



LE PRÉSIDENT

**The Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington DC 20006-2803  
USA**

**Email: [comments@pcaobus.org](mailto:comments@pcaobus.org)**

Paris, December 14, 2011

CC/MAHM/20110999


Dear Sir/Madam,

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

The Compagnie Nationale des Commissaires aux Comptes (« CNCC ») represents the profession of statutory audit in France. It counts 14 500 registered statutory auditors over the territory. The CNCC is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation. The debate on mandatory audit firm rotation was launched within the EU by the “Green Paper – Audit Policy: lessons from the crisis” published by the European Commission in October 2010. Mandatory audit firm rotation is currently debated within the European Union as an instrument to reduce too much concentration in the audit market.

To be consistent with its response to the Green Paper, the CNCC wishes to provide a general commentary reflecting its position on audit firm rotation instead of responding to general and specific questions included in this release and expressing views on all aspects of the issues discussed in this release.

The CNCC position on audit firm rotation can be summarised as follows.



We disagree with the idea of a mandatory rotation for the following reasons:

- Rotation of audit partners is already provided for in the European directive of 2006 (Audit Directive). The rules of independence stemming from the European directive of 2006 require a rotation of the key audit partners in public-interest entities. The recent enforcement of this provision does not allow enough perspective to see if it is necessary to modify the rotation process.
- The re-appointment of an auditor is normally approved by the shareholders during the Annual General meeting, based on recommendations made by the audit committee for public-interest entities. As far as the incoming auditor offers all the guarantees of independence and reliability to perform his audit, we think that the law should not limit the competence of the general meeting, whatever the reason put forward in the name of public interest.
- There is also within companies a rotation of individuals questioned by auditors.
- Audit firms have put in place procedures to avoid risk of familiarity (independent review, quality control, etc)
- These firms are submitted to an external supervision (In France, the H3C)
- Whereas rotation of partners allows keeping cumulative knowledge, this however is erased through rotation of firms giving way to additional costs, a periodical loss of quality, and greater risks. The Italian experience shows that enforced limitations on audit tenure have resulted in greater concentration. A research conducted between 2001 and 2004 by the Bocconi University shows that:
  - The Italian listed company audit market is one of the most concentrated in the EU. They think this phenomenon is due to audit firm rotation.
  - A change of auditor raises the global cost of audit. Even if the incoming auditor agrees to have a lower audit fee than his predecessor, hoping his independence will not be affected by the challenge of selection, there will be a significant extra time commitment from senior personnel at the audited company to explain their business, internal control environment, procedures and corporate structure to the new auditor, who will allocate a significant part of the budget for the first year to these explanations.
  - In the first years of the new audit relationship, overall audit quality is lower than in the later years. The Bocconi University used “partner suspensions” by the Italian stock exchange regulator, CONSOB, as a proxy for poor audit quality. The research shows that partner suspensions in the first year of the audit relationship were over five times greater than the average of partner suspensions over the following years of the audit mandate.

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Keeping the same audit firm with a change of the key audit partner seems to be the most appropriate measure to maintain audit efficiency and reliability. It allows casting a new eye on audit work while avoiding a loss of knowledge as a result of rotation. This loss of knowledge can lead to a failure to see loopholes in internal control process and business procedures.

Hoping our general commentary will raise some interest,

We remain,

Yours Sincerely,

A handwritten signature in black ink, consisting of a large, sweeping loop followed by a smaller, more intricate scribble.

**Claude CAZES**