



**Arbeitskreis
Externe Unternehmensrechnung**
in der Schmalenbach-Gesellschaft für
Betriebswirtschaft e.V.
Bunzlauer Str. 1
D-50858 Cologne
www.akeu.de

Michel Barnier
European Commissioner for Internal Market and Services
BERL 10/034
B - 1049 Brussels Belgium / Belgien

November 25, 2010

European Commission Green Paper on Audit Policy

Dear Commissioner Barnier

We welcome the opportunity to comment on the above Green Paper on Audit Policy.

Founded in 1973, the Working Group "External Financial Reporting" (Arbeitskreis Externe Unternehmensrechnung AKEU) of Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. has the objective to discuss matters on external financial reporting among the different stakeholder groups. Members of the AKEU comprise Chief Accounting Officers of German preparers, academics in the field of financial reporting, representatives from audit firms and users of financial reporting. The AKEU's views therefore combine the perspectives of the different stakeholder groups.

Current members of the AKEU are:

Prof. Dr. Dr. h. c. Jörg Baetge, Universität Münster
Prof. Dr. Dr. h. c. Wolfgang Ballwieser, Ludwig-Maximilians-Universität München
Dr. Ingrun-Ulla Bartölke, Volkswagen AG
Prof. Dr. Dr. h. c. mult. Walther Busse von Colbe, Ruhr-Universität Bochum
Prof. Dr. Dres. h. c. Adolf Gerhard Coenenberg, Universität Augsburg
Josef Dinger, Fresenius Medical Care AG
Martin Edelmann, Deutsche Bank AG
Rolf Funk, Bayer AG
CFA Henning Gebhardt, DWS Investment GmbH
Prof. Dr. Axel Haller, Universität Regensburg
Prof. Dr. Sven Hayn, Ernst & Young AG
Prof. Dr. Joachim Hennrichs, Universität zu Köln
Dr. Heinz Hermann Hense, ThyssenKrupp AG
Dr. Christoph Hütten, SAP AG
Harald Kayser, PricewaterhouseCoopers AG
Dr. Harald Köster, Henkel AG & Co. KGaA
Robert Köthner, Daimler AG
Peter Mißler, Deutsche Post AG

Prof. Dr. Bernhard Pellens, Ruhr-Universität Bochum Rüdiger Reinke, Rölfs Partner AG Fred Riedel, RWE AG Dr. Reinhard Rupp, FALK GmbH & Co KG Torben Rüthers, Ruhr-Universität Bochum Harald Sachs, Metro AG Dr. Wolfgang Sawazki, VM Vermögens-Management GmbH Prof. Dr. Wienand Schruff, KPMG Deutsche Treuhand-Gesellschaft AG Michael C. Wilhelm, E.ON AG Prof. Dr. Jens Wüstemann, Universität Mannheim

The AKEU has extensively discussed the main proposals of the Green Book and has developed some principal views as outlined in the following, whereby, as far as applicable, references to the relevant questions have been made (see brackets at the end of the paragraphs).

- I. The AKEU does not believe that a more extensive long form audit report than we currently have in Germany is necessary. The reporting to external shareholders is first and foremost the task of the management of the reporting entity not of the auditor. Therefore, if information gaps are identified they should rather be remedied by more extensive reporting of the board of directors (e.g. in the management report stipulated by the Fourth and Seventh EU Directive). The Commission should, however, not initiate more extensive reporting requirements before adequate research has been performed to confirm the existence of significant information gaps [(7) and (8)].
- II. German law and accounting standards require reporting, in the management report (which is subject to audit), of information on the reporting entity's likely future development and its risks and chances including the entity's management's expectations regarding future performance. Therefore, the AKEU does not see the need for additional audited forecast information. In particular, the AKEU does not believe that the auditor should develop forecasts of the audited entity's future performance or provide ratings regarding the audited entity's health [(8)].
- III. The AKEU believes that the appointment and remuneration of the auditor should continue to be the audited entity's responsibility with the shareholders being responsible for the election of the auditor and a supervisory board or its independent audit committee (or the independent outside directors in an one tier board system) being responsible for the appointment and remuneration of the auditor elected by the shareholders. The AKEU does, however, believe that full transparency regarding audit fees should be given through respective disclosures in the audited entity's external reporting. The AKEU does not believe that delegating the responsibility for appointment and remuneration of the auditor to an outside party would be beneficial [(16) and (17)].
- IV. The AKEU believes that the auditor should not provide non audit services that result in the auditor auditing the outcome of his own work. Such prohibition is already provided in the 8th EU Directive. The AKEU believes that a further reaching prohibition of non audit services is neither needed nor overall beneficial. The AKEU supports, however, a high level of transparency through disclosure of the nature of fees paid for non audit services provided by the auditor. Additionally, we would like to note that it is

part of good corporate governance in Germany to have the supervisory board or its independent audit committee to oversee the engagements of the auditor for non audit services. Such oversight oftentimes includes pre-approval requirements and policies and company-specific limits on the non audit services that can be provided [(19)].

- V. The AKEU believes that the current structures of audit firm financing help ensure that external owners do not interfere with the firm's audit work. Therefore, we do not support a change of the actual regulations on audit firms' raising of capital [(23)].
- VI. The majority of the AKEU-members believes that it should be the responsibility of the shareholders of a company, based on respective proposals from the company's supervisory board or its independent audit committee (or the independent outside directors in an one tier board system), to decide whether one auditor or more than one auditor are engaged and how an audit consortium should be composed. The AKEU is not aware of convincing evidence that the engagement of more than one auditor results in an increase in audit quality that outweighs the respective cost. The majority of the AKEU-members therefore does not support the mandatory formation of audit consortiums [(28)].
- VII. Besides the Big Four, there are three or four strong networks which are able to deliver global audit services but they would likely not to be in the position to fully compensate the breakdown of one of the Big Four. However, the AKEU does not believe that the level of concentration in the audit market is so severe that it presents a systemic risk which should be resolved by divesture of the Big Four. The AKEU does not expect that the concentration will cause market failure [(27) and (30)].

In case of any further questions, please contact Torben Ruethers (ruethers@iur.rub.de).

Sincerely,



- Hütten -



- Pellens -