

AUDIT POLICY UPDATE

APRIL 2019

HIGHLIGHTS

- Focus of the month: Professor Willekens presents findings of the study on the Audit Reform's impact
- UK Brydon review launches call for views
- UK CMA publishes its recommendations on fixing issues in the audit market
- IAASB calls for views on audits of less complex entities
- Accountancy Europe launches EU election campaign

FOCUS OF THIS ISSUE: STUDY ON THE AUDIT REFORM'S IMPACT ON COSTS, CONCENTRATION AND COMPETITION

PROFESSOR WILLEKENS PRESENTED HER FINDINGS TO ACCOUNTANCY EUROPE MEMBERS – 24 APRIL

On 24 April 2019, Professor Marleen Willekens presented the findings of her team's recent [study on the early effects of the Audit Reform](#) to Accountancy Europe Board and expert group Chairs. The presentation was followed by a fruitful Q&A session. The study was carried out following a request by the Economic and Monetary Affairs Committee of the European Parliament.

Highlights of the presentation and short interviews with Prof. Willekens and Myles Thompson, Chair of the Audit & Assurance Policy Group, are available on our [website](#).



EUROPEAN UNION NEWS

MEP DISCUSSES WITH EUROPEAN COMMISSION SEPARATION OF AUDIT FIRMS – 2 APRIL

ECON Committee of the European Parliament has held a hearing with the European Commission's Vice-President, **Valdis Dombrovskis**, during which the question of audit market concentration was raised.

At the hearing, the MEP **Ramon Tremosa (ALDE/Spain)** asked the Vice-President's opinion about newspaper articles on the [UK Parliament's report](#) calling for the audit and consulting work of the Big Four to be separated. He also asked when the Commission finishes evaluating the EU's audit legislation.

Mr. Dombrovskis replied that some EU Member States had been late in the transposition of the audit legislation, and that he would be willing to report these countries to the European Parliament. He also underlined that the Commission is still monitoring market developments and potential disruptions.

This shows that the MEPs are fully aware of and following UK audit market developments.

EUROPEAN COMMISSION EXPERT GROUP PUBLISHES ARTIFICIAL INTELLIGENCE (AI) ETHICS GUIDELINES, CALLS FOR AI SYSTEMS TO BE INDEPENDENTLY AUDITABLE – 8 APRIL

The European Commission's High-Level Expert Group on AI has published its [ethics guidelines](#) for trustworthy AI.

The guidelines put forward a set of seven key requirements that AI systems should meet in order to be deemed trustworthy. These are human agency and oversight; technical robustness and safety; privacy and data governance; transparency; diversity, non-discrimination and fairness; societal and environmental well-being; as well as accountability.

Of interest from an audit perspective, the 'accountability' part states that AI systems must be auditable and should enable the assessment of algorithms, data and design processes. The guidelines underline that evaluation by internal and external auditors, and the availability of such evaluation reports, are essential elements. The importance of independent audits is also stressed.

To make the AI systems auditable in such a way, the guidelines maintain that AI practitioners should ensure traceability and logging mechanisms from the early design phase of the AI system.

The European Commission may propose concrete next steps on the AI Expert Group's work and follow-up steps in due course, but in any case not before 2020.

NATIONAL DEVELOPMENTS

UK: RACHEL REEVES' KEYNOTE SPEECH ON FUTURE OF AUDIT REPORT – 2 APRIL

Rachel Reeves, Member of UK Parliament & Chair of the Business, Energy and Industrial Strategy (BEIS) Committee, delivered a [keynote speech](#) on the [committee's report](#) on the future of audit. It took place at the Institute of Chartered Accountants in England and Wales (ICAEW).

The full recording of the event can be viewed by clicking [here](#).

BDO CONSIDERS UK AUDIT PRACTICE SPLIT – 8 APRIL

Following the BEIS Committee's [report](#) calling for separation of the Big Four, [BDO is considering](#) separating its UK audit arm from the rest of its business. The company stresses, however, that they are in the early scenario planning considering a variety of potential outcomes.

BREAKING-UP THE BIG FOUR: EY, DELOITTE, KPMG AND PWC PROTEST UK REFORM – 9 APRIL

The BEIS Committee Chair Rachel Reeves declared that the only way to fix the problems of the audit sector would be a full legal separation of the Big Four companies. However, the [Big Four companies object](#) this idea arguing that it is not proven that the split would lead to benefits that outweigh the risks and costs.

UK BRYDON REVIEW CALLS FOR VIEWS ON QUALITY & EFFECTIVENESS OF AUDIT – 10 APRIL

The independent review by Sir Donald Brydon [calls for views](#) on the quality and effectiveness of audit to be submitted **by 7 June 2019**. The call for views is namely on the following:

- the purpose of audit and for whom it should be carried out
- whether its scope and purpose should be widened and strengthened to meet changing expectations of audit
- how the quality of the audit process and product could be improved
- whether audit findings could be better communicated
- the role of audit within wider business assurance and in relation to directors' legal responsibilities
- the role of audit in detecting fraud
- auditor liability

Accountancy Europe is **planning to respond** to this call for views as it addresses matters of European as well as global relevance.

GRANT THORNTON'S AUDITS OF INTERSERVE TO BE INVESTIGATED IN THE UK – 11 APRIL

The UK Financial Reporting Council (FRC) is [investigating](#) Grant Thornton's audits of Interserve's financial statements for years 2015, 2016 and 2017. The outsourcing group Interserve was placed into administration after their rescue plan was rejected.

EY TO BE INVESTIGATED FOR ITS DANSKE BANK AUDIT – 17 APRIL

The Danish police will investigate [whether EY broke money laundering rules](#) in its 2014 audit of Danske bank. According to the Danish Business Authority's investigation, EY discovered information about potential money laundering issues in the 2014 audit of Danske bank and should have made further inquiries and reported the matter to the authorities. The money laundering scandal has ensnared also other Nordic banks.

In this context, it is important to highlight that there are restrictions to what extent an auditor can tackle financial crime. This is due to statutory audit's legally limited scope to a company's accounts. For details on the auditor's role in tackling financial crime, see Accountancy Europe's publications [here](#).

UK CMA RECOMMENDS SHAKE-UP OF UK AUDIT MARKET – 18 APRIL

To address competition problems in the UK audit industry, the Competition and Markets Authority (CMA) is [recommending](#) to the UK Government the following:

- **operational split within multidisciplinary firms**, i.e. separation of audit from consulting services to prevent conflicts of interest between these branches
- **mandatory joint audit** to enable firms outside the Big Four to develop the capacity needed to review the UK's biggest companies
- introduction of robust regulatory oversight of the committees that select the auditor to **increase accountability of companies' audit committees and make sure they prioritise quality**
- a **5-year review of progress** by the regulator

INTERNATIONAL

IAASB CALLS FOR VIEWS ON AUDITS OF LESS COMPLEX ENTITIES – 29 APRIL

The International Auditing and Assurance Standards Board (IAASB) is seeking views on its recently published discussion paper [Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards on Auditing \(ISAs\)](#). **Accountancy Europe will respond** to this consultation.

OTHER ACCOUNTANCY EUROPE NEWS

ACCOUNTANCY EUROPE LAUNCHES EU ELECTIONS CAMPAIGN

We are participating in the EU elections with our campaign **Because Voting Counts** – check [our three election priorities](#) for the next EU mandate.

We are also a supporting partner in the European Parliament campaign [This Time I'm Voting](#), encouraging citizens to vote.