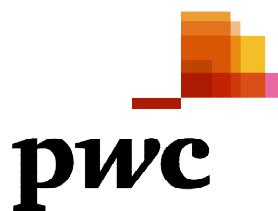

YouGovStone European Audit Committee Chair and CFO Poll

*Exploring attitudes
to audit quality and
potential reforms*

June 2011



Summary

- The poll found that the vast majority of respondents are pleased with the quality of their external audit and that quality is improving
- A clear majority report no competition concerns when they last reviewed their audit
- The poll found large majorities opposed to legislative interventions such as making joint audit (excluding France¹) compulsory, introducing mandatory rotation and making it legally compulsory to retender
- Respondents strongly support increased dialogue between regulators and auditors. Views were more mixed on the need for increased disclosure to help improve market confidence but just over half of respondents supported new measures
- A large majority of respondents believe existing safeguards are sufficient to prevent the provision of non-audit services by a firm's auditor compromising the independence and quality of the audit

1. **Background and methodology**

European regulators and policymakers are currently conducting an intense debate over the future of audit and the structure of the audit market. The European Commission has put forward a number of suggestions for reform while a number of national regulators are also considering change.

Many people have views but there has been a lack of clear evidence. This independent survey was commissioned by PwC² to explore attitudes to audit quality and potential reforms among two key groups: Audit Committee Chairs, who help select and monitor auditors on behalf of shareholders, and Chief Financial Officers (CFOs).

The survey was conducted between March and May 2011 by YouGovStone using telephone interviews administered to senior executives at 120 large businesses across Europe, with respondents split equally between CFOs (or equivalent) and Audit Committee Chairs (or equivalent). They were also split equally between the Netherlands, France, Germany, UK and Spain. Only one respondent was interviewed at each company. All respondents worked in commercial companies with over 250 employees. The respondents were selected using a standard systematic sampling procedure from databases of European businesses to achieve a representative sample.

The results are summarised below in the aggregate. There was in general a high degree of consistency between the responses from Audit Committee Chairs and CFOs and also between smaller and larger companies sampled.

¹ In France, there is already a legal requirement to use two audit firms to conduct an audit.

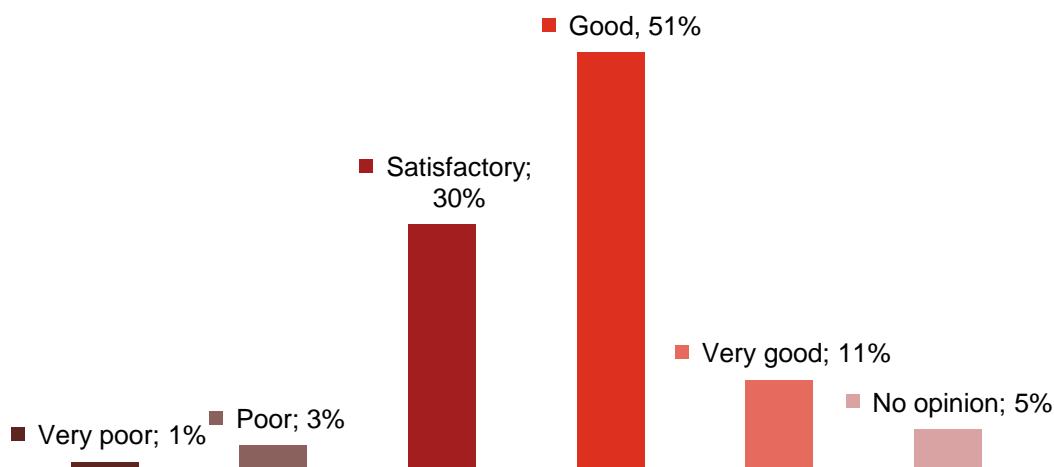
² PwC refers to the network of member firms of PricewaterhouseCoopers International, Ltd., each of which is a separate legal entity.

