

**KEYNOTE SPEECH OF BEN VAN DER VEER ON AUDIT REGULATION AND  
IMPLEMENTATION OF THE STATUTORY AUDIT DIRECTIVE**

1. Good morning ladies and gentlemen. Apart from the pleasure of being here you will appreciate that, as the chair of the European Practice of KPMG, I am extremely proud to note with you that KPMG has been the first to take conclusions from the revised Statutory Audit Directive and propose a merger between its member firms in Germany and the United Kingdom. It demonstrates that the changes this Directive is likely to bring about are closer within reach than one might have anticipated. The Directive provides us with a unique opportunity to stimulate audit quality on a European basis.

My key messages are:

- modernisation of the rules and the introduction of oversight helps to enhance audit quality
- a principles based audit and oversight system is certainly preferable over a rules based system
- professional own judgement has been and should remain essential for the proper performance of the audit function
- Liability of auditors should be capped

*The Statutory Audit Directive covers all significant aspects of the audit function*

2. Regulation of the audit profession is not new in the EU. Registration of auditors is required in the Eighth Directive since 1984. However, given the spirit at that time, this Directive was limited to qualification and very high level ethical principles. The new Directive is comprehensive as it addresses most relevant aspects of the statutory auditor's activities and function. A new aspect in this approach is the introduction of public oversight.

*Enhance audit quality main objective of new Directive – thus: Oversight*

3. The main objective of the Directive is to enhance audit quality. The credibility of auditors and their final product, the audit report, is essential for the stability of financial markets. The profession and the firms have devoted huge resources to developing standards, audit tools, continuous professional education, internal and external quality assurance. All these subjects are covered in the Directive. We agree with the Directive because we are committed to achieving the objective of audit quality. At the same time we should be cautious that the function of the auditor does not become that of merely a compliance officer, checking the box.

4. Public oversight is an important innovation of the Directive. It existed already in some countries but the corporate scandals at the beginning of the decennium played a clear role in moving the issue higher up the agenda. The profession reacted positively because this is a solution to reinforce the credibility of financial reporting and in line therewith the audit function. We consider it important that public oversight is anchored firmly in Europe on the basis of unambiguous rules and in due consultation with international authorities. Furthermore, we hope public oversight will be well coordinated among the EU countries in order to minimise duplication or even multiplication of oversight procedures. Duplication or multiplication would, as you will all understand, inevitably lead to unnecessary costs in transnational audits. Cooperation between competent authorities both within the EU and with those outside is a condition to make home country control in the oversight of audits working. Therefore, this should be a priority in the EU, and it could help making cooperation also successful internationally.

***Remain focused on principles, not rules – do not over-regulate***

5. When we compare Europe (and more particularly continental Europe) with for instance the United States it is clear that both financial reporting and auditing are inspired by a different cultural environment with different

traditions. On many occasions this discrepancy is referred to as the difference between “Principles versus Rules”. We believe that the principles based approach leads to sustainable quality of accounting and audit. This does not mean **weaker** standards. Politicians drafting the requirements should be cognisant of such existing differences and should resist short term casual reactions which leads to incident driven rules but rather focus on the long term sustainable solutions.

6. In 1995, the European Commission concluded that global financial reporting standards (IFRS) are preferable to standards developed at EU level. The same conclusion was predictable as far as statutory audit is concerned. I tell you: The audit profession supports this policy. And although we understand that some additional or different requirements on a national level, may be the consequence of for instance different legal environments such situations should be reduced to a minimum. Otherwise our audit reports will not have the same meaning in the European market and globally. This would frustrate capital Markets. As such the discussion on ISA<sup>+</sup> should be kept to the bare minimum. It is therefore important that international standards are genuinely global. This means that the objective of convergence of the major systems in the world should be central in the process.

7. The audit profession is heavily regulated. One should reflect on the necessity for further regulation. Regulators should make an impact assessment before imposing new rules and carry out a proportionality test, which is a common approach in EU law. Under conditions they might leave it to the market to design what is the best approach or alternatively, a system of evaluation should be built into the system. A moratorium on further regulation for a number of say three to four years would contribute to the overall quality of audit and oversight of audit. The time freed up can be used to think fundamentally what the audit of the future should look like.

### ***Keep room for professional judgement***

8. A principles based system is necessary not only for the auditors but also in the financial reporting as well. It is an illusion that every single case can be dealt with in regulations. Companies and their auditors should be able to form sound judgement. And supervisory authorities should recognise the value of appropriate thinking by companies and the audit profession.

### ***Make progress on auditors' liability***

9. The profession and the firms have been very active in asking solutions to be developed to the problem of auditors' liability. Some people are still questioning the reality of the problem. The study published recently by the Commission clearly recognises the existence of an economic problem. We welcome the view that the current situation on liability is no longer sustainable. Member States should seriously consider solutions which would be acceptable in their regulatory environment on the basis of the European study. The approach suggested for Europe could also be considered outside the EU.

### ***In conclusion:***

Regulators and the profession have a unique chance to put in place the necessary instruments to enhance audit quality with the implementation of the Statutory Audit Directive. They should work together on that because at the end it is both in the interest of the profession and the public at large that appropriate European solutions are found. This enhances audit quality, on a principles driven basis. It leaves room for sound professional judgement.

Last but not least, the legal environment should be changed in order to create a situation in which liability does not threaten the sustainability of the audit firms or even the audit profession.

Thank you!