Guest Editorial

Audit policy in Europe: 2011 – The year of reform?

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As has often been the case throughout the history of corporate reporting, the audit profession finds its function and role as the subjects of debate. We hear of financial scandals on an alarmingly regular basis, with stories written in newspapers and magazines, shown on television and discussed in several books. The financial crisis of 2007 raised many additional questions on corporate governance and the transparency of information for listed companies, especially regarding financial institutions. Public authorities and delegated policy-setting bodies are naturally participating in this discussion, seeking to recover the confidence of savers and professional investors in the accuracy of publicly disclosed information.

In 2010, the European Union launched a green paper, 'Audit policy: Lessons from the crisis', exploring the audit sector to determine what improvements can be made in the public interest, regardless of the specific role, if any, played by the audit profession in the recent global financial crises. Over 38 questions, the green paper covers classic issues in the field: the role of the auditor, communication by auditors to stakeholders, adoption of international standards on auditing (ISAs), governance and independence of audit firms, supervision of auditors, competition in the market of audit services and specific needs for small businesses. The green paper was published on 13 October 2010, seeking views from stakeholders and the broader public and the consultation closed on the 8 December 2010. In all, almost 700 responses (covering 10 000 pages) were received. According to the summary provided by the European Commission (EC, 2011) at the beginning of February 2011, the responses have come from various stakeholders, including: members of the profession, from small- and medium-size practices to the big four network firms (59 per cent); individual businesses and trade associations (21 per cent); with the remaining portion from supervisors, investors, academics, government authorities and individuals. Although the majority of the responses are from within the European Union (87 per cent, including 42 per cent from Germany), there have been a number of responses from third countries. The analysis of these responses can give a view of the different and sometimes conflicting interests involved. It seems that the major stakeholder in this debate is the accounting and audit profession in Europe. Actually, the tone of the green paper is severe towards the role and the dominance of the Big Four audit firms: the European Commissioner Michel Barnier, in a speech called *Audit 2011 – The Year of Audacity*, warned there would have to be changes in Europe: '[T]he status quo is not going to be an option', he said (Financial Times, 2010). Of course, concerns about the audit role are likewise expressed in other part of the world. For example, James R. Doty (2011), Chairman of the US Public Companies Accounting Oversight Board (PCAOB), said in a recent speech that '[a]s the guardian of a cultural value, the audit is arguably as important as electricity or water. But if it is to retain that lofty status, auditors and the PCAOB need to do our best to make sure the audit is useful'.

The questions presented in the green paper touch upon problems inherent to the financial