December 12, 2011

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

Submitted via electronic mail to comments@pcaobus.org.

Re: PCAOB Rulemaking Docket Matter No. 037: Concept Release on Auditor Independence and Audit Rotation.

Dear Board Members of the PCAOB:

Intel appreciates the opportunity to respond to the PCAOB on the concept release regarding auditor independence and audit firm rotation. We support the Board’s mission to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. However, we have significant concerns with the PCAOB’s presumption that mandatory auditor rotation will fulfill this objective as there is no data that demonstrates a correlation between audit firm tenure and a lack of audit firm independence, objectivity or professional skepticism. Without evidence to the contrary, we strongly believe that the responsibility of determining when audit firm rotation is appropriate should be left with the Audit Committee.

Although we recognize that the PCAOB’s inspections found what the PCAOB judges to be audit failures, we believe that these findings represent a negligible subset taken from high risk audits when compared to the overall population of audits that are performed. The auditing profession is held to high standards, standards that have been raised in recent years. For example, through the formation of the PCAOB to oversee the audit of public companies by establishing audit, quality, ethics and independence standards in addition to conducting audit inspections; the requirement that the Audit Committee appoint, compensate and oversee the external auditor; the mandating of reports on internal control over financial reporting; and required lead partner rotations coupled with second partner reviews. Auditors that willfully violate these standards in the pursuit or retention of audit clients would not necessarily cease these behaviors as a result of mandatory audit firm rotation. Indeed, mandatory audit firm rotation implicitly results in an increased reliance on management’s assertions in the first few years of an audit due to the new firm’s lack
of knowledge about the company and the timing of financial reporting filing requirements. As a result, while the perception of independence may have increased for a small number of audits through the requirement for firm rotation, for the broader population, mandatory rotation presents a risk for an increased dependence on management’s assertions. We believe that the changes put in place by the Sarbanes-Oxley Act protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports and that it would be inappropriate for the PCAOB and contrary to their stated mission and values to enact mandatory auditor rotation for the sole purpose of increasing the perception of auditor independence.

Before enacting a change, we believe that the PCAOB should demonstrate a correlation between audit firm tenure and a lack of audit firm independence, objectivity or professional skepticism and that by mandating rotation, audit quality will increase. We do not think that the data included in the Concept Release provides this support. The PCAOB provided some examples of situations they believed demonstrated a decided lack of auditor independence, but it appeared that only a small number of these actually resulted in an audit failure that required a restatement of the financial statements. It is our view that the small number of audit failures identified as a result of a perceived lack of audit independence proves that the current standards that audit committees and audit firms are held to are effective. It does not seem appropriate to penalize the investors of all companies with the increased costs associated with mandatory auditor rotation for these limited audit failures without knowing if it will truly cause audit quality to improve. It is our belief that the cost of this mandate will far outweigh any benefit the PCAOB or the public can hope to gain.

Mandatory auditor rotation would drive a costly increase in our audit fees. We are the world’s largest semiconductor chip manufacturer, based on revenue, with approximately 150 entities requiring audits in over 40 countries. These audits require coordination efforts for purposes of our consolidated US GAAP audit, as well as the performance of local statutory and shared service center audits. Mandatory audit rotation would result in a significant loss of our auditor’s cumulative knowledge of our business and its operations and may require us to use auditors that lack sufficient insight or have an inadequate understanding of our company to appropriately challenge management’s assertions and estimates. This would result in a significant increase in our audit fees as the only way for a succeeding audit firm to become sufficiently familiar with our company’s operations and financial reporting practices in the time needed for us to file our financial statements would be to increase the hours incurred in order to complete the audit. The costs associated with mandatory auditor rotation, however, far exceed cash costs associated with audit hours. We currently use the remaining “Big Four” firms for various non-audit services, such as valuation support, immigration and tax services, IT consulting, audits of benefit plans and payroll services. In order for us to continue to receive the global, standardized, and well-coordinated services of the “Big Four” firms, mandatory audit rotation would force the replacement of one of our “Big Four” firms that provides non-audit services. This game of musical chairs has two significant costs: it is severely disruptive to our business, which is costly due to loss of cumulative knowledge in the service provides area of expertise (such as valuation, immigration or tax services); and, similar to the cost increase for the audit, we would have to pay
for the new service provider to become sufficiently familiar with our company’s operations, systems and practices. We are selective with our service providers and we carefully control the migration process of these providers to ensure that we are getting superior quality and value to support a transition. We believe that compulsory audit rotation would eradicate not only the choice of firms companies have to choose from due to the specific nature of the non-audit services that other “Big Four” firms currently provide but also the competitive environment in which they operate.

Without evidence to the contrary, we strongly believe that the responsibility of determining when audit firm rotation is appropriate should be left with the Audit Committee. To increase transparency and support Audit Committees with their responsibilities, we recommend that the PCAOB report significant findings from their inspections to Audit Committees so that Audit Committees can adjust their view of risk accordingly. We believe that the current PCAOB grace period afforded an audit firm to address quality issues diminish the Audit Committee’s ability to oversee the audit. Additionally, the PCAOB may want to consider a real time mechanism for sharing, on an unnamed basis, results of inspections and the Board's concerns regarding the preparation of informative, accurate, and independent audit reports. The PCAOB has the opportunity to obtain an abundance of information as a result of conducting audit inspections. We believe that if the PCAOB were to development a framework for distributing these results, auditors and Audit Committees would be able to understand the nature of trending deficiencies with the intention of taking corrective action and to further utilize the information for proactive measures such as assessing audit design, training needs, and recruiting requirements. The current environment of economic turmoil, active changes to more principles-based standards and the increased application of fair value make a timely awareness of any Board concerns all the more essential to ensure appropriate deliberation by Audit Committees.

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Thank you for your consideration of the points outlined in this letter. If you have any questions regarding our responses, please contact me at (971) 215-6270, or Liesl Nebel, Accounting Policy Controller, at (971) 215-1214.

Sincerely,

James Campbell
Vice President, Corporate Controller