

UK/Ireland Policy and European Policy¹ – Auditor Ratification – Lead Engagement Partner

Background and Overview

In the UK and across continental Europe, a number of recent high-profile corporate failures and accounting scandals have occurred at large, widely-held public companies. These incidents have raised questions about the efficacy of the financial statements and the need for improved audit quality and stronger boardroom oversight.

Within this context, the role and performance of auditors has come under increased scrutiny, and there are emerging signs of investors' willingness to hold auditors directly accountable for perceived failures in audit quality. For example, during the U.K. 2018 voting season, a resolution to reappoint an auditor at a publicly listed U.K. company was overwhelmingly defeated (c. 78% of the votes cast were against) after accounting irregularities came to light.

For its UK/Ireland and European policies, ISS is proposing to track in significant audit quality issues, with a focus on accounting controversies, at the lead engagement partner level, wherever such information is available for UK, Irish and European companies. This potential approach was discussed at ISS' European policy roundtables, where there was broad support from institutional investor clients.

Key Changes under Consideration

Where the information is available, ISS research reports will note any lead audit partners (and/or partnership firms) who have been linked with significant auditing controversies and, where they are engaged in the audit for other public companies, this will be raised for investor attention – even if no audit concerns have been identified at the subject company. A negative recommendation on auditor ratification may be applied in the most severe cases, e.g. where the lead audit partner has previously been linked with a corporate failure scenario or other material destruction of shareholder value arising from fraud or other accounting issues.

Intent and Impact

The intent of the policy is to align the UK/Ireland and European Voting Guidelines with emerging investor views on this important topic and to address in policy an area of growing investor concern. Primarily, the intention is to leverage the data available and collected by ISS for the benefit of our

¹ ISS' European Policy applies to companies incorporated in the following territories: Austria, Belgium, Bulgaria, Croatia, the Czech Republic, Cyprus, Denmark, Estonia, the Faroe Islands, Finland, France, Germany, Greece, Greenland, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Slovakia, Slovenia, Sweden, and Switzerland.

clients: while ISS' research report would highlight any potential issues for client consideration, a negative recommendation only be applied in egregious circumstances.

Request for Comment

While we will appreciate any comments on this topic, ISS specifically seeks feedback on the following:

- Would your organization consider the lead audit partner's involvement in a significant accounting controversy – even if this occurred at another company – to be a potential area of concern?
- Would your organization support ISS adopting in future a similar approach in other markets (outside the U.K. and Europe) where disclosure of the lead engagement partner is available?