



Excellence in Communications Services

# TELEPHONE AND DATA SYSTEMS™

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December 1, 2011

By email to [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  
Concept Release on Auditor Independence and Audit Firm Rotation

Dear Sir/Madam:

This letter is being written on behalf of Telephone and Data Systems, Inc. ("TDS" or the "Company") regarding a concept release of the Public Company Accounting Oversight Board ("PCAOB") on auditor independence and audit firm rotation. TDS is a diversified telecommunications corporation founded in 1969. Through its business units, U.S. Cellular and TDS Telecom, TDS operates primarily by providing wireless, local telephone and broadband services. The Company's 2010 revenues were approximately \$5.0 billion. TDS employs approximately 12,400 people and serves approximately 7.1 million customers in 36 states as of June 30, 2011.

In general, TDS strongly opposes the changes discussed in this concept release. TDS believes that the auditor rotation suggested in the concept release would be very costly and disruptive to the Company. The proposed changes would neither protect the public interest nor bolster investor confidence as the audit quality may suffer for a number of reasons. Furthermore, we believe that the proposed changes may encourage opinion shopping, resulting in misleading and unreliable financial statements. We believe existing SOX rules provide users of financial statements with reasonable assurance that the financial statements in all material respects are in conformity with Generally Accepted Accounting Principles, without the downsides of mandatory firm rotation. We also believe that investors, through the audit committee and board of directors, are in the best position to make auditor appointment/retention decisions.

Following are TDS' responses to certain questions for which the PCAOB requested feedback:

*Would audit firm rotation enhance auditor independence, objectivity and professional skepticism?*

We do not believe that the audit firm rotation would enhance auditor independence, objectivity and professional skepticism. Auditor independence, objectivity and professional skepticism are intangible attributes of the auditing profession that cannot be enforced by regulatory measures. We agree that rule making can contribute to the audit effectiveness as demonstrated by the Sarbanes-Oxley Act provisions. The Act's requirements to curtail the non-audit services provided by the auditor, to impose mandatory partner rotation and to delegate the hiring of the auditor to the Audit Committee, rather than management, have made a significant positive difference in the quality of public company auditing. However, ultimately, it is the people performing the audit procedures and their ethical standards that determine the level of independence, objectivity and professional skepticism.

We believe that the nature of auditing requires extensive interaction with the client. Good rapport with the client is part of audit effectiveness. Auditors must interact with management and staff to allow knowledge sharing. Long-term audit firm relationships are the foundation for this type of interaction.

We do acknowledge, however, that investor perceptions of auditor independence might increase under mandatory audit firm rotation. While we agree that improving public confidence in the corporate sector is important, we do not think this should be done at the expense of audit quality. The true needs of the investment community will be served if PCAOB weighs diminished quality of audits against higher perceived independence because the perceived benefits of mandatory auditor rotation are dwarfed by the potential detriments (see the discussion below).

*According to the 2003 GAO Report, large firms estimated that a rotation requirement would increase initial year audit costs by more than 20 percent. What effect would a rotation requirement have on audit costs?*

We believe that the time and money associated with evaluating, selecting and assisting new auditors would be very significant. There are already additional costs to the Company associated with bringing on a new partner every five years. In addition, the Company is generally faced with transitioning individuals at the Manager and Senior Manager level on an ongoing basis, so it would be rare for an entire audit management team to be in place for even five years. This issue of high cost is of particular concern to our company considering the challenging economic environment. More importantly, we believe the higher costs will be of even more concern to the company's investors. When our company changed from Arthur Andersen to PricewaterhouseCoopers in 2002, the audit and audit-related fees increased by approximately 70%. We therefore once again question the benefits of the proposed measures to the investment community.

*What are the advantages and disadvantages of mandatory audit firm rotation?*

The most significant disadvantage of mandatory auditor rotation is the inferior quality of the audit in the early periods. Client familiarity and experience that spans many years increase audit effectiveness. The familiarity the auditor has with the company ensures better understanding of the client-specific issues, including specialized industry knowledge. It is difficult for an auditor to completely understand the complex business and accounting of today's public companies in a short period of time. There is simply no way to replace the institutional knowledge that is acquired over time and through experience. Oftentimes complex accounting rules or the lack of specific guidance requires judgment from an auditor. It is undeniable that a firm with years of experience with the business will make a more informed judgment call than a new firm working with the company for the first time and is still "getting up a learning curve". The current practice of partner rotation ensures a balance between continuity and independence. Furthermore, the "quality" partner provides another level of independence and oversight.

We have a number of other concerns associated with inferior audit quality. We believe that the auditor rotation may encourage opinion shopping in deciding which firm to hire. In addition, companies may base their selection decision on the audit's firm marketing expertise, rather than its technical competencies. Further, current audit engagements are budgeted based on a relatively steady supply of clients. If the number of clients significantly increases in one particular year, we question the audit firm's ability to quickly assemble a qualified workforce and thus perform an effective audit. Lastly, the quality of service in the final year of the audit may suffer if firms move their best and most experienced partners and staff away from clients with no future revenue potential.

Finally, the efficiency of the audit procedures will suffer. An unnecessary disruption to normal business operations will result from auditors attempting to acquire the requisite level of knowledge about the company's business, financial reporting, controls and processes from scratch.

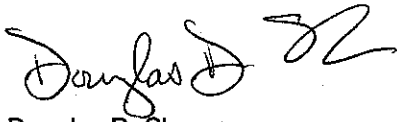
*Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity and professional skepticism?*

We believe members of independent audit committees and boards, as part of their role as representatives of investors' interests and with statutorily mandated responsibility for audit oversight (including the selection and compensation of auditors) are best positioned to appoint and retain the audit firms they believe best meet shareholders' needs. Investors, in turn, can approve or veto that decision during the annual shareholders' meeting. This practice employed by our company for several decades has proven effective in meeting this requirement.

Although we support the concept of improving auditor independence, we do not believe the concept release meets that objective. Mandated rotation would result in auditors with higher perceived independence performing lower-quality audits.

We would appreciate your consideration of this matter. If you have any questions or would like to discuss this matter further, please call me at (608) 664-6122.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas D. Shuma", with a stylized flourish at the end.

Douglas D. Shuma  
Senior Vice President and Corporate Controller  
Chief Accounting Officer