2. Main Findings

Audit Quality

The poll found that the vast majority – 92 per cent – of respondents are pleased with the quality of their external audit (**Q1, Chart 1**). Some 51 per cent regard their audit quality as good; a further 11 per cent describe it as very good while 30 per cent say the quality of their external audit is satisfactory. Just 4 per cent of respondents describe their audit quality as either poor or very poor.

Chart 1: What is your perception of the quality of external audits today?



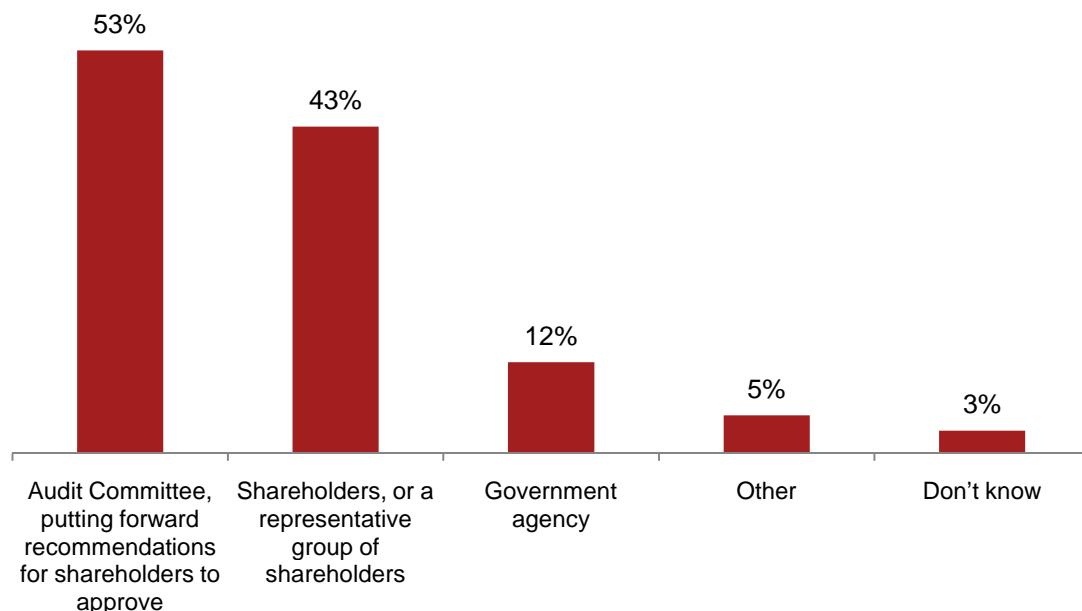
As important as the current position is the direction of change and the survey encouragingly found (**Q2**) that 42 per cent of European Audit Committee Chairs and CFOs say audit quality is improving while 53 per cent believe there has been no change in audit quality. In contrast just 5 per cent believe the quality of external audits is deteriorating.

While the majority of respondents are content with the current standard of audit, there is strong support for some specific measures to further enhance audit quality – most notably for improved dialogue between regulators and auditors. This is supported by 88 per cent of respondents (**Q3**).

Improved dialogue is something of which PwC is supportive and some countries are already taking measures to achieve this. Information exchanges between auditors and supervisors were, for example, once regular practice in the UK but stopped when a new regulatory framework was introduced at the end of the 1990s. However, the Bank of England and the UK financial regulatory authorities, with the support of leading audit firms, have now developed an effective protocol for auditor-supervisor communication.

In terms of who should be responsible for the appointment of auditors, the respondents are clear that it should be the shareholders. Just over half of respondents (53 per cent) want the Audit Committee to recommend appointment to the shareholders while a further 43 per cent want a role for a wider group of shareholders (Q 4, Chart 2). Just 12 per cent see a role for government regulators.

Chart 2: Who should be responsible for the appointment of auditors?



Audit Committee Chairs and CFOs have mixed views over whether they think it is necessary to increase the published information available about the audit to improve market confidence in corporate reporting. Around half (49 per cent, Q5) believe increased Audit Committee disclosures would be a useful way of increasing market confidence in the audit. Of those respondents who support increased disclosure, there was slightly more support for expanding the content of the audit report (61 per cent) over additional disclosures by the Audit Committee (53 per cent, Q 6).

