

The Auditing Board

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To: The European Commission
DG Internal Market and services
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RESPONSE TO THE EUROPEAN COMMISSION'S GREEN PAPER – AUDIT POLICY: LESSONS FROM THE CRISIS

1 GENERAL REMARKS

The Auditing Board of the Central Chamber of Commerce (AB3C) is an independent non-profit body responsible for authorisation and oversight of auditors and audit firms in Finland. AB3C's structure and tasks are governed by the Auditing Act. AB3C is subject to current legislation applicable to public functions. AB3C's operations are focused on public interest. AB3C is an IFIAR (Independent Forum of Independent Audit Regulators) member and is represented in the EGAOB (European Group of Auditors' Oversight Bodies).

Question 1 – Do you have general remarks on the approach and purposes of this Green Paper?

Yes. AB3C welcomes discussion on the topics addressed in the Green Paper. AB3C agrees that auditors have an important role in modern society. The audit function must serve to further develop and enhance financial stability.

However, it is vital that the audit function is seen and discussed as an element of a chain of financial reporting. Directors, controllers, auditors and investors have their own distinct roles and functions which must be kept clear. This is important in order to minimise the expectation gap which has always been one of the main challenges in the development of the audit market.

The Green Paper comprises a large number of timely topics. The Green paper addresses various alternatives and ideas on development and encourages debate on these. It would, however, be most useful to examine possible changes and options in more depth with the help of a sophisticated cost-benefit analysis. This would help to better understand the effects of possible changes. Some of the ideas in the paper do not seem to be realistic in this respect. Possible changes in the audit environment and current regulation should be based on fair and balanced assessment of all stakeholders' interests.

AB3C supports efforts to improve the audit market's functionality. Impediments which prevent fair competition, free provision of services and free movement should be abolished. Nevertheless, the basic principles of a free market economy must be respected. European institutions and national governments should be extremely cautious when considering new restrictions to be imposed for the purpose of

steering the audit market. It is also important to pay attention to the needs of small and medium-sized businesses and to avoid introducing unnecessary administrative burden.

2 ROLE OF THE AUDITOR

Question 2 - Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?

No. The term “societal role of the audit” is unclear and it is open to various interpretations. The primary function of statutory audits is to verify the accuracy of financial statements and other financial information. Assurance services are the core responsibilities of auditors.

The Green Paper challenges the current auditor role and provokes debate on whether auditors should have a broader role in order to enhance better flow of information. Nevertheless, the suggestion to extend auditor tasks does actually reflect the expectation gap.

Auditors today provide a wide range of services on a voluntary basis. Auditors can provide non-audit services to audit clients if there is a demand for such services.

Extending auditor responsibilities would require changes in current auditor education as well as a system for approval and licensing. This also applies to the idea of auditing corporate social and environmental responsibility reports. Competence requirements must reflect auditor tasks.

Question 4 - Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for such a purpose?

No. It should be made clear that the auditor’s role is to provide assurance to financial statements but not to provide financial information as such. AB3C does not support any extension of the auditor’s mandate by way of statutory means.

Question 11 – Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year and the date of the audit opinion be reduced?

Yes. AB3C supports improvement of auditor communication, both external and internal.

The audit report has a central role in auditor communication. In our international world, auditing must be standardised. The EU Commission can actually influence IAASB’s standard-setting process. This possibility can be further improved.

Question 12 – What other measures could be envisaged to enhance the value of audits?

Narrowing the expectation gap is important. This is in fact an opposite goal compared to possible extension of the auditor mandate.

In Finland, even most small and medium-sized businesses must appoint a statutory auditor. Such audit work, as compared to audit work in large enterprises, requires a different audit methodology to be

applied. Considerable efforts should be taken towards efficient regulation of audits in small and medium-sized businesses in order to help avoiding unnecessary administrative burden.

Question 14 – Should ISAs be further adapted to meet the needs of SMEs and SMPs?

Yes. AB3C supports the adoption of IAASB's ISA standards as well as Quality Control standards on an EU level as soon as possible. AB3C supports the use of a binding legal instrument in order to better secure uniform implementation of these. The auditing standards have been translated into most official European languages and they are already in use in most EU countries. The clarified ISA standards can be applied in SME audits in a flexible manner.

3 GOVERNANCE AND INDEPENDENCE OF AUDIT FIRMS

Question 16 – Is there conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?

Question 17 – Would the appointment by a third party be justified in certain cases?

Question 18 – Should the continuous engagement of audit firm be limited in time? If so, what should be the maximum length of an audit firm engagement?

No. AB3C does not support changes in appointment procedures and remuneration restrictions or extended rotation requirements as suggested in the Green Paper. These options are not well-reasoned in the Green Paper and the possible changes are not justified. They would create new administrative burden and they would be expensive to audit clients as well. These changes would be especially harmful for small and medium-sized businesses.

Question 19 - Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?

AB3C does not support an overall prohibition for auditors to offer non-audit services. These options are not well-reasoned in the Green Paper and the possible changes are not justified. They would create additional administrative burden and they would be expensive to audit clients as well. These changes would not lead to successful results and would be especially harmful for small and medium-sized businesses.

