

FEE CONFERENCE ON AUDIT REGULATION

AUDITOR LIABILITY

AN INVESTOR'S VIEWS

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Desperately Seeking Investors



- The response by investors to the London Economies questionnaire was pathetic. 12% response rate
- The failure of investors to engage raises serious questions
 - Do investors care?
 - Are investors competent?
 - Is the EC reaching informed conclusions?
- Public consultation is essential but time is of the essence

“Auditor liability reform is a public interest issue. Investors have a responsibility to the investing public to make their views known”

Investor attitudes to auditor liability



- There is a need for auditor liability reform
- Competition and choice is very important
- Capping of auditor liability will be opposed
 - Audit quality impairment
 - What is the right cap?
 - What will happen to director indemnity insurance cover?
- Proportionate liability is fair and reasonable

“Capping auditor liability would be a retrograde step that responsible investors will not condone”

The use and abuse of 'audit quality'



- There is a lack of consensus as to what 'audit quality' means
- 2 components:
 - The quality of audit fieldwork and processes
 - The quality (ie usefulness) of the audit report
- Regulatory oversight and enforcement are critical components
- But the regulatory environment must foster audit decisions based on principles not rules

“The meaning of audit quality is a dangling debit”

Key points

- Investors need to get their act together and participate actively in the public consultation
- A cap on auditor liability would weaken the standing of European capital markets
- Audit quality is a critical component for investors - but what is 'audit quality'?

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