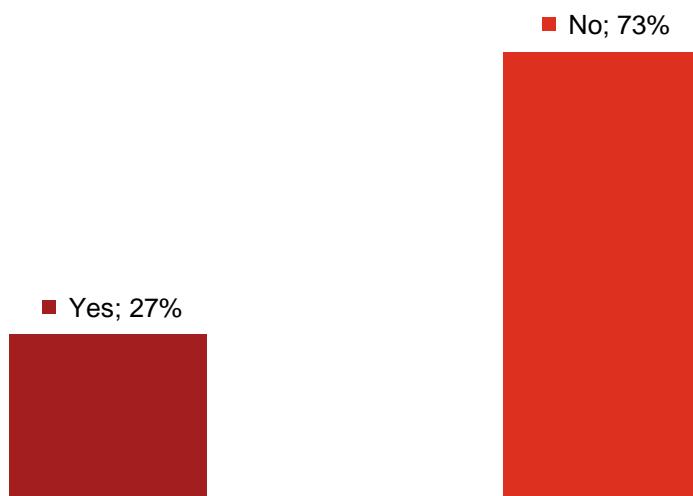
PwC is supportive of increasing disclosures but clearly this needs to be done in consultation with all parties to ensure that the desired aim of increased confidence is achieved.

Audit Competition

One of the key current regulatory debates is over the level of competition in certain audit markets. Some regulators have highlighted a perceived lack of competition in some markets as a cause for concern.

However, the survey shows that a majority of European Audit Committee Chairs and CFOs do not report significant competition problems. A small majority (54 per cent, **Q 7**) say they do not believe there is general lack of competition in the audit market. Significantly, though, this majority increases substantially when respondents are asked about their own direct experience of hiring auditors. Barely one in four (27 per cent, **Q9, Chart 3**) say that competition was a concern when they last reviewed their audit provision. This suggests that the experience of competition in practice, where the focus is the quality rather than quantity of competitors, is not a major concern for the majority of organisations.

Chart 3: When your company last reviewed its audit arrangements, was a perceived lack of competition amongst audit networks a matter of concern?

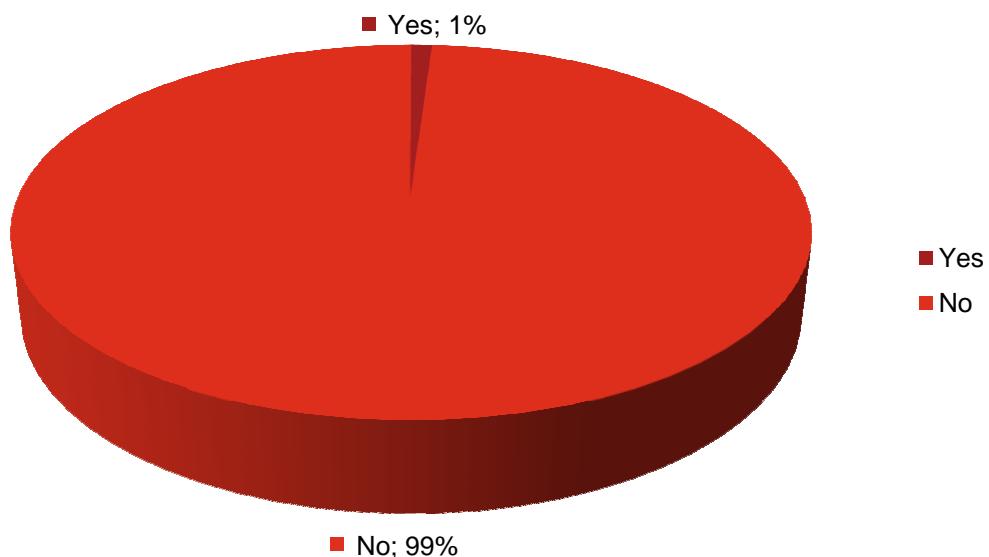


The survey found that nearly nine out of ten companies had reviewed their audit arrangements within the last few years (**Q8**). More than half – 52 per cent – had reviewed the arrangement in the last year and a further 26 per cent within the last two years. There is a clear message that those charged with governance regard the periodic review of audit arrangements as something they take seriously and do regularly. While businesses keep audit under regular review this does not necessarily mean they wish to change audit provider as **Q12** shows. This question found that 38 per cent of respondents have changed their auditor regularly (defined as every 5 years or so).

