



Strengthening Governance and Integrity

An Interview with James S. Turley, Global Chairman and Global Chief Executive Officer; and Americas Chairman and Chief Executive Officer, Ernst & Young LLP, New York

EDITORS' NOTE *Jim Turley joined Ernst & Young LLP in Houston in 1977. He became a partner in 1987, and from 1987 to 1990 was U.S. national director of client services and business development. After serving as area director of entrepreneurial services, he was named upper Midwest managing partner in 1994. Turley was named metropolitan New York area managing partner in 1998, and was appointed global deputy chair in July 2000. A year later he became global chairman, and in October 2003 he assumed the additional duties of global CEO. Turley holds bachelor's and master's degrees from Rice University.*

COMPANY BRIEF *Ernst & Young is one of the Big Four accounting firms and a global leader in professional services. With more than 103,000 employees in over 140 countries, the global Ernst & Young network reported total revenues of \$13.1 billion for the fiscal year ended June 30, 2003.*

The corporate world has recently faced a number of challenges as a result of diminished investor confidence. Has enough been done to ease those concerns, and are you optimistic that confidence is being restored?

I am very optimistic. However, it's hard to say that enough has been done, because this is an ongoing journey. I think confidence will only come back fully when all parties are able to demonstrate a long-term commitment to providing investors with what they want, which is strong governance and very reliable financial information.

Are you satisfied with the extent to which private-sector leaders have been consulted on these issues?

Yes, that has been very positive. I think it's vitally important for private-sector players, investor representatives, and regulators to work together. In my view, making sure that regulations – not just in this country, but also around the globe – are consistent with one another is enormously important. In this regard, I think we're on the right path.

How has the role of audit committees changed as a result of concerns over corporate governance?

The relationship between company management teams, their audit committees, and audit firms has fundamentally shifted. It's clear that audit committees are now in charge of that triangular relationship, and I think most people recognize that fact. Audit committees challenge the relationships between boards and CEOs, and the relationships between auditors and companies; they make sure that there is real independence of thought and real objectivity.

Do you personally attend meetings with audit committees?

Yes, and I think that's critically important. In fact, I probably spend more time going to audit committee meetings than any person alive, as best I can tell. It is something I find very stimulating, because I get to observe how different audit committees operate. This enables me to share best practices with our clients and our partners.

Do you think other countries are making progress toward adopting international accounting standards?

In the last year or two, a very high percentage of the world's IPO activity has been initiated in Asia, and in China, in particular. As a result, there has been an increased focus, throughout Asia, on the importance of applying international

accounting standards, and that is true in other parts of the world, as well. And the impact of the European Union's 8th Directive is, like the Sarbanes-Oxley legislation in the United States, reaching right into the heart of the boardroom. What we're seeing is a convergence of corporate oversight on a global scale.

How has the spotlight on corporate governance affected Ernst & Young?

Ernst & Young has been focused on

THE FIVE Cs

Audit committees are increasingly and properly focused on what Jim Turley calls the five Cs. They are focused on understanding the *complexity* of the businesses they're serving and how that *complexity* translates into risk. Overly *creative* transactions are being exposed and more closely examined. Sarbanes-Oxley's emphasis on the importance of internal *controls* is understood and embraced as a tool for helping to prevent and detect problems within companies. *Coziness*, not just between the auditor and management, but also between the board and CEO is not tolerated. And finally, the audit committees are focused on drilling into the *choices* that management is making. Because every day, day in and day out, CFOs and CEOs have to make *choices* of accounting policies and estimates and judgments. Those *choices* dictate whether the financial statements they prepare are conservative, either appropriately so, or not.



delivering quality to the marketplace for generations, so I'm blessed with having that baseline culture to build upon. Nevertheless, we spend an enormous amount of time making sure that, first, every process within the firm is as strong as it can be; and second, all the people in the firm understand that there is nothing more important than their own integrity, whether they're in the audit business, the tax business, the transactions business, or performing some other task.

Do you need to be interacting at the C-level in order to build successful relationships with clients?

It depends on the nature of the business. On the audit side, we tend to have very direct relationships with audit committees, in a way we didn't in the past.

Not long ago, CFOs used to control that relationship.

Many of the services offered by the Big Four accounting firms sound very similar. How do you differentiate Ernst & Young amid such stiff competition?

I am actually very pleased that we have four very large, very strong firms with global reach in our profession. Each of those firms is focused on strengthening the quality of the services it delivers to the marketplace. I'm delighted that we're all focused on that same goal, because it helps to keep standards high. In my view, differentiation comes down to execution, which, in turn, comes down to the teaming of our people. We rely on our blend of industry talent, insight, and technical abil-

ity to bring very independent, objective thought to our clients. At the end of the day, our brand is defined by our people.

When you assumed your role as chairman and CEO, it would have been hard to predict some of the things that have happened in the corporate world. Is the job still fun?

It has been a challenge, but I do enjoy it. In particular, I get a great deal of enjoyment and stimulation from the smart people I work with, both internally and externally. Leading an organization and, indeed, being part of a profession that is going through the dramatic changes that we're going through delivers its share of excitement. So I'm feeling very good about where we are, and very positive about where we're going. ●

Quality: Everyone's Responsibility



**An Interview with Susan Frieden, Americas Vice Chair,
Quality and Risk Management, Ernst & Young LLP, New York**

EDITORS' NOTE A 30-year veteran of Ernst & Young LLP, Sue Frieden served as practice leader of the Northeast and New York Transaction Support Group prior to assuming her current post. A member of the American Institute of Certified Public Accountants, the New York State Society of CPAs, and the Accounting Advisory Board of Syracuse University's School of Management, she holds a B.A. from Syracuse University and an M.B.A. from Columbia University.



Susan Frieden

"Quality" has become something of a buzzword in today's business environment. What is the importance of quality to Ernst & Young, and how do you define your role as Americas vice chair of quality?

People, quality, and growth are the three pillars of Ernst & Young's strategy. And it's no accident that we put quality right in the middle.

Quality is explicit in everything we do, and I was appointed to this position about a year and half ago to help make sure that message is reinforced. At first, people looked at me and said, "Oh my gosh, you're our conscience." But I don't view myself that way. Everyone in the firm makes up our "conscience." It's important for all of us to take personal responsibility for our own actions and for maintaining standards. We all play a part in making sure that trust is restored to the capital markets. And one of the ways to do that is by bringing quality to the forefront.

How do you define quality?

Quality is the result of acting on a commitment to always do our best and, equally important, to always do the right thing. Our profession has undergone important changes during the past few years, as witnessed by Sarbanes-Oxley, the new SEC rules, and other events. We recognize that the public's trust – in Ernst & Young, our attestations, and our clients – is something that's earned every day by

the quality of our work. Nothing can, or ever will, take the place of our quality mandate.

What are some of the things Ernst & Young does to promote quality?

Well, as I said before, we've put quality at the center of our strategy. We're determined to do whatever it takes to be recognized as a quality leader.

We tell our people that quality starts with them. We pride ourselves on hiring the best people, not only from a skill point of view, but those who also exhibit a degree of integrity. We support their growth with extensive training and learning.

