Setting the global standard for investment professionals

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Register of Interest
Representatives:
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Dear Ms. De Basaldua,

Re: Green Paper - Audit Policy: Lessons from the Crisis

Executive Summary

CFA Institute appreciates the opportunity to express its views on the proposals and considerations set out in the Commission's Green Paper, "Audit Policy: Lessons from the Crisis".

We welcome the publication of this Green Paper, which focuses on the provision of audit services and the lessons learned from the Crisis. Whilst auditors played a role in the Crisis, they should not be singled out for culpability; many other actors played a role, including supervisors and central banks. The future stability of the financial system will depend on an integrated package of measures that seeks to change the behaviour of all parties concerned.

Focusing specifically on auditors, we agree there is a perception gap between society's expectations on the value of an audit firm's opinion, when it describes a financial institution as being 'materially sound' when in reality it is in financial distress. We believe that more can be done to raise audit quality through higher audit standards, with an emphasis of 'substance over form'.

We believe that the quality of audits would improve if auditors increased their use of 'substantive verification' and 'professional scepticism'. The audit report needs to be more discursive and absent of boilerplate. The report should inform investors on how the audit was conducted, with commentary on what has been verified and the judgements made.

In commenting on the provision of audit services to large multi-national organisations, we share the Commission's concern that a market dominated by the Big Four represents a systemic risk. Therefore, we support measures to increase 'credible' competition at the top end of the market through access to alternative sources of capital.

Turning to the audited firm, we would like the audit committee to have a much greater role (and time commitment) in the production of financial statements. We feel objectivity would be stronger if the external auditor had a much closer reporting relationship with this committee. In order to maintain objectivity, we also believe that the external auditor should not provide non-audit services to the audited firm.

With respect to systemically important financial institutions, in the absence of finding a solution to the moral hazard presented by these organisations, we see justification for a third party (the regulator) to appoint and remunerate their external auditor.

In regards to creating a single market and assisting the development of competition, we strongly support measures that integrate and increase co-operation at a European level. We support upgrading the European Group of Auditor's Oversight Bodies to take a formal position as a division of the new European Securities Markets Authority. We believe that a pan-European certification approach is required to promote the mobility of audit professionals and encourage the growth of firms across Member States.

We are resistant to any proposals that seek to reduce quality controls on the audits of SMEs, because of the higher incidence of misstatement and fraud at these organisations, due to poor internal controls. However, we are supportive of "limited audits" for SMEs, subject to annual shareholder approval.

In summary many lessons have been learned from the Crisis, improving the quality of audits, increasing the level competition and promoting a single market in audit services will do much to reduce risk in the conduct and provision of audit services in the EU. We look forward to the Commission's next communication on this subject.

Our response to the Green Paper's specific questions is set out below. Please do not hesitate to contact us, should you wish to discuss any of the points raised.

Yours faithfully,

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CFA Institute develops, promulgates, and maintains the highest ethical standards for the investment community, including the CFA Institute Code of Ethics and Standards of Professional Conduct, Global Investment Performance Standards ("GIPS®"), and the Asset Manager Code of Professional Conduct ("AMC"). CFA Institute is best known for developing and administrating the Chartered Financial Analyst® curriculum and examinations and issuing the CFA Charter.

Introduction

1. **Do you have general remarks on the approach and purposes of this Green Paper?**

   We agree with the approach and purpose of the Green Paper, but stress that many other actors, not least supervisors and central banks were culpable in contributing to the Crisis. Therefore, solutions designed to change the behaviour of one party need to be part of an integrated package to change the behaviour of all parties.

   Society is bewildered by how seemly thriving financial institutions in 2006 became global calamities in 2008. The Crisis raises questions on the role of auditors in ensuring the reliability of financial statements. Could the application of auditing standards have contributed to the Crisis? The future foundations of financial stability will rest upon clearly defined roles and responsibilities for the agents of financial market integrity. We welcome consideration of factors such as regulatory and institutional capture[1], as well as reflection on the dynamics of competing governmental interests, where regulation (standards and enforcement) become tools of national competitive advantage.

