



Paris La Defense, December 14th, 2011

Public Company Accounting Oversight Board (PCAOB)

Office of the Secretary
1666 K Street, N.W.
Washington, DC 20006, USA

Attention: J. Gordon Seymour, Secretary, and the Members of the Board

Re: PCAOB Release No. 2011-006 - August 16, 2011 - PCAOB Rulemaking Docket Matter No. 37:
Concept Release on Auditor Independence and Audit Firm Rotation

Dear Sirs,

MAZARS is pleased to submit this letter in response to the request for comments from the PCAOB, on its Concept Release on Auditor Independence and Audit Firm Rotation.

MAZARS is a unique integrated partnership with a global reach. It operates as one integrated international partnership in 61 countries, with nearly 13,000 professionals, leaded by more than 700 partners, with 22 additional countries where MAZARS is present through correspondents and joint ventures (see MAZARS annual reports together with its IFRS joint-audited consolidated financial statements, published since 2005, on <http://annualreport.mazars.com>).

MAZARS is one of the founding members of 'Praxity', an alliance of firms operating in 82 countries with more than 25,700 professional, the world's largest alliance of independent accounting firms.

MAZARS is also a member of the International Federation of Accountants' (IFAC) Forum of Firms, thus fully supporting, since many years now, the initiatives of IFAC to promote high quality standards in the international practice of auditing.

On a general note, MAZARS thanks the PCAOB for its efforts in reaching out to the profession and public during this consultation process. MAZARS believes that independence, objectivity, and professional skepticism are the pillars of the audit profession and as such MAZARS strongly supports the Board's objectives of bolstering auditor's independence, objectivity, and professional skepticism.

As reference is made in page 3 to the European Commission (EC) Green Paper on Audit Policy: *Lessons from the Crisis* of October 2010, which covers a wide variety of audit and auditors reporting related topics, please do note that the MAZARS response to the EC Green Paper can be accessed at: <http://www.mazars.com/Home/News-Media/Latest-news2/Mazars-contribution-to-the-Green-Paper>

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jean-Luc Barlet'.

Jean-Luc Barlet
MAZARS Group Chief Compliance Officer



Conclusion and general comments

MAZARS does not support mandatory rotation as a solution to the Board's concerns with regard to auditor independence, objectivity and professional skepticism, as detailed below in our specific comments on the questions raised in the concept release.

MAZARS nevertheless urges the PCAOB to continue to

- work collaboratively with and seek inputs from the audit professionals, the audit regulators, the investors and audit committees community, and the SEC in order to explore further the matters raised in this consultation paper,
- examine more in depth the root-causes of audit deficiencies noted,
- consider alternative methods to mandatory rotation for enhancing audit quality.

MAZARS supports the current PCAOB's efforts in the following areas:

- the effort to amend the existing auditor's reporting model,
- the recently released auditing standards on risk assessment,
- the proposals on auditing supplemental information accompanying audited financial statements, on communications with audit committees, and on confirmations,
- the root-causes analysis of identified audit deficiencies,
- the recent agreements with foreign oversight boards on joint inspections of non-US issuers on the basis of reciprocity and mutual recognition,
- the collaborative work between the Board's Standing Advisory Group ("SAG"), the Board's Investor Advisory Group ("IAG"), and the SEC.

A number of lessons should be drawn from the recent financial crisis. MAZARS shares the view that a new dimension should be added to the role of truly independent auditors by increasing the range of information over which assurance is offered and by boards and auditors being more transparent on the main findings from the audit. As part of its commitment to serve the public interest, the profession should always seek to improve quality audit.

We support disclosure of key issues discussed by the audit committee and management with the auditors. This should be provided in an audit committee's report in the case of large listed companies and the auditors should indicate whether they concur with these disclosures.

More globally, MAZARS would support, as an alternative way to mandatory rotation for enhancing audit quality and independence of the auditors, a coherent and pragmatic reform package including in particular:

- i. A more general use of regular and fair tendering processes to choose the auditors;
- ii. The banning of clauses favoring dominant players so as to ensure non-distorted competition;
- iii. An increased role given to auditors in the identification of risks coupled with closer links with supervisors; and
- iv. The use of efficient and balanced joint audits to increase audit quality and independence of the auditors.

Within the scope of the reform program above, we also think that further debate is now needed to develop a fair system of audit liability.

