



## QUALCOMM Incorporated

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Submitted via email to [comments@pcaobus.org](mailto:comments@pcaobus.org)  
December 13, 2011

Public Accounting Oversight Board  
Attn: Office of the Secretary  
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:

QUALCOMM Incorporated (Nasdaq: QCOM), a large accelerated filer, develops, designs, manufactures and markets digital telecommunications products and services. QUALCOMM is a leading developer and supplier of integrated circuits and system software based on Code Division Multiple Access (CDMA), Orthogonal Frequency Division Multiple Access (OFDMA) and other technologies for use in voice and data communications, networking, application processing, multimedia functions and global positioning system products. QUALCOMM supplies these products to device and infrastructure manufacturers. At September 25, 2011, QUALCOMM employed 21,200 full-time, part-time and temporary employees and occupied over 30 facilities in the United States and over 135 facilities internationally. QUALCOMM's revenues for the fiscal year ended September 25, 2011 were \$15.0 billion, and net income attributable to QUALCOMM was \$4.3 billion.

We respectfully submit this response to the request for comments from the PCAOB on its *Concept Release on Auditor Independence and Audit Firm Rotation*, PCAOB Rulemaking Docket Matter No. 37 dated August 16, 2011 (the Release). We agree that it is critical that audit firms adhere to professional standards that address auditor independence, objectivity and professional skepticism in performing their audits, and without such adherence, there is a risk of audit failure. However, we do not agree that audit firm rotation should be mandated to address this issue. Many reasons exist for audit failures, including a lack of technical competence, deficiencies in application of appropriate audit methodologies, insufficient supervision and/or other failures by the auditor to comply with professional standards. We believe that mandatory audit firm rotation, rather than further mitigating risk of lack of independence and objectivity, would instead create new (and potentially more significant) risk of audit failure by degrading auditors' understanding of their clients' businesses. This degradation may also negatively impact the timeliness of public companies' earnings reports and will certainly



result in additional costs for companies. Additionally, mandatory audit firm rotation is not a practical approach for large, international companies that employ the “Big Four” accounting firms in various capacities on a worldwide basis, including non-audit services, due to the limited availability of qualified, independent firms. Lastly, although a long-standing relationship between an audit firm and its client may increase the risk that the auditor will lack independence or objectivity, we believe that current safeguards adequately mitigate such risk.

We believe that a company’s audit committee, composed of independent directors, should be free to select the audit firm that it believes is best suited to address the needs of the company, considering such factors as industry and technical knowledge of the audit firm and its partners and staff; size and locations of the audit firm; and the risks specific to the company.

#### *Cost and Risks Associated with Mandatory Audit Firm Rotation*

We believe that mandatory audit firm rotation will significantly increase audit fees in the initial year(s) following each mandatory firm rotation. The new audit firm will be required to spend a significant amount of time acquiring information about the company’s business and its industry, accounting systems and processes, internal controls over financial reporting, business risks and audit committee and management personnel. In addition to increased audit fees, company management and other personnel will incur significant incremental hours to assist the new audit firm in developing this knowledge. Companies reporting earnings in an accelerated, pre-determined timeframe may also find that they are unable to meet reporting deadlines in an environment of mandatory auditor rotation as a consequence of the additional time the new auditors will need to learn about the company’s business. Companies’ inability to report timely results could delay dissemination of valuable information to investors, which could have a significant negative effect on capital markets.

An increased risk of audit failure will result from an auditor’s lack of knowledge about a company. We believe that there are benefits to engaging auditors with in-depth knowledge of their audit clients. In-depth knowledge allows auditors to more effectively design their audit plans to focus on areas of risk. This is particularly true for larger companies that engage in a multitude of diverse and complex transactions. An auditor lacking previous knowledge of similar transactions and/or the appropriate level of industry expertise or that has prepared an inappropriate risk assessment is more likely to overlook an area of risk or miss something potentially material in the audit of such transactions. In addition, an auditor who is unfamiliar with a company may be less effective at assessing the company’s tone at the top, identifying possible fraud risk and assessing the reasonableness of management’s judgment and use of estimates. For these reasons, we believe that the risk of audit failure will increase as a new audit firm builds its knowledge of a company, which in some cases can take several years.