2. **Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?**

   The Crisis by its definition is a matter that concerns society. There is a clear gap in the expectations that society places on the value of an audit firm's opinion, when it describes a financial institution as being 'materially sound', when in reality it is in financial distress. We are concerned that the balance of influence on auditors between issuers and investors has tilted too far in favour of the issuers. Much of what has become permissible creates opacity that detracts from objective insights as to

[1] Regulatory and institutional capture: - the influence of interested parties (issuers and banks) upon the development of regulation, standards and audit practice.

issuer's financial condition, which may tend to create increased reliance on other signals such as auditor opinions. The activity of stretching the permissible has done little to improve the provision of goods, services and employment, and done much to increase systemic risk, this is a concern for both investors and society. Hence we suggest revision of auditing standards to give due consideration for the expectations of society. Such a revision would clarify society's expectations on the role of the external auditor.

3. **Do you believe that the general level of "audit quality" could be further enhanced?**

   Yes, we believe that within the parameters that auditors operate, the quality of audits is adequate, but there is certainly room for improvement. For the reasons stated above, we believe it is necessary to review auditing standards in order to improve audit quality.

Role of the Auditor- communication by auditors to stakeholders

4. **Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for purpose?**

   Auditors have better insight than investors on the underlying risks facing the audited firm. Their analysis should provide the comfort that investors and society require on the financial health of the audited. These risk insights are particularly valuable where it concerns financial institutions. It would appear that auditors did not adequately challenge the failed banks on these issues. However the culpability issue is not clear cut, as in the case of Lehman; we understand Lehman received a legal opinion supporting its application of 'Repo 105', which may have left little opportunity for their auditors to question its practice.

   In summary, we believe that audits are generally fit for purpose, but exceptions prove that a higher standard is required.

5. **To bridge the expectation gap and in order to clarify the role of audits, should the audit methodology employed be better explained to users?**

   We agree that there is a lack of useful content in the audit report. Investors would welcome expanded disclosure on the methodology and assumptions used by the auditor, a removal of "boilerplate" language, and discussion on what the auditor has verified and the judgements he has made. Taken together these disclosures would enhance the value of the audit.

6. **Should "professional scepticism" be reinforced? How could this be achieved?**

The Green Paper's discussion on the concept of "professional scepticism" that is the auditor challenging the management from the user's perspective is refreshing and commendable. Achieving this behavioural condition will require some changes in the relationship between the auditor and the audited company. More needs to be done to distance the relationship of the external auditor from the Chief Financial Officer (CFO) and his department; to bring the auditor closer to the influence of the non-executive leadership of the company. In broadest terms, non-executive directors are the trustees of shareholder interest. Therefore, the auditor and non-executive leadership share a common interest in challenging the management (in a properly functioning board). In practice, this would mean that the auditor must not engage in consultancy work for the firm he audits. The auditor's relationship with the company should be conducted through the audit committee. Challenges to the financial statements should be presented to the audit committee, who in turn should seek explanations from the management. Such a condition provides some protection to the auditor, making it easier for the auditor to engage in professional scepticism, with less fear of reprisal from the CFO. Further by drawing in the audit committee, it becomes more difficult for the CFO to suppress the auditor's concerns from the rest of the Board.

7. **Should the negative perception attached to qualifications in audit reports be reconsidered? If so how?**

The Green Paper raises a very valid concern; the auditor is under considerable pressure to submit an unqualified opinion, because the unqualified opinion is the seal of approval. [Note the Credit Rating Agencies similarly were perceived to offer a seal of approval when publishing a rating]. Upon the seal of auditor approval it is difficult for investors to challenge the accounts. They are at a disadvantage because the auditors have access to the ledgers and are accredited experts in their field. In March 2010, CFA Institute conducted a survey[2] of members investigating the importance of audit report and the quality of disclosures. The results of our survey reveal conclusive support for a more discursive auditor report. The audit report should describe the risks that affect the measurability of items and discuss auditor judgements and uncertainties. If expressed in this spirit we do not see qualification as creating a negative perception, but more as an opportunity to open a line of dialogue with investors on the limits of reliability on specific issues.

