

# CPAB Audit Quality Symposium

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- Why has change been called for
- Different approaches
- The UK's Response
- European Commission's Response
- What are the implications for Canada

# Why has change been called for

- Post Enron growth in independent inspection
- General view that the quality of auditing has improved
- Yet auditors viewed as silent during the financial crisis
- UK's Treasury Select Committee
- House of Lord's Report
- European Commission's Green Paper

# UK's Treasury Select Committee

- Little evidence that auditors failed to fulfil their duties as specified
- The failure to highlight developing problems in the banking sector does cause us to question how useful audit currently is
- The process results is 'tunnel vision' where the big picture is lost in a sea of detail and regulatory disclosures

# House of Lords

- Slightly more critical but a focus more on market structure
- However concluded:

*'We do not accept the defence that bank auditors did all that was required of them. In light of what we know now, that defence appears disconcertingly complacent.'*

# Different approaches

- Is this just a problem in connection with the audit of banks
- Profession slow to react
- Flood of responses
- Common objectives
- Proposals depend on available tools

# UK response 1

- Concerns focus on
  - ❖ Complexity (and length) of annual reports
  - ❖ Lack of clarity about company's business objectives, strategy for achieving them and risks to that strategy
  - ❖ Absence of information about key issues and judgments underlying financial statements
- Some companies meet these challenges well
- Aim is to learn from the best in corporate reporting and to help that become the norm

# UK response 2

- Various aspects of corporate reporting have been examined:
  - ❖ BIS consulted on reforms to narrative reporting
  - ❖ FRC has examined way companies manage and report risk
  - ❖ FRC consulted on various ideas to address the information gap
  - ❖ FRC established Sharman inquiry to consider the appropriateness of the 'going concern' test in financial reporting

# UK response 3

- These investigations and consultations have led to a number of initiatives:
  - ❖ Reform of Narrative Reporting (BIS)
  - ❖ Approach to Going Concern (FRC Sharman Inquiry)
  - ❖ Effective Company Stewardship (FRC)
    - Enhanced Audit Committee Reports
    - Auditors to report if audit committee report deficient
    - Financial Reporting Laboratory
    - Companies to tender audits once in 10 years

# European Commission's proposals

- 87 pages of context and detailed regulations
- Wide support of the underlying objectives
- Some changes since the September leak
- Many sensible proposals
  - ❖ Relaxation of ownership rules
  - ❖ Enhanced independence requirements
  - ❖ Greater transparency
  - ❖ Passporting

# European Commission's proposals (2)

- However there is widespread concern over the impact on cost and quality on some aspects
  - ❖ Audit only firms
  - ❖ Audit related services
  - ❖ Mandatory rotation

# What are the implications for Canada

- How will the networks respond to the audit firm only proposals
- Trickle effect
- Canadian components of European Groups
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- Emergence of ESMA as a regional standard setter