



Federation of European Accountants
Fédération des Experts comptables Européens

AUDIT CONFERENCE

“Long term vision and short term challenges”

DAY 2

23 June 2015

For once, turn **all devices ON!** *... but on SILENT MODE*



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Monthly e-newsletter

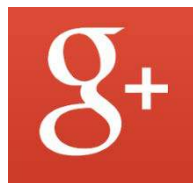


Federation of European Accountants



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OPENING



Rutger Mollee
Moderator

Audit quality: a core element to the future of audit

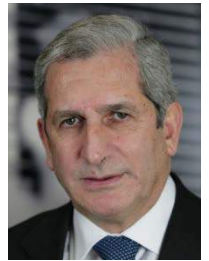


Arnold Schilder

Chairman, IAASB

Carlos Tavares

Vice-Chairman, ESMA



Alan Johnson

Non-Executive Director, Jerónimo Martins SGPS

Harald Kayser

Partner, PwC



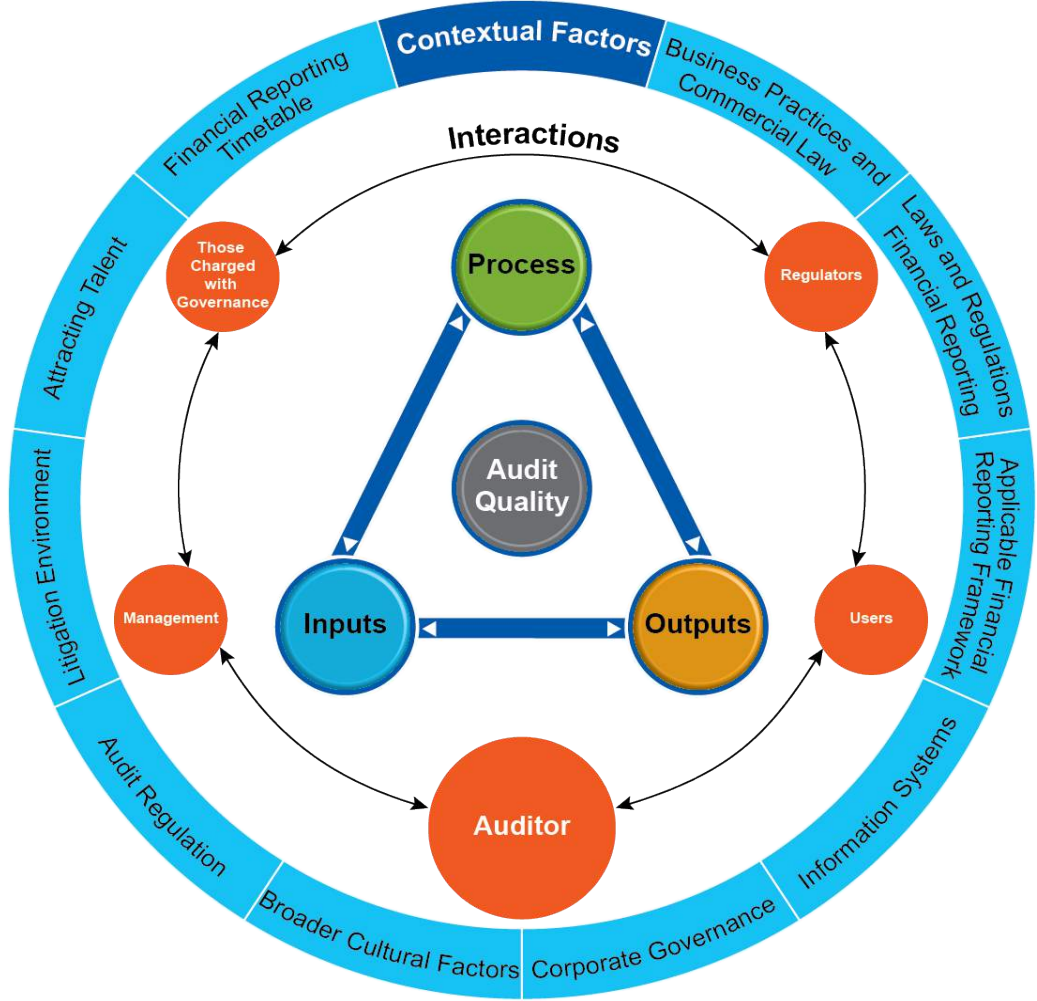
Audit Quality Roundtable

Prof. Arnold Schilder, IAASB Chairman
FEE Audit Conference
Brussels, 23 June 2015

