

# **FEE CONFERENCE ON AUDIT REGULATION AND DEBATE ON DEVELOPMENT OF NETWORK FIRMS**

## **REMARKS BY PROFESSOR IAN PERCY**

I have been asked to give a business perspective as a Chairman of many Audit Committees over the years and presently as Deputy Chairman of the Weir Group plc which has activities in 17 countries throughout the world. I was a member of the Market Participants Group in the UK which examined the issue of widening the audit market and believe that the market needs greater choice.

Over the past ten years, there has been an important shift in corporate governance. In the past, auditors were appointed by management where the issue of cost and provision of other services was a key feature, whilst now the proposal to the shareholders to appoint auditors is on the advice of the Audit Committee who concentrate on the issue of confidence and not price and not other services. Confidence in the robustness and quality of the audit process, not only at a group level but at a subsidiary level, and in particular in emerging markets where there can be, because of different cultural and behavioural backgrounds, less good financial and management information and a risk of different behaviour. Boards of Directors need confirmation that not only do their financial reports show a true and fair view but that they are in accordance with accounting standards and that they have in place robust systems of internal control and risk management.

I therefore need confidence that the engagement partner who is going to sign the report on behalf of the firm has the authority throughout the world and the technical backup. I also need confidence that the engagement partner has experience in the industry and will have the experience or know where to find the experience of the sort of accounting and reporting issues which we will come across. He needs to be supported by a network that has brand recognition for quality and technical expertise and he needs to travel.

Speaking of experience of the industry, this is absolutely critical as I need to have confidence that the partners or managers in every country throughout the world have the necessary experience to be able to look under the stones in the company and find any issues and will have the courage to speak out and comment on the controls and quality of financial management. If the network that I am using does not have the quality of people that I need in a particular

country, I will urge them to use another firm that I have confidence with in that country and will demand full transparency in quality control monitoring of that firm.

I need a firm that gives me and the other non executive directors and indeed executive directors, the opportunity to discuss issues and keep up to date and a network of clients to discuss common issues. This is where the development programmes and breakfast and lunches held by the big 4 with a network of non executive directors is extremely helpful. I urge other networks to do likewise as confidence comes from knowing people.

Finally, I expect the firm I am using to have the highest standards of governance, financial standing and quality review. I cannot risk our share price on poor quality of people, loose structure, financial risk or poor governance.

### **WHAT ARE THE IMPEDIMENTS TO MY GETTING THIS SERVICE**

We live in a global world where financial crisis knows no boundaries. Different standards in different countries are now being eradicated with the use of international audit standards and I would expect the regulators and networks to also use an international base. Regulators need to facilitate not frustrate the ability of networks to operate seamlessly throughout the world.

In today's environment I would not contemplate a loose network of firms as it is too easy for something to slip between the cracks. I cannot afford anything which damages my auditor's reputation never mind our own reputation and therefore shareholder confidence. I need to have confidence that the auditors can follow his process throughout the world. Many networks still have local partnership who feel precious about their local autonomy. In a global world there is no place for hurdles that frustrate effectiveness.

The present rules on rotation of partners is a significant impediment to those people gaining a proper understanding of our business and indeed the behavioural aspects of our management throughout the world. There must be some flexibility built into this system as to have a change of audit partner at the same time as a change of Finance Director, or Chief Executive or even Chair of the Audit Committee, is not sensible.

In certain countries where professional services are not so developed, I need to use the advice of those within the audit firm usually on tax, regulatory and local issues. There needs to be

some flexibility therefore in the independence rules and I am quite happy for us to declare to shareholders what we have done in their best interests.

Perhaps it is worthy to note that we as a company act in 17 different countries and have a very strong system of internal control and risk management to ensure that the standards of behaviour and financial integrity in each of those countries stands up to scrutiny. We bring together all the Chief Executives and Finance Directors in all different companies throughout the world together once a year for a conference where we are able to get across the qualities that we are expecting in customer care, in product reliability and in the integrity of our financial management and governance. I would recommend that the networks do a similar thing on their clients rather than rely on e-mails and correspondence.

So to sum up, what I am looking for is a sound relationship, confidence, robustness, transparency, business experience and an understanding of human behaviour and a uniform set of principles by regulators worldwide. Confidence is key to a thriving capital market. It must not be jeopardised by barriers set up by networks or regulators. Auditing is as much about assessing behaviour as reviewing numbers and to be effective needs eye ball contact not e-mail contact.

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9 December 2008