8. **What additional information should be provided to external stakeholders and how?**

We feel there is significant value to investors where the auditor expresses an opinion on the fairness and accuracy of accounting methodologies and estimates. In expressing a public opinion on these matters auditors will (if unfettered by conflicts) force

[2] http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf

management to either adopt accounting principles that conform to economic reality or seek shareholder approval for principles where the auditor flags his concern.

9. **Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?**

   We believe that the dialogue between internal and external auditors is very good. We do not believe that the dialogue between the audit committee and the external auditor is strong enough to permit more than a 'very' high-level consideration of financial statement quality. We feel that the members of the audit committee should seek a greater role in the production of financial statements. Please refer to our answer to question 6.

10. **Do you think auditors should play a role in ensuring the reliability of the information companies are reporting in the field of CSR?**

    No, we feel that it is the responsibility of the management to draft and present the CSR report to stakeholders. They should be held directly accountable for their management of CSR issues. We have two concerns; firstly we are unsure whether auditors are best placed to judge CSR issues. Second that culpability for an unforeseen incident will be shared with the auditors rather than shouldered by management, if the auditors play a role in ensuring the reliability of the information presented in the CSR report.

11. **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?**

    In addition to our recommendation for a more discursive audit report, we would encourage more communication between the auditor and stakeholders. As highlighted in the Green Paper, greater risk information, notably in the area of intangible assets, would be welcome. We believe the relationship between the non-executive leadership and the external auditor needs to be strengthened.

    With reference to the time gap between the year end and the release date of the auditor's opinion, we would support this proposal on the principle of timeliness if it is indeed feasible without impairing quality.

12. **What other measures could be envisaged to enhance the value of audits?**

    One possibility is the development of a rigorously ranked certification scheme for audit firms in Europe, a scheme that measures audit quality and effectiveness; we expand on this idea in our answer to question 31. We would emphasise that to avoid an expectations gap, the role of the auditor should be readily recognised by stakeholders. Hence, we do not see a need to expand the role of the external auditor, but a need to clarify the role and improve quality of the audit by creating suitable conditions for professional scepticism.

Role of the Auditor – International Standards on Auditing (ISAs)

13. What are your views on the introduction of ISAs in the EU?

We support the introduction of International Standards on Auditing (ISA) in the EU as their application is consistent with our desire to improve the comparability of financial statements around the world. Greater comparability facilitates the investment decision making process and optimises the allocation of capital. We also understand that the 'Clarity Project' of the International Assurance and Auditing Standards Board (IAASB) has raised auditing standards and critically the language of the revised standards has been thoughtfully chosen to assist in their translation.

14. Should ISAs be made legally binding throughout the EU? If so, should a similar endorsement approach be chosen to the existing for the endorsement of International Financial Reporting Standards (IFRS)? Alternatively, and given the current widespread use of ISAs in the EU, should the use of ISAs be further encouraged through non-binding legal instruments (Recommendation, Code of Conduct)?

We do not feel that ISAs should be made legally binding given their current widespread use within the EU. We would support the development of strong self-regulatory structures that would be able to monitor the application of the standards and enforce against poor application of the standards.

15. Should ISAs be further adapted to meet the needs of SMEs and SMPs?

Our experience indicates that fraud and financial misstatement more commonly occurs in smaller issuers due to poor internal controls. We would not want to see a lowering of standards for SMEs and SMPs, because we feel it would raise the cost of capital for all SMEs. A lowering of standards would increase the implicit risk to investors and hence raise the cost of funds.

Governance and Independence of Audit Firms

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?

We believe there is an inherent conflict between the external auditor and the audited firm. Whilst the appointment of the external auditor is by shareholder resolution, the Board makes the recommendation to shareholders. This Board recommendation must be influenced by the auditor's relationship with the finance department. As stated above, we feel that the conflict could be materially reduced if the primary reporting relationship of the external auditor was with the audit committee or those entities charged with audit governance. To be effective the audit committee must be independent and fully engaged in the audit process. Undoubtedly, this would require greater time commitment than is current practice by the members of this committee or at least their chairman.