We acknowledge that audit firms and companies appear to manage audit firm transitions today; however, such transitions are limited in comparison to the continual changes that



would ensue under this proposal. In addition, even current transitions are not without significant incremental costs and increased audit risk.

*Limited Availability of Qualified, International Accounting Firms*

Many large, international companies engage firms other than their auditors to perform non-audit services. A limited number of large, international registered accounting firms provide audit and non-audit services to a company of QUALCOMM's size. Due to the limitations on the performance of non-audit services by the auditor, the audit committees of such companies will likely have limited choices when replacing its auditor due to mandatory rotation and may have to engage smaller accounting firms to perform their audit services or non-audit services (which are potentially less capable or qualified to audit large companies with operations in multiple jurisdictions). Such accounting firms may be ill-equipped to provide the level of technical expertise and international support required to maintain quality of audit and/or non-audit services for these companies. Audit risk would increase as a result. Over time, companies may segregate the firms providing services based on their eligibility for mandatory auditor rotation and those that would be eligible for mandatory auditor rotation. This development would result in a significant change for many international companies that use international audit firms to perform certain services worldwide. In addition, a significant burden would be created for international companies needing to change their audit firm relationships globally each time a rotation occurs.

*Existence of Current Safeguards*

A number of existing safeguards appropriately mitigate the risk of lack of auditor independence.

*Partner rotation and concurring partner review.* The current standards require that audit partners on registered companies rotate every five years. Additionally, audits of registered companies are required to have a concurring, or second, partner. These requirements provide a fresh view of the accounting practices and controls of the company and the audit procedures performed by the audit firm and minimize the risk of closeness with the company's management that is developed over an extended relationship period.

*Audit committee oversight.* The audit committee of a registered company is, by law, responsible for the oversight of the work of the audit firm, including selecting, engaging and compensating the audit firm, confirming the independence of the audit firm and reviewing the results of the annual audit and quarterly review procedures performed by the audit firm. All members of the audit committee are required to be independent as defined by the rules of the Securities and Exchange Commission (SEC). Audit firms are required to report to the audit committee certain items, including all critical accounting policies and practices to be used by the company, all alternative treatments of financial information that have been discussed with management of the company and the accounting treatment preferred by the audit firm. We believe that the rules currently in place for audit committee oversight provide for a means of separating the appointment



and review of the audit firm from potential undue influence of the company and its management.

*PCAOB inspection and oversight.* The PCAOB performs annual reviews of audit firms that provide audit reports for more than 100 issuers and performs a review at least every three years for other audit firms. Under such reviews, the PCAOB, among other items, identifies any act or practice that may be in violation of the Sarbanes-Oxley Act, the rules of the PCAOB, the rules of the SEC or professional standards, all of which include auditor independence rules or standards. Based on public reports, the audit firms appear to take the results of the PCAOB's inspections seriously, including reassessing their practices and making changes where appropriate. Although the PCAOB has indicated that it continues to identify audit failures, it also has acknowledged that it is not clear whether these failures are caused by independence issues or other audit failures. We believe that the PCAOB's inspection of the audit firms is an appropriate mechanism to verify audit quality.

*National offices.* Many national and international audit firms have technical, subject-matter experts located in their national offices to provide expertise in highly-technical areas and require the engagement audit teams to consult with such experts in certain situations. We believe that such involvement by individuals who do not have relationships with audit clients have minimized, and will continue to minimize, risk that results from long-standing auditor-client relationships.

*Other factors.* Audit firms that perform audit services for a company are precluded from performing certain non-audit services for that client and are required to obtain pre-approval by the audit committee for the performance of allowable non-audit services. Additionally, it is unlawful for any officer or director of a company to take any action to fraudulently influence, coerce, manipulate or mislead any audit firm that is engaged in the performance of an audit of the company's financial statements.

For the reasons described above, we do not believe that the PCAOB should move forward with a mandatory audit firm rotation program. Rather, the PCAOB should continue its efforts to improve the effectiveness of the current audit standards through inspection and other means (for example, by providing new guidance to the audit firms, the companies and/or audit committees, as needed). We appreciate the opportunity to comment on the Release and thank you for your consideration of our views.

Sincerely,

A handwritten signature in blue ink, appearing to read "William E. Keitel".

William E. Keitel  
Executive Vice President and Chief Financial Officer