Although we believe we currently employ strong, sound business practices, Ernst & Young has recently launched several initiatives to help us reexamine our processes and ensure that we are ready to meet the challenges of the new regulatory environment. We're looking at every process in our service delivery, our audit functions, our tax services, and our transaction services. We're looking at our risk in accepting and continuing with certain clients, and in providing certain services to clients. We're continually examining how we do things.

Our culture rewards people for growing their technical competencies and doing the right thing. Members of our audit teams are encouraged – make that, required – to voice any concerns over the way an audit is being conducted.

Most of all, we stress to our people that no single client is more important than their personal reputation or the reputation of Ernst & Young.

Have you found any room for improvement?

There's always room for improvement. As a consequence of constantly reexamining all of our processes, we've changed the way we do some things, which we believe is a good thing. Constantly challenging how we do things keeps us on our toes. We've started examining the time our executives spend

with clients, and we've begun holding meetings during the interim phase of our audits. We're also providing more training for our people. We've trained all of our managers and partners in fraud awareness. On the tax side, we have a quality and integrity program, which involves listing certain transactions with the IRS and with our national office. And we continue to look at all of our service offerings to see where improvements might be made.

People can be averse to change. Did the people at Ernst & Young adapt quickly to the changes that have been implemented?

We're blessed with people who are open to change, eager to improve, and committed to doing the right things. Our people want to be viewed as trusted professionals who can make a difference. They're keen to be part of a firm that is looked upon as a model for change in this environment. We've clearly emphasized restoring faith in the capital markets, and the firm is committed to playing a major role in that.

Do you ever worry that the increased regulation is robbing executives of time that might be better spent on strategy?

The new regulatory environment is a fact of life, and we embrace it. How much time it takes doesn't really matter; we will be thankful for it in the end. Events of the past few years have underscored to all in our profession the value of staying close to our roots. And whatever it takes to get there is time well spent.

Can Ernst & Young use quality to differentiate itself from competitors?

At Ernst & Young, we emphasize that quality is more than a word; it's a way of life. We want Ernst & Young to be synonymous with quality. We want to be recognized as an organization that best meets the expectations of its clients and the public and one that unwaveringly does the right thing. We are committed to having the best people providing the highest-quality service. We do that, and success will come. ●

Committed to Quality Worldwide



**An Interview with Michael Boyd, Global Managing Partner,
Quality and Risk Management, Ernst & Young LLP, United Kingdom**

EDITORS' NOTE Prior to assuming his current role in 2003, Michael Boyd served as Ernst & Young's vice chair for global accounts. Previously, he had headed the audit practice of Ernst & Young LLP (U.K.), and was a member of the U.K. Executive and Partner Councils. Boyd has also worked in transaction advisory services in the U.K., and has led Ernst & Young's Global Energy Group. External appointments in the U.K. included vice chairman of the Audit Practices Board (the audit standards setting authority of the U.K.) and the East European Trade Council.



Michael Boyd

What is the importance of quality to Ernst & Young, and how do you define your role as global head of quality and risk management?

Globally, we want our culture to reflect this focus on quality throughout all Ernst & Young firms. Our quality and risk management leaders around the world are working hard to see that all our people understand and share this vision. My role is to provide leadership and commitment so that we live our values, and are committed to executing our global policies.

Can "quality" be an area of differentiation between Ernst & Young and other firms?

Yes, I believe it can. Quality is foremost in the minds of companies as they evaluate existing service relationships and consider new ones. We are associated with first-rate clients and are committed to continuous improvement. We want to be recognized as the firm with high-impact people providing high-quality services. Quality, together with people and growth, is a major foundation on which we have built our strategy, and is at the center of our focus on our core services. We continually emphasize to each of our 103,000 people that quality begins with them. Achieving this will differentiate us from our competitors.

Quality is such an intangible concept. How do you measure your progress, worldwide, in this area?

Nothing is more important than our reputation for providing high-quality client service, serving each of our clients with integrity, and building quality into everything we do. At least a third of each partners' individual goals are quality-related, and we have key performance indicators to reinforce this. For example, we are providing significantly increased training to our audit professionals around the world. We have invested significant time, resources, and funds in enhancing our quality and independence policies and procedures. This includes increasing our investment in technical resources and training, introducing a Global Code of Conduct to guide behavior, and providing our people with a forum where they can raise difficult issues.

How does quality link with Ernst & Young's emphasis on People First?

It is important to us that our people feel that their technical skills and ability to do a quality job are recognized and rewarded. Their personal and career development is supported by our commitment to extensive training and learning. We firmly believe that quality people promote quality service, resulting in quality growth.

In an organization of Ernst & Young's size, is it difficult to push the quality message through globally?

It's extremely important that we set the right tone from the top. Ernst & Young leadership worldwide is committed to quality and to leading by example. We reinforce that by having common processes around the world. For example, we use the same global audit methodology from country to country. We can reinforce what we stand for in "quality in everything we do" by underlining processes and metrics. But fundamentally, it starts with a shared vision of what we stand for, that we want to demonstrate a quality reputation.

Are you confident that by committing to quality, public confidence and trust will be restored in the business community?

Enhancing public trust in our firm and the profession is the most important objective we have. This underpins all of the business decisions and actions we take. It is essential that we demonstrate to investors, regulators, and lawmakers that we're earning that trust on a daily basis via the quality of our work. Nothing can, or ever will, take the place of our quality mandate.

Do you feel that new legislation, like Sarbanes-Oxley and the proposed 8th Directive, effectively addresses these concerns?

Through their combined and broad reach, the EU 8th Directive and Sarbanes-Oxley lay the framework for stronger, more globally consistent corporate governance. They also clarify and strengthen the role of both director and auditor.

Some progress is being made on convergence, but more can be done. Investors need to feel that the profession is helping to create one set of standards. The profession has been working to advocate the need for global financial reporting standards and the adoption of more consistent international accounting standards.

The Sarbanes-Oxley Act and the 8th Directive are two of the more high-profile initiatives that are helping to promote consistency, but there are also regulatory programs underway in Australia, Switzerland, and Singapore and in many EU-member countries including France, Germany, and the U.K.

Are young people still attracted to the accounting profession?

Talented people drive our business. We pride ourselves on hiring not only the best people from a skill point of view, but also those who possess the highest degree of integrity and judgment. I believe that the accounting profession has never been as exciting and challenging for young people to join, and I say that as a veteran of almost 30 years who has been part of many exciting times in previous years. We are certainly seeing leaders entering the profession. The task ahead is to make sure we do all we can to prepare our people for the many challenges they will face in their careers at Ernst & Young. ●

In the Public Interest



**An Interview with Robert L. Guido, Americas Vice Chair,
Assurance & Advisory Business Services (AABS), Ernst & Young LLP, New York**

EDITORS' NOTE *With more than 36 years of business experience, Bob Guido has served as coordinating partner on some of the largest global accounts of Ernst & Young LLP, chiefly in the manufacturing, consumer products, and energy industries. A CPA and CMA, Guido is a member of Ernst & Young's Americas Executive Board and co-chaired the firm's Global Client Steering Committee. He holds a B.B.A. from Siena College (New York) and an M.B.A. from Case Western University's Weatherhead School of Management.*



Robert L. Guido

What steps has Ernst & Young taken to help rebuild the public's confidence in the accounting profession?

