

Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

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The Committee on Legal Affairs adopted an own initiative report by Bert **DOORN** (EPPED, NL) on implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. Directive 2006/43/EC was adopted in response to the crisis that followed the collapse of Enron. MEPs stress that the current financial crisis highlights the importance of high-quality accounting and auditing practices and deplore the fact that only 12 Member States have transposed the Directive in full. They therefore urge the Commission to ensure its immediate transposition and enforcement.

Definitions: MEPs note with concern that transposition of the crucial notions of “public-interest entity” (PIE) and “network” is leading to differing interpretations among Member States. They note that the Directive also introduces various additional obligations for audit firms covered by the definition of “network”. In order to put an end to the legal uncertainty, the Commission is called upon to undertake a comprehensive review of the implementation of the definitions and the discernible effects of their introduction, and to seek clarity regarding the long-term policy priorities for the EU in this area and the way in which these may best be achieved, in consultation with the Member States.

Audit committee: the report notes that many Member States have not yet implemented Article 41 of the Directive, under which Member States must require PIEs to set up an audit committee or comparable body. MEPs are of the opinion that this requirement is an important means of guaranteeing the independence of statutory audits of PIEs' annual accounts. They stress that recent experience shows the need for frequent and high-quality interaction within audit committees and between independent directors.

Rotation of audit partners: certain Member States have implemented the Directive's requirement of auditor rotation within a maximum of seven years with a very short rotation period of as little as two or three years. MEPs doubt that such short rotation periods enhance the quality and continuity of statutory audits of PIEs, and points out that they hamper the auditors' and audit firms' sound understanding of the audited entity.

Public oversight: the report regrets that not all Member States have introduced the system of public oversight required by the Directive. Moreover, in Member States where forms of public oversight have been introduced, there are considerable differences between them. Noting that public oversight under the Directive must be organised in such a way that conflicts of interest are avoided, MEPs wonder, in the light of this, whether oversight authorities directly linked to national governments meet that requirement. They consider it very important that the cooperation required under the Directive between public-oversight authorities should actually materialise.

Audit working papers: there is a very significant lack of clarity in relation to the implementation of Article 47 of the Directive, which deals with the audit working papers. According to MEPs, there are legal and data-protection issues to be addressed in order to ensure that the information which EU auditors receive from their client companