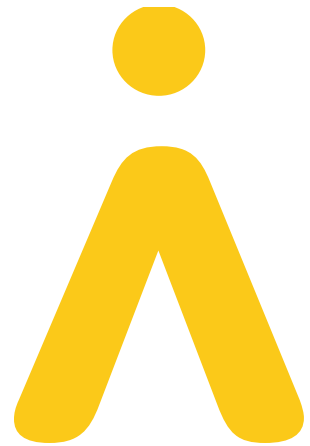


Agenda J1-1
Presentation - Audit Policy Europe



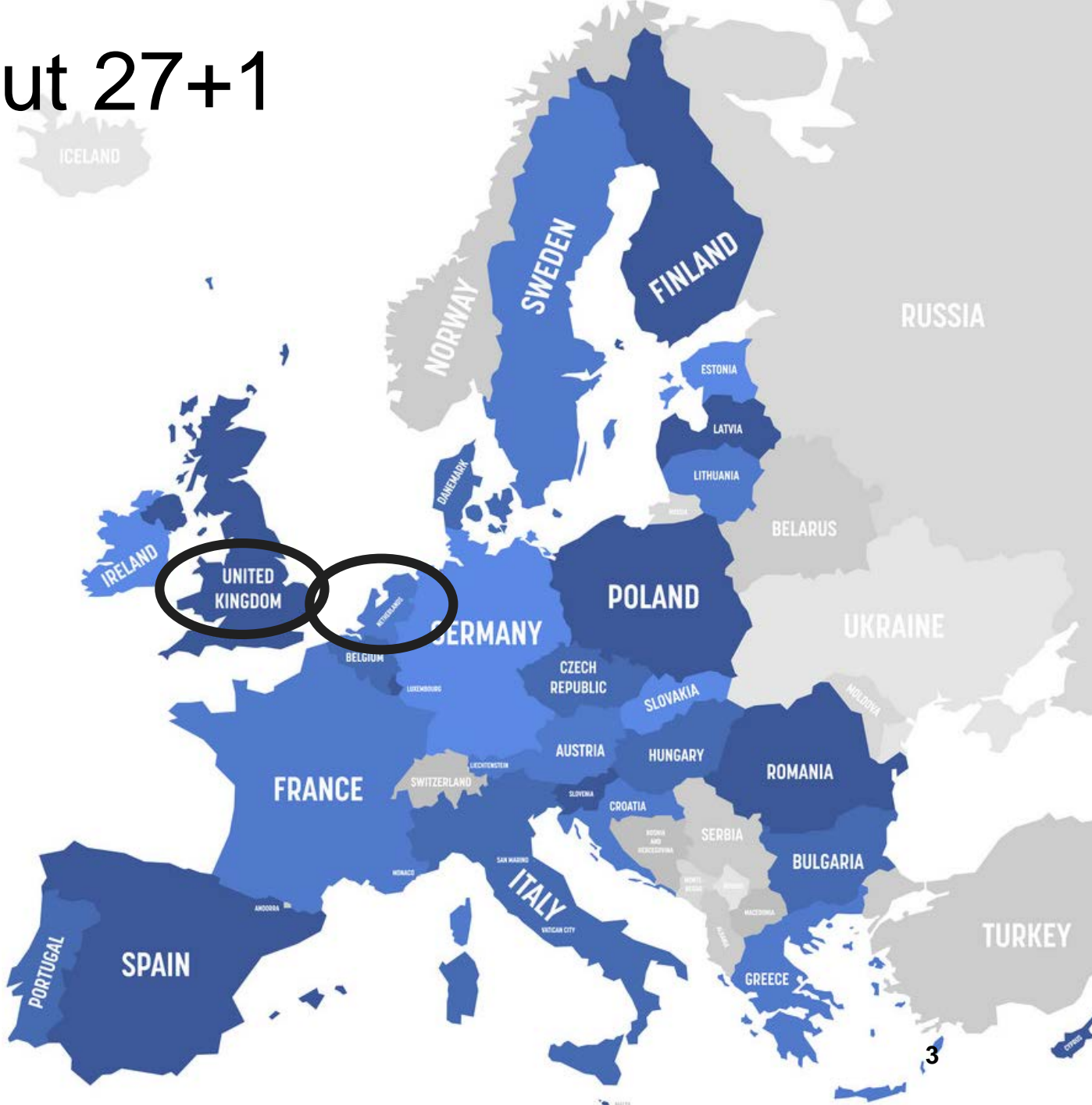
**ACCOUNTANCY
EUROPE.**

Audit Policy Europe

Noémi Robert
Director, Accountancy Europe



European Union is about 27+1



Change triggered by recent headlines in the Netherlands & the United Kingdom

- Company failures questioning the role of auditors and quality of audit
- Inspection findings emphasizing the need for fundamental improvement of audit quality



From the Netherlands

Dutch government committee on the future of the accountancy sector (CTA)

Report from January 2020 noted:

- Positive cultural change
- Structural problem with the quality of statutory audits
- 22 recommendations

From the 22 CTA recommendations...