We have refocused our energy on our core services of audit, tax, and transaction services. In the '90s, professional services firms began offering a lot of different services. In the last few years, we have recommitted to our core services, which have helped people understand who we really are, where we're going, and how we can help to restore the general public's confidence in capital markets. As a result, we are doing our job better every day. We have reexamined our training processes and our methodology, and we have reevaluated how our partners allocate their time. Moreover, we have tried to embed the lessons learned from what has happened in the capital markets over the last three years. We now approach everything we do with a healthy skepticism and our traditional commitment to quality work.

Is your focus on quality consistent across the firm?

The people who are driving our commitment to quality in audit, tax, and transaction services are all connected. For example, my counterparts and I get together periodically and we have conference calls once a month. That's how we make sure that our efforts are consistent. In addition, we have a global center that is responsible for our global methodologies and global training within the audit group.

How do you differentiate your audit services from those offered by the other Big Four firms?

It comes down to the quality of our people: the competency, objectivity, and openness of our partners and the execution of our teams with which our clients interact. Our people determine how we are measured in the market.

How has the role of audit committees evolved?

The tone and direction of the Sarbanes-Oxley legislation are right and really starting to work. As a result, there's been a sea change in the responsibility being taken by audit committees and boards in their oversight of companies. Audit committee members are spending a lot more time, meeting more often, asking better questions, and preparing better for meetings. That helps keep management on its toes, and I think it's much healthier that way.

Now management is, at times, saying that boards are getting too active. But in actuality, audit committees are focusing on exactly what the public wants them to focus on, such as internal controls and the coziness of the relationship between the audit provider and the company. Most important, audit committees are focusing on the choices that management makes in determining accounting policies, estimates, and judgments that could have a significant impact on the company's financial statements, because these choices dictate whether financial statements are too conservative or too aggressive. So undoubtedly audit committee members are taking their roles more seriously than ever before.

Can audit committees be expected to have a deep understanding of the financial matters involved in audits?

Audit committees need to be balanced in their membership and comprise people from different walks of life, who ask different questions, and bring different experiences with them. The most successful audit committees comprise people who know how to ask the right questions,

who can smell a problem before it happens, and who don't mind admitting that they don't understand a complex transaction. It also helps if they have talked openly with management about the division of their roles in this process, versus the role of management. Management and audit committees that understand each other's roles and engage in open communications are the most effective.

When people talk about the new audit, what do they mean?

The speed and complexity of the global economy is calling on auditors to build on their traditional skills of objectivity and inquiry and to develop new approaches and technology to not only report on the fairness of the financial statements, but also on internal controls. The audit process and corporate governance have never been so prominent on the agendas of senior management and the investment community.

You seem very optimistic about Sarbanes-Oxley and the future of your profession in general.

I do feel that we're on the right track. I think we need to look at Sarbanes-Oxley as a good thing – because it is. Of course, there are some aspects of the new regulatory environment that are not as clear as they could be, but I think everything will settle down over the next few years.

Generally speaking, companies have cascaded stronger cultures of getting it right throughout their organizations, just as we have. Companies, including Ernst & Young, are now more focused on delivering what the marketplace and investors want, which is sound governance and high-quality financial reports.

The role of firms like Ernst & Young has been redefined, and they have never been more valued than today from an audit perspective. Our profession is no longer self-regulated; the PCAOB sets the standards and reviews the firms. And we're right there supporting the regulators and, hopefully, learning from the other firms, as they are learning from us. As a result, the entire profession will be better. We're certainly committed to making Ernst & Young the best it can be. ●

Restoring Trust in the Capital Markets



An Interview with Thomas P. McGrath, Global Vice Chair, Assurance and Advisory Business Services (AABS), Ernst & Young LLP, United Kingdom

EDITORS' NOTE *Prior to assuming his current position, based in London, Tom McGrath was the AABS managing partner for the New York Financial Services Office, and served as global coordinating partner and senior advisory partner for a number of major financial-institution clients. A graduate of Miami University (Ohio), McGrath is a CPA, a certified information-systems auditor, and a member of the American and New York Institutes of CPAs, and the Bank Administration Institute.*



Thomas P. McGrath

How close is the coordination between the audit practices of Ernst & Young firms around the world? Is the messaging and delivery of services consistent worldwide?

Yes, it is. We have a global structure in place that sets global policies, procedures, methodologies, and approaches, and we're deploying and executing those around the world. What differs between the regions is the set of standards we apply to our procedures. In other words, in the U.S., we provide services in accordance with U.S. regulations for public companies. In other regions of the world, Ernst & Young firms provide services in accordance with their respective local standards, and of course, for companies that are listed in multiple jurisdictions, we comply with all requirements. For example, for a multinational based in France and also listed in the U.S., our French and U.S. firms provide services that satisfy both French and U.S. requirements

From a global perspective, do clients feel that Sarbanes-Oxley has gone too far?

There is a fundamental agreement with Sarbanes-Oxley's goals, although there is a general feeling that a one-size-fits-all approach may not be appropriate in all markets around the world. Actually, our clients have a great deal of interest in Sarbanes-Oxley and the detailed implications of implementing it. For example, I'm often asked to speak about Section 404

and the benefits it can bring to a company.

How important is the move to International Financial Reporting Standards (IFRS)?

Clearly, that's very important. Nearly 100 countries will either adopt or align their national accounting standards with IFRS by the end of 2005. And the European Union, rather than develop a purely European solution, made the

decision to require IFRS for all listed companies from 2005. That means almost 60 percent of the global economy will use the same accounting framework and principles, and, hopefully, that number will continue to grow. But equally important is the need to develop and adopt international audit standards as well.

How will the 8th Directive affect Europe's business environment?

Very positively, I believe. The 8th Directive is a necessary corollary to the move to adopt IFRS by introducing a greater amount of harmonization into the auditing process across Europe. For example, it includes a requirement for independent audit committees for public interest entities and independent oversight of the profession. Broadly speaking, we believe the 8th Directive is a good thing for our profession, and the proposed regulations in the EU should strengthen the relationship between us, as auditors, independent audit committees, and the wider investment community.

Are the regulatory changes on both sides of the Atlantic taking up too much time at the leadership level?

I would hope not. The global business environment is made up of some very resilient companies, and I think corporations are generally doing a good job of allocating the appropriate resources to ensure compliance. This effort does need a certain level of a CEO's attention, but it should not be so time consuming as to detract from a CEO's ability to set strategic vision and direction. If CEOs structure their projects and their implementation approach appro-

priately, there shouldn't be a problem. The fact is, all corporate leaders need to set the tone at the top and then allocate the resources to make sure that their companies comply with the rules and regulations.

Are C-level executives becoming more involved in the audit process?