Relationship with Auditors

The survey asked a number of questions relating to the nature of relationships between audit firms and the companies they audit with the results generally emphatic. There is near unanimous opposition (**Q 11, Chart 4**) to making joint audits mandatory (excluding France where this practice is currently law). Listed companies in all Member States are already free to engage joint auditors and to change auditors when they wish. Significantly, outside of France very few do so. One influence may be concern about additional costs. A large majority (82 per cent, **Q10**) say that using joint audits would increase costs.

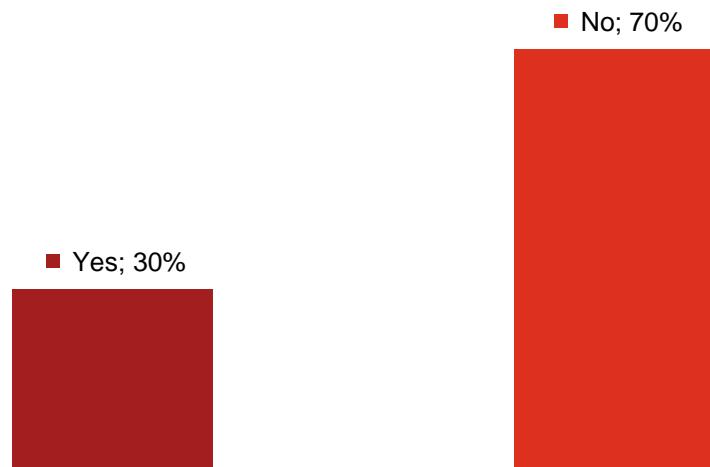
Chart 4: (Ex France) Would you like the law to be changed to make the use of joint auditors compulsory for businesses such as yours?



Some 70 per cent of respondents are opposed to making rotation compulsory (**Q 13, Chart 5**).

The survey did not ask respondents to identify the reasons for their views but in PwC's experience concerns have been expressed that mandatory rotation can be a disruptive and expensive process which could reduce the quality of audit.

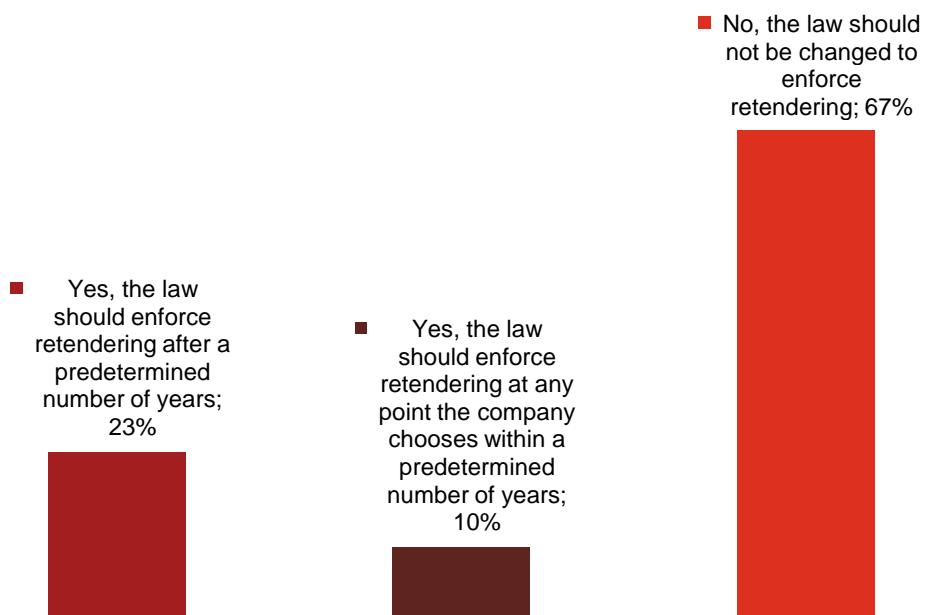
Chart 5: Do you think a law should be introduced for businesses such as yours to make changing audit firms legally compulsory after a certain number of years?



