AccountancyAge

Tension grows as EU audit decision looms

by Jeremy Woolfe 02 Apr 2013

RESOLUTE SPEECHES on the lines that ‘European shareholders must be supplied with company accounts that they can trust', were voiced by legislative audit reformists at a Brussels conference.

Attitudes at the conference last week, "*The audit reform - impact on investors*", indicated plenty of behind-doors tension on the EU's plans to tighten up on the sector.

The sentiment emerged against a background still lacking a master text from the European Parliament on specific proposals for the audit market. Its lead committee, the Legal Affairs (Juri) Committee, is said to be unlikely to come up with anything firm before late April.

EU parliamentary committes were expected to complete original plans for the audit reform legislation before Christmas 2012, and that was after at least one delay. Debating had started in September. Currently, the main contention is auditor rotation. Also ‘hot' is the concern over conflict of interest, with reference to supply by auditors of management consultancy and non-audit services.

The position of the reformist movement on rotation would be not far off what came out, in mid-March this year, from the Parliament's Economic and Monetary Affairs Committee (Econ). Econ carries real weight, but is secondary to Juri. Econ voted for regular rotation for audit appointments once every seven years.

On behalf of the "Council" (representing national governments), the Irish presidency is seeking a ten-year maximum rotation period, it was revealed by the European Commission's Nathalie Berger. She was speaking at the conference, which was organised by EuroFinuse - representing retail investors in the EU, with support by ACCA.

Berger, head of unit for audit and credit rating agencies, said that the Netherlands recently legislated for an eight-year period. The Commission's limit is six years, or nine if joint audit is carried out. Italy wants nine years. The UK's Competition's Commission would have the rotation limit at 14 years.

Arch-reformist Michel Barnier set out an unyielding position. The commissioner made it quite clear that there was no chance of the commission pussy-footing around when any proposals go to the ‘trialogue' meetings, which involve the commission alongside the Council and the Parliament.

"We have seen too many instances where the links between the auditors and the client entities were too close", he said.

Barnier placed his position full square on the need by the EU for economic growth, for which the key was to restore shareholder confidence. "We are determined to stand our ground", he insisted.

On the other side of the battle lines are the Big Four firms, which would seek the longest possible rotation period, if rotation became law. Notably, the Juri Committee's co-ordinator (rapporteur), Sajjad Karim, had last autumn proposed a 25-year period.

Immediately following the conference Karim, the MEP for north-west England, avoided discussing rotation, in a softly-worded press release. He concentrated rather on advising "transparency and flexibility" as keys to audit reform.

Heat from another source could come in the trialogue meetings, if Scandinavian countries take up an argument from conference speaker Per Lekvall. He is a member of both the Swedish Corporate Governance Board and of the Policy Committee of the European Conference of Directors' Institutes.

He raised the point that the commission's approach of charging responsibility for audit appointment with the audit committee of an entity fell down somewhat.

Such committees were not mandated in, for instance, Sweden, he explained. Then, he dropped in that: "It might be a good idea to give shareholders the statutory right to appoint auditors".

Representing the Big Four, Ian Dilks, PwC global leader of public policy and regulation, argued against short-term rotation. He cited the high cost of changeover. It could be as much as 1,000 man-days within the entity, when the auditor firm was rotated.

Organisations cited by Dilks as advocating long-terms for tendering were InsuranceEurope, BlackRock, and BusinessEurope. This statement drew a reaction from a prominent MEP, speaking privately to *Accountancy Age*. Such organisations resist changes of auditors because they are happy with their present shareholder engagement, the MEP claimed.

On the other hand, shareholder groups, such as the USS, were not content, says the MEP. USS leads a coalition of predominantly long- term investors.

The outcome on rotation and other contentious positions - where neither reformist nor their opponents look likely to give ground in trialogue discussions - could well lead to further procrastination. This would not be the first time that behind-doors argy-bargying has led to interminable delay in Brussels.

One classic case is the Alternative Investment Fund Managers Directive, proposed by the Commission in 2009, to regulate hedge funds and private equity funds. It only comes into implementation, in the EU, this (2013) summer.

Yes, delay is a "risk", Guillaume Prache, managing director of EuroFinuse, conceded reluctantly.

Strangely, the conference met with no objection to recommendations for any final legislation to be in the form of a directive, rather than a regulation. A directive issued by Brussels has to be implemented in national rules. Hence, it can be subject to adaptation by national governments.

A regulation applies uniformly across all EU jurisdictions. For some years, the commission has been opting for regulations, in order to avoid legislative confusion.