- Adoption of audit quality indicators
- More focus on financial fraud and going concern in audit
- Greater emphasis on audited entity's responsibility for risk management and control systems
- NFI assurance not only for auditors
- Training of auditors to focus on 'doing the right thing'
- Improved communication between the supervisory board & shareholders re auditor performance
- Removed obstacles in standards to implementation of new technology
- Experimentation with an intermediary to appoint the auditor

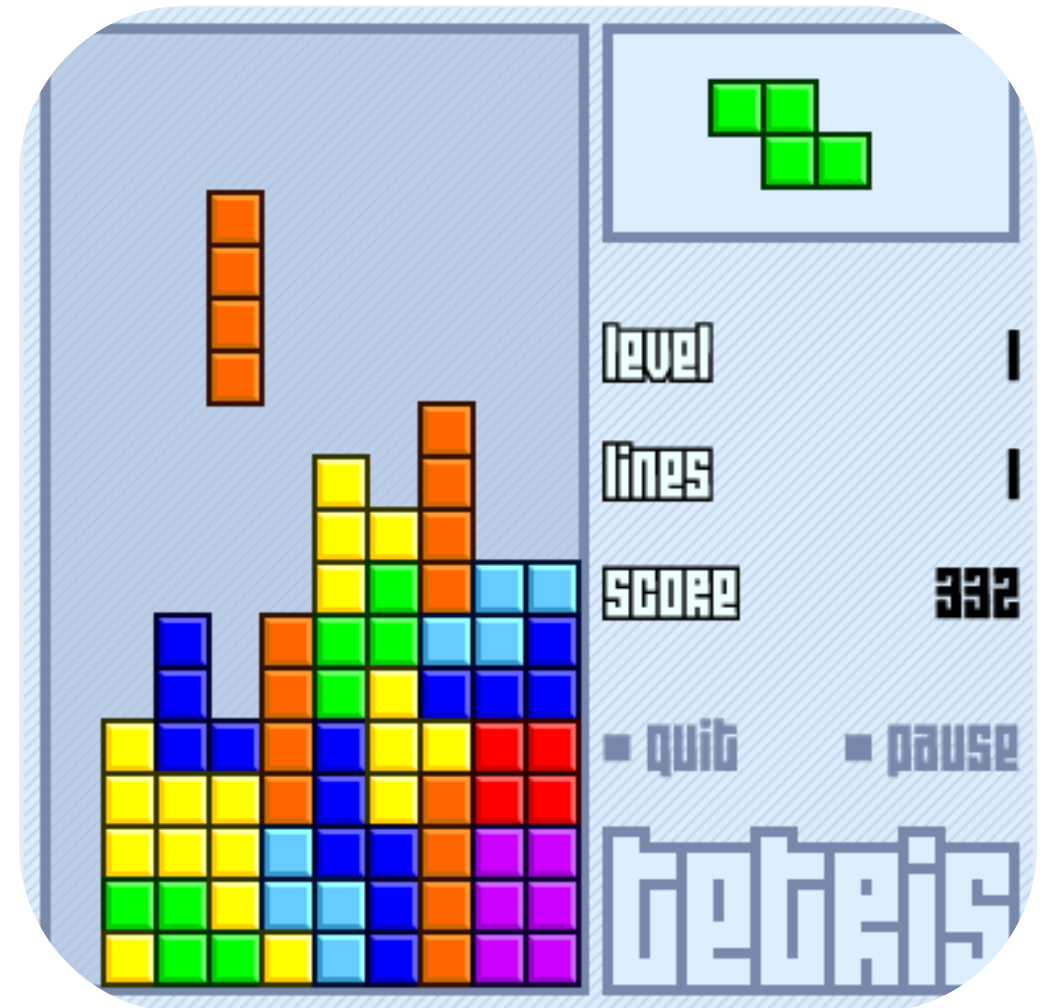
... To next steps

Response from the Dutch government expected for end of March 2020



From the UK: various interrelated reviews

- Kingman's review of the FRC
- CMA review of the audit market
- BEIS inquiry into the future of audit
- Brydon review into the quality and effectiveness of audit



Focus on the key recommendations of the Brydon review

- 1) Redefinition of audit purpose and scope
- 2) Creation of a corporate auditing profession
- 3) Improved auditor communication and transparency
- 4) Director reporting & auditor duties: introduction of a corporate audit and assurance policy, a public interest statement and a resilience statement
- 5) Package of measures around fraud detection and prevention

