not believe mandatory audit firm rotation requirements will have any measurable positive impact on the PCAOB's goal of improving audit quality and may in fact decrease audit quality, which will make the unavoidable added costs of mandatory firm rotation impossible to justify.

AT&T appreciates the PCAOB's careful consideration of this issue.

Respectfully,

AT&T Audit Committee:

Jon C. Madonna  
Jaime Chico Pardo  
James P. Kelly  
Laura D'Andrea Tyson, Ph.D.

A handwritten signature in blue ink that reads "Jon C. Madonna". The signature is written in a cursive style with a large, sweeping initial "J".

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Jon C. Madonna, Chairman of Audit Committee