FEE CONFERENCE ON AUDIT REGULATION

AUDITORIUM OF THE NATIONAL BANK OF BELGIUM, BRUSSELS

TUESDAY 27 NOVEMBER 2007

MINUTES OF PANEL DISCUSSION ON PRINCIPLES, OBJECTIVES AND EXPECTATIONS OF AN AUDIT

Philip Johnson, FEE Vice-President, opened the Panel by introducing the speakers and announced that the principles, objectives and expectations of an audit would be considered from the different perspectives of standard setters, preparers, financial analysis, users and auditors.

John Kellas, Chairman of the International Auditing and Assurance Standards Board (IAASB), commented on the principles and objectives of an audit from the perspective of a standard setter.

The role of standard setters is to develop standards for the performance of auditors in order to maintain and improve the consistency and quality of audit opinions in the public interest. Relevant principles of auditing include the ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, together with professional judgment and professional scepticism, reasonable assurance and evidence-based opinions. While the audit is not a forensic investigation, auditors do recognise the risk that the financial statements may be fraudulently misstated.

He stressed that standard setters and auditors worked to meet the objectives of an audit within the context of legislation and the accounting framework. International standards are designed to allow auditors to meet the commonly agreed scope of an audit; local variations in scope may require action by national standard setters. Further significant changes in the scope of an audit would require wider agreement. He stressed that the audit does not guarantee that the accounts are correct or provide assurance on matters outside the audit scope or compensate for inadequate law or regulation.

Kenaad B. Tewarie, Former CFO and Member, Executive Board, Laurus BV, Founder and Managing Director, Five Oaks Investments, the Netherlands, presented the expectations of an audit from the perspective of a preparer of financial statements and showed the discrepancies between the expectations of company's management and its independent auditor.

Seen from the perspective of management, auditors try to limit their liability as far as possible and by negotiating low budgets, decrease the quality of their work. He was also of the view that auditors get away with the consequences of business failures in most cases.

The management, in particular the Chief Financial Officer (CFO), is in contrast supposed to act as a business partner in the board and at the same time to maintain the confidence of investors and analysts, furthermore he faces the risk of personal liability.

Auditors should try to regain the respect of society by pursuing the highest quality both in accounting and auditing standards and share legal responsibilities with company's management.

Nicolas d'Hautefeuille, Head of Rating Advisory, Managing Director, Calyon, Crédit Agricole Group, Certified Analyst, France, gave an overview of the involvement of rating agencies.

Rating agencies provide an independent opinion on credit risk. However, the rating scales between corporates, municipal bonds and structured finance and between rating agencies are inconsistent.

He stressed that auditors, rating agencies and regulators share the common duty of protecting investors and suggested to use synergies between auditors, rating agencies and regulators.

Paul Lee, Director, Hermes Investment Management, Member, Auditing Practice Board, UK, focussed on the visibility of audits to users of financial reporting.

From the perspective of an user, auditors inform stakeholders in their audit reports about what they cannot do and about limitations, but express very little views on the audited financial statements themselves. A tiny "yes" is all that users see from the auditors work. He commented that even companies well-known for illegal practice, e.g. bribery, have received unqualified auditor's opinions.

Consequences of, in his view, inadequate reporting, are the invisibility of audits to users of financial reporting and the remarkably low expectations users have from audits and their added-value.

He emphasised that auditors have to find a way to improve the visibility of the added-value of an audit which does certainly exist but it is not evident.

Klaus-Günter Klein, FEE Vice-President, Member, European Forum on Auditor's Liability, Partner, Grant Thornton, Germany, responded to the challenges raised by the previous speakers.

He stressed that audited financial statements are of utmost importance for capital markets and that large companies without audited financial statements are unimaginable, since audit is key to reputation and confidence in the capital markets. Furthermore, independent audits play a crucial role in corporate responsibilities, in particular corporate governance. The value of an audit would become most apparent if it would no longer be provided.

He pointed out that inherent limitations are built into the whole financial reporting framework and need to be understood to avoid unrealistic expectations. He indicated that an audit is useful for investment decisions but cannot assure their success.

He further drew attention to the fact that regulation has a direct effect on the culture of audit firms and regulatory overload has a detrimental impact on audits.

During the panel discussion and in responding to the questions from the audience, it was re-emphasised that fraud is an overall risk. However, the powers and ability of auditors to detect fraud are limited. Above all, management is responsible for corporate governance – not the auditor.

As a conclusion, it was agreed that there is a need for audits as validation of the financial statements for the company's stakeholders. The value of an audit does exist in support of stewardship reports and the efficiency of the capital markets, but more needs to be done to emphasise this to the users and build confidence with the various stakeholders.

Chairman Philip Johnson concluded the panel discussion and thanked the panellists and audience.