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Compulsory Audit Firm Rotation the "Wrong Solution"

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Recent high-profile corporate failures have raised concern about the reliability of company financial statements. While there is broad agreement that primary responsibility for preparing accurate financial statements rests with company management and boards, questions have also been raised about the quality and independence of external auditors.



Some have suggested strengthening auditor independence by mandating rotation of audit firms after a specified period of time. But in a new policy statement, experts from the International Chamber of Commerce's Commission on Financial Services and Insurance warn that compulsory audit firm rotation would have adverse effects on companies, investors and audit firms alike, possibly restricting the freedom of boards, shareholders and audit committees. ICC called it the "wrong solution" for correcting real or perceived weaknesses in auditor independence.

The new ICC paper outlines business concerns about compulsory rotation from a global, cross-sectoral point of view, including users, providers and intermediaries of financial services. One of its main objections is that compulsory rotation would put the quality of auditing at risk.

"Audit effectiveness depends upon the audit firm's accumulated



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knowledge of, and long-term experience with, the client's operations, transactions and complex reporting issues," stated USCIB Chairman-elect **William G. Parrett**, CEO of Deloitte Touche Tohmatsu, one of the world's leading professional services firms. "Compulsory rotation undermines this and could adversely affect the quality of audits."

Compulsory rotation has been adopted or is under consideration by a number of national governments, even though there is little if any evidence to demonstrate its effectiveness. It has been suggested that such a system would enhance the market for audit services by opening up opportunities for new providers, but ICC said that is not the case.

"Compulsory rotation does not appear to have these claimed benefits," said ICC Secretary General **Maria Livanos Cattai**. "In fact, recent studies suggest that it increases concentration among the largest firms."

ICC Roundtable Addresses Corporate Governance – Business leaders, investors and experts from across the globe will converge in Istanbul this month to share experiences on key corporate governance issues. On April 21 and 22, the ICC will hold a colloquium in Turkey on financial services and insurance issues. For all companies doing business in the region, this is a unique opportunity to meet with top-level government officials and experts on issues that are of the utmost importance to their core activities. "We hope this Roundtable will help companies to implement such structures and thereby improve their corporate governance", said **Guler Manisali-Darman**, an international governance expert, and author of the ICC publication "Corporate Governance Worldwide".

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