Framework for Audit Quality

Key Elements

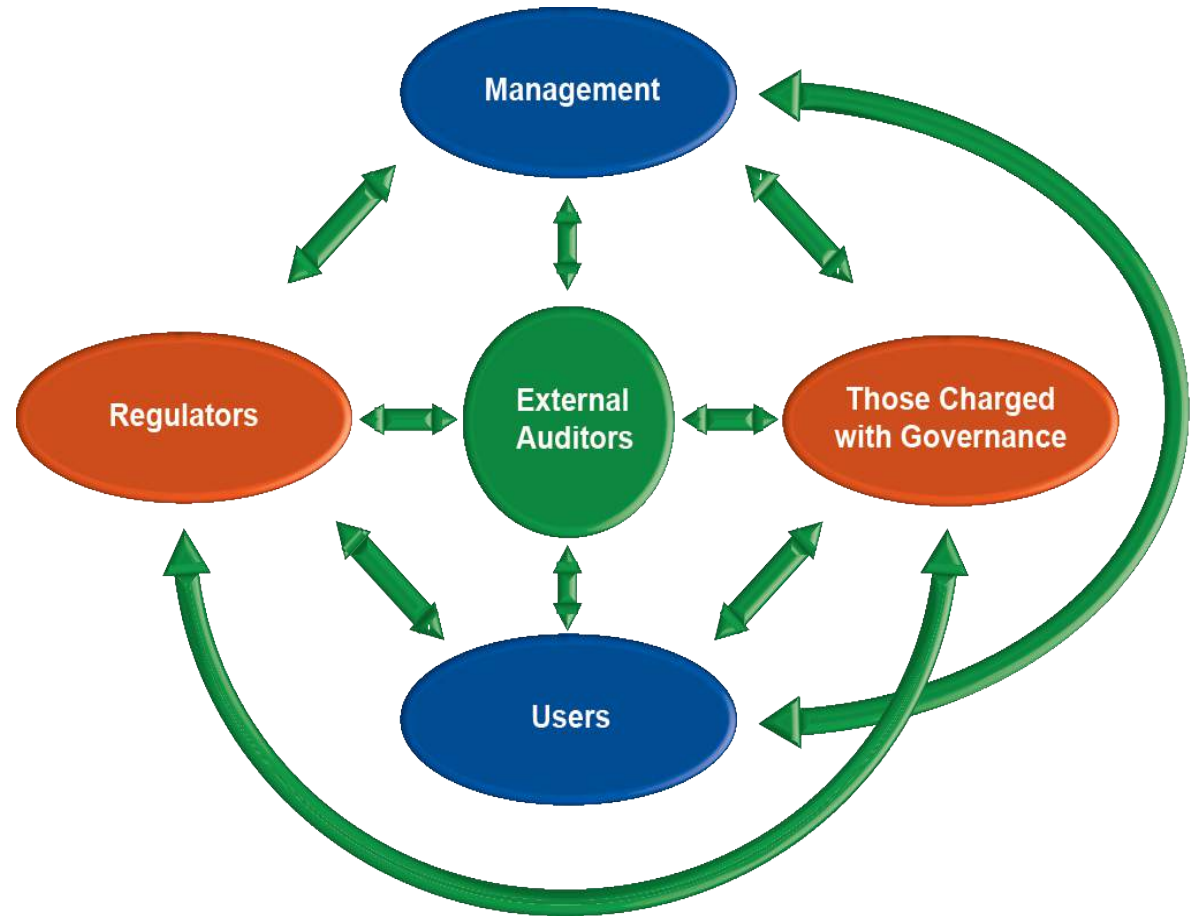
- Inputs
- Process
- Outputs
- Interactions
- Contextual Factors



Framework for Audit Quality

Audit Quality Interactions

- Primary responsibility for performing quality audits rests with auditors, but ...
- Each stakeholder plays an important role supporting high-quality financial reporting
- Audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain
- Increased interaction is promoted in the *Framework for Audit Quality*



