International Accounting Bulletin

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David Furst, the Horwath Clarke Whitehill chair, says globalisation is the most important issue facing the profession. He shares consolidation plans of Horwath International and the institute where he is president

11 EVENT: IASC FOUNDATION ROUND-TABLE
The International Accounting Standards Committee Foundation constitution review came under the spotlight at a London meeting recently. Carolyn Canham reports on the key messages from the event

12-15 COUNTRY SURVEY: FRANCE
The French accounting profession grew a respectable 11 percent over the past financial year with audit and accounting services leading the way. However, partners are concerned the good times may not continue

AUDITOR LIABILITY

Insurance industry warns liability caps will not lower premiums

An insurance leader has warned that a Europe-wide auditor liability cap will not lead to cheaper insurance for firms and could weaken the credibility of audit reports in the case of litigation.

The European Commission last month fanned the auditor liability debate by recommending member states adopt a proposed model to cap liability.

The recommendation, which was largely welcomed by the accounting profession, has come under attack by the European insurance and reinsurance federation (Comité Européen des Assurances – CEA). CEA's vice president Gérard de la Martinière told the *International Accounting Bulletin* liability caps would create an artificial imbalance between the liability of auditors and unlimited liability of management. "I think that interfering with normal functioning of the insurance market, which would be the case with the regulatory cap of liability, would deprive the society of knowledge to what extent there is something going wrong, [affecting] the way litigation may be developed," de la Martinière said.

He said that he has seen no evidence of a lack of insurance coverage for audit firms, and believes auditors: "do not like to pay too much to get this coverage [but] claim that they need a cap to limit their spending".

David Radley-Searle, a partner and director of the International Business Centre at Grant Thornton Audihispana, the network's Spanish member firm, believes there is ample evidence insurance premiums have risen in recent years and that limiting liability should provide some relief to the cost of coverage. "We have seen now clear signals in Spain that a limitation of liability would give rise in the short-time to lower premiums or better thought out insurance cover," he said.

Radley-Searle said liability caps could benefit the insurance industry by allowing more players to enter the audit firm market.

Breaking down barriers

Radley-Searle stressed that limiting liability will benefit the mid-tier to a degree, as unlimited liability is a market entry barrier when pitching to larger quoted companies, but it would not influence the type of work or strategy firm's pursues.

Out of the three models presented by the EC – applying a liability cap, introducing proportionate liability or allowing liability to be limited by contract – Grant Thornton Audihispana prefers a model of proportionate liability where any damages should be proportional to the damage that has been caused.

de la Martinière, who is against any type of cap, admitted steps should be taken to restrict the liability placed on auditors, which has spiralled out of control in recent years as regulators imposed more rules and responsibilities on auditors in the wake of corporate failures like Enron. He called for an international, and not European, approach to liability reform and said he believes legislators need to revise the scope of the auditor's role and strip back certain functions and responsibilities.

de la Martinière said there could be professional resistance to reducing the responsibility of the auditor's role because when it was expanded it meant: "more fees, but on the other hand they do not like the liability which is associated to this extension of their role". ■

Arvind Hickman

■ LIABILITY CAPS

Choosing the right model

The European Commission has proposed member states follow one or more of the following methods:

(a) Establishment of a maximum financial amount or of a formula allowing for the calculation of such an amount;

(b) Establishment of a set of principles by virtue of which a statutory auditor or an audit firm is not liable beyond its actual contribution to the loss suffered by a claimant and is accordingly not jointly and severally liable with other wrongdoers; and/or,

(c) Provision allowing any company to be audited and the statutory auditor or audit firm to determine a limitation of liability in an agreement.

Source: European Commission

FINANCIAL RESULTS

Deloitte edges closer to PwC in UK

The UK's second highest fee earning firm has reported revenues for its 2007-2008 fiscal year climbed to just above £2 billion ($4 billion) following growth of 11.5 percent. Deloitte UK's strong growth followed a 16 percent increase in fee income last year and 15 percent in 2006.

The results push Deloitte closer to the UK market leader PricewaterhouseCoopers' 2007 fee income of £2.1 billion.

Deloitte, whose financial year ends on 31 May, is the first UK Big Four firm to report its interim results – PwC and Ernst & Young's fiscal years end on 30 June and KPMG's on 30 September.

Deloitte Global chairman and UK firm leader John Connolly said the firm had reached its major "two in two" target. In 2006, Connolly set the goal to take revenues to £2 billion within two years.

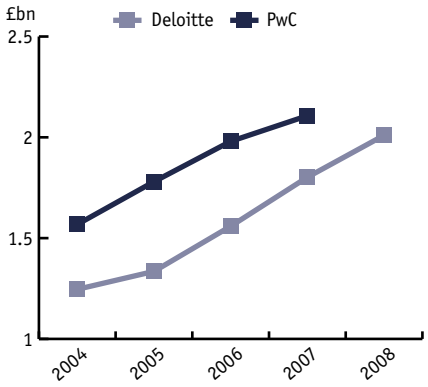
The strong results were hinted at last November when Deloitte UK chairman David Cruickshank spoke to the *International Accounting Bulletin*.

"Audit has had a fabulous run of securing new FTSE 100 audit relationships over the last year or 18 months and there's no other firm that would be able to boast that," Cruickshank said.

"We are very, very pleased we kept our consulting practice because it's absolutely the core of our practice now." ■

■ UK

Closing the gap: PwC v Deloitte fee income 2004-2008*



* PwC has not yet disclosed fee income for its 2008 financial year end

Source: *International Accounting Bulletin*