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Fédération des Experts comptables Européens

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MINUTES OF PANEL DISCUSSION ON THE DEVELOPMENT OF NETWORK FIRMS

INTERNAL MARKET, SCOPE OF SERVICES, INDEPENDENCE, LIABILITY, INTELLECTUAL CAPITAL AND IMPEDIMENTS ON DEVELOPMENT

Patrick de Cambourg, Chairman Mazars, Panel Chairman, opened the second panel about the Development of Network Firms by emphasising that it is key to focus on the evolution of networks to determine whether networks are moving in the right direction and meeting the current circumstances properly.

He noted that audit firms are very diverse in structure (from fully independent to fully integrated) and identified the following five categories of firms:

1. Local or national with very limited international links;
2. Independent with international links organised via an alliance;
3. Internationally linked via a loose or permissive network structure;
4. Operators in a strong network;
5. Integrated at an international level.

The current focus is on categories 3 and 4 with the underlying question being the need to clarify the respective powers and responsibilities of the international networks and of the member firms.

Patrick de Cambourg introduced the three panellists representing associations falling within the categories identified and opened up the debate raising a question as to whether the number of networks would be reduced if, like Mazars, associations move towards either the alliance model (category 2) or the integration model (category 5).

Ian Percy, Deputy Chairman of The Weir Group PLC and Past President of the Institute of Chartered Accountants of Scotland (ICAS), pointed out that it is very important that there is a greater choice in the market place and that the quality of auditing and assurance provided has increased since the 1980s.

When choosing an audit firm, clients choose confidence in the firm or network, as reflected by the auditor's culture, training, education, legislation and control. In addition, a prerequisite is the need to have authority, i.e. not having loose networks, to ensure that there is appropriate technical and branding backup. Moreover, ensuring that auditors have the highest standards of governance is paramount from the clients' perspective.

Ethics and education were noted as key factors that could contribute to achieving these market expectations. In addition, it was observed that the requirement for engagement partners to rotate every 5 years could represent a significant impediment. Therefore, it was suggested that this requirement should be reviewed. Finally, communication between audit firms and clients is key; preferably there should be "eye ball contact" rather than "email contact".

David McDonnell, Chief Executive Officer at Grant Thornton International Ltd, approached the debate in a different way. He pointed out that the business strategy and market focus are the two key elements that should be considered when determining the structure of an organisation. The type of structure should be based on what the business strategy is and on what global clients need and what regulators' expectations and requirements are.

This implies that the precise structure does not matter and will vary. However, the structure should match the business objectives and needs to be effective. One of the key factors noted to achieve this target is transparency. Other key factors identified include consistent quality, having a single strong brand and accountability.

It was then noted that at Grant Thornton, there is a move towards full integration.

Wienand Schruff, Chair of the Global Regulatory Group at KPMG International, pointed out that as audit firms target global clients there is a desire to fully integrate like their clients. The question arising is why have audit firms been unable to integrate more.

The regulatory environment is still an impediment to integration, as the audit services provided are regulated, although accounting has been harmonised to some extent as it moves towards global standards. While audit standards are "globalised", there is still work to do on independence requirements. As pointed out in the first panel on Convergence, it is hoped that the revised and redrafted Independence Standards to be issued in June 2009 will serve as a benchmark for convergence in this area.

The Statutory Audit Directive has removed barriers, e.g. regarding ownership, but the licensing is still subject to national law. Another problem is still liability regulation; a regime that provides proportional liability for international audit firms should be implemented.

During the **panel discussion**, the panellists agreed that the key priority for audit firms should be to move on with integration towards full integration step by step, to consider the global strategy and to focus on talent management. In **responding to questions** of the audience it was noted that opening equity ownership of audit firms to non-auditors is not a driver for "de-concentration" in the audit market because human capital is more important than financial capital. The need for harmonising the regulatory environment was confirmed and a change of liability regimes was considered helpful to go international. Internationalisation would however have no impact on the way audits are performed and organised.

Patrick de Cambourg, Panel Chairman, concluded the discussion and thanked the panellists and audience for their participation.