17. Would the appointment by a third party be justified in certain cases?

The Green Paper discusses the merits of a third party appointing the auditor in cases where the company is large and/or systemically significant, the third party being a regulator. We support this proposal for systemically important financial institutions. In the absence of finding a solution to the moral hazard presented by financial institutions that are too big to fail, we feel the case is justified. Given the implicit government guarantee that underwrites these institutions, we feel the interests of society are best served through a 3rd party appointing and remunerating the external auditors of these financial institutions.

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

The Green Paper considers the mandatory rotation of audit firms in addition to the current provisions that require the rotation of audit partners on the firms they audit. Concern is raised that the inertia of relationships between the audit firm and the audited entity compromises independence. Whilst this inertia is not ideal, we believe that the costs of forcing a change in auditor exceed the benefits. Therefore, we do not support imposing maximum lengths of tenure for audit firms on their clients. Our preferred options to support independence are: to focus on raising audit standards, and prohibiting the cross sale of non-audit business

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.

Yes, we agree that auditors should be prohibited from providing non-audit services to the firms they audit. It is difficult to exert professional scepticism on one hand and seek to extend the business relationship with the other. This restriction should apply to all members of the audit firm's network.

20. Should the maximum level of fees an audit firm can receive from a single client be regulated?

Yes, we agree on the grounds of independence and suggest a level that makes the cost of objectivity bearable. That is where the loss of one significant client would not threaten the viability of the auditing firm. This level has to be finely judged so that other commercial considerations and interests do not weigh upon the firm's objectivity.

21. Should new rules be introduced regarding the transparency of the financial statements of audit firms?

In our opinion, the issue that lies at the core of this question is the international scope of large audit firm operations. To the large multinational client any of the Big Four firms offer a seamless international service under one brand. This gives the impression to the client that their audit is conducted by one firm. In reality the multinational is audited by multiple firms, because the Big Four have an operating model that more closely represents a franchise. In Europe it is possible to access the public accounts of some audit firms, which are independently audited, but not the global network. We would support public disclosure of independently audited accounts of audit firms, to provide some assurance of solvency. However we question whether there is any benefit derived by producing network accounts, as these financial statements will not add any assurance on the quality of service.

22. What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?

We would like to see greater quality assurance across audit firms with multinational networks. Like the credit ratings agencies, we would like to see public disclosure and network convergence on models and assumptions used in the production of financial statements, to support comparability between publically traded firms.

23. **Should alternative structures be explored to allow audit firms to raise capital from external sources?**

Yes, please refer to our response to the *DG Markt Working Paper: Consultation on control structures in audit firms and their consequences on the audit market* (25/2/2009)[3]. We feel that alternative structures to the partnership model would enable access to new sources of capital. This could expand the capabilities of middle tier audit firms, enabling them to compete effectively with the Big Four and stimulate new entrants to the market.

Supervision

24. **Do you support the suggestions regarding Group Auditors? Do you have any further ideas on the matter?**

No, please refer to our response to question 21 above.

25. **Which measures should be envisaged to improve further the integration and cooperation on audit firm supervision at EU level?**

We recommend an upgrading in authority of the European Group of Auditors' Oversight Bodies (EGAOB) to become a division of the new European Securities Markets Authority (ESMA). We strongly support the need for pan-European supervision to match the scope of audit activity in Europe. We agree this would foster convergence in the application of the rules and help ensure a common approach to inspections of audit firms. In our response to the DG Markt working paper mention above, we state:

> *"... The harmonisation of auditor obligations and duties to clients and third parties, and the enforcement of those obligations across the EU. Currently these vary across Member States. Harmonisation to a rigorous standard would significantly help in the development of a single market for audit services. We consider this as a necessary and equally important precondition, along with access to non-audit capital, to integrating the market and encouraging the emergence of new players".*

26. **How could increased consultation and communication between the auditor of large listed companies and the regulator be achieved?**

We are deeply concerned, if the Commission is worried that audit firms are not effectively respecting the provision of Article 20 of the Implementing Directive 2006/73/EC, which requires auditors of investment firms to report to the competent authorities. We suggest that the Commission conveys this concern to the auditors

[3] http://www.cfainstitute.org/Comment%20Letters/20090225.pdf

along with the proposal for mandated reporting, and seeks and industry led solution within a defined time. We do not think the scope of this mandated communication needs to be extended beyond systemically large financial institutions. We would hope that regular stakeholder meetings with an upgraded EGAOB should serve the Commission's objective, rather than making them a legal requirement.

