

25 February 2011

**Green Paper on Audit Policy  
'Lessons from the Crisis'**

Jan Robberecht

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

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## 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.

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## 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

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## 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)?

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## 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?

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## 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?

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## 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?

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### 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

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### 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

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### 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

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### III. Feedback Statement regarding ISAs

***Academics***

- support for binding standards.
- Warning for the risk of non-application of ISAs by US (would render ISA not fully global standards)

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