Green Paper on Audit Policy
‘Lessons from the Crisis’

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I. Context
II. Scope of the Green Paper (GP)
III. Feedback Statement
IV. Next Steps
I. Context

- The Green Paper is a consultation document.
- It identifies the issues and consults on how best to address them.
- There are no formal Commission proposals at this stage.

II. Scope of the Green Paper

1. Role of the auditor
2. Governance and independence
3. Supervision
4. Audit market
5. A European Passport for auditors?
6. Simplification SMEs and SMPs
7. International co-operation and supervision
II.1. Role of the Auditor
- some of the questions raised in the GP

- What improvements to the audit report should be explored?
- Should communication between auditors and external stakeholders be improved?
- Should communication with the Audit Committee be improved?
- When and how should ISAs be introduced at EU level? Binding instrument? Recommendation?

II.2. Governance and Independence
-- Some of the questions raised in the GP

- Is there a conflict of interest in the nomination procedure of the auditor?
- Should rotation of partners and firms be mandatory?
- Should non-audit services be further restricted? Prohibited?
- Should the ownership rules of audit firms and the partnership model be revisited?
- Should there be limitations on share of fees a single client represent for a firm?
II.3 + II.5. EU Supervision and passport
- Some of the questions raised in the GP
  - How can EU oversight be further strengthened?
  - Is there a need for a European Passport for auditors combined with a maximum harmonisation of professional qualifications, governance, ownership and independence rules?
  - Should this also mean European supervision (CRA model)?

II.4. Audit Market
- Some of the questions raised in the GP
  - Could concentration in the listed companies audit market (more than 90% Big 4) entail systemic risk?
  - Potential structural solutions for discussion:
    - Joint audits?
    - Mandatory rotation/retendering?
    - Addressing the ‘Big Four is best’ bias?
    - Contingency plans for a “systemic” firm?
    - Reassessment of the drivers of past consolidation?
II.6. Simplification SMEs and SMPs

- Some of the questions raised in the GP

- Need to calibrate any proposals the Commission will adopt as a follow-up to the Green Paper.
- SMEs have fewer stakeholders and are usually owner managed.
  - Do we need to audit SME financial statements?
  - Would a ‘lighter audit’ be sufficient to provide comfort to creditors, lenders and the tax authorities?
- Do SMPs require less stringent quality control and supervision?

II.7. International Co-operation and Supervision

- International cooperation is key
  - Discussions should take place at FSB and G20 level
  - The supervision of large global audit networks is a matter of concern. What measures should be adopted at a global level for the supervision of group audits and global audit networks?
III. Feedback Statement regarding ISAs

*Profession*

- Professional bodies: support binding adoption (but some suggested room for modifications)
- Audit firms: broad support for binding adoption without further adaptation for SMEs and SMPs
- SMPs: request sensitivity to additional administrative burden

III. Feedback Statement regarding ISAs

*Investors*

- Support application of consistent global standards (not limited to EU)
- Most investors: flexible, non-binding approach (fit for purpose)
- Some investors ask for review of IAASB governance to include more investors in development ISAs
III. Feedback Statement regarding ISAs

**Public Authorities**
- broad support though not always via binding measures
- CESR, CEIOPS and CEBS support binding adoption
- EU oversight authorities have no consensus on add-ons/carve outs

**Academics**
- support for binding standards.
- Warning for the risk of non-application of ISAs by US (would render ISA not fully global standards)
III. Feedback Statement
regarding ISAs

**Companies**
- Less enthusiasm for ISAs though no opposition provided reservations are addressed, such as:
  - Reinforce governance and due process of IAASB (too accountant/auditor dominated)
  - Specific assessment and adoption approach in EU (different from IFRS)
- Regarding SMEs and SMPs, support to further explore but some concerns that ISAs should better suit SMEs and SMPs.

**Profession**
- Limited support for third party involvement in nomination auditor in exceptional circumstances

**Professional bodies**
- Majority consider Code of Ethics and effective independent audit committees sufficient

**Big 4**
- No independence problems in particular in case of effective independent audit committees

**Mid tier firms and SMPs**
- Role of independent audit committees should be strengthened.
- Avoid management having a role in the appointment
III. Feedback Statement
- regarding appointment of auditors

**Investors**
- Conflict of interest inherent but can be mitigated
- Limited support for third party involvement in exceptional circumstances

Possible ways to solve potential conflicts of interest
- Shareholders should approve the auditor
- Independent audit committee
- Minimum standards on transparency regarding the relationship between the company and its auditor
- More transparency when changing auditors
- ...

**Public authorities**
- Appointment and remuneration responsibility of independent audit committees
- Third party involvement possible but in limited cases of public interest
III. Feedback Statement
- regarding rotation and tendering

- **Professional organisations** opposed to rotation but support (mandatory) tendering on regular basis with strong role for independent audit committee.

- **Big 4** oppose limitation of continuous engagement of audit firms.

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III. Feedback Statement
- regarding rotation and tendering

- **Mid Tier firms and SMPs** oppose mandatory rotation but show support for (non mandatory) tendering.

- **Investors** ask more transparency from companies and independent audit committees on appointment and possible retendering.
III. Feedback Statement
- regarding rotation and tendering

- **Public authorities**: mixed views on mandatory rotation but broad support for mandatory re-tendering.

- **Academics**: some support (less risk of auditor wanting to accommodate company)

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III. Feedback Statement
- regarding rotation and tendering

- **Companies** do not support mandatory rotation but are generally in favour of retendering (with possibility to keep same audit firm if benefits of continuity are demonstrable).
III. Feedback Statement
- regarding non-audit services

- Vast majority professional organisations opposed to any ban, only limited support in case of PIEs
- Big 4 opposed to prohibition though some openness as regards non-audit services for audit clients
- Big 4 support strengthening role of independent audit committees (approval)
- Mid tier and SMP: only in case of PIEs

III. Feedback Statement
- regarding non-audit services

- Investors:
  - list of non-audit services that are allowed/prohibited
  - transparency on non-audit services provided by audit firm
  - strenghtening role independent audit committees
- Public authorities: list of non-audit services and strenghtening role independent audit committees
III. Feedback Statement
- regarding non-audit services

- **Academics:**
  - broad support for full cessation of non-audit services or ban of non-audit services for audit clients
  - strengthening role independent audit committee;
  - monitoring and transparency on violations;
  - reference to SEC (not audit own work/not role management/not serve in advocacy role for client)

III. Feedback Statement
- regarding non-audit services

- **Lawyers, tax advisors** opposed to auditors providing non-audit services
- **Companies** do not support EU wide prohibition of non-audit services (audit quality). Some suggest limiting it to non-audit services for audit clients
IV. Next Steps

- Commission is reflecting on replies to GP and discussions held during the conference on 10 February 2011.

- Commission proposal planned for November 2011.

These were my personal views.

All replies that allowed publication are available on our website. Summary of replies received by question and by stakeholder group available on our website:

http://ec.europa.eu/internal_market/
consultations/2010/green_paper_audit_en.htm

Presentations (including speech Commissioner Barnier) made at the Conference on Auditing and video of the Conference available on our website:

http://ec.europa.eu/internal_market/accounting/
conference_20110209_en.htm

Thank you.