

# Taking audit policy forward

## The views of the Federation of European Accountants

**A**uditors need to reflect on their societal role and their added value. As the needs of society, markets' and stakeholders' evolve, auditors have to change. FEE therefore welcomes the debate launched by Commissioner Barnier and approaches it from the **viewpoint of the long-term collective interest of the entire profession**, whatever the size of firms, areas of practice or Member State, taking into account the European public interest.



Commissioner Barnier & FEE President Johnson  
FEE Conference on Audit Policy, 30 June 2011

### Many proposals are welcomed improvements

We support proposed measures that are aimed at modernising the current audit framework and advancing audit policy, in particular:

- Measures **enhancing the performance of the audit**;
- EU adoption of **International Standards on Auditing (ISAs)** for all statutory audits;
- **Development of the role of audit committees**, especially in relation to the appointment of statutory auditors;
- Improvement of the **governance of audit firms**;
- The **ban of contractual clauses** limiting choice of auditors;
- Improvement of the **coordination of audit oversight** on European level, which will necessitate the creation of a dedicated and representative Stakeholder Group in ESMA.

In a globalised world, the Commission is right in **promoting the creation of a single market** for audit services however difficult it may appear in view of remaining divergences in parts of Member States' legislation. Similarly, it rightly considers the subsidiarity principle when **enabling Member States to decide on the audit of small undertakings**: they are best placed to determine their needs based on the size of their economy and their tax inspection systems.

### Auditors' communications can be improved

**Proposals on auditors' communications go in the right direction but the legislative debate needs to improve them** or make them more practicable and useful.

More information is demanded in the **public audit report** covering a large number of matters, some but not all of which **will be useful** to users of the financial statements. In addition, an assessment of the internal control system would involve significantly increased (documentation) costs for companies with little added value as the Sarbanes-Oxley Act in the US has shown.

An **internal audit report by the auditor to the audit committee should increase its involvement and knowledge**. Due to the nature of some of the comments, common business sense indicates that this report's value would however be greater if its use was limited to the board and not available to all at the General Assembly.

### The value of audit relies on independence and expertise

Regarding independence, the bedrock of audit, the current proposals are overly restrictive and are likely to reduce the depth and breadth of expertise that stakeholders demand and might adversely affect audit quality:

- The **limitation of the provision of non-audit services** to all audit clients which are public interest entities (large businesses) **will reduce the firms' ability to attract talent and develop the know-how necessary to audit complex businesses**. Instead of the proposals as drafted, **we recommend the adoption**



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More than 300 participants from 34 countries attended, representing a variety of stakeholders, like users, preparers, regulators, oversight bodies, academics, professional accountants and auditors.

**of the robust International Code of Ethics** developed by an independent public interest board under the auspices of IFAC' which recognises the notion of 'materiality', is balanced and practicable for business and auditors.

- **Limiting the provision of related financial audit services** for all public interest entities to less than 10% of the total audit fees **is impracticable** in the light of the demands from many national and European supervisors and regulators. It might seriously hinder the quality of these services that are required to be performed by statutory auditors or force up the cost of the statutory audit.
- The idea of breaking large professional firms into **audit-only firms**, if at all achievable in a global environment, may not only imply serious disruption for markets and for the whole profession, they **will be detrimental to the quality of all audits as much needed expertise will be lost**.

The limitation of such services does not serve the public interest, especially at a time when growth, innovation and job creation should be fostered. They will need to be amended significantly.

### Solutions to stimulate a more vibrant audit market are still to be found

The objective of **enhancing choice in the audit market is legitimate but no new solutions have been proposed by the Commission**. While some fear that **mandatory rotation** of audit firms would increase (not reduce) concentration, there is no doubt that imposing rotation **every 6 years will be counterproductive**. This will severely restrict the auditors' knowledge of the entity being audited and reduce the quality and value of the audit, increase risk and cause unnecessary disruption.



FEE (Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 EU Member States. FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, and the public sector.

### Transforming the profession in an overregulated industry will destroy value

The debate is focused excessively on measures aimed at re-shaping the audit market of public interest entities while some fundamental elements go unnoticed.

Next to the much commented proposed Regulation, the proposed Directive excludes professional accountancy bodies from any other activity than the registration and approval of auditors. This ignores that professional bodies have underpinned the continued development of the profession and enhanced its quality and independence, in particular for small and medium-sized practices. Many Member States rely on the expertise, experience and resources of professional bodies to control the firms' audit quality. This **paradigm shift** transforms what is today a profession into a regulated industry, **affecting the values and discipline a professional institute instills in its members**.

FEE trusts that the democratic legislative process that has now started within the European Parliament and EU Member States will provide an opportunity to rebalance the Commission proposals so that the adopted legislation promotes the supply of high-quality audit services, facilitates the development of a vibrant audit market and supports an independent and sustainable audit profession.

For more information: FEE  
Avenue d'Auderghem 22-28 • B-1040 Brussels  
secretariat@fee.be • www.fee.be