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For the attention of Julian Rose

2 July 2007

Dear Sir

#### **AUDIT CHOICE PROJECT**

As a former securities and exchange regulator and a partner with a medium size audit firm in France, we welcome the work performed by your Commission. We sincerely hope your definitive recommendations will pave the way for a more efficient and open audit market for the benefit of all stakeholders, not only in the United Kingdom but on the international scene.

We appreciate that this consultation opens the discussion to all parties interested and are very pleased to convey to your Group brief comments based on our experience of the French audit market. These comments are our own personal views and do not reflect the position of any French public or professional body.

France is no real exception to the current state of concentration in the market of audit services for large international companies, with only five networks of firms (Big 4 + Mazars) covering almost the entire market and concerns are more and more often expressed on the reduced audit choice.

We agree with the thrust of your recommendations relating to the "demand side". However, we would like to underline some aspects of the issues of quality and independence in the audit services the public interest entities should take the most seriously when selecting their auditor.

Concerning audit quality, it may be considered at a first glance that the Big 4 offer companies the best service due to the high professionalism of their technical departments. However, when sensitive issues are raised experience and professional judgement may be more decisive than technical solutions and the comparative advantage of the audit service performed by a Big 4 firm may not be decisive.

As for independence the core issue remains with the benefits and disadvantages for the company of choosing to select a multidisciplinary network or a non Big 4. Although the risk of conflict of interest has effectively been greatly reduced in most jurisdictions, it still remains a grey zone where services in principle directly linked to audit may jeopardise the independence of the proper audit work.

Any guidelines or regulatory framework that could foster the role of the audit committee in scrutinizing audit independence and quality and in requesting more transparency from audit firms should be welcomed. They would certainly contribute to creating a more level playing field for Big 4 and non-Big 4 firms on the audit market. In particular, such guidelines should promote transparency in the tendering process and the greatest attention should be paid to the way public information is released on to the remuneration of audit networks for the different categories of services they perform.

We note your recommendation 7 on the appointment of auditors from more than one audit network. Certainly when multinationals hire second tier firms in order to audit foreign subsidiaries it is a first step in opening the market. However, more will remain to be done on the "supply side" for putting second tier firms on a level playing field with the Big Four.

On the "supply side" we appreciate the width of your proposal. However, we would like to suggest that more consideration should be given to the "joint audit" system. It is true that the French example of the "co-commissariat" is not totally convincing. Our market did not escape the trend towards concentration. However, a significant number of listed companies still have among their auditors one non Big 4 firm. It is viewed by companies as a way to complement the professional skills provided by the team of a big firm by the experience of a seasoned senior auditor. It will contribute to opening the market and developing the experience of second tier firms in auditing large companies. We therefore consider that the joint audit system along with other changes in the market conditions may play a key role in renovating the structure of the audit market. We encourage your group to undertake an independent assessment of joint audit.

Firstly, joint audit could be a practical solution for lowering barriers of entry and increasing the number of actors. To its credit, its use must be considered under a double aspect: the plurality of expertise and a better framework for rotation of auditors, in short a reinforcement of independence and indeed the very perception of independence.

On the conditions that each auditor receives his fair share of the audit work and that the audit is not only carried out on a national level, joint audit allows second tier firms to rebuild their forces and provides them with a greater chance of being chosen by prospective clients. Is it not preferable to encourage the emergence of second tier firms who are ready to invest and to acquire an international dimension rather than to try to rebuild the Big 8 by asking the current Big 4 to split (as is the case in the USA for telecommunication firms)?

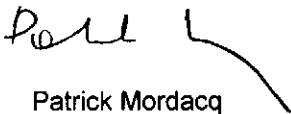
In all events newcomers will require a more favourable environment, particularly the limitation of their financial responsibility (currently envisaged by the European Commission), a more frequent rotation of auditors and a more receptive attitude to their candidature from prospective clients and investors alike.

In particular, a concerted action by European regulators could be decisive in the orientation of the profession towards practices facilitating the mobility and openings it requires and to change the current perception which tends to consider that no audit firms exist outside the Big 4. They should encourage an audit approach based more on principles than on rules, thereby lowering the barrier of technical standards put up by the largest audit firms. Through their support the regulators could organise the access by a new auditor to work carried out by his predecessor. Your recommendation 6 should certainly be taken into account at European level.

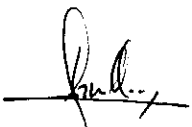
The challenge is to give a new dynamic to a profession which has become progressively technocratic. Whatever the market, competition always encourages innovation and quality and offers better guarantees to the consumer.

We remain at your disposal should you require further clarification or additional information.

Yours sincerely



Patrick Mordacq



Jean-Louis Mullenbach