Similarly, two-thirds of respondents do not want the law changed to make it obligatory to retender the audit within a specified time period (**Q15, Chart 6**).

Again, the survey did not seek to identify reasons but in PwC's experience, one key concern is that legally mandated deadlines tend to be arbitrary and unrelated to business needs and that the requirement for audit partners to rotate regularly ensures that a 'fresh pair of eyes' are brought to bear regularly.

Chart 6: Should the law be changed to make it legally compulsory for companies such as yours to put their audit out for tender?



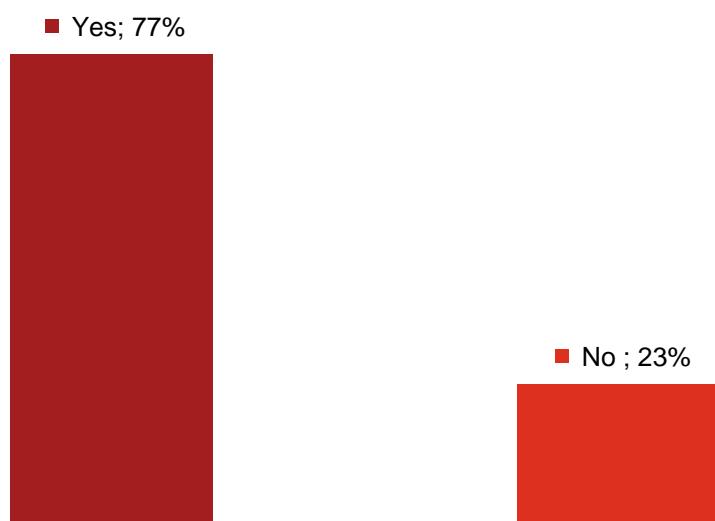
PwC's experience suggests that the role of the Audit Committees in regularly reviewing audit appointments is not well understood and that there may be scope to improve public reporting of the role Audit Committees play to improve market confidence.

Non-audit services

Auditors are already prohibited from providing many non-audit services – in general those which would conflict with the auditors' role or would potentially compromise impartiality and objectivity. These are established in the profession's ethical standards, supplemented in some countries by additional requirements.

The survey shows that Audit Committee Chairs and CFOs believe these existing measures are sufficient to prevent the provision of other services compromising independence or audit quality. More than three-quarters (77 per cent; **Q16, Chart 7**) believe there are already sufficient safeguards in place to prevent the provision of non-audit services compromising the independence or quality of the audits.

Chart 7: Do you believe that there are sufficient safeguards against the potential for the provision of non-audit services to compromise audit firm independence and audit quality?



Just over half of the firms covered in the survey had hired an audit firm to provide other services (**Q17**). Respondents suggested they appointed their auditor to certain non-audit services for a number of reasons including the auditor's knowledge of the company or when required to by law or regulation (for example in relation to share offerings, **Q18**). But respondents equally stressed the importance to them of selecting the best value proposition and ensuring that if the auditors were chosen, they were “demonstrably better than alternative providers”.

The risks of failure

Finally, the survey asked Audit Committee Chairs and CFOs about their perception of the risks of failure of a large audit network to the sound operation of capital markets. While only 14 per cent say they strongly agree with the statement that the failure of a large audit firm could pose a risk, around two thirds of respondents in total expressed some concern about the implications of a major failure (Q21, Chart 8).

PwC regards the concerns as understandable and is pleased to see regulators and the European Commission considering the issue. Measures under debate, which PwC supports, include liability reform to reduce the risks of a failure and contingency planning to minimise the consequences of any problems that might occur.

Chart 8: To what extent do you agree or disagree with the following statement? 'The failure of a large audit network would pose a systemic risk to the sound operation of the capital markets'

