



**JamesHardie**

**James Hardie Industries SE**

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Sent via email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

As a company incorporated under the laws of Ireland, James Hardie Industries SE (the "Company") has listed its securities for trading on the New York Stock Exchange in the form of American Depositary Receipts. As a result, the Company is subject to the reporting requirements of the Exchange Act applicable to foreign private issuers and, in accordance therewith, files annual reports subject to an audit by an independent registered public accounting firm with the Securities and Exchange Commission. Accordingly, we appreciate the opportunity to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release").

We note the Board's concern regarding audit deficiencies identified in its inspection of public accounting firms each year, which the Board has attributed, in part, to a lack of auditor objectivity and professional skepticism, leading to this Concept Release. In the Board's open meeting on the Concept Release, PCAOB board member Daniel Goelzer stated, "It may be possible to draw relevant conclusions about the impact of tenure on audit quality from our inspection records, but the necessary analytical work has not yet been done."

Absent any data supporting the impact of auditor tenure on audit quality, and recognizing the inherent difficulties in supporting such a connection, we respectfully request the Board consider our views and perceived implications, set forth below, of instituting a mandatory audit firm rotation.

*Non-Audit Services*

Proponents of mandatory audit firm rotation assert that setting a limit on an auditor's continuous stream of audit fees would free the auditor, to a significant degree, from the effects of management pressure. While this may appear to alleviate a perceived pressure for auditors to conform to management's views on significant complex accounting matters, auditors would likely be incentivized to pursue opportunities to provide non-audit services with former audit clients in response to mandatory audit firm rotations.

James Hardie Industries SE is a limited liability company incorporated in Ireland with its registered office at Europa House, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

**Directors:** Michael Hammes (Chairman), Brian Anderson (USA), David Dilger, David Harrison (USA), James Osborne, Donald McGauchie (Australia), Rudy van deer Meer (Netherlands).

**Chief Executive Officer:** Louis Gries

**Company number:** 485719

Such an incentive may similarly discourage auditor objectivity on significant complex accounting matters to avoid damaging the auditor-client relationship that could jeopardize potential revenue streams from future non-audit services. With the motive to maintain a positive relationship with management still present, we believe the institution of a mandatory audit firm rotation would not improve, and indeed may possibly exacerbate, the situation.

In our view, registered public accounting firms possess technical expertise that make them best suited to perform certain non-audit services on company initiatives that may span several years. Some non-audit services provided by these firms are prohibited under independence rules. Mandatory audit firm rotation may require companies to look to other providers for these services, which may compromise the quality of the services being rendered. Alternatively, public accounting firms currently providing such services may require companies to look to other audit firms with less experience in the company's business and industry, resulting in limited options for selecting a new audit firm.

#### *Non-Fungible Nature of Audit Services*

In our experience, we have noted that audit services are not fungible. Each audit firm exhibits strengths in certain industry sectors that make each firm a more attractive option for an issuer over another. Familiarity with an industry in which an issuer operates not only leads to a more efficient audit, but it also enables the auditor to develop an audit program that focuses on risks that are unique to companies in a particular industry. These advantages would be curtailed if companies were required to use the services of an audit firm with less experience in the company's industry. In our view, mandatory audit firm rotation may serve as a detriment in this regard, as unfamiliarity with the client's industry may also have an adverse effect on both the efficiency and quality of the audit if the audit team is not as familiar with the risks of the business in a particular industry.

In addition, an important consideration in the auditor selection process is a public accounting firm's ability to assist a company in meeting its statutory reporting requirements in foreign jurisdictions. These resources are not equal across all firms, and certain synergies are created by selecting a single firm that is assessed by the audit committee as being best equipped to meet a company's particular but diverse geographic needs.

#### *Cost of Compliance*

Audit firms typically face a steep learning curve when beginning an audit of a new client. This learning curve becomes even more pronounced when dealing with a complex entity structure that spans multiple jurisdictions. We have noted from experience that an audit tends to be less efficient at the beginning of the engagement as both the auditor and the client incur additional costs in getting the auditor "up to speed." This is supported by the GAO report, which was issued in 2003, referenced in the Concept Release and states "nearly all of the larger firms estimated that initial year audit costs would increase by more than 20 percent."<sup>iii</sup> We note that this report was released before the provisions of the Sarbanes-Oxley Act were fully implemented, and therefore such costs may even be higher today. It is our view that more frequent changes in auditor appointments as a result of mandatory audit firm rotation will result in higher costs to issuers and may have an adverse impact on audit quality.

#### *Interpretation and Application of Accounting Principles*

In preparing financial statements, management employs the use of estimates and assumptions that are subjective in nature and a matter of professional judgment. In addition, existing accounting guidance for significant complex accounting issues may be interpreted in different ways by public accounting firms. At best, a company's auditor may concur with the conclusions reached by the predecessor auditor. At worst, a company's auditor may require a restatement and be unyielding in their conclusions on these subjective areas. Accordingly, though such estimates, assumptions and interpretations may be reasonably supportable, audit firms may differ in their audit conclusions, which could ultimately lead to potential inconsistencies in how such estimates, assumptions and audit conclusions are reflected in the financial statements between comparable periods.

### *Conclusion*

We are supportive of the Board's efforts to improve audit quality and protect shareholder interests; however, we do not believe mandatory audit firm rotation will have a significant impact in achieving the Board's intended objective and, in our view, introduces other unintended adverse consequences. Further, any perceived net gains achieved by instituting such a requirement may not justify the incremental costs that would be incurred by companies and audit firms to comply with the Concept Release.

We are of the view that the decision to hire and retain an audit firm should continue to reside with a company's audit committee. We believe more time is needed to permit recent changes in existing auditing standards to take effect to assess their effectiveness and are supportive of the Board's efforts to work with public accounting firms during the inspection process to improve upon existing quality controls and tailor future auditing standards. Accordingly, we respectfully oppose the institution of mandatory audit firm rotation.

We appreciate the Board's consideration of our comments.

Respectfully,



Russell Chenu  
Chief Financial Officer

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<sup>i</sup> Statement on Concept Release on Auditor Independence and Audit Firm Rotation by Daniel L. Goelzer, Board Member, [http://pcaobus.org/News/Speech/Pages/08162011\\_GoelzerStatement.aspx](http://pcaobus.org/News/Speech/Pages/08162011_GoelzerStatement.aspx)

<sup>ii</sup> Statement on Concept Release on Auditor Independence and Audit Firm Rotation, [http://pcaobus.org/Rules/Rulemaking/Docket037/Release\\_2011-006.pdf](http://pcaobus.org/Rules/Rulemaking/Docket037/Release_2011-006.pdf); pp.14