

AccountancyAge

Transparency and flexibility are keys to audit reform

by Rachael Singh

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A REFORM OF EUROPE'S audit rules must encourage greater transparency and openness as well as better quality of audit, a conference in the European Parliament heard today.

The MEP responsible for European proposals to reform audit, Sajjad Karim, said: "We must encourage a much greater degree of transparency and openness, rather than maintain the present opaqueness when important decisions are taken as part of the audit process.

"We need to look to deliver a system which ensures independence, rather than one

which enables the continuation of cosy relationships."

Speaking at a conference he organised with the European Federation of Financial Services Users, he explained how Parliament had been working "feverishly" on the issue of reform and that the role and needs of investors must also play a central part to proposed changes.

He said that the role of the investor is "sometimes lost" amid an endless discussion about the number of years for mandatory rotation.

Karim also explained that regulation may not be the key to addressing the future of audit reforms and instead a directive could work better.

"Often when meeting stakeholders and discussing with colleagues...we come up against the problem that a regulation will not be sympathetic to the various national company law traditions and approaches used across the Union.

"I believe therefore that we must address many of these questions by way of a directive, which ensures a degree of flexibility nationally as to how to achieve the aims that the Commission and I share. We will not serve European shareholders and investors well by imposing a 'one size fits all solution' that is a bad fit for companies across the member states."

In February this year the Competition Commission published its draft findings and proposed changes to the UK audit market. The Commission found that competition for audit engagements in the FTSE 350 is restricted, and may require remedies to open up the market to a greater number of players. These include: mandatory tendering & rotation; improved engagement by shareholders; and a greater role for audit committees.

At the time of the publication of the Commission's report Karim said the findings backed up his opinion that the status quo of the market cannot remain the same.

However he added that non-audit services and fees remained a point for discussion.

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