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EU audit regulation and international cooperation

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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Introduction

Thank you, David, for the invitation to offer some closing remarks. The programme and attendance of this conference shows what a key theme auditing has become. And it shows that it is an issue that has long moved beyond national borders.

Getting audit regulation right in a globalised world means close cooperation. This conference is an excellent example of how this can be done. By bringing together the key actors - the US Public Company Accounting Oversight Board, European audit regulators and the European Commission – and by talking through the issues which are important to all of us.

Companies and audit firms have long since gone global. It is us – the legislators and regulators – who have to adapt to this fact. When we design the regulatory framework in our own jurisdictions we also have to think about the effects this will have on others. We live in a world of spill-overs. Rules passed in the EU affect US business and vice-versa. This insight has to be part of the regulatory process right from the start.

In my speech today I would like to focus on the implementation of the EU Directive on statutory audit – and to explain how much attention is being paid to international issues within this process.

Implementation of the Directive on Statutory Audit

The successful implementation of the Directive on statutory audit will be a key priority for the next two years in the EU.

A cornerstone in the Directive is the move to International Standards on Auditing. European listed companies have already moved to one set of accounting standards for their group accounts – the International Financial Reporting Standards (IFRS). In auditing, we should move in the same direction. The Directive creates a mechanism for the introduction of International Standards on Auditing in the EU.

One of the conditions which have to be fulfilled before we can adopt ISAs in the EU is to ensure sound governance of the standard setters. Proper due process, public oversight and transparency are the elements to make sure that standard setters fully understand the real world consequences of their actions.

That's why I am very happy that recently, we have been able to sketch out an international understanding on the governance of the International Auditing and Assurance Standards Board (IAASB) and the Public Interest Oversight Board (PIOB). This will allow us to move closer to the adoption of ISAs and I also think that the two EU observers should become full members of the Public Interest Oversight Board.

Next on the list is the clarity of the International Standards on Auditing. The Commission is following the "clarity project" of the IAASB very closely and is putting its full weight behind it so that a successful result can be achieved on time.

Within the EU, another particular challenge is to set up independent public oversight of auditors. This is a sea change for most EU Member States and for the profession.

Already now about half of EU Member States have an oversight body. The other Member States are in the process of setting them up. They should do so quickly and at the very latest by mid 2008.

Cooperation with third countries

To enhance practical coordination between EU audit regulators the Commission has set up the European Group of Auditors' Oversight Bodies – the EGAOB.

The EGAOB can be seen as the common face towards third country public oversight systems. I welcome very much that Mark Olson and the Presidents of the European audit regulators will come together at an EGAOB meeting tomorrow. This is exactly the kind of close collaboration we need. And in future we will need it on an even more regular basis and at all levels – from the technical to the political.

Of course we have got different traditions, different regulatory frameworks and many of the existing differences will persist. But we have to ensure that our local regulatory frameworks are compatible and help international cooperation. We need to find ways to ensure high quality audits without smothering business with unnecessary regulation. Look, for example, at the accounting field. We are on good track now to get rid of costly reconciliation requirements for EU companies in the US by 2009. There are high quality standards in place in both jurisdictions. There has been a growing realisation in the EU and the US that we should be able to rely on the other sides' standards without saddling another, costly layer on top.

I think this is a model that should be followed for auditing, too. Both the EU and the US have put, or are putting in place high-quality public oversight and supervision of the auditing profession. Let's find ways of relying on each others' structures to avoid costly regulatory overlaps.

This is the approach we want to take in the EU. The Directive on statutory audit invites the Commission to assess whether third countries with companies listed on regulated markets in the EU have public oversight systems equivalent to EU public oversight. Audit firms from countries with equivalent systems will not have to register individually with European audit regulators. Less bureaucracy, same high quality outcome and oversight.

Equivalence in this respect does not require systems to be fully identical. What we need to see are similar high-quality structures and procedures. We want to get to the point where we can have registration and inspection carried out by authorities in those non-EU jurisdictions – and as fast as possible. Sending inspectors abroad is costly and not really a trust building measure.

Estimates show that there are several hundred audit firms from a substantial number of third countries active in the EU. Not all will be affected by the Directive, but nevertheless the process of assessing the equivalence of home country systems will take its time. On the basis of the information we now have available, I hope that the Commission, in cooperation with the EU Member States and the European Parliament, will have settled the equivalence issue by the end of next year.

Auditors liability and the audit market

Let me finish with a couple of words on auditors' liability.

The Commission has just published a study undertaken by an outside consultant on this issue. The study analyses the structure of the auditing market and its possible developments in the future. It looks at the existing limitations in the insurance market for international audits and examines whether there are economic needs for limiting auditors' liability.

The result of the study underlines a concern I have had for some time: there is an increasing trend for litigation against auditors, while at the same time international audit networks are faced with a lack of available commercial insurance. Therefore, there is a real risk that at some point one of the "Big four" auditing firms might be faced with a claim that would threaten its existence. Auditing is not just any industry, but one that plays a pivotal role in our capital markets. Were the "Big four" to turn into the "Big Three", or even worse, into the "Big Two", capital markets at large could face very serious consequences. Companies would have difficulties obtaining audits, investor confidence could be undermined and trust in the markets might be weakened generally.

A limitation of auditors' liability could reduce this risk – without reducing incentives for audit quality. It might also contribute to lowering the barriers to entry into the international audit market.

Later on this year and based on the results of the study, I will come forward with a report on auditors' liability. In the report a number of policy options will be outlined. This report will be open for consultation and I would like to invite all stakeholders to take part in the ensuing debate. I know that there are very different opinions. But I think that this topic is too important to be put aside just for that reason.

Some Member States already have capped auditors' liability, others have introduced or are introducing proportional liability combined with some limitations on who can sue auditors. There are many ways to improve the current situation and, given the differences between national markets, there is probably no one-size-fits-all approach. I am looking forward to the ideas a wider public debate will spark.

I also want to mention that this autumn, the Commission will launch a study on ownership rules applying to audit firms, and the consequences these rules have on audit market concentration. The aim is to explore how smaller audit networks or firms could be given better access to the 'blue chip' audit market - for the benefit of competition, companies and investors.

Conclusion

Let me conclude. Regulatory frameworks for auditing might differ across the world. There are different traditions, we have different types of institutions and different rules on our statute books. But, in an increasingly global auditing market where big international networks cater for clients who are active around the world, there is a growing need for cooperation between regulators and supervisors. Industry is right to ask us for rules that are devised for a global industry and not only on the basis of national borders that have long been transcended in real life.

I take great confidence from today's conference that we are on the right track to get there. It will take a cooperative, practical and open approach from everyone involved. I hope that my speech today has shown that the European Commission is ready to engage with all partners around the globe.

Thank you for your attention.