

ANADARKO PETROLEUM CORPORATION



CATHY DOUGLAS
VICE PRESIDENT, CHIEF ACCOUNTING OFFICER

December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
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 PCAOB Board Members,

Anadarko Petroleum Corporation is pleased to provide comments to the Public Company Accounting Oversight Board (PCAOB) on its concept release on auditor independence and audit firm rotation (the Concept Release).

We believe that any potential benefits derived from the imposition of mandatory audit firm rotations will be outweighed by negative factors that likewise will result. The rotation of audit firms seeks to enhance auditor independence and offers periodic “fresh looks” at a company’s accounting, financial reporting, and controls. While these are laudable goals, we are concerned that potential benefits will be marginal, and that these marginal improvements will result in significant cost increases to public companies, as well as a decline in audit quality and an increased risk of audit failure. Thus, we do not consider mandatory audit firm rotations to be a worthwhile endeavor in light of these drawbacks. Further, we believe that existing controls and safeguards designed to preserve auditor independence are highly effective.

We have tailored our comments to address the significant macro-level impacts that mandatory audit firm rotations will have on most public companies. Accordingly, we have not attempted to answer all questions presented by the PCAOB in the Concept Release.

We oppose mandatory auditor rotations due to the following: (a) increased audit-failure risk, (b) increased financial costs to public filers, (c) impediments to an Audit Committee’s ability to perform its responsibilities on behalf of stakeholders, and (d) the negative impacts of a moral hazard created by shielding audit firms from client retention risks.

Enacting mandatory audit firm rotations heightens the risk of audit failure due to the lack of experience with, and knowledge of, client-specific or industry-specific risks and transactions. Institutional knowledge is a critical success factor that directly

impacts an auditor's ability to provide the highest-quality attestations. Although all reputable audit firms have policies and procedures in place to ensure high-quality audits, specific policies and procedures borne out of industry and institutional knowledge are extremely effective and provide an extra safeguard against audit failure. Adopting mandatory audit firm rotation undermines these much-needed safeguards.

Accompanying increased audit-failure risk are significant compliance cost increases to public companies. Incremental audit time and audit effort will be required at the initial stages of a client/auditor relationship as the auditor invests significant time, and client expense, familiarizing itself with industry- and transaction-related complexities, as well as company-specific history, accounting estimates, assumptions, and elections. The monetary costs associated with the initial phase of the audit relationship are significant to public companies as increased fees driven by additional time demands on the audit firm are passed through to public companies. In addition, most public companies will suffer a direct monetary cost as additional company resources will be required with each audit-firm rotation to assist the newly appointed auditors.

The responsibilities of Audit Committees include the selection and appointment of the independent auditors. In practice, Audit Committees take many factors into account when selecting an independent auditor. Maintaining and strengthening the independence between company management and the auditors is paramount and must be balanced with an audit firm's individual qualities, experiences, and core competencies. By enacting the proposals set forth in the Concept Release, the PCAOB would hinder Audit Committees' ability to take all of these factors into consideration when selecting an independent auditor, which impedes Audit Committees' ability to execute on the responsibility to select an auditor considered independent of management and best suited to deliver the most effective and highest-quality attestation services.

Historically, audit firms have retained existing clients and added new clients by delivering high-quality audits. Instituting mandatory audit firm rotations has the potential to create a moral hazard as audit firms will no longer be required to ensure excellence in order to attract new clients or retain existing clients. Instead, audit firms will be assured the addition of new clients as rotations occur, and will be positioned to retain all clients for a certain time period. This dynamic removes the risk to audit firms of losing clients due to poor service and has the potential to migrate audit firms toward mediocrity as unique and specialized skill sets, cost efficiency, and audit effectiveness lose significance as driving factors of a firm's success. Rendering these traits less relevant in order to attract and retain clients has substantial potential to impair audit quality and ultimately harm the investing public.

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We believe that the tested and proven reforms under the Sarbanes-Oxley Act of 2002, including the creation of the PCAOB, as well as the currently required mandatory five-year rotation of the lead audit partner on each of an audit firm's continuing engagements, are very effective in ensuring auditor independence. In addition, we consider PCAOB inspections very valuable in further ensuring audit quality. If the results of inspections indicate a lack of auditor independence, decreased auditor objectivity, or low-quality audit work, suggested alternatives to mandatory audit firm rotations would be to increase the severity of the penalties assessed for malpractice or to increase PCAOB inspection activities directed toward an offending audit firm. Each of these courses of action more appropriately places the focus for improvement and the costs and burdens associated therewith on the parties responsible for lapses in objectivity and/or audit quality and, importantly, motivates audit firms to maximize the quality and efficacy of their work.

We thank the PCAOB for the opportunity to provide these comments.

Regards,

A handwritten signature in blue ink that reads "Cathy Douglas". The signature is written in a cursive, flowing style.