New and Revised Auditor Reporting Standards

Key Features

Auditor's Report

Audit Opinion – Required to be presented first

Key Audit Matters – Required new section for listed entities

Going Concern – Additional focus

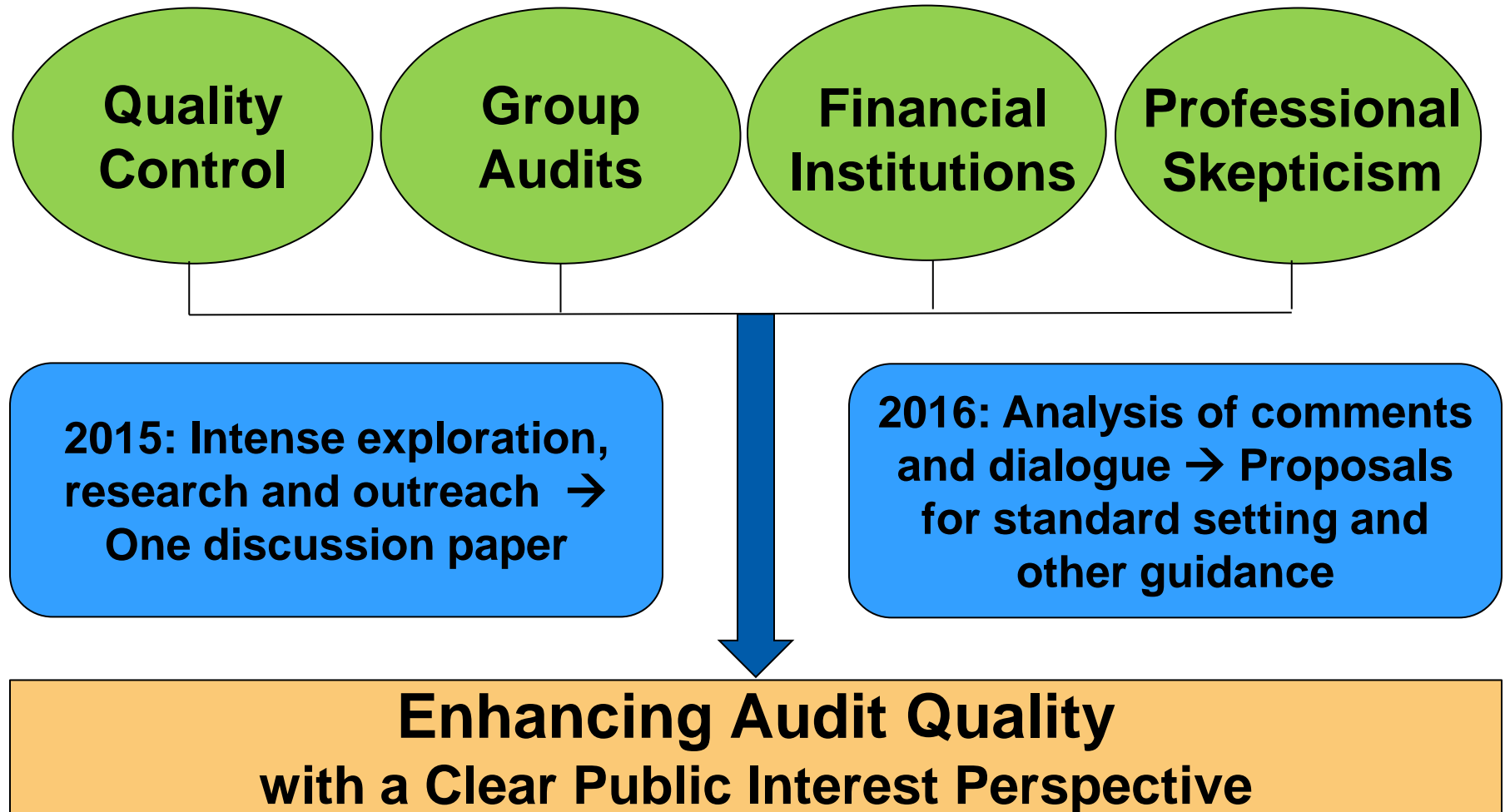
Other Information – New section

Auditor responsibilities for the audit; Explicit statement - independence and ethical requirements; Engagement partner name (listed entities)

Work Plan for 2015–2016 – *Enhancing Audit Quality*

- Information gathering activities already underway on three priority topics
 - Quality control (ISA 220 and ISQC 1)
 - Group audits (ISA 600)
 - Special audit considerations relevant to financial institutions (including ISA 540 in particular)
- Professional skepticism
- March 2015 IAASB discussions highlighted interactions between the four projects above
 - Common themes (e.g., sufficient appropriate audit evidence; professional skepticism)
 - Crossover issues (e.g., direction, supervision and review of audits; audit delivery models)

