



November 22, 2011

Office of the Secretary
Public Company Accounting Oversight Board
166 K Street, NW
Washington, DC, 20006-2803

Re: Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Rulemaking Docket Matter No. 37

Dear Board Members:

I appreciate the opportunity to comment on the PCAOB's Concept Release referred to above (the "Concept Release") on behalf of Frontier Communications Corporation, as Chair of its Audit Committee. While the PCAOB is rightly cognizant of the goals of auditor independence and professional skepticism, I am convinced that mandatory audit firm rotation would not meaningfully advance such goals and would, rather, prejudice those very objectives as well as other equally important objectives; consequently, I am much opposed to mandatory audit firm rotation. My comments are informed by my role during the last four years as the Chair of the Audit Committee of Frontier Communications Corporation, a Committee on which I have served a total of six years. Frontier Communications Corporation ("Frontier" or the "company") provides services to rural areas and small and medium sized towns and cities in 27 states. In addition to traditional telephone, Frontier offers broadband and video services. Frontier is typically the leading incumbent carrier in the markets it serves and provides the "last mile" of communications services to residential and business customers in those markets. In addition, I am a former director of Time Warner Telecom, Inc. From 2001 until it was bought by Raycom Media in 2006, I was the Chief Financial Officer of The Liberty Corporation, a public corporation. Prior to my tenure with Liberty, I served as the Chief Financial Officer of Wink Communications, then a public corporation, and before that as the Chief Financial Officer of Emmis Communications Corp., also a public corporation. As a consequence, I have dual vantage points: that of one charged with ultimate responsibility for the financial statements reviewed and audited by the external auditors and that of a member and the Chair of the Committee charged to oversee, on behalf of investors, the work of the external auditors.

I strongly support the view that independent, objective and professionally skeptical auditors are critical to audit quality, but I would underscore that audit quality, while extraordinarily important, is not the only goal. The auditors must also provide investors with reasonable assurance that the financial statements produced by management are reliable. The goal of the regulators of external auditors and their relationship with the companies they audit should be the same: to regulate in a manner that facilitates the reporting and auditing process so that the financial information provided to investors and other stakeholders is in accordance with GAAP and otherwise dependable and transparent. Because I do not believe mandatory auditor rotation can be demonstrated to advance that goal and may, indeed, undermine that goal, I do not support mandatory audit firm rotation. My concern deepens further at the prospect of increased costs for no perceivable benefit. I believe the PCAOB can better direct its

attention to the refinement of its existing inquiries and the better distillation of the data gathered from the inspections referred to in the Concept Release.

• **Compromised audit quality and investor protection; no evidence to the contrary:**

- (a) If mandatory audit firm rotation were implemented, I am convinced that in both the early years and tail years, the quality of the audit would decrease. I and the other members of the Frontier Audit Committee (well-qualified to serve on the Committee)¹ spend a great deal of time with Frontier's external auditors. We take our responsibilities seriously. We meet with the external auditors separately from Frontier management at every Audit Committee meeting. During the Audit Committee, both with management and in our separate meetings, we probe their work and their relationship with management. Members of the Committee speak with the external auditors on matter of import and concern in the interim between meetings. We review the scope of the audit and discuss planning and staffing. We discuss in depth the review (one now in progress) of the PCAOB and are even now monitoring the steps our auditors are prepared to follow in response to any findings. The list of external auditor matters we spend significant amounts of time monitoring or discussing is far longer, and the details of our auditor oversight responsibility far more extensive, than described above.² I have learned in the course of this extensive interaction that the company's external auditors need to develop a deep reservoir of knowledge about the company, its processes and controls and its unique risks and challenges in order to competently perform the required auditing tasks and effectively advise the Audit Committee. This takes time to develop. And when a company has undergone a fundamental transformational transaction or engaged in fundamental corporate events such as acquisitions or divestitures, as Frontier has, it is imperative that the auditors who understand that transformation and the remaining goals, objectives and hurdles provide the continuity necessary to effectively and efficiently audit the company's financial statements. Requiring a new firm to step into such a situation would inhibit the process of timely disseminating the most accurate information to investors. I concur with others who have written on this issue that the likelihood of audit error in that first year would rise significantly and the likelihood of uncovering intentional management misdeeds would decline dramatically. Furthermore, in the last years of an engagement, the existing auditors can be expected to move its best people to other clients of the firm.

¹ The other two members of the Audit Committee also have considerable experience which qualifies them to serve on the Audit Committee. One is retired after 35 years from Ernst & Young, having been a partner there since 1984. Among his various assignments, he served for three years as Ernst & Young's Global Vice Chairman for Independence Matters within Global Quality and Risk Management, responsible for the firm's global independence organization. Before that he was the lead audit partner on a number of public and global company audits. The other member is retired as Vice President and Treasurer of PG&E Corporation. From 2001 to 2005, he oversaw all financing, financial planning, risk management, cash management and pension fund operations for PG&E, including, in 2004, the largest-ever U.S. utility financing--a landmark \$7 billion debt financing in connection with its Plan of Reorganization. Before his tenure with PG&E, he was Vice President and Treasurer of Gap, Inc., responsible for all of the company's financing, cash management, international finance, investor relations and risk management. While at Gap, Inc., he led the company's first major public debt issuance and managed its \$1 billion common stock repurchase program. Prior to his position with Gap, he held a number of other executive financial positions with other companies and was a Management Consultant for Deloitte & Touche. In addition he serves as a director of two other public companies, The McClatchy Company and Herbalife.

