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JOINT STATEMENT IN VIEW OF THE EP JURI VOTE ON THE DRAFT REPORT ON THE PROPOSED REGULATION ON AUDIT

Businesses operating in the EU urge Members of the European Parliament to support changes to the Commission's proposals that respect the global nature of the capital markets and the international marketplace in which companies subject to the proposed Regulation are operating. The objective of such changes should be to preserve audit quality without unnecessarily increasing costs for business through a framework that is based on globally accepted practices and standards. This will help companies in their efforts to generate jobs and growth.

The following proposals are of particular concern:

Mandatory audit firm rotation (Article 33(2))

Article 33(2) of the proposed Regulation forces a public interest entity to rotate its audit firm after a pre-defined period. Audit firm rotation will create challenges for audit quality and will increase costs. Mandatory rotation will also cause practical problems for multinational groups by reducing choice in the number of potential new audit firms and increasing complexity where auditor appointment in other countries is subject to different terms. These problems will be particularly acute in countries that have chosen to have a system of joint audit. Mandatory rotation is a significant intervention in the freedom of contract and the decision-making authority of the Audit Committee and/or those charged with governance. The introduction of mandatory firm rotation thus contradicts the intent of the Commission's proposal to strengthen the competencies of the Audit Committee.

It should be for the Audit Committee and those charged with governance in a company to regularly monitor the independence of the auditor and to ensure that relevant information on their findings is provided to the shareholders.

Composition of the Audit Committee (Article 31(1))

The obligation for a Public Interest Entity to establish an Audit Committee was formally introduced in Article 41(1) of the Statutory Audit Directive of June 2006. This Directive requires that at least one member of the Audit Committee is independent and has competence in accounting and/or auditing.

The Commission's proposals regarding Article 31(1) of the draft Regulation seek to expand these requirements by including one member of the Audit Committee with competence in auditing in addition to the member with competence in accounting and/or auditing.

The composition of the Audit Committee is decisive on the effectiveness of control and in the interest of companies, but the composition of the audit committee should not be too prescriptive as this would limit considerably the availability of qualified potential Audit Committee members. Further, it is important that the Audit Committee includes a broad range of different types of relevant expertise in order to challenge the statutory auditor. This will ensure that the Audit Committee is more than just a forum for having technical discussions between auditors.

We also find that these proposals are a serious interference in the rights of a company and its shareholders to decide which individuals are best qualified to be members of their Audit Committee.

The existing rules should be maintained and the composition of the Audit Committee should be decided by those charged with governance who have an obligation to make sure that the Audit Committee has the expertise considered relevant for the individual company.

10 % cap on “related financial audit services” (Article 9(2))

Article 9(2) of the draft Regulation imposes a cap, equal to 10% of the statutory audit fee, on the provision of “related financial audit services” by a statutory auditor to a public interest entity.

Related financial audit services are services that are customarily provided by a statutory auditor and the type of services are not considered to endanger independence. In some cases these services are even required by law to be performed by the statutory auditor, and most of the services themselves have a specific independence requirement.

Setting a 10% cap or, indeed, any cap will not only add complexity and cost to businesses but also endanger their competitiveness by potentially restricting them from commissioning services that are best provided by the auditor, for instance, reviews of interim financial statements or certain due diligence services.

It should be the responsibility of the Audit Committee, or those charged with governance, to set appropriate policies within the group regarding the purchase of audit related and other services from the statutory auditor.

Definition of “non-audit services” (Article 10(3))

The proposed Regulation includes a so-called “white list” of Related Financial Audit services in Article 10(2) subject to a 10% cap (see above), a “grey list” of services that can be provided only with the approval of the Audit Committee or Competent Authority and a “black list” of prohibited non-audit services in Article 10(3).

This approach is unnecessarily complex and the Regulation should only include a list of prohibited non-audit services. The language of the “black list” should be based on the international IESBA Code of Ethics with the objective of keeping the wording as close as possible to the existing IESBA Code. Where the legislator believes that it is appropriate to prohibit additional audit services beyond the IESBA Code of Ethics in order to safeguard auditor independence, it should be clearly stated that the item is not a part of the current Code of Ethics.

Almost all of the companies covered by the draft Regulation operate internationally. When procuring services around the world from a statutory auditor, Audit Committees

need to have a common set of standards to inform their procurement decisions. In this regard, the IESBA Code of Ethics is already today the international reference. Coordination of procurement decisions within groups would be strengthened if the language of the list were to be based on the IESBA Code of Ethics and if it is then clearly highlighted whether there are additional services that are being prohibited.

Audit Report (Article 22)

Although the current audit report has shortcomings, the detailed proposals set out in Article 22 of the Regulation regarding the audit report are overly prescriptive. They represent a significant departure from the requirements of International Standards on Auditing as promulgated by the IAASB and will create unnecessary confusion and divergence at the international level.

Most of the businesses subject to the draft Regulation have operations across the globe and need to be able to attract investment on a global level. As such, a globally accepted Auditor's Report is an important aspect to support transparency and thereby facilitate their access to loan finance or equity capital. If the EU would follow a different approach, this will undermine international convergence and promote confusion in the international marketplace.

The proposed regulation of the Audit Report should therefore be principles based, allowing for the alignment of the report with the relevant International Standards on Auditing as adopted at EU level. This will also facilitate possible future changes in the audit report without having to reopen the Regulation.