Many of the criticisms leveled at the audit sector in the financial crisis concern a perceived lack of independence on the part of the auditor. For the industry to regain the confidence of those who use our services, it is essential that we tackle this weakness and do all we can to uphold independence. Fair and regular re-tendering for business would increase independence.

Currently the high levels of concentration in the market, low levels of auditor switching and high barriers to entry for other participants can result for public companies having a very limited auditor choice. The choice can be further limited when the need to avoid sectorial conflicts amongst potential clients is taken into account.

The progressive implementation of joint audits (or consortia audits, which may come in various forms) is essential to strengthen confidence in the audit and improve the diversification of the audit market.

Joint audit has been unfairly criticized in the past. There is no evidence to suggest that it will create an additional burden on audited companies, that there will be duplication of tasks or that there is a risk of issues falling between the cracks. The additional work required in joint audits is so low (3 to 5%) that it can be already stated that joint audits will not translate into additional costs for the Public Interest Entities. On the contrary, two auditors increase can auditor skepticism and independence.

An independent academic study carried out by 3 top European universities, Ulm University, HEC Paris and University of Jyväskylä has also concluded that joint audit does not imply an increase in fees or a difference in quality.

Finally, MAZARS urges the PCAOB to work collaboratively with the European Commission, IFAC the other audit profession oversights and the standard-setters to develop auditing standards that can be applied globally.

Below are our specific comments on this consultation process.

A. Term of Engagement

Q. 1.: If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?

In MAZARS view, the development of a mandatory audit firm rotation proposal alone is not the most effective way of fostering auditor's independence, objectivity, and professional skepticism.

There is for sure a learning curve to gain an understanding of a group, its industry and its transactions. We noted that the United States General Accounting Office's 2003 Required Study on the Potential Effects of Mandatory Audit Firm Rotation indicated that additional cost would be as high as 20%.

MAZARS perfectly understand the perception that audit tenure of more than 30, 50 or even 100 years is too long and can result in concerns about familiarity between the auditor and the audit client, as it is the case also in most of the jurisdictions in Europe. The long-association of a firm, its partners and senior staff, on an audit engagement, is a potential threat to professional skepticism. But rotation of firms combined with partner rotation is quite complex and need to be eased by other measures.

MAZARS strongly believes that only a combination of measures, which is currently also being debated in Europe, is the way forward, and do not agree at all on the opponents' argument that such a reform package could lead to complications and complexities for the audited entities in relation to the selection and appointment process for the auditors, or in the daily work and cooperation with the auditors.

In particular, we support the introduction of efficient and balanced joint audits to increase audit quality and independence of the auditors, and regular and fair tendering. Such a program of reforms is the only practical way to bring about the necessary changes in the audit market.

Joint audit has been unfairly criticized in the past. There is no evidence to suggest that it will create an additional burden on audited companies, that there will be duplication of tasks or that there is a risk of issues falling between the cracks. The additional work required in joint audits is so low (3 to 5%) that it can be already stated that joint audits will not translate into additional costs for the Public Interest Entities.

On the practical way efficient and balanced joint audits work, please see the appendix to the MAZARS response to the EC Green Paper that can be accessed at:

<http://www.mazars.com/Home/News-Media/Latest-news2/Mazars-contribution-to-the-Green-Paper>

An independent academic study carried out by 3 top European universities, Ulm University, HEC Paris and University of Jyväskylä has also concluded that joint audit does not imply an increase in fees or a difference in quality.

Joint audit could alternatively, but this is not our preferred option, be proposed, as it was recently by the European Commission, as an option that should operate in conjunction with the different possible durations for mandatory audit firm rotation. If considered more in detail by the PCAOB as a potential policy option, MAZARS support a significant extension (doubled, as an example) of the period before which rotation is mandatory if joint audits are performed, i.e. if the entity being audited appoints more than one audit firm to carry out its audit, in the objective of improving the quality of the audit performed by applying the "four-eyes principle". Joint audits could be thus encouraged, in order to encourage this measure for improving independence, objectivity and professional skepticism.

Q. 2.: Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based on?

Based upon limited evidence available to support the correlation of audit deficiencies and independence, objectivity and professional skepticism, we are not able to support rotation at any client size or industry.

In addition to our comments above (please refer to question #1), auditing of the most complex companies or those in highly specialized industries implies institutional and sectorial expertise, in particular during the first or second year of a mandate, to fully understand the complex transactions of the specific client or industry, and only a global package of reforms could help firms, on a medium/long term period, to invest and progressively build this knowledge.