² See the Company's Audit Committee Charter. <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODE5NTB8Q2hpbGRJRd0tMXxUeXBIPtM=&t=1>

- (b) The Concept Release purports to provide evidence to support mandatory rotation, but upon close examination, the stated support is ephemeral. The comment letter of the Center for Capital Markets Competitiveness dated October 20, 2011 treats this point with great clarity and detail.

• **Increased audit and company costs:**

- (a) I strongly agree with the Concept Release that the risk of increased costs merits particular focus. I can safely predict from my experience of as Chair of the Audit Committee that audit costs will increase if this mandatory auditor rotation is required. Costs will increase at the start up of each rotation as the new auditors seek to gain the requisite familiarity. There will be overlapping costs as the prior auditors and the new auditors confer on work papers and engage in other necessary consultations... and both firms will bill Frontier. Costs of selection will increase as management will have to spend time preparing the proposal requests as well as evaluating the alternatives. The cost savings achieved from existing auditors who can be expected to negotiate their fees downward and share the pressure of a Company's determination to manage costs will evaporate. Other comment letters have referred to the November 2003 GAO report on the potential effects of mandatory audit firm rotation which summarized survey results received from the largest public accounting firms and Fortune 1000 public companies. The evidence was not encouraging.³ The numbers in that survey, when compared to the complete lack of evidence supporting such a change, illustrate a burden that is not appropriate to impose on business. This is not because corporations are unwilling to expend that which is necessary to render reliable financial statements to their shareholders, but because corporations are rightly focused on safeguarding shareholders in a comprehensive fashion. That comprehensive approach requires corporations not only to produce the accurate financials on which their shareholders rely but also to conserve shareholders' assets, one of which is cash, and to manage expenses in order to deliver the returns to which shareholders are entitled. As a consequence, increasing costs and rising expenses are shareholder concerns and, therefore, PCAOB concerns.
- (b) The additional burden to the Company and to the Audit Committee will be significant. The selection process will necessitate collecting due diligence materials and other materials necessary for requests for proposal and then undertaking the evaluation of the responses, the reviews and interviews of the bidders and the individual candidates from the prospective firms. Management will be required to divert its time to the review and assessment of the competing presentations and then to the coordination of exchanges of information between the former auditors and the Company and the new auditors. The Company's internal audit group will see an exponential increase in its time demands as staff spends time adapting to the methodologies of, and supporting, the new auditors. Management will need to spend significant time to familiarize new auditors with the company, its people, its processes, its systems, the underlying assumptions and supporting procedures, its operations and policies, and so on. All of this will drive costs up

³The report stated "...we estimate that following a change in auditor under mandatory audit firm rotation, the possible additional first year audit related costs [inclusive of increased audit fees, company selection and support costs] could range from 43 percent to 128 percent higher than the likely recurring audit costs had there been no change in auditor."

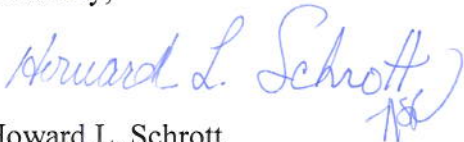
unnecessarily and for no demonstrable benefit, will divert management from the business of running the business and will weaken the business and thereby the interests of investors and other stakeholders. In short, this undermines the interests of the very stakeholders the PCAOB should be protecting.

• **Alternative measures to enhance auditor independence:**

- (a) Nothing in the Concept Release identifies any concrete link derived from PCAOB inspections between audit tenure and any significant deficiency or audit failure. Even the use of “audit failures” is hyperbolic since, as employed by the PCAOB, it is used for matters that are not material misstatements of financials. Further underlying issues are described in malleable terms as “appearing to have been caused by” or occurring “at times” or as “some cases” or “instances in which it appears ... that some aspect of the audit...was lacking in the required auditor independence, objectivity and skepticism” and so on.⁴ Consequently, I believe the interests of the investing public would be better served by the PCOAB more carefully and concretely assessing the causes of the deficiencies identified (a task the PCAOB freely admits it has not yet undertaken⁵) before imposing a solution that may bear no relation to the underlying issue and will have negative repercussions for the investing public.
- (b) As the Chair of the Audit Committee, a far more useful tool for our oversight of the Company’s auditors, and at little cost to implement, would be the receipt of a copy of the specific results of the PCAOB’s review of our auditors. We could more effectively perform our existing oversight responsibilities were we to receive this report directly and quickly. Rather than probing potential issues through our auditor’s lens, we could do so on the basis of the unfiltered views of the PCAOB and be better positioned to make our own independent, informed judgment of the severity of issues and whether to undertake corrective action, including the changing of auditors. That is precisely what we are tasked to do in the oversight we are mandated to perform by Sarbanes-Oxley, and we are well suited to perform that task when given all the requisite tools.

In summary, because mandatory rotation of auditors holds the very real potential of decreased audit quality and investor protection at greatly increased costs without any concrete analytical data or proof to support such a dramatic and onerous change, I do not support mandatory audit firm rotation. I urge the PCAOB to note as instructive the experience of certain other countries that retreated, post-adoption, from similar mandates because they were ineffective in achieving public policy goals.

Sincerely,



Howard L. Schrott
Chairman Audit Committee
Frontier Communications Corporation

⁴ Concept Release; pp 2, 5, 6, 7

⁵ Concept Release; p.6