USCIB
UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS

December 8, 2010

European Commission
DG Internal Market and Services
Auditing Unit – F4
1049 Brussels, Belgium
markt-greenpaper-audit@ec.europa.eu

The United States Council for International Business (USCIB) appreciates the opportunity to respond to the European Commission's Green Paper on "Audit Policy: Lessons from the Crisis."

USCIB promotes open markets, competitiveness and innovation, sustainable development and corporate responsibility, supported by international engagement and prudent regulation. Its members include top U.S.-based global companies and professional services firms from every sector of our economy, with operations in every region of the world. With a unique global network encompassing the International Chamber of Commerce, the International Organization of Employers and the Business and Industry Advisory Committee to the OECD, USCIB provides business views to policy makers and regulatory authorities worldwide, and works to facilitate international trade and investment.

USCIB has long had an interest in a number of the issues raised in the Green Paper because of its work on corporate governance, investment and capital markets, and corporate responsibility, including active participation in various ICC, BIAC and IOE committees and task forces on these matters. Through these affiliations, we are leading private sector advisers, for example, on the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. And we have participated in the development of ICC recommendations on audit firm rotation and independence, as well as on financial reporting and international standards. We believe that corporate transparency and reliable information for investor decision-making are critical to effective and efficiently functioning capital markets. A healthy audit profession and high-quality audits are essential to meeting these market needs.

The European Commission's Green Paper has direct implications for our member companies with operations in Europe, which are subject to European statutory audit requirements. In addition, actions on audit policy by the European Union (EU) would affect the global audits of multinational companies. For these reasons we submit the following comments in response to some of the specific questions raised in the Green Paper.

*   *   *   *   *

<u>Do you have general remarks on the approach and purposes of the Green Paper?</u>

USCIB notes that the Green Paper addresses a broad range of issues related to statutory audits, audit regulation, and the audit profession. We urge the Commission to apply some fundamental principles as it considers the way forward on these matters. First, any contemplated changes in audit policy and regulation should have a direct relationship to enhancing audit quality, based on the facts and information obtained in this consultation. We generally believe that audit quality is high, but

1212 Avenue of the Americas
New York, NY 10036-1689
212.354.4480 tel
212.575.0327 fax
www.uscib.org

Global Business Leadership as the U.S. Affiliate of:
International Chamber of Commerce (ICC)
International Organization of Employers (IOE)
Business and Industry Advisory Committee (BIAC) to the OECD
ATA Carnet System

acknowledge that there is always potential for improvement. Second, contemplated changes should avoid imposing undue costs or added complexity on companies subject to audit. Lastly, we encourage the Commission to consult with authorities in jurisdictions outside Europe to achieve the greatest degree of compatibility between and among audit regimes on a global basis. Coordination among various jurisdictions is essential to encouraging convergence and harmonization of standards and regulations across geographies. In this connection, we commend the Commission for its commitment to cooperation with members of the Financial Stability Board and the G20.

(10) <u>Do you think auditors should play a role in ensuring the reliability of information companies are reporting in the field of CSR?</u>

CSR reporting is and should remain the responsibility of company management and the board, responding to investor and other stakeholder needs. Decisions on the role auditors might play in ensuring the reliability of the information reported should be at the discretion of the company. Moreover, the choice of assurance provider should not be limited to the external auditor, as there may very well be other service providers with expert knowledge in this area.

We also note that there is not a common global framework for CSR reporting, nor are there common global standards of measurement, which would allow for easy comparison of companies or comparability across geographies. Several voluntary projects are underway in this regard, and the outcome of these initiatives might serve to inform the Commission's thinking on this subject.

(11) <u>Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year end and the date of the audit opinion be reduced?</u>

USCIB believes that the responsibility for company disclosures and communications with stakeholders should rest with management and the board, and the audit opinion, which relates to the financial statements, should remain as such. We note that U.S. public companies already are required to provide public disclosure of material developments.

The Green Paper discusses whether audit reports should be more informative, citing UK and French reports as examples. Any changes to the audit report should carefully take into account investor needs, should evaluate the benefits against the costs, and should be approached to achieve consistency across markets.

Regarding the timing of audit reports, this is in general driven by the deadlines for corporate financial reporting determined by law or regulation. The current timing seems appropriate for producing relevant and reliable information, but we note that the audit opinion is timed to the requirements for financial reporting themselves, so any potential change should be sought with respect to the latter requirements.