Work Plan for 2015–2016 – Priority Projects





www.iaasb.org

Audit Quality: a core element to the future of audit

A joint responsibility

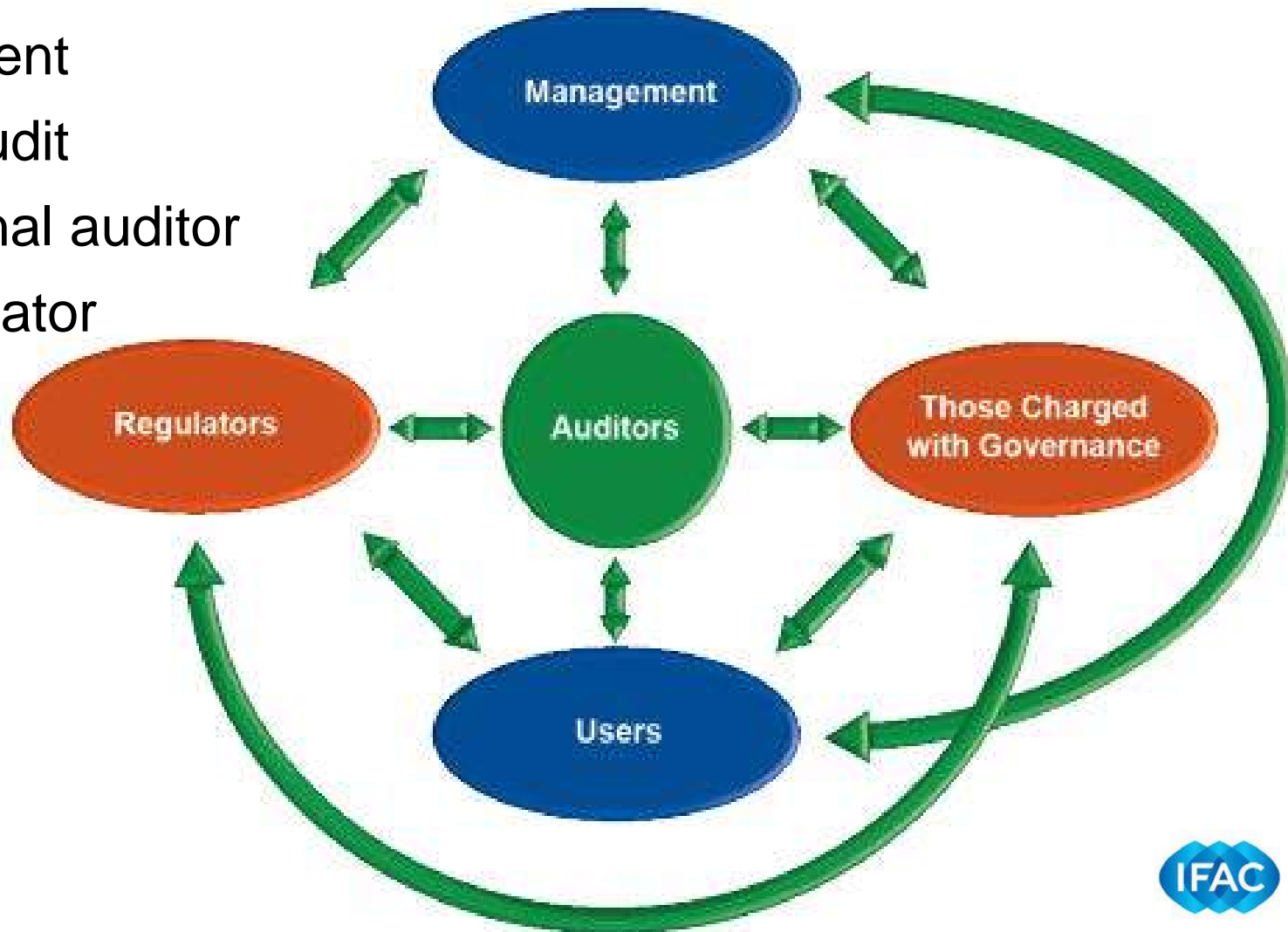
Alan Johnson –Non-executive
Director, Jerónimo Martins
SGPS, S.A

ACCA



Audit quality: a joint responsibility

- The Board
- Audit Committee
- Management
- Internal Audit
- The external auditor
- The Regulator



External audit is not broken

- The financial crisis has led to questions
- Root causes have come under scrutiny
- Auditors may sometimes be fairly criticised for lack of assertive disclosure
- but management, Audit Committees & Boards have generally been at the heart of the issues

Corporate culture is critical

- Poor culture in organisations has allowed dysfunctional behaviour and “*ethical drift*”
- A healthy culture is a prerequisite for good governance and risk management ... which drive sustained performance AND ethical behaviour
- Culture is elusive and often intangible
.... but we probably know when it is not right....
- Boards need to understand and assess the culture of their organisations *
- So how do we make the journey to the right culture?

* *Culture and channelling corporate behaviour* - Four reports from ESRC & ACCA (www.accaglobal.com/culture)

Creating the right culture

- Align and embed core values at the very top
- And monitor throughout the organisation, with some occasional external validation
- Track how decisions are being made
- Understand the value of regulation and codes
- Develop an attitude of “*comply & explain*”
- Reward good corporate behaviour as much as corporate performance

**The right culture is
important to auditors too**

Audit quality: a joint responsibility

- Shared commitment to quality
- A quality team of audit professionals ... *audit is not a commodity service*
- Honest and transparent communication between all parties in the (financial) reporting supply chain
- A strong internal control environment
- A strong and independent internal audit function
- An efficient financial reporting timetable & continuous communication
- Fair pricing and fair reward – *a quality audit is unlikely to be cheap*

Audit quality: some critical enablers

- A strong & economically viable audit profession
- Effective governance in organisations, with strong & knowledgeable independent directors
- A robust regulatory framework, with strong interventions when required
- Engaged stakeholders
- Robust codes of ethics & behaviour – for the audit profession and organisations