Each audit firm possesses certain skills and industry expertise and not all firms are equally qualified to serve certain issuers or industries.

Mandatory rotation over a too short term length in certain industries could create a revolving door through audit firms, which in the long-term would be detrimental to audit quality, as the ability of audit firms to attract and retain staff will be greatly compromised, which could lead to a decrease in audit quality on all engagements, not just audits of public entities.

Potentially hiring a firm that is less qualified to address the complexities of the entity or is less capable of encompassing the entity's global reach would not appear to result in an improvement in audit quality.

Again, we do support measures to improve competition among the firms, such as regular tendering, but do not believe auditor rotation alone is the solution.

Q. 3.: Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?

Q. 4.: Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term?

There is no conclusive evidence that suggests that audit effectiveness varies over an auditor's tenure on a particular engagement. There are no empirical studies to identify with precision the peak period of auditors' effectiveness during an audit mandate.

MAZARS believes that the learning curve concept should not be considered as a wedge issue in the debate on audit firm rotation because it does impact auditor's independence, objectivity, and professional skepticism. An auditor must be independent, objective, and maintains professional skepticism at all times during an audit engagement. There is no learning curve involved in doing so.

An auditor must comply with the highest professional standards during all phases of an audit, whether it is during planning, field work, and reporting.

Q. 5.: How much time should be required before a rotated firm could return to an engagement?

Please refer to question #1.

B. Scope of Potential Requirement

Q. 6.: Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries?

Please refer to question #1 and #2.

C. Transition and Implementation Consideration

Q. 7.: To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?

Yes, for us, as stated above, a rotation requirement could potentially limit a company's choice of an auditor by reducing the pool of qualified candidates.

The audit of large multinational entities could be affected by the reduction of the pool of qualified audit firm candidates given the high level of audit skills and expertise needed.

Yes, it is likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios. This could lead to market concentration.

Q. 8.: If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice?

Here again, joint audit helps to ensure continuity of service if it is decided to rotate one firm off the audit when their appointment comes up for retender. This applies both to “staggered” and “non-staggered” appointments.

The IFAC IESBA Code of Ethics establishes ethical requirements under which the provision of certain services is prohibited where there would be a definite conflict of interest, or a perception of one, whilst in other cases the auditors have to decide whether appropriate safeguards can be put in place to mitigate any potential threats to independence that may arise from the audit firm providing the non-audit service concerned.

In addition, we believe the audit committee should be active in determining the policy relating to the provision of other services by the auditors and in reviewing the services commissioned, including before a transition period, to ensure they are in accordance with the policy and, in overall terms, kept to a reasonable level. There would be merit in conducting an assessment of the disclosures made by audit committees in this area.

We are not convinced of the need for a different approach with regards to the provision of non-audit services by the auditors to financial institutions as long as the procedures outlined above are fully in place and operating effectively.

Joint audit provides also an in-built independence check: one of the joint auditors will always be in a position to independently assess the appropriateness of the non-audit services rendered.

Q. 9.: If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?

MAZARS consider that a reform package should serve “Coopetition” (cooperation + competition) of audit firms, in the public interest of audit quality and improved quality of service, i.e. the ability (1) to engage more than one firm depending on the technical skills and geographical coverage, (2) to replace, during the course of an appointment, a firm for a particular group component (e.g. in response to an issue of quality affecting a particular member of the firm’s network, or to the withdrawal of a firm’s license for a particular country) without harming the consistency of a coordinated approach to the audit of the group, and (3) to obtain competitive tenders from more than one auditor in the event of increases in audit scope during the course of the group audit appointment (whether as a result of acquisition, new business creation or additional regulation).

Such effective mechanism could facilitate the progressive emergence and the development of a wide number of audit firms with sufficient expertise and geographic coverage to audit leading listed companies, as transitional measures, to bring about the smooth implementation of the concept of balanced joint audit.

Yes, additional resources would be needed, by both the audit firms and the audited entities, if rotation were required, for the development of global alternative capabilities.

Audit firms may have the capacity to assign appropriately qualified personnel to new engagements or to develop progressively new skills in order to be able to compete for new clients. Audits may increase in cost if professionals and/or specialists are newly hired. However, such talents may not be readily available for all firms.