Concentration and Market Structure

27. Could the current configuration of the audit market present a systemic risk?

Yes, we believe the current configuration of the audit market does represent a systemic risk. Quoting from our own response to the Commission's working paper mentioned above:

> *"At the macro level a failure of one of the Big Four akin to Arthur Anderson's could not only destabilize investor confidence in the market for audit services. Given the key role of auditors in the relationship between companies and investors, it could also entail a widespread crisis of confidence in financial markets with possible undesirable domino effects in other industries.*
>
> *At the micro level another major failure would be very disruptive to the clients of the failed firm. This is not only because of the requirement to produce audited financial statements on a regular and timely basis, which requires an embedded relationship between auditor and client. Our additional concern is the lack of alternative supply. Such a failure may temporary taint all the existing staff of the failed firm, and completely discount the value of their services. We therefore question whether under this scenario the remaining players have enough capacity to serve this hypothetical void".*

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?

We are not convinced that joint audits 'consortia' that are the practice in France would promote dynamism or reduce systemic risk in the audit market. Concerning dynamism, imposing requirements that a smaller audit firm should work jointly with a larger firm will do nothing to grow the capability of the smaller firm. Externally to the client and the investor, the smaller firm will continue to be seen as the smaller firm. Internally the larger firm will have to carry most of the workload, and bear the frustrations of a slower decision making process. Concerning systemic risk, if the larger party in the joint relationship failed, then the capacity of the junior firm to manage the audit would not improve, unless by common consent the workforce of the failed larger firm decided to join the smaller firm. Even then, there is the issue as mentioned above that the staff of the larger firm may be tainted. Further, the joint structure could be corrosive to the smaller firm if it became linked to the failure of the larger.

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 period?

No, we believe the costs of mandatory rotation would exceed the benefits.

30. How should the "Big Four bias" be addressed?

The Big Four firms hold two competitive advantages: global reach and strong brands. The brand strength attracts the best people, produces authoritative research and gives some assurance of quality. We are not convinced by the assurance of quality; the Parmalat case is but one example. We also refer to the work of the Dutch regulator, the AFM: *"Report on general findings regarding audit quality and quality control monitoring"*[4]. The report, which focuses on the quality of audit activity by the Big Four in the Netherlands, is scathing of deficiencies in professional scepticism. Of the 46 audits reviewed, the report identifies relevant weaknesses in audit standards at 29. The above points out that it cannot be taken for granted that a Big Four firm assures quality. Therefore, we support the Commission's proposal of introducing a European quality certification standard and add the recommendation of league tables as a way of increasing transparency on audit quality through the European market.

31. Do you agree that contingency plans, including living wills, could be key in addressing systemic risks and the risks of firm failure?

The AFM report raises our expectations of failure at one of the remaining Big Four firms. As discussed above, this represents a systemic risk that demands prompt introduction of contingency plans. Unlike a bank, which can be supported by emergency funding, no amount of cash can shore up a broken reputation. We do not support the idea of developing consortia of firms to handle this type of event. Containment of the reputational damage will be critical to resolving an event; hence we believe that the quality certification proposal mentioned above has an important role to play in resolving a failure at a Big Four Firm. We recommend certifying each member of an audit network as opposed the whole group. To make this function effective the quality certification process must be very vigorous, defining various levels of acceptable standards. Should a failure arise in one firm of an audit network, hopefully other parts of the organisation with higher ratings will be able to differentiate their reputation, and contain the problem. Naturally this process would have very little to offer if all firms rated AAA on quality certification.

