The BUSINESS VOICE

The voice of audit committees, and in particular their chairs, has been largely absent from the current debate on the future of audit. With the publication of the European Commission’s proposed reforms for the audit market, hearing from those who are on the front line when it comes to the work of auditors could have a significant influence.

ICAEW commissioned Brunswick Research to interview audit committee chairs of a quarter of the UK’s FTSE 100 companies in September/October to get their views on the EU proposals and to understand how they feel reform will impact on their role.

The first question that audit committee chairs have is ‘Why?’. They want to know the rationale for audit market reform and do not feel the case has been made convincingly. They think the UK audit sector is ‘fit for purpose’, highly expert and professional. UK audit firms and auditors are ‘best in class’ and world leaders in terms of quality, excellence and professionalism.

They have not seen clear evidence that fundamental issues relating to audit either precipitated or accelerated the financial crisis. As a result, they feel that the proposals are designed to solve a problem (the conditions which led to the banking crisis) with the wrong solution (major reform of audit). As one chair puts it: ‘I think this green paper is trying to correct a wrong that doesn’t exist.’

Nonetheless, chairs do see merit in some of the proposals as ways to help maintain audit quality, independence and overall market confidence. Few would argue against more competition but they recognise the challenges of creating an expanded market. The ideal scenario, they say, would be for the Group A firms to become more competitive within the FTSE 100. There is no question about the quality of the Group A, but they are perceived to lack the necessary scale and size at present to conduct audit at this level.

Audit committee chairs believe the size of the market has reached its lower limit. If the Big Four became the Big Three, real concerns would emerge around lack of choice and the prospect of conflicts and confidentiality issues. They have mixed views about the EU proposals on tendering and auditor rotation, but support greater openness around the tendering process.

JOINT AUDIT OPPOSITION

There is real opposition from audit committee chairs to joint audits. They have serious concerns about whether issues will ‘fall between the cracks’, the additional costs involved (paying two firms and the committee’s increased workload) and the challenges of two audit firms working effectively together.

They acknowledge the Commission’s concerns that auditors should be able to demonstrate greater independence. They feel this should be addressed through more effective communication and greater transparency around the audit process. The majority think existing safeguards work well and that auditor independence is reinforced by audit partner rotation.

They fear that some proposed reforms could have a fundamental impact on the role of audit committees and their responsibilities: the financial crisis has already increased demands on their time. They agree that the committee’s role must be clearly delineated and should not compromise or replace the role of the main board, especially on strategic risk decisions, the business model and signing the annual report.

Finally, audit committee chairs want policymakers and regulators to recognise the limitations of external audit. They do not want to see audit quality compromised in pursuit of broader reform.

Simon Thompson is ICAEW head of corporate communications. View the research, Views of Audit Committee Chairs: Their Perspectives on the European Commission’s Draft Proposals for Reform of the Audit Market, at www.icaew.com/AAF, choosing the ‘Audit and Beyond’ option