

24 May 2012

Mr. John Grewe
Professional Oversight Board of the FRC
5th Floor
Aldwych House
71-79 Aldwych
London WC2B 4HN

Consultation Document: Monitoring the Work of Third Country Auditors

Dear Mr. Grewe:

Ernst & Young Global Limited (EYG), the central entity of the Ernst & Young global organization, appreciates the opportunity to comment on the Professional Oversight Board's (POB or Board) above referenced proposal. We commend the POB for its balanced approach to these issues. In general, we support the POB's approach and believe it satisfies the stated objective of applying external monitoring in a way that meets the POB's obligations under the Statutory Audit Directive but is proportionate to the significance of a particular issuer for UK investors and has due regard to costs involving such monitoring. We are particularly supportive of the POB's views that the approach to monitoring should vary based on significance of the issuer and the Board's willingness to consider a range of approaches to satisfying its monitoring obligations.

Our response to the Board's specific questions is as follows:

- **Question 1: Do you agree with the overall approach set out in paragraph 3.2?**

Yes. We agree with the Board's approach to customize the extent of monitoring with the significance of the issuer. We support the Board's multi-step approach of relying on other regulators or other measures to monitor the quality assurance systems of Third Country Auditors (TCAs). We agree that as a first instance, reliance on existing reviews by the local audit regulator is the best approach, with an alternative being the POB commissioning reviews from an external regular or other professional body. We also note that one of the options identified seek to ask the relevant network to include a

review of a specific audit engagement in its quality review program if requested by the Board. While we are generally supportive of this approach, in certain circumstances we note that provision of quality review information to a third country regulator may be limited to provision of only summary information including any findings but would typically not include underlying audit workpapers, given potential restrictions in local law. We believe that such information would be sufficient to satisfy the Board's obligations however this would have to be considered by the Board depending on the specific circumstances.

- **Question 2: Do you agree with the proposals on “Article 45” auditors set out in paragraph 3.3? If not, what alternative(s) would you propose?**

Yes, we agree with the overall proposals on “Article 45” auditors. There are some additional considerations and feedback which we have addressed in our other responses.

- **Question 3: Do you agree with the proposals for “equivalent” registered Third Country Auditors, particularly for US audit firms set out in paragraphs 3.5 to 3.7?**

Yes, we agree with the proposals for “equivalent” registered TCAs. We also believe it is reasonable that the POB would broadly follow the same overall principle as the PCAOB, that is, to rely, to the extent it deemed appropriate, on the PCAOB's inspections of the relevant US audit firms. In particular, we support the Board in the first instance reviewing PCAOB findings of US registered firms with the POB pursuant to the Statement of Protocol between the PCAOB and the Board. We also support, where necessary and if possible, the Board requesting that the PCAOB include the engagement in their regular inspection activities.

- **Question 4: Do you agree that the results of external monitoring should be reported to a regulatory committee of the FRC? (paragraph 3.8)**

We agree that the results of external monitoring should be reported to a regulatory committee of the FRC in a process similar to reporting the results of inspections on audits executed by our UK member firm. We believe it is appropriate that the results of external monitoring of TCAs are provided on a confidential basis to a regulatory committee of the FRC since the TCA firms are registered with the POB (part of the FRC). It is important that appropriate review and appeal procedures are in place.

- **Question 5: What charging structure do you consider provides a sensible and fair basis for recovering the costs of external monitoring? (paragraphs 3.9 to 3.11)**

With respect to the two options provided, we prefer the first option where there is a separate charge for the costs of carrying out the specific review rather than a separate

annual charge per issuer that is based on the size of the audit fee. We are concerned that inspection fees based on the audit fee, especially if it is for the audit of a global enterprise and considering it would be independent of whether or the POB undertook a review in a particular year may be disproportionate and may not fairly represent the costs of external monitoring.

- **Question 6: Do you consider that the information we are planning to publish, as set out in paragraphs 3.12 and 3.13, is adequate for the needs of investors? If not, what do you propose?**

Yes, we agree with the overall proposal for transparency and that UK investors should be provided with certain information regarding the external monitoring process. However, we believe that this information should address general aspects of the process and we would not expect information specific to the member firms under inspection nor their relevant audit clients.

- **Question 7: Overall, do you consider that these proposals for external monitoring provide the basis for a proportionate and practicable way of the meeting the Statutory Audit Directive requirements on quality assurance?**

Yes, we generally support the proposals and believe they provide a basis for a proportionate and practicable method for external monitoring.

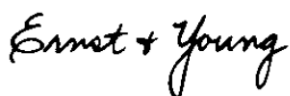
- **Question 8: Do you have any comments on the assessment of costs and benefits in Section 4? We should welcome in particular the assessment of UK investors on the value of benefits that might flow from the two options for external monitoring reviews.**

We support Option 2 and believe that the costs and benefits assessed under this option appear to be the most efficient to meet the regulatory requirements resulting from the Statutory Audit Directive.

In conclusion, we support the Board's effort to improve the process for monitoring the work of third country auditors.

We would be pleased to discuss our comments with members of the Board or its staff.

Sincerely,



Ernst & Young Global Limited