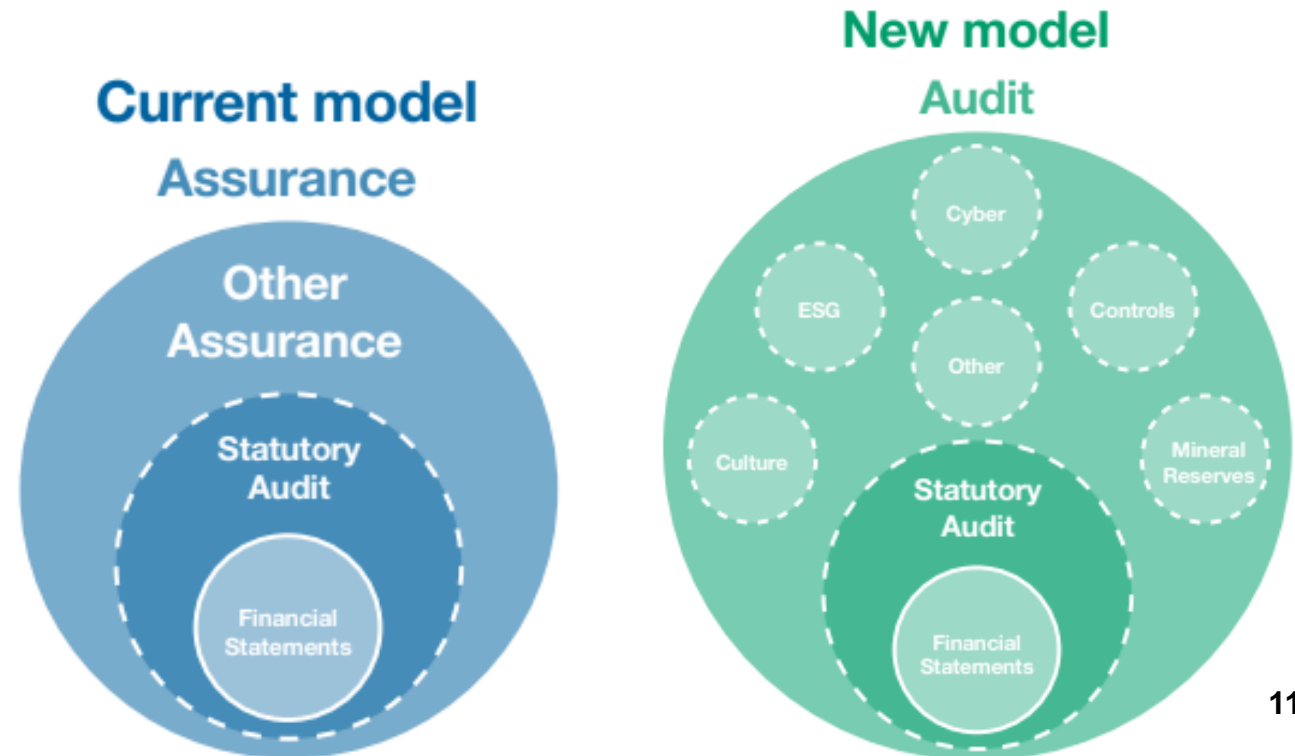
1) Redefinition of audit purpose and scope

- New definition of the purpose of audit to reflect its public interest function
- Extension of the concept of auditing to areas beyond financial statements
- ‘True and fair’ to be replaced with ‘present fairly, in all material respects’
- Alternative performance measures to be subject to audit
- Key performance indicators used for calculating executive remuneration to be subject to audit
- Company’s shareholders to propose any matters to be covered in the audit



2) Creation of a corporate auditing profession

- New corporate auditor profession incl. statutory auditors and subject specialist auditors
- Coherent framework to be developed with
 - Education and training consistent across this new profession
 - Professional standards to be established in new areas



3) Improved auditor communication and transparency

- Audit fees negotiated by another team than the one conducting the audit
- In the transparency report:
 - Profit from audit
 - Remuneration & related performance measures
 - Reasons for discontinuing an audit engagement
- In the auditor's report:
 - Man-hours
 - Continuity over years with information on different estimates, maybe even graduated findings
 - Audit response to external negative signals
 - Inconsistencies with information made public by the company

4) Director reporting & auditor duties

- 3-year rolling audit and assurance policy
- Annual public interest statement
- CEOs and CFOs' attestation on internal controls effectiveness
- Report on directors' actions to prevent and detect material fraud
- Publish a resilience statement replacing the going concern and viability statements
 - Short-term: going concern assessment with increased transparency
 - Medium-term: more robust and transparent version of viability statement
 - Long-term: consideration of the risks to resilience

5) Preventing and detecting fraud

- Directors' report on actions to prevent and detect material fraud
- Obligation of an auditor to endeavour to *detect* material fraud in all reasonable ways [*revising ISA 240*]
- Forensic accounting and fraud awareness as part of the formal qualification and continuous learning
- Maintenance of an open access case study register detailing corporate frauds
- Set-up of an independent auditor fraud panel to levy sanctions on auditors

Next steps in the UK

- Unclear timing
- Government in the process of consolidating all proposals
- Ongoing discussions with the firms on how a structural split might work
- A number of Brydon's proposals can be taken forward proactively by the regulator and the firms without legislation



Is there echo in the Brussels' bubble?

- Members of European Parliament echoing what is happening in the UK, e.g.:
 - **Eero Heinäluoma (S&D/Finland)** tabled an amendment referring to UK CMA review
 - **Ramon Tremosa (Liberal/Spain)** asked the Commission's opinion about a UK parliament's report calling for B4 split
- European Commission keeping eyes and ears open





THANK YOU

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