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8 December 2010

By email: markt-greenpaper-audit@ec.europa.eu

From: BVCA Legal & Technical Committee

Response to EU Green paper: "Audit Policy: Lessons from the crisis"

The British Venture Capital Association (the BVCA) is the industry body of the UK private equity and venture capital industry. With a membership of over 450 firms, the BVCA represents the vast majority of all UK-based private equity and venture capital firms and their advisors.

The BVCA has 25 years of experience representing the UK private equity industry to government, the European Commission and Parliament, the media, regulatory and other statutory bodies at home, across Europe and around the world. It promotes the industry to entrepreneurs and investors, as well as providing services and best practice to its members.

This response has been prepared by the BVCA's Legal & Technical Committee which represents the interests of BVCA members in legal, accounting and technical matters relevant to the private equity and venture capital industry. The views set out in this response do not necessarily reflect the views of all members of the BVCA.

As investors in companies that are subject to audit, the members of the BVCA have comments on the EU Green Paper: "Audit Policy: Lessons from the Crisis" as follows.

We are responding to the Green Paper as users of audits as opposed to practitioners. We have therefore limited our responses to the issues we consider most relevant to users, with emphasis on Small and Medium Enterprises ('SMEs') who constitute a substantial proportion of the companies in which our members invest.

Consultation Question	Response
1 to 3	The view of the BVCA is that provided UK best practice is adopted, audits and auditor reports are fit for purpose and that a major overhaul of the audit environment is unnecessary. Of particular concern are a number of suggestions in the Green Paper that would increase the cost of audits for companies, and therefore for the investors in those companies, for little or no value added. Audit quality could be enhanced by a wider adoption of current best practice, but that does not require new or additional regulation.
4 to 7	The directors of a company manage the company and produce periodic accounts to show the status of the company on a certain date. The role of the auditor is to review those accounts and opine on whether they show a true and fair view. There is an increasing sense that auditors use qualifications and descriptions in the audit report of how they have reached the opinion to relieve themselves of their responsibility for that opinion. This is not helpful to shareholders in that company and a case can be made that audit reports are already too long. Disclosing views on future risks to the company and forward analysis is the role of directors and current reporting best practice already covers this issue.

Consultation Question	Response
8, 10	Current reporting by the directors of a company on corporate and social responsibility varies greatly and is currently developing. The provision of information to stakeholders relating to CSR or any other issue is the decision and responsibility of the directors and shareholders of a company. They may decide that it is appropriate to have auditor verification of any such reporting but under no circumstances should this requirement be incorporated into regulations or legislation.
13, 14	Audit quality could be enhanced by a wider adoption of current best practice, but that does not require new or additional regulation. International Standards on Auditing ('ISA') are widely adopted in the EU and drive auditing best practice. The use of ISAs should be further encouraged by recommendations or codes of conduct. See the response to Q 35 for our view on SMEs.
18, 29	Current best practice already deals with auditor independence and rotation.
19	For SMEs the use of an audit firm to provide non-audit services gives the company a low-cost option as the administration and time involved in the non-audit service will be materially less than when engaging a new third party. Current best practice within the audit firm should ensure proper management of conflicts of interest that may arise. The BVCA would therefore be opposed to any such prohibition.
24	Current best practice deals with group audits and the need for the group auditor to have knowledge of; and be comfortable with, all material aspects of the group audit. Large international companies need large international audit firms for efficiency of operation. We believe the nature, diversity and size of audit firms is best managed by leaving it to the market.
28	As investors we see substantial extra cost but little or no added value in having audit consortia involved with a company or group.
35	We see no value for investors in having a less than true and fair view audit for Small and Medium Enterprises ('SME'). Similarly the principles underlying the International Auditing Standards should be equally applicable to SMEs as to larger entities.
36	If a prohibition on the provision of non-audit services is introduced there should be a carve-out for SMEs but as stated previously the BVCA is opposed to such a prohibition in principle.

We would be very happy to discuss the issues by telephone or in a meeting if that would be useful.

Yours sincerely,

SIMON WITNEY
Chairman, BVCA Legal and Technical Committee

cc:
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