Yes, and the same is true of boards and audit committees. Our partners are spending more and more time in those forums. CEOs want to know that their companies are getting it right, and they want to know which areas need improving.

Is it realistic to expect board members to be financial experts?

No, not every board member needs to be a financial expert; you can't expect all directors to know everything. In my opinion, it's more important for them to collectively concentrate on oversight. In Sarbanes-Oxley, there's a requirement that every board should include one financial expert, and the 8th Directive contains a similar regulation. Boards should focus on making sure that effective oversight is in place, by asking the right questions, setting the right tone, and maintaining open communication channels with the external auditors. Having financial expertise represented and actively participating on the board are key enablers to this process.

How will Ernst & Young's renewed emphasis on quality affect the delivery of its audit services?

It's certainly true that we are increasingly focused on enhancing our message on quality. Although we already have a very good foundation in place, we are always looking to improve quality across the board. Expectations have changed in the market, and the volume of auditing going on around the world is much greater today than it was in the past. Some of that growth is driven by new standards, such as standards on fraud. Thus, as the market becomes more concerned with increased reporting and internal controls, we believe that the volume of auditing will continue to grow. In this environment, our emphasis on quality translates into focusing our high quality people on delivering consistently high quality services. We believe this is a winning combination. ●

Restoring Investor Confidence



An Interview with Beth A. Brooke, Global Vice Chair, Strategy; and Americas Vice Chair, Strategy, Brand, and Communications, Ernst & Young LLP, New York

EDITORS' NOTE *Prior to assuming her current position, Beth Brooke served as the national director of tax consulting services for Ernst & Young LLP in the United States, and managing partner of the company's U.S. tax department. In 1993 she temporarily left Ernst & Young to join the Clinton administration, where she was responsible for all tax policy matters related to insurance and managed care. A CPA and the recipient of a B.S. degree from Purdue University, Brooke additionally serves on the board of the Atlantic Council of the United States, the March of Dimes Public Policy Advisory Council, and the National Women's Hall of Fame Advisory Council.*



Beth A. Brooke

Has Sarbanes-Oxley been effective in addressing the key issues and problems that we have seen over the past years?

I often have a chance to be part of the discussions about implementing Sarbanes-Oxley with our partners, audit committees, and management, and from my vantage point, Sarbanes-Oxley has brought about significant and positive change in a very short time. Corporate activities are now conducted with greater transparency, with investors' interests as a first priority, and with dramatically more oversight by boards and regulators.

Sarbanes-Oxley is really laying the foundation for stronger, more consistent corporate governance, and has helped clarify and strengthen the role of both director and auditor.

We are witnessing enormous and, I think, sustainable change in the behaviors of corporate management, boards of directors, audit committees, and firms like ours. From an insider's view, there is real reason for investors to regain faith in the integrity of financial information and the capital markets.

Do you think the investing public sees the benefits of the new legislative and regulatory environment?

Recent research among investors, commissioned by the four major accounting firms, shows that confidence in auditors has enjoyed a 20-point rise in the past year, with more than 60 percent of active investors now viewing public company auditors in major accounting firms as honest, independent people of integrity who give their best judgment.

And importantly, compared to one year ago, twice as many active investors – now 54 percent –

While things are directionally positive, we know we have more work to do before confidence and trust in the profession are fully strengthened.

view public company auditors as serving the public interest and not just the interests of their clients. What this means to us is that while things are directionally positive, we know we have more work to do before confidence and trust in the profession are fully strengthened.

This same research showed that the investors who are most aware of the reforms that have been put in place are far more confident that what needs to be done is being done.

Has there been an effective

working relationship between private sector leaders and public officials in developing new regulations and legislation to address corporate issues?

I definitely think so. The establishment of the PCAOB [Public Company Accounting Oversight Board] is one of the most important things to happen to our profession. And as we seek to restore faith in our profession, it is critical for us at Ernst & Young to work cooperatively with the PCAOB, and with the SEC, as well. The first year of oversight shows the PCAOB to be strong. We are committed to total transparency with the PCAOB. All of us in the profession will be better for it.

How do you define the responsibilities of the audit committee and has the role of the audit committee changed or evolved?

We are finding that audit committees have fundamentally changed. They are doing exactly what the legislation, and, more importantly, what shareholders and other market participants would expect – asking more detailed questions, more often, and demanding more of us as auditors. Audit committee members are more informed, more skeptical, and more independent than ever before. Our contacts with them have been more in-depth and more frequent, and the level of dialogue among management, audit committees, and audit firms has never been higher.

How have the new regulations affected your client selection process?

We are definitely paying closer attention to the tone set from the top of the company, and we're also encouraging our audit professionals to take a harder, more skeptical look at their clients. We look at every client engagement as though it were a new one, and we have created additional steps in the client acceptance process, closely evaluating factors like the make-up of the board, the influence of management, and audit committee membership.

Our reputation depends in part on whom we choose to provide services to. No single client is more important than our professional reputation. ●

Tax: The New World



**An Interview with Mark A. Weinberger,
Americas Vice Chair, Tax Services, Ernst & Young LLP, New York**

EDITORS' NOTE *With a background in substantive tax law and the federal tax policy arena, Mark Weinberger spent much of his career in government service before joining Ernst & Young LLP. Most recently, he served as the assistant secretary of the Treasury (tax policy) in the Bush administration. Among his other public-service positions, Weinberger served as chief of staff of President Clinton's 1994 Bipartisan Commission on Entitlement and Tax Reform, and adviser to the National Commission on Economic Growth and Tax Reform. Weinberger holds a law degree and an M.B.A. from Case Western Reserve University, and an L.L.M. from Georgetown University Law Center.*



Mark A. Weinberger

How challenging are the changes taking place in the tax environment?

The tax marketplace is in the midst of unprecedented change. Where once tax departments were focused on filings, deadlines, and reports, today we're seeing a far greater focus on accountability, transparency, and disclosure. Driving all this change is a new regulatory environment that's resulted from legislation like Sarbanes-Oxley, and a view of tax as a core element of corporate governance and business planning. For many CFOs and tax directors, it's simply a new world, and they have had to adapt to the new marketplace quickly. The changes we've seen have had a positive impact on corporate governance, but at the same time these changes have created many new challenges for business. In the immortal words of Ben Franklin, "When you're finished changing, you're finished." I think we can expect to see more change in tax, and we'll be helping our clients adapt to that, as well.

How are Ernst & Young's tax services unique in the market?

Quality. It's really that simple. For years, Ernst & Young's tax practice has been acknowledged as among the best in the world. That isn't about revenues; it's about the quality of our people. We

believe in investing in our people, whether through our recruitment policies or our experiential learning programs. Our people are valued by us and by our clients.

In the midst of change, clients really want someone who understands their business and helps address their problems. Our national tax practice has specialists in all aspects of technical tax law. They work with our client-service teams to

help ensure that we deliver high-quality technical answers to questions.

Is the delivery of Ernst & Young's services consistent worldwide?

It has to be. As our clients become more global, we have to serve them in a seamless way across the globe. That means committing the best people with a detailed understanding of the issues present in the countries in which they operate.

