

Brussels, 13 October 2010

## The European Commission consults on how the European audit market can be improved

*The European Commission has launched today a broad consultation on the role of statutory audit as well the wider environment within which audits are conducted. In the wake of the financial crisis, we need to ask the question whether the role of auditors can be enhanced to mitigate any new financial risk in the future. The crisis also highlighted certain weaknesses in the audit sector which need to be explored further. This work on audit is part of our effort to learn the lessons from the crisis and reform the financial sector. In particular, the Commission is keen to discuss whether audits provide the right information to all financial actors, whether there are issues around the independence of audit firms, whether there are risks linked to a concentrated market, whether supervision at a European level might be useful and how best the specific needs of small and medium sized businesses may be met. The deadline for responses to the consultation is 8 December 2010.*

Internal Market and Services Commissioner Michel Barnier said: "The veracity of financial statements is central to confidence in the marketplace. All financial actors need to be able to rely on information which reflects the true financial health of companies. Auditors have an important role to play and that is why we need robust and completely independent audits. The crisis highlighted failings in the audit sector. These need to be explored and we need to see what improvements can be made. I believe it is important to approach this discussion in a frank and open manner. No subject should be taboo."

Statutory audit denotes an audit of company accounts as required by EU law. Auditors are entrusted by law to conduct statutory audits. The aim of an audit is to offer an opinion on the truth and fairness of the financial statements of the companies they audit in complete independence of the audited company. To this extent, the independence of auditors should be the bedrock of the audit environment.

As a result of the banking crisis in particular, questions have arisen on whether the role of auditors can be enhanced to mitigate any new financial risk in the future. The aim of the Green paper is to launch a **wide consultation to determine** what changes might be needed to audit policy.

There are a number of areas which the Commission believes need to be explored further, in particular:

- the independence of auditors - it is unclear if auditors are truly detached and critical when examining the financial statements of a company when that same company is an existing or potential client for non audit services;

- the reliance stakeholders can place on audited financial statements. That is why we seek to understand what 'expectation gaps', if any, exist amongst stakeholders with regard to the scope and the methodology of audit;
- the potential for systemic risk because of the strong concentration in the audit sector (what consequences could there be for the wider financial system if one of the big audit firms closed down?);
- the role played by supervisors, and whether national supervision is fully effective;
- the potential for a real internal market for audit and the removal of barriers which currently make audit a mainly national market. In that context, the concept of a European passport for auditors should be explored further;
- the specific needs of small businesses – ensure proportional application of rules to SMEs;
- the global context: audit is a global market with firms operating as global networks; to this extent it is important to co-ordinate our efforts at an international level.

Responses to the Green Paper are welcome until 8 December. On the basis of those responses, the Commission will decide on the need for any measures in the course of 2011. The Commission will seek to cooperate and align its position with those of its main international partners within the Financial Stability Board and the G-20.

Responses to the Green Paper should be sent to the following address:

[markt-greenpaper-audit@ec.europa.eu](mailto:markt-greenpaper-audit@ec.europa.eu) no later than 8 December 2010.

The Green Paper can be found at:

[http://ec.europa.eu/internal\\_market/auditing/otherdocs/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/otherdocs/index_en.htm)

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