Audit Quality: a core element to the future of audit

A joint responsibility

Alan Johnson –Non-executive
Director, Jerónimo Martins
SGPS, S.A

ACCA

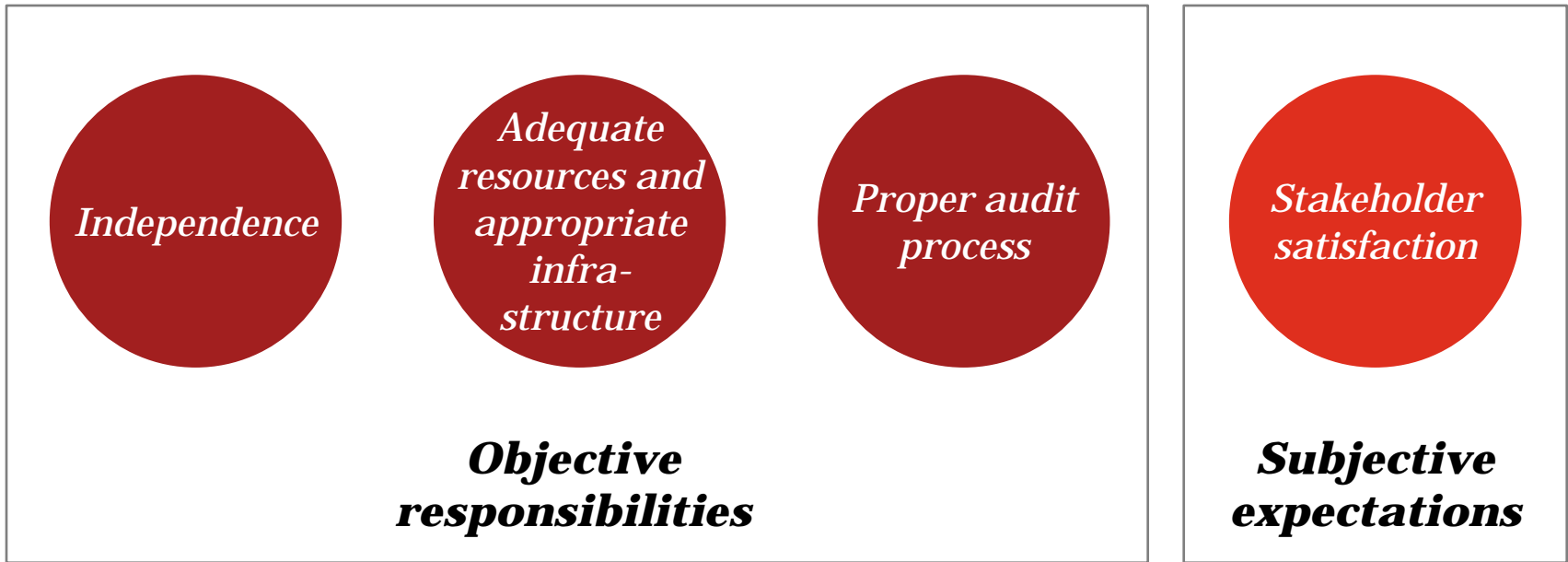


Audit quality: a core element to the future of audit

Harald Kayser

June 2015

Audit quality from the perspective of an audit firm



Audit quality is defined as the degree of achieving stakeholder expectations for audit quality.