Question 22 – What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?

Auditor independence is significant in terms of stakeholders' trust in auditing and audit reports. Statutory auditors, especially the large international networks, nowadays apply robust independence policies and procedures.

Auditor independence can best be further enhanced by improving professional auditor competence and professional ethics.

In terms of improving auditor independence, AB3C is critical towards fundamental and new statutory requirements. Most threats to auditor independence can be controlled by efficient safeguarding. Efficient

and convincing safeguarding to control auditor independence threats must be constantly developed. Efficient public oversight and functional quality assurance systems also have important roles in terms of enhancing confidence in auditor independence.

4 SUPERVISION

Question 25 – Which measures should be envisaged to improve further the integration and cooperation on audit firm supervision at EU level?

On an international level, improved supervision of auditors and audit firms is an important task. Cross-border cooperation between oversight bodies must be further developed.

There must be cooperation between EU oversight bodies and third-country oversight bodies. Some significant results have already been achieved. The Commission has adopted equivalence and adequacy decisions in accordance with the Audit Directive. The EGAOB has developed agreement drafts to help member organisations cooperate with third-country oversight bodies. AB3C agrees with the Green Book on the point that the EGAOB and its sub-groups have a central role with regard to cooperation on an EU level. The EGAOB's structure should be re-designed. The EGAOB should be stronger and more active and should work in a robust and concrete manner.

5 CONCENTRATION AND MARKET STRUCTURE

Question 27 – Could the configuration of the audit market present a systemic risk?

No. There has been a lot of debate recently on audit market concentration. Studies and consultations have been made in order to find ways of influencing this international concentration process.

AB3C supports traditional methods in order to mitigate possible concentration development risks. Administrative restrictions must be removed in a controlled way in order to enhance competition and functional markets. Auditor liability rules must be further examined. Whether or not limitations in terms of auditor liability are necessary must be considered.

Question 28 – Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for dynamising the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?

No. AB3C does not support the idea of mandatory joint audits. Whether or not more than one auditor is necessary should be left to the consideration of the audit client's owners. When auditing large international companies the question may be whether or not there are any competent audit firm candidates outside Big Four. Mandatory requirements of more than one audit firm could double audit costs.

Question 29 – From the viewpoint of enhancing the structure of audit markets, do you agree to mandatory rotation and tendering after a fixed period? What should be the length of such a period?

No. AB3C's point is that the current Audit Directive requires auditor partner rotation. This rotation system is working satisfactorily. Auditor partner rotation creates confidence in audit independence. Independence between natural persons is relevant. Mandatory rotation of audit firms would increase audit costs.

6 CREATION OF A EUROPEAN MARKET

Question 33 - What in your view is the best manner to enhance cross border mobility of audit professionals?

Any barriers to European market integration must be removed. Throughout Europe, there must be competition and rational allocation of human resources. Efforts to enhance the audit market's functionality is a central task also in terms of improving audit quality.

There are still many national administrative barriers which should be removed to enhance free movement of auditors. Approval and registration requirements should be simplified and facilitated.

The idea of a "European passport for auditors" must be further examined. Also creating a European registration system involving unified professional qualification requirements and unified governance, ownership and independence rules applicable across the European Union could be a correct road to take.

AB3C would support a system which could encourage increased competition in the large audit market as this would enhance the development of European audit networks and reduce the costs of providing audit services on a European basis.

7 SIMPLIFICATION: SMALL AND MEDIUM-SIZED ENTERPRISES AND PRACTITIONERS

Question 35 - Would you favour a lower level of service than an audit, a so called "limited audit" or "statutory review" for the financial statements of SMEs instead of a statutory audit? Should such a service be conditional depending on whether a suitably qualified (internal or external) accountant prepared the accounts?

It is important to remove administrative burden for all businesses. Administrative burden which is not absolutely necessary is harmful especially for small and medium-sized businesses and sole practitioners. However, removing administrative obligations may involve risks. These risks must be examined and controlled.

In the SME world, discussion about "limited audits" or "statutory reviews" is not a new topic. The use of an alternative SME review must be further examined and debated.

On the other hand, some problems are related to the idea of creating new statutory reviews for the SME sector. A new kind of assurance service would require new legislation and standards. Scope, tasks, review methods, reporting and liability should be provided for. The new service would possibly require

establishment of a new professional group within the current approval and supervision system. This idea may lead us to the expectation gap. It could be challenging to communicate the difference between statutory audit and a new type of review to the general audience.

Reviews today are an existing service. Reviews can be carried out on voluntary basis even if the audit client must be audited according to law. There is also a ISRE standard on reviews.

Thus, AB3C is sceptical about the idea of introducing new mandatory “limited audits” or “statutory reviews” for SMEs. However, the applicable European legislation offers member states several options for deviating from the overall statutory audit requirements without obligations to compensate with any other requirement.

The Auditing Board of the Central Chamber of Commerce

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