Does technology play a major role in the way you deliver tax services?

We're a global organization, based on a highly collaborative culture. So technology is a significant enabler in helping us deliver quality service to our clients. Our global team can tap into the experience and vast pool of knowledge around the world quickly and efficiently. That means our clients can get our best thinking and the answers they need anywhere, at any time.

Are the tax practice's clients only large, multinational companies?

Actually, a significant portion of our revenue comes from smaller, middle-market companies. We assist them in the same way we help larger companies. That means we help them look into compliance with regional and local jurisdictions, take the right steps to meet all their obligations, and take an appropriate view toward tax planning in their business strategy. Our quality processes are as fundamental here as they are with our larger clients.

Are you expecting significant growth for the practice in the near future?

Clients will always seek the services of high-quality advisers, so we will con-

tinue to grow as long as we have a premier tax practice with a strong technical base and respected client service. More important, our clients really are looking at a new world when it comes to tax planning. In many respects, especially because of the complexity of the laws in each jurisdiction overseas and in each state of the United States, our clients need the advice of Ernst & Young more than ever before.

Risk management is an additional factor that is receiving a lot of attention from tax departments and companies generally. Nowadays, companies are not only concerned about the letter of the law, but also about how a certain transaction might affect the company's reputation. What are the positive and negative risk elements of each transaction as it relates to investors and any other constituency with which the management deals? That is certainly something that companies are increasingly wrestling with, and we help them through that process.

Is risk management more difficult or complex than it was in the past?

Internal controls, especially in the United States, have become more robust, and companies are more focused on that than ever before. New laws ask for more and more transparency in terms of the information that the IRS collects, and that adds to the responsibilities of the taxpayer, who needs to be able to collect that information and transport it to the IRS. We're seeing tax risk increasingly integrated into traditional enterprise risk management, and that has resulted in greater complexities that, over time, may realize greater efficiency and governance.

Might the new regulations go too far and slow down business?

Our clients operate in a complex environment, and all the different laws and regulations in each jurisdiction in which they operate do increase the burden of compliance. That said, the added transparency from the new rules and regulations provides another level of review, which is positive for the system. So, overall, I think the regulations will result in better tax administration and better corporate governance generally. ●

Change in the Global Tax Market



**An Interview with Sam H. Fouad, Global Vice Chair,
Tax Services, Ernst & Young LLP, United Kingdom**

EDITORS' NOTE *During his 20-year tenure with Ernst & Young LLP, Sam Fouad has worked on international tax matters in New York, Boston, Philadelphia, and Washington, DC. From 1996 to 1998, he was based in Buenos Aires, serving as regional director of tax and legal services for Ernst & Young's Latin America region. Fouad became global vice chair in 2003, and is now based in London. The recipient of a J.D. from Georgetown University Law Center and a B.S. from the University of Southern California, Fouad is a frequent speaker on international tax matters at universities and industry associations around the globe.*



Sam H. Fouad

How has the global tax environment evolved in recent years?

The broader financial marketplace is undergoing tremendous changes, due to regulatory developments surrounding corporate governance and financial reporting transparency. Tax is a subset of the financial marketplace, so it is inevitably impacted by those changes. For example, tax shelter legislation in the U.S. and the U.K. has significantly affected a very small segment of the overall tax marketplace and requires all companies and their advisers to prioritize business needs. Those factors combined signal a shift in the priorities of the tax marketplace.

As a result of this shift, the role of tax directors is also changing. They must adjust to greater transparency and accountability in what they do, and many are embracing those changes.

We remain very optimistic about Ernst & Young's tax business. When the current initiatives have fully taken hold, enhancement of investor confidence and improvement in the transparency and quality of financial results will yield a strong marketplace for our tax services. Ernst & Young has always been known for our quality tax services, and we are adapting the way we serve our clients and managing our own business to meet the demands of this new

environment. We just completed another good financial year, and with intense focus on serving our clients with the highest-quality people and tax services, we are looking forward to continued strong financial results.

Our clients today seek tax services that effectively balance their needs for tax compliance, tax financial reporting, and tax planning, and our global tax practice is well positioned to

support our clients in all of these areas.

What makes Ernst & Young unique in this service area?

Broadly speaking, clients are looking for tax accounting, tax compliance, and tax planning support. These three categories involve different skills. The Ernst & Young organization has more than 15,000 professionals in tax practices around the world, including accountants, lawyers, and economists, as well as other professionals. These multiple competencies enable us to provide the full range of tax services that the market seeks.

Nearly all clients who want a service provider to handle the full range of tax services on a global scale look to the Big Four, and among our Big Four peers, Ernst & Young enjoys global tax leadership status. Our competitive advantage comes from the global scale and country market leadership positions of our tax practices, as well as our ability to offer relevant global tax specialty networks. In our global tax specialty networks, we've established unrivaled strength in human capital, international tax services, indirect tax, and global compliance services.

As I mentioned earlier, our ability to support the needs of our clients in all three areas of tax planning, tax compliance, and tax reporting globally is also a major differentiator. For example, law firms are often-times effective at providing tax-planning advice in a given country, but may be neither global in scope nor equipped to provide compliance and quantitative services. We have the edge in those respects.

How does Ernst & Young's focus

on quality affect its tax practice?

I would like to make three points here: First, we have always been extremely proud of the technical quality of our tax services. That's something we are known for in the marketplace, and we are steadfastly committed to maintaining that reputation.

Second, today's market requires us to go beyond the results of quality to demonstrate our underlying commitment to quality. For this reason, we've recently updated our quality and risk management guidelines and tax quality review processes.

Finally, the marketplace is increasingly interested in understanding how our quality commitment is integrated into our day-to-day services. To be specific, the market is interested in knowing how consistent our processes are across our services and geographic markets. Also, they are interested in the consistency of the learning and developing of our tax professionals worldwide. We are sharing more of those types of information with clients so that they can better understand our commitment to quality in everything we do.

How close is the coordination among the regions within the global tax practices?

Generally, most tax systems are national in nature. The first area of the world where that has changed to a certain degree is the European Union, where the indirect tax system has begun to be harmonized. Nevertheless, our global clients do expect us to be consistent in how Ernst & Young provides our tax services for them. Accordingly, we operate not as a series of national firms, but as independent firms that are aligned strategically. This approach enables us to render tax services consistently worldwide.

In addition, many business projects that clients undertake are global or regional in nature, and that requires us to align our people and services with the client's teams to help execute these global projects. Again, this is how our global specialty tax networks have clearly established Ernst & Young's tax practice as the market leaders in working with clients to help them implement their global business projects. ●

Putting People First



**An Interview with James L. Freer,
Americas Vice Chair, People, Ernst & Young LLP, New York**

EDITORS' NOTE *Jim Freer joined Ernst & Young LLP in Seattle in 1970 and was named a partner in 1981. He proceeded to hold positions of increasing responsibility, including Seattle managing partner and Pacific Southwest area managing partner, culminating in his appointment to his current position in 2000. Freer holds a B.A. in business administration from Central Washington University.*



James L. Freer

point of view, what is the difference between Ernst & Young and the other Big Four firms?