Controlling audit quality via the quality management system

Quality factors

Tone from the Top

Partner objectives and compensation

Direction, supervision and review in the audit

Audit methodology and audit tools

Acceptance and continuance procedures

Consultation

Independence policies

Recruiting, L&E, career development

Management of resources

Monitoring

Audit quality indicator (AQI) examples

Quality measurement in an audit firm

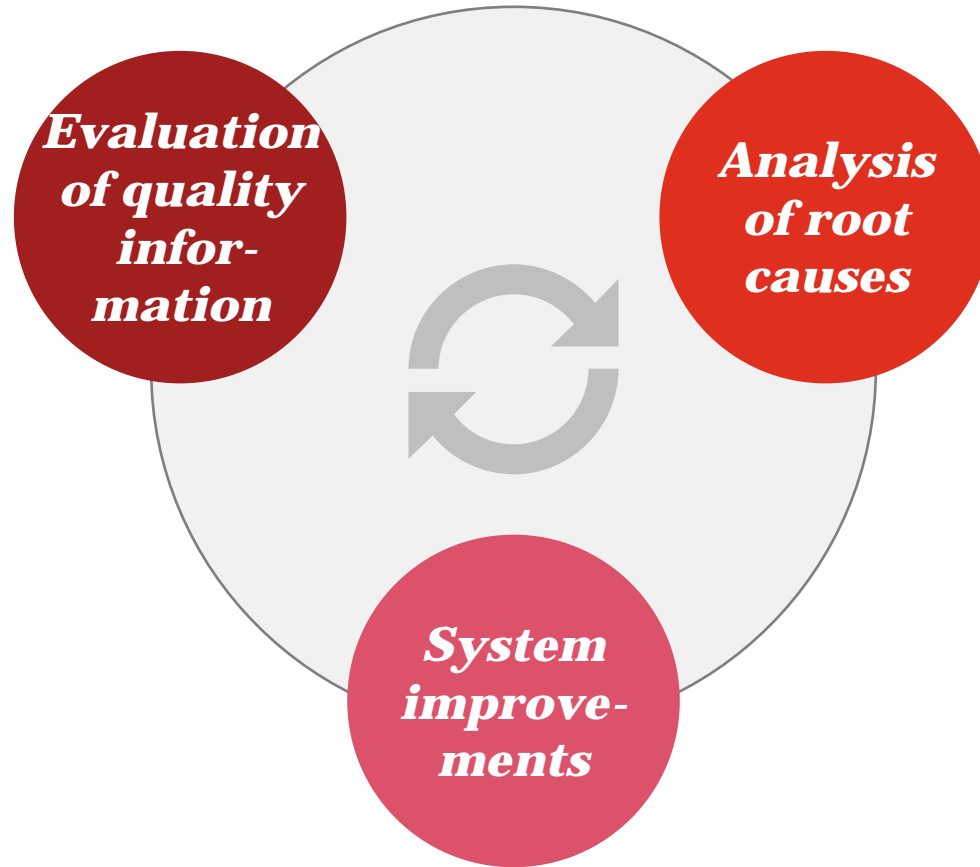
Leading AQIs

- Employee feedbacks
- Fluctuation of partners/staff
- Utilization of partners/staff
- Attendance of trainings
- QRP involvement
- Audit phasing

Lagging AQIs

- Internal inspection results (engagements/practice organisation)
- External inspection results (engagements/practice organisation)
- Client survey results

Continuous Improvement



Thank you.

FEE ongoing project on the Future of Audit and Assurance



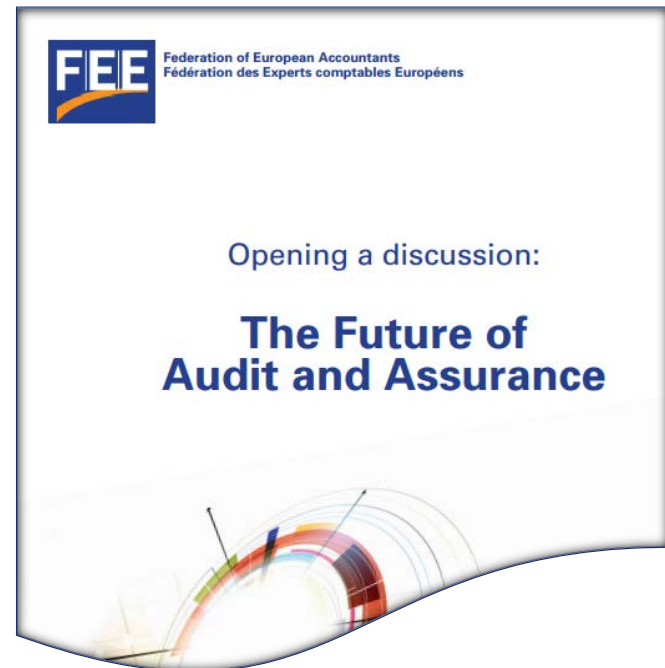
Myles Thompson

Vice-President, FEE

**Chairman of FEE Audit and Assurance
Policy Group**

Looking Ahead

- FEE discussion paper published in 2014
- Developing a vision for the future scope and scale of audit and assurance



Objectives

- Being more self-questioning
- Embracing change and being innovative
- Improving quality in both:
 - Corporate reporting; and
 - Audit & assurance
- Making our services the most relevant possible
- Engaging more with outside stakeholders

Discussion continues

- 30 comment letters received
- Input received during this conference
- FEE plans to continue this debate and produce a follow-up paper

All About Audit Quality

“We believe it to be important to focus on audit quality, although it remains difficult to measure, especially with respect to the choice of parameters.”

“Value is about audit quality, not about compliance.”

Meeting Stakeholders' Needs

“Many stakeholders will of course be interested in assurance on forward-looking information and risks.”

“The profession must give more attention to performance indicators of the company, like KPIs, non-GAAP measures, CSR, <IR>.”

“The investors should be given greater assurance over the front-half of the annual report.”

Responding to SMEs' needs

“There are opportunities to develop a range of other services for SMEs.”

“International auditing standards need to be adapted to better serve SMEs.”

“Audits should be scalable.”

Technology and Skills

“The auditor of the future will need to have a broad base of knowledge of different types of risks and areas of expertise.”

“IT innovation is already affecting the daily work of auditors both in terms of how to use IT tools to perform the work and the understanding of client’s IT tools.”

Auditor Communication

“Meaningful communication is core to the development of the profession.”

“The auditor cannot assure the continuity of a company.”

“We would like to see auditors take a leading role in improving going concern reporting and disclosures.”

“Different stakeholders don’t want different assurance, but different reporting.”