(13) <u>What are your views on the introduction of ISAs in the EU?</u>

USCIB supports the adoption of International Standards on Auditing. We believe they would provide consistency, enhance audit quality, add confidence in the reliability of financial reports, and thereby benefit capital markets.

(16) Is there a conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?

USCIB does not believe there is a conflict. The auditor is appointed on behalf of the shareholders, reports to them, and is remunerated on their behalf. We believe that companies should have strong governance processes in place, with strong audit committees of the board exercising robust oversight of the audit function. Professional standards, regulation and independent oversight provide additional adequate protection against potential conflicts.

(17) Would appointment by a third party be justified in certain cases?

No. Appointment by a third party would disenfranchise shareholders and the audit committee of the board, in effect, transferring responsibilities for overseeing the audit process to the third party. We believe that the company is in the best position to select the audit firm best able to meet the company's needs taking into account the size, complexity and geographic span of the enterprise.

(18) Should the continuous engagement of audit firms be limited in time? If so, what should be the maximum length of the audit firm engagement?

No. The decision to retain or replace the auditor is the responsibility of the shareholders and the audit committee. They should be free to exercise this responsibility based on experience and the needs of the company. In addition, mandatory re-tendering imposes additional and unwanted costs, when there is no perceived need to re-tender.

(19) Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?

USCIB does not support a prohibition of non-audit services by audit firms. We believe that the existing limitations under the Statutory Audit Directive, approval of non-audit services by the audit committee, disclosure requirements, and professional standards all serve to protect auditor independence and the public interest. Companies need to be able to select the services and service providers most appropriate for them. In many cases the range and depth of skills offered by multidisciplinary audit and professional services firms enhance the quality and efficiency of both audit and non-audit services.

(28) Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for dynamising the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?

Once again, the responsibility for selecting the auditor, we believe, should remain with the shareholders and the audit committee. They are free to appoint joint auditors if they wish to do so. However, we think, in most cases, appointing joint auditors would add a layer of complexity and possibly confusion to the audit that would not be helpful to investors or other stakeholders. We would also note that the capabilities of the audit firm need to be commensurate with the size and complexity of the audited company; otherwise there could be an adverse impact on company valuations.

(29) From the viewpoint of enhancing the structure of audit markets, do you agree to mandatory rotation and tendering after a fixed period? What should be the length of such a period?

Mandatory rotation of audit firms has been in effect in a few jurisdictions around the world. It would be useful to examine their experience to see if there is evidence of an impact on market structure. However, we believe that mandatory rotation of audit firms can adversely affect audit quality through the loss of accumulated knowledge about the audited entity; can increase company costs and require significant management time to repeatedly orient new auditors; and, once again, would disenfranchise shareholders and audit committees. Furthermore, many multinational companies prefer to use one global audit network for all their operations, among other things, to better ensure consistency in approach. Mandatory firm rotation in one jurisdiction, especially one as important as Europe, would force companies to change auditors globally in order to retain the advantages of using a single network or else forego those advantages altogether. From an independence point of view, we believe that there are many other measures in place to protect auditor independence without the costs and disruptive effects of mandatory firm rotation.

(38) What measures could in your view enhance the quality of the oversight of global audit players through international cooperation?

In general, USCIB believes that independent oversight of audit firms has contributed to higher quality audits. However, with oversight authorities in various countries asserting extraterritorial rights to inspect audit firms and with the prospect of multiple inspection reports for individual firms, there is a large potential for confusion in the marketplace. Multiple inspectors, using different methodologies, applying different standards and focusing on different priorities, could lead to conflicting assessments of audit quality and performance, which would not be helpful to investors or other stakeholders. In our view, a very high priority should be placed on agreeing to a common approach to audit firm inspections and developing a regime of mutual recognition or reliance on home country inspection results.

* * * * *

USCIB again thanks the Commission for the opportunity to respond to the questions posed in the Green Paper on “Audit Policy: Lessons from the Crisis.” We believe careful review of the issues raised and the responses received during the public consultation can contribute to a better understanding of the role of the audit, to clarification of the rights and responsibilities of shareholders and boards with respect to the audit, and ultimately to enhancement of the audit function and its contribution to investor confidence and effectively functioning capital markets.

Sincerely,

Peter M. Robinson
President & CEO