One thing competing firms can never copy is culture. Ernst & Young's People First culture means we consider the impact a business decision would have on our people before we go ahead with it. One of the ways that manifests itself is in our culture of teaming. Prospective recruits can

see how well our people work together when they walk through our offices. Another differentiator is our focus on learning programs, both experiential and classroom-based. So the firm provides people with great skills and careers, and in return, our people live by our values, commit to quality, and do their best every day.

You mentioned that People First encourages people to take control of their own careers. Does that ever get in the way of teaming?

Not at all. In fact, a large part of People First is providing an environment where our people can benefit from working with and learning from each other. Sharing of knowledge and experience helps make each person more accomplished. It also heightens their sense of personal worth to the organization, and recognizes that their contributions are appreciated and valued. People recognize that their teamwork isn't simply moving Ernst & Young ahead, it's moving them ahead, too.

How have the firm's people requirements changed in recent years?

Although we're clearly operating in a new business environment, the kinds of skills we attracted in the past are still relevant today. We need to attract people with appropriate educational backgrounds, relevant experience, and highly intellectual competencies, and people who are able to communicate very well with audit committees, management, and one another, both orally and in writing.

Although we've never been a profession that just adds up numbers, that fact has been underscored by recent events.

Our work requires the application of logic, sound opinions, and, of course, strong values. So the qualities we've sought in the past are the same ones that will propel us into the future. Our success in attracting those kinds of people is helped by our People First culture, which demonstrates that Ernst & Young is a high-performance organization that is, nonetheless, always very supportive. This approach is serving Ernst & Young and our people very well.

Can you find the talent you need in all your markets?

Yes. All our firms around the world actively recruit outstanding people in each one of their locations. In addition, we send people from one part of the world to another, so they can absorb new cultures and learn a particular region's accounting, tax, and transaction issues. When they go back to their home country, they're more well-rounded professionals, with more global perspectives, ready to apply what they've learned. So there is a great deal of knowledge sharing – a cross-fertilization of ideas, if you will – among Ernst & Young people around the world.

Ernst & Young has built a reputation for accommodating the needs of working mothers. Can you elaborate?

Absolutely. It's very important for us to create an environment in which not only working mothers, but also others with certain personal responsibilities, can succeed. This is not about treating people equally. It's about treating people equitably. That means we may not treat everybody the same way, because everyone has different requirements.

In North America alone, more than 2,000 of our people are on formal flexible work arrangements. They work either a reduced number of hours or the usual number of hours on a nonstandard schedule. To arrange this, they sit down with their supervisors and structure their workdays so they can also accomplish what they need to do at home. To me, it's so obvious that if people can't win at home, they're not going to win at work. We place a lot of emphasis on this, because, ultimately, it makes the firm more effective and our people more successful. ●

People, quality, and growth have been mentioned as the three pillars of Ernst & Young's strategy. In your view, how do people fit into this strategy?

We encourage our people to take control of their careers and choose a path through which they'll be most satisfied and productive. We foster what we call a People First environment, in which we seek to improve the day-to-day experience of our people through better mentoring, counseling, and training. In return, we expect our people to work well together to make a difference for our clients and our firms and to consistently do the right things.

By improving their career value, listening more to them, and developing life-long relationships, while remaining competitive from a pay perspective, we'll likely end up with the best people. And those people will be more productive, efficient, loyal to the firm, and committed to doing the right thing. By putting people first, we can more easily embed quality, which, we believe, will result in growth.

Is People First a revolutionary change for Ernst & Young?

In reality, no. We've always recognized at Ernst & Young that people are our most important asset. Their talents and skills make us who we are. The way we're articulating that is different today. We're more focused now on letting our people know that we understand their value and support their personal and professional goals.

From a prospective recruit's

Quality People: Our Most Important Asset



An Interview with Tim Griffy, Global Managing Partner, People, Ernst & Young LLP, United Kingdom

EDITORS' NOTE *Tim Griffy began his career with Ernst & Young LLP in 1980 and was promoted to partner in 1992. Among other senior roles, he has served as managing partner of the Americas Southwest region, chair of the Americas Human Resources Advisory Group, and director of human resources for the Americas Southwest region. A member of the American Institute of Certified Public Accountants and the Texas State Society of Certified Public Accountants, Griffy holds B.A. and M.A. degrees in accounting from Rice University.*



Tim Griffy

In today's changing environment, what challenges do you face in attracting outstanding people to your firm?

We regard the changing environment as an opportunity. Others have mentioned that recent events have focused more attention on the importance of the profession to the financial markets, to companies, and to the public. As a result, young people entering the profession have new opportunities to grow, develop, and make a difference. We continue to see excellent people choosing public accounting as a career.

Can you find that level of talent in all your markets around the globe?

Yes, although it is more challenging to attract them in sufficient numbers in the markets that are growing particularly quickly, such as China. In general, we prefer to locally source our people around the world, but we don't focus exclusively on the local acquisition of talent. We view talent more comprehensively. We are mindful of the world of opportunity, literally, that we can offer people who join Ernst & Young, through formal mobility programs and sometimes through self-initiated moves. As for the talent question, we see ourselves as a global pool of resources that can be tapped according to client needs and the needs of our own people for their career development.

Why would a talented young accountant choose to work for Ernst &

Young rather than one of the other Big Four firms?

A large number of the people we recruit, particularly those who come to us from universities around the world, usually plan to be with Ernst & Young for at least five years. Accordingly, we have to communicate with them about how we expect their experiences with us to develop within that time frame, and that is how we differentiate.

Our culture is based, first and foremost, on our values, which we are very explicit about. Our focus on learning and development also gives us a competitive advantage. For the past three years we've been rated among the top 10 U.S. organizations in terms of the quality of our learning organization. That commitment to learning is replicated worldwide, and I think that matters to people choosing an organization to work for.

Quality is another hallmark of Ernst & Young culture. How does that manifest itself in the people arena?

We've recognized the importance of explicitly stating our values, so we can then see them take shape in all the work we do. Naturally, statements about values have worth only when they are brought to life, and we're in the process of rolling that out aggressively. We are implementing a global code of conduct, as well as other tools to reinforce our message. It's important to note that this approach is not unduly prescriptive, negative, or punitive. Rather, it sends a positive message about the importance of having a common value system, and it creates an environment that supports our people and, ultimately, helps them do their jobs better.

How does Ernst & Young use technology to achieve its people goals?

One of our most impressive developments in this area is a program called the EY Learning Connection, which was deployed to every Ernst & Young person around the world in July 2004. The EY Learning Connection enables us to deliver the same learning opportunities in Shang-

hai as we do in St. Louis, in a manner that's timely and responsive to market needs. It's a concrete demonstration to our people that Ernst & Young is fully committed to creating a truly global learning culture.

Beyond that, the Learning Connection allows our people to get the training they need in critical areas related to quality service. It also gives us the ability, through our performance-management system, to plan for someone's development over a three-to-five-year period. We're tremendously excited about the impact this initiative will have, particularly in Ernst & Young firms in countries that don't have highly developed learning organizations of their own.