Federation of European Accountants
Fédération des Experts comptables Européens

Coffee Break

10.40 – 11.10

Auditor communication: enhancing the value of audit



Jimmy Daboo

Partner, KPMG

Philippe Castagnac

CEO, Mazars Group



Hans Buysse

Vice-Chairman of the Belgian Association of Financial Analysts

Auditors communication – a short term challenge which needs to be analyzed against the backdrop of a long-term vision

**But to do this, we need to look back
before looking forward...**

Financial Crisis in 2008

Visit WSJ.com to See Our New Look and Features

THE WALL STREET JOURNAL

TUESDAY, SEPTEMBER 16, 2008 • VOL. CCLXIX, NO. 39

AIG, Lehman Shock Hits World Markets

Forces Movers to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Borrowers in Talks to Buy Core Lehman Unit

AIG Faces Cash Crisis As Stock Dives 61%

By Matthew Kleinman and Amy Belinfante

NEW YORK (WSJ)—The financial crisis in the United States has spread to global markets, with the Dow Jones Industrial Average falling 504 points on Tuesday. The crisis was triggered by the collapse of Lehman Brothers, a major U.S. investment bank, and the announcement that American International Group (AIG) would be taken over by the federal government. The crisis has led to a global credit crunch, with many banks and financial institutions facing liquidity problems. The U.S. stock market has seen a sharp decline, with the Dow Jones Industrial Average falling 504 points. The crisis has also led to a global credit crunch, with many banks and financial institutions facing liquidity problems. The U.S. stock market has seen a sharp decline, with the Dow Jones Industrial Average falling 504 points.

What's News

- **What's new** in the world of finance, from the latest in technology to the latest in market news.
- **Market news** and analysis, including the latest in stock prices and market trends.
- **Business news** and analysis, including the latest in corporate earnings and industry trends.
- **Global news** and analysis, including the latest in international trade and economic news.
- **Technology news** and analysis, including the latest in software and hardware developments.
- **Energy news** and analysis, including the latest in oil prices and renewable energy news.
- **Healthcare news** and analysis, including the latest in medical research and pharmaceutical news.
- **Real estate news** and analysis, including the latest in housing market trends and commercial real estate news.
- **Transportation news** and analysis, including the latest in airline and shipping industry news.
- **Automotive news** and analysis, including the latest in car sales and industry trends.
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- **Columns** and analysis, including the latest in regular columns and syndicated news.
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Weather: Mostly sunny, 72/58

SPORTS • FINAL

Tuesday, September 16, 2008

DAILY NEWS

500 2.5 MILLION READERS EVERY DAY NYDailyNews.com

SHOCK MARKET

CRISIS ON WALL STREET

Dow plunges 504 points

Insurance giant teeters on brink

Fear as traders await opening bell

FULL COVERAGE ON PAGES 2-6 & BUSINESS

An EU wide response to address the problem of audit quality



- **More elaborated audit reports**
- **Additional and a more detailed report to the audit committee**
- **Annual transparency report**

**In our opinion, this is a hopeful start in
addressing the expectation gap**

Our French experience...

<u>Justification of assessment</u> French auditing standard	<u>Key audit matters (KAM)</u> IFAC ISA700 Standard	<u>Extended audit report</u> EU regulation
For all audited entities who publish financial statements	Only for listed companies	Public Interest Entities (PIEs)
Apply to the financial estimates, the auditing standards and audit procedures	Only for the most significant risks, the most important judgements, or any significant difficulties encountered	Only for the most significant assessed risks of material misstatement, including material misstatement due to fraud.
No obligation to refer to a particular issue in the justification of assessment	Must explain why the issue is considered a KAM	No obligation
A clear reference to the relevant disclosures in the financial statements, where relevant	A clear reference to the relevant disclosures in the financial statements, where relevant	A clear reference to the relevant disclosures in the financial statements, where relevant
A description of the methodology employed by the auditors	A description of the methodology employed by the auditors , but not obligatory	A summary of the audit response to the most significant assessed risks of material misstatement
A link with the conclusion of the audit report is included in the assessment	No conclusion included	No conclusion included , but must include key observations in relation to the identified risks
Concise global justification if there is no issue to draw attention to	Mentions that there is no identification of KAM	Not specified.

**Developing a long-term vision
collectively... But before getting started,
we need to change our perception on
audits**

Audits are at risk of being viewed more and more as a commodity rather than an added value service. This results in ...

- **Price reduction trends**
- **Discouraging young talent from joining or continuing their careers within such a profession**
- **Discouraging a multiplayer market**

Once a general consensus is reached on the value of audit within our society, then can we truly move forward in collectively building a long term vision

The evolutions we would like see for tomorrow's audit



Federation of European Accountants
Fédération des Experts comptables Européens

Lunch

12.20 – 14.00

Keynote address: **Contribution of the
audit to the capital markets union**



Lord Jonathan Hill
EU Commissioner Financial
Stability, Financial Services and
Capital Markets Union

Audit reform implementation



Stephen Haddrill

CEO, UK FRC



Kai-Uwe Marten

Deputy Chairman, APAK



Christian Schricke

Managing Director, ANSA



Alain Deckers

Head of Unit, Audit and Credit
Rating Agencies, EC

Audit Reform Implementation

Views on the envisaged implementation of new oversight structures in Germany

Prof. Dr. Kai-Uwe Marten (Deputy Chairman)
Auditor Oversight Commission (AOC)
Germany