[4] http://www.afm.nl/en/professionals/afm-actueel/rapporten/2010/rapport-accountantscontrole.aspx

32. **Is the broader rationale for consolidation of large audit firms over the past two decades (i.e. global offer, synergies) still valid? In which circumstances, could a reversal be envisaged?**

As discussed in our response to question 30 above, the Big Four have a strong competitive advantage, thorough global reach and strong brands. We would not support unwinding these structures, as we feel there would be an immediate loss of welfare. We are convinced that the current model is efficient, but risky; it will become less risky through greater competition. Hence, to resolve the systemic risk issue Europe needs more firms that can operate on the scale of the Big Four.

Creation of a European Market

33. **What in your view is the best manner to enhance cross boarder mobility of audit professionals?**

The Green Paper discusses national regulatory barriers that hinder cross-border mobility for audit professionals and that also create obstructions for cross-border operation of audit firms. We find it hard to support such national restrictions in the context of the single market project. Therefore, we recommend that these barriers are dissolved through the creation of a European standard of certification for audit professionals and firms. This standard would certify the individual's technical professional competence, by examination and years of experience. However, we recognise that separate national competencies are required, on such issues as taxation and regulation. Auditors will need to master this knowledge in order to operate professionally in any given Member State. This requirement should be satisfied by examination and not experience. Therefore, an aspiring auditor would only become qualified after successfully completing the European and national certification process. He would then be able to operate in another country after passing that country's national exam. The exam would not evaluate technical competence, but demonstrate comprehensive national knowledge of issues such as taxation and applicable national regulation. There should be frequent opportunity to sit the national knowledge exam; we suggest at least two opportunities a year. Frequent sittings would help accelerate the fungibility of audit professionals across Member States. We would hope that providing a firm was staffed with an adequate number of nationally qualified professionals that registration of the firm should be relatively simple process.

34. **Do you agree with "maximum harmonisation" combined with a single European passport for auditors and audit firms? Do you believe this should also apply for smaller firms?**

Yes, we agree that the Commission should seek maximum harmonisation and create a single passport (the creation of European-wide registration, a common professional qualification, common governance, ownership and independence rules) for auditors and audit firms. Our proposals in the answer to the question above set out a two tier system, with technical competency managed at a European level and national knowledge at a Member State level. We believe that a single regulator, such as the upgraded EGAOB described in our response to question 25, should provide oversight of the European registration process. We agree that this regulatory regime should apply to smaller firms.

Simplification: Small and Medium Sized Enterprises and Practitioners

35. Would you favour a lower level of service than an audit, a so called "limited audit" or "statutory review" for the financial statements of SMEs instead of a statutory audit? Should such a service be conditional depending on whether a suitably qualified (internal or external) accountant prepared the accounts?

We believe the introduction of a new form of statutory review, a limited audit would be welcome to save burdensome administration for SMEs. We feel that definitions are important and that text must clearly clarify to stakeholders whether an external or internal auditor has prepared the financial statements. Text must also clearly and prominently state whether the financial statements have been prepared under the limited or full statutory audit process. Whilst we support the option for SMEs to be able to use limited audits, we believe that the choice of whether to use a limited audit should be the subject to annual review by shareholder resolution.

36. Should there be a "safe harbour" regarding any potential future prohibition of non-audit services when servicing SME clients?

No, for the reasons stated in our response to question 19, we do not believe there should be a safe harbour provision for SME clients.

37. Should a "limited audit" or "statutory review" be accompanied by less burdensome internal quality control rules and oversight by supervisors? Could you suggest examples of how this could be done in practice?

No, we disagree with this proposal, whilst we accept the limited audit construct; we do not accept a diminution of rules on quality control or supervision. We believe that shareholders need assurance that what has been verified has been correctly verified. This proposal seems counter intuitive to the thrust of this Green Paper, which sets forth proposals aimed at raising public confidence in audit quality. As stated in our answer to question 15, SMEs have a greater propensity to misstatement and fraud, reducing quality control and supervisory requirements, will likely lead to a general rise in the cost of capital for SMEs.

International co-operation

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

The Green Paper discuses the development of the 'mutual reliance' policy, which establishes agreements between third countries, where their supervisors undertake inspections of the operations of global audit firms operating within their territories. We support the proliferation of this proposal, subject to safe guards on standards and supervisory capability in third countries.

8th December 2010