How does compensation factor into attracting the best people?

Compensation will always be important, but we're finding that the culture of the organization is equally important. The focus on people as individuals, the prospects for professional development, and the commitment of an organization to help a person achieve his or her personal goals, are all valuable considerations. We still have to be competitive from a compensation standpoint, and we are. But compensation is not everything. Other considerations factor into the decision.

Can you have a People First culture and still remain focused on the needs of the companies you serve?

I've been asked, only half seriously, that if people come first, what about our clients? In reality, People First is about two fundamental objectives – a complete commitment by Ernst & Young to the development of our people, and a commitment by our people to contribute to the success of a high performance organization. Both of these objectives are integral to the delivery of best in class service to the clients of Ernst & Young. Our clients understand this.

People First works because both Ernst & Young and our people are committed to doing the best they possibly can, to growing and developing to their fullest potential. Winning in this business is more about having the best people than anything else. And the best people provide the best service. ●

Serving the Health Sciences Market



**An Interview with Donn Szaro, Global Director, Health Sciences Industry;
and Americas Director, Health Sciences Industry, Ernst & Young LLP, Miami**

EDITORS' NOTE A graduate of Florida State University, Donn Szaro joined Ernst & Young LLP in 1972, and has since held positions of increasing responsibility throughout the organization. In addition to his current directorial post, which he assumed in 1995, he serves as chairman of Ernst & Young Global's Health Sciences Steering Committee and is the managing partner of Ernst & Young's Miami office. Szaro, a CPA, is also a member of the Florida Research Consortium's board of directors, the Miami City Club's board of governors, the United Way of Miami-Dade County's executive committee, and the Greater Miami Chamber of Commerce's executive committee.



Donn Szaro

paid out more than \$1 billion in fines and penalties related to fraud and abuse since 2002, and now they are trying to resolve a lot of the parallel trade and importation issues that have plagued the industry. We're working with them in those problematic areas.

Do executives understand those challenges?

Recently, we interviewed several CEOs and other C-level executives in big pharmaceuti-

cal companies and throughout the health sciences industry. We found that their level of understanding of the issues was pretty high. Not surprisingly, they tended to be more aware of specific problems that pertained to their particular companies rather than problems that afflicted the industry as a whole.

How does Ernst & Young define the health sciences industry?

The industry comprises organizations operating across the entire health market – from biotech companies, which are the predominant researchers and developers of new technology; distributors of health products, like pharmaceutical companies and medical devices companies; through the delivery system itself, including hospitals, physicians, academic medical centers, and payors; and ultimately consumers and patients themselves.

Why does Ernst & Young define the industry so broadly?

We think it's critical to serve the entire health science value chain. We're the only firm in our industry with such a broad focus. It enables us to better understand the challenges facing our clients and their customers, partners, suppliers, and competitors. That important edge enhances our understanding of our clients' needs and improves the quality of our services.

Where do you expect to see the greatest growth in health sciences?

Growth will be global. Clearly, the Americas and Europe are home to strong health sciences providers, and they account for well over 70 percent of all health care services consumed. However, the connec-

tivity of today's global health sciences marketplace, as well as bioethical and other legal constraints, means that the next great blockbuster discovery could happen in an emerging market or developing country. We have to keep an eye on these geographies to help our current and future clients embrace that breakthrough. Our health sciences network reaches across some 30-plus countries around the globe.

What sets Ernst & Young apart in the health sciences professional services market?

Obviously, Ernst & Young's reputation and global reach are very appealing to clients. But our real differentiation is our ability to understand and often define the issues that drive the future of the health sciences industry, as evidenced by the global reports we've produced for around 18 years in biotechnology and for the past 2 years in the pharmaceutical sector. I'd also add that over the last several years, we really have honed in on our service capabilities, and the market is responding.

Are the delivery of services and messaging the same globally?

It is expressly consistent. We have positioned ourselves so that experienced Ernst & Young health sciences industry professionals can provide audit, tax, and transaction services in a consistent manner, no matter where they are located.

What attracts talented professionals to join your practice?

I call the opportunity to serve entrepreneurial, fast-growing clients a true human resources magnet for our firm. For instance, I have the good fortune to serve as the managing partner in Miami. South Florida is home to a number of generic pharmaceutical companies that are major players in global markets. The opportunity to work with international clients is very exciting to the younger people at Ernst & Young, as is the opportunity to work with multibillion-dollar service providers. Not many employers can offer people that opportunity.

Is it still possible for you to have direct client contact?

In my view, this direct interaction is invaluable. I always make time for it. ●

What's your outlook for growth in the health sciences industry?

I'm absolutely bullish. For instance, the biotech sector of health sciences is experiencing the first gold rush of the 21st century. We're on the cusp of tremendous advancements in new biologics, space-age medicines, and quality-of-life-enhancing devices. Coupled with advances in information technology, these have the power to shift the focus of health care from sickness to wellness, and to radically reinvent the way health care is delivered globally.

What are the key issues facing the global pharmaceutical sector?

The pharmaceutical sector is experiencing some challenges at the moment, both with public opinion and pricing structure. In response, the sector currently is engaged in more cost-effective, quality-enhancing product development. For example, pharmaceutical companies are now teaming with biotechnology firms, using new technology and strong, existing distribution channels to get higher-quality products to the marketplace more quickly and more consistently around the globe.

Additionally, pharmaceutical companies are becoming very focused on compliance and risk management. They've



In the Driver's Seat

**An Interview with Michael Hanley,
Global Automotive Leader, Ernst & Young LLP, Troy, Michigan**

EDITORS' NOTE *Since joining Ernst & Young 27 years ago, Michael Hanley has spent much of his time serving global automotive and manufacturing industry clients. A CPA in Ohio and Michigan and a member of the American Institute of Certified Public Accountants, Hanley holds a bachelor's degree from the University of Toledo, and has completed the executive program at Northwestern University's Kellogg School of Management. He is an experienced speaker on the future of the automotive industry, corporate governance, and Sarbanes-Oxley, and serves on the board of directors of United Way Community Services in Detroit.*



Michael Hanley

What are a few of the major challenges facing the automotive industry today?

The biggest issue facing the industry right now is cost reduction. Companies need to find out where costs are going to come from in the supply chain. The cost of steel and other raw materials is of particular concern. Another pressing issue is health care. General Motors and Ford spent a combined \$8 billion on U.S. health care in 2003, and that figure will be even higher for 2004. Today, health care costs total more than \$1,200 per vehicle, and those numbers aren't going to go down without some major changes in the system. The non-U.S. competitors don't have to deal with those kinds of costs – not yet, at least – and that creates a major cost disadvantage for the U.S. automakers. We are working with our health sciences industry practice to try to come up with some ways to help companies manage and control those costs.

If those cost structures don't change, can automotive companies remain competitive over the long term?

It has certainly become more challenging to remain competitive. There's a lot of talk in the industry about the possibility of governmental intervention in this process.

Indeed, there are a lot of different ideas out there. There has to be some change if companies are going to be able to manage these costs and compete effectively in the market.