Intention of EU Audit Reform

- Regulatory reaction to financial and economic crisis and the potential role of auditors
- Enhance the audit function to contribute to increased financial stability
- Ensure a high level of investor and consumer confidence in the internal market
- Introduce additional stringent requirements with regard to PIE auditors/audit firms
- Clarify/strengthen the role of the independent oversight authorities

Challenges of Implementation

- After implementation of Audit Directive in 2006:
2nd big reform of audit/auditor oversight
- Balance requirements to strengthen independence
and demand for strong self-regulation
- Ensure that experience from 10 years of oversight
is reflected in the law
- Political willpower necessary to ensure that reform
will create an improved system

Status of Implementation

- Draft laws issued by Ministry of Economics and Ministry of Justice
- Approval by Federal Cabinet on 1 July 2015 (tbc) for submission to Parliament
- Approval by Parliament: End of 2015/Early 2016
- Establishment of new regulator envisaged in 2nd quarter of 2016
- New regulator will take over from AOC on 17 June 2016

Structure/Location of new regulator

- Current plan according to draft law:
 - Create new department within **Federal Office for Economic Affairs and Export Control (BAFA)**
 - Change in governance structure
 - Majority of staff will be legally transferred from AOC to new regulator
 - Financing through fees for services allocatable to particular persons/parties

Structure/Location of new regulator

- AOC's position:
 - AOC believes that a stand-alone regulator is imperative to secure independence and visibility
 - Choice of BAFA as a host authority is questionable
 - Appropriate staffing: Public service remuneration scheme will cause difficulty in terms of attracting and maintaining talent and experts
 - Financing should be done both through fees and contributions

Delegation of Oversight Tasks

- As per draft law, non-PIE auditor oversight remains with Chamber of Public Accountants
- However: still subject to ultimate responsibility and decision making of the future regulator
- Responsibility for PIE auditor oversight will shift to new regulator (inspections and investigations)
- Mixed approach with regard to PIE audit firms (i.e. peer review regarding non-PIE audits)

Conclusion

- AOC is not convinced that current legal proposal will lead to the required enhancement and strengthening of independent auditor oversight.
- By pressing the competent authority into a department of a subordinate agency, its visibility is diminished, its independence is endangered and its operational capability may be challenged.
- Absence of a clear definition of tasks and competences impairs clarity and stringency of independent oversight.

EU AUDIT REFORM IMPLEMENTATION

A FRENCH AND BUSINESS PERSPECTIVE

23 June 2015 - Christian Schricke

A. The Business Perspective

- The EU Audit Reform : an ambitious harmonisation goal, but a disappointing result
- Accumulation of constraints intended to ensure auditor's independence and more competition BUT
- Sum of constraints: excessive complexity and risk for the quality of audit
- Many options open to Member States that significantly reduce the effective harmonization of EU standards
 - Probable consequences for the quality and cost of audit with differences in durations of audit engagements
 - Options open on non audit services may create problems for audit firms but also for EU-PIEs

B. The French Perspective

- **Timing:** implementing legislation to be issued by March 2016, after discussions with all stakeholders
- **Areas of consensus** amongst stakeholders
 - Joint audit
 - Long minimum mandatory engagement period (i.e. 5 or 6 years)
 - Audit committee functioning
- **Areas of discussion**
 - PIE definition
 - List of non-audit services and level of cap on fees for such services

CONCLUSION

- Hope that EU Member States make reasonable use of the options
- Wish that the resulting complexity will not affect the quality of listed company accounts
- Need to find a practical solution for multinational groups operating across borders



IMPLEMENTING THE EU AUDIT REFORM

FEE Conference on Audit
Brussels, Tuesday 23 June 2015

Alain Deckers
Head of Unit, Audit and Credit Rating Agencies
European Commission

Objective of the EU Statutory Audit Reform





Key pillars

- **Enhancing information to investors**
 - More detailed and informative audit report
 - Additional report to audit committee
- **Strengthening the independence regime**
 - Mandatory Rotation -> 'Professional scepticism'
 - 70% Cap -> Independence
- **Fostering market diversity**
 - 'Black List'
 - Prohibition of 'Big Four-only third party' clauses

Facilitating a consistent implementation

- Open dialogue with stakeholders
- 5 Transposition Workshops with Member States in last 9 months
- Regular expert group meetings with national audit authorities



 Crucial role for the profession

Priority areas

- Establishing tools to monitor audit market
- Enhancing EU-wide supervision
- Facilitating cross-border application
- Avoiding unnecessary burden for SMEs



Looking ahead

- Commission to continue acting as an honest broker
- Commission to monitor impact regularly and take stock
- EU to stay at the international forefront on audit quality





FOR MORE INFORMATION:

<http://ec.europa.eu/finance/auditing/>

CLOSING



Olivier Boutellis-Taft
CEO, FEE



Federation of European Accountants
Fédération des Experts comptables Européens

Thank you

Join us for coffee
And give us your feedback