MAZARS supports joint audit (or consortia audits, which may come in various forms) as a mean to stimulate investment and to create a more vibrant audit market. It eliminates the “chicken and egg” syndrome: firms do invest when there is a real possibility to progress!

Q. 10.: Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?

MAZARS support the view shared by many that joint audit should be required for financial institutions because they carry financial systemic risks but we do not believe that joint audit should be restricted to them. To reduce market concentration and the risks arising when one of the dominant players fails, joint audit should also be applicable to larger listed companies other than financial institutions. This will also enhance quality assurance and therefore promote a higher level of market confidence.

We recognize that most large listed companies require global capabilities that currently only a limited number of alternative players have developed in a significant manner. Therefore, in order to foster the emergence of a greater number of additional alternative players, it may be appropriate to consider applying joint audit to the next layer of listed companies. This would encourage additional players to invest in the necessary skills and capabilities and raise the bar in terms of the size of their audit clients. A decision would need to be made as to which companies constituted this next layer, perhaps by reference to their market capitalization.

MAZARS is a joint auditor of 13 large listed companies in France (compared to 6 in 1998) and 33 of the next layer of listed companies (compared to 22 in 1998). It should be noted that over this period of time, the internationalization of the large listed companies has increased significantly and that MAZARS has been in a position to invest in the development of its geographic coverage and sectorial expertise. Today, on that basis, MAZARS is in a position to refer significant volumes of audit work to MAZARS firms outside France thereby facilitating the growth of our practices worldwide. The volume of work referred outside France is almost equivalent to the volume of work in France.

Q. 11.: Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?

Yes - increased frequency of auditor changes could potentially disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits. This disruption can take several forms such as loss of accumulated knowledge and experience, increased risk of audit failures, and increased risk of undetected management fraud.

Implementation issues caused by rotation requirements could vary depending upon the size and structure of the audited entity and complexity of engagements.

Please also refer to question #1.

Q. 12.: Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?

There is no evidence to suggest that audit firms would respond to a rotation requirement by devoting fewer resources to improving the quality of their audits. Oversight and regulator supervision, inspection requirements, audit committee's increased responsibilities, and mandatory engagement quality control reviews over audit engagement works would serve to prevent firms from purposefully reducing resources related to improving the quality of audits.

A rotation requirement could lead certain audit firms to focus on the get-go on providing non-audit services because of the potentially prohibitive costs of providing audit services.

Smaller Firms may choose to simply go out of the audit business due to lack of resources to continue to perform quality audits. This could be another unintended consequence of rotation and further limit competition.

Q. 13.: Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?

Please refer to question #12.

It is possible rotation would create more non- audit firms than more audit firms. However, there is no evidence to suggest that this could be harmful or beneficial to investors.

Q. 14.: Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?

We have seen no evidence as a result of competitive proposal processes to suggest that a rotation requirement would lead to opinion shopping.

Q. 15.: What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?

Please refer to question # 1.

At this point, there is no evidence to suggest that increased competition caused by a rotation requirement would affect audit quality. Frequent audit inspections and mandatory engagement quality control reviews are some of the elements used to maintain the overall audit quality.

Q. 16.: Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?

MAZARS believes that under its current mandate, the PCAOB has all of the necessary tools to cope with any increased risks posed by rotation.

The PCAOB has recently released eight auditing standards (AS 8-15) that deal exclusively with risk assessment issues. The PCAOB has AS 7 that focuses on engagement quality control reviews. The inspection findings coupled with root-cause analysis and the disciplinary actions taken against audit firms and individuals for violating PCAOB auditing standards, procedures, and policies are all actions that contribute towards enhancing firms' quality control system.

Q. 17.: If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs?

Please refer to question # 16.

The current level of required PCAOB audit supervision and oversight is sufficient and adequate to deal with such issues. Current acceptance procedures are also acceptable and effective. There is no need for additional regulations in these areas.

Q. 18.: If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?

The current standards relating to communications between predecessor and successor auditors could be enhanced.

Q. 19.: Are there other audit procedures that should be required to mitigate any risks posed by rotation?

Please refer to question # 16.

Q. 20.: If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?

Please refer to question # 1.

We do not see any linkage between mandatory firm rotation and establishing a cause restriction on the company's ability to remove an auditor before the end of a fixed term.

Q. 21.: What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?

Please refer to question # 1.