What kinds of services does Ernst & Young provide to the automotive industry, and how do they differ from those offered by the other Big Four firms?

Proving our uniqueness is a continual challenge, but I believe we are set apart by our strategic approach, which has been highly successful in this market. We focus on trying to develop tactical approaches to industry problems – the issues that companies are dealing with every day. We help companies develop business plans to address what's going on at all levels of their organizations, all the way down to the shop-floor guy when he asks, "That's a great plan, but what does it mean to me? How do I link to that?"

For senior decision makers at some of the world's largest auto companies, this means working with an Ernst & Young team that can help them address such key issues as transfer pricing, lean manufacturing, warranties, alternative outsourcing, and consolidations. Our services in this area have been very well received by the CEOs and CFOs of our client companies, because that's where the challenge lies today – getting the right messages to the people who have to address changing markets.

We also provide our clients with valuable information through research reports and executive briefings. For example, the firm recently worked with the Original Equipment Suppliers Association on a new study designed to understand and evaluate the cost pressures on suppliers and the effectiveness of their financial practices.

What is Ernst & Young's global automotive center?

The automotive industry is probably as global as any other industry in the world, so it's imperative that we be able to connect with industry executives wher-

ever they are located. That's why we established the Ernst & Young Global Automotive Center, which brings together about 100 people who are focused 100 percent of the time on the automotive industry. This enables us to work closely as a group and help industry executives address such questions as: How are we going to target the marketplace? How are we going to provide business solutions to companies?

The center also gives us an opportunity to build on our alliances with industry groups such as the Center for Automotive Research and the Original Equipment Suppliers Association. We have had a research alliance with the Center for Automotive Research for three years, and we regularly get together to discuss some of the central issues facing the industry.

And finally, the Global Automotive Center connects us to our practices around the world. It provides a portal through which people can reach us if they need to, no matter where they are. So our clients – and even our employees – can contact us there, and we can quickly identify how we can help them. By centralizing our automotive practice in this way, we can respond more efficiently to client needs.

Is China a major growth market for Ernst & Young's automotive group?

It's extremely important to us, because it's extremely important to automotive companies. They see China as a very significant market, and they all want to get a share of it. China's biggest attraction is its revenue potential and the Chinese government sees foreign capital and technology as essential drivers of its economic modernization and aggressively courts foreign direct investment, which is averaging about \$60 billion annually.

So we are working very closely with many companies in that region, and helping them to achieve a number of goals. Specifically, we help them investigate the market so they can figure out how they want to enter it and what role they want to play. As such, due diligence is a very important part of our job. We also do a lot of tax planning, of course. ●

A Global Perspective on the Energy Industry



**An Interview with Richard Wilson, Global Leader, Energy,
Chemicals & Utilities Industry Group, Ernst & Young LLP, United Kingdom**

EDITORS' NOTE *After qualifying as a chartered accountant in 1976, Richard Wilson worked with general industry and financial services clients before joining the Energy, Chemicals & Utilities Industry Group of Ernst & Young LLP (U.K.) in 1983. Wilson is a senior audit partner and serves as the lead audit partner for BP, BNFL, and Paladin Resources.*



Richard Wilson

What are some of the key issues facing the oil and gas industry today?

One issue that must be at the top of any oil company's agenda is the treatment of oil reserves, and specifically, the way in which companies book and record these reserves. The industry needs to reestablish confidence in oil reserves, as disclosed in their various filings to official bodies. In my view, that will be achieved by the application of regulations, and maybe even by direct intervention from the government, as the members of the U.S. Congress are taking an active interest in this now. I believe the SEC should consider whether their rules remain appropriate for today's more high-tech environment.

Do you foresee continued consolidation within the oil and gas sector?

I don't foresee much consolidation at the very highest levels, not least because the regulators would be unlikely to allow any of the very large companies to merge with each other. At the smaller end of the market, however, I think consolidation will continue, because a company has to be a certain size in order to compete effectively. That said, there are always exceptions to the rule, and I believe it is still possible for small, entrepreneurial energy companies to make their mark in certain parts of the world.

What services does Ernst & Young offer oil and gas companies, and what is your outlook for growth?

Ernst & Young is a major player in the provision of external audit services to the oil and gas industry. We also have strong tax practices that focus on this sector in

Europe, the U.S., and Australasia, plus strong practices in the corporate finance area, which work with companies on their investment and divestment strategies. In addition, we help oil companies develop their skills in reporting on a variety of issues, from corporate governance and social impact issues, to the sustainability debate and environmental concerns. All the large corporations, such as BP, Shell, and ExxonMobil, now regularly produce these reports, which set out to their stakeholders their performance in these key areas.

Regarding growth, there has been consistent demand for our services in all these service areas over the last few years, and I certainly foresee that demand continuing.

Which geographic markets do you expect to produce the most growth?

I foresee plenty of growth ahead of us in all of our markets. The U.S. market remains very busy for us, and we have a large market share. Another region with enormous potential is Russia, where the oil and gas sector plays a very important role. We're well positioned to provide services to both local and inbound investors in that market.

In addition, we expect the oil and gas market in China to show sustained growth. As western oil companies continue to move into that country, an increasing number of large Chinese companies are beginning to require the services of external auditors and advisers. China is currently experiencing a surge in demand, due to factors such as the dramatic growth of its automobile sector.

Finally, there is a lot of oil and gas activity in West Africa at the moment, and we are looking at how we might structure our business in Africa to meet that demand.

The Big Four accounting firms seem to offer very similar services. How does Ernst & Young differentiate its services to energy companies around the globe?

Our first advantage is that Ernst &

Young has been involved in the oil and gas industry for a long, long time, and is recognized by that sector as one of the premier professional services firms. I think it would be true to say that the market generally recognizes Ernst & Young and PricewaterhouseCoopers as being the leaders in this area. Furthermore, we invest a great deal in training our people, so they truly understand how the energy industry works. Deep industry knowledge, skills, and experience certainly help build our reputation as market leaders in this sector.

Ernst & Young is involved in the World Energy Congress and other global industry events. How important is your relationship with industry organizations in maintaining the quality of your services?

The oil and gas industry is global in scope, so it is important for us to be involved with industry players as comprehensively as possible. Taking an active role in events, such as our sponsorship of the World Energy Congress, which took place in September in Sydney, is very important. I was very pleased to be part of the World Energy Congress's panel discussion on Clean Energy for Transport: How and When? Our active participation in these types of events demonstrates to energy companies that we take the industry seriously. It is also a great way to meet our clients and get to know local energy associations.

You have mentioned some of the short-term challenges facing the oil and gas sector. What do you think the future holds for this industry over the long term?

Exploring alternatives to hydrocarbons for motorcars and airplanes is a big challenge for the industry, and for the transport industry as well. We will be involved in discussions on this issue for the foreseeable future. However, generally speaking, I am very optimistic about where the industry is going. Up until now, nobody has come up with a viable alternative to hydrocarbons for providing the world with energy, except perhaps nuclear power, so I think there are still a number of exciting opportunities for investment in oil and gas. ●