Brussels urged to review stance on audit liability

By Kate Burgess and Jennifer Hughes in London
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New protections for auditors mean the European Commission must drop its "piecemeal" approach to the subject and step up its efforts to improve quality and competition in the audit market, a leading group of investors has warned.

The International Corporate Governance Network, whose members control about $15,000bn in assets, has called on the Commission to begin a Europe-wide review of audit services following its recommendation in June that member states allow auditors to limit their liability in agreements with their clients.

Currently audit firms in most countries face unlimited liability meaning that they can be sued for the whole cost of a client's collapse regardless of the scale of the role the firm actually played. The risk of such a case is so great that the leading firms cannot get insurance to cover it.

However, investors have opposed some formats of limiting the risks, such as introducing flat caps on what an auditor could pay out, and are demanding a more competitive audit market in return for liability limits.

They are concerned that the domination of the audit market by the Big Four firms - PwC, Deloitte, Ernst & Young and KPMG - could be weakening quality by easing the competition.

In a letter to Charlie McCreevy, internal market commissioner, and Neelie Kroes, competition commissioner, the ICGN said: "Investors around the world are unsatisfied by the European Commission's recent stance on auditor liability. They believe there is an EU-level issue about the current structure of the market for audit services to the largest companies, which may be detrimental to the quality of financial reporting and therefore to companies' access to capital.

"We feel that the time has come for the Commission to form an opinion about this issue which has tended to be treated in a piecemeal manner in the past".

The Big Four audit more than four-fifths of listed companies in Europe. Since the demise of Arthur Andersen in the wake of Enron , regulators have looked at how to encourage competition.

Leading companies tend to have relationships with at least two of the Big Four and regulators fear another Andersen-style collapse could create chaos as companies scramble to find another auditor without a conflict of interest.

The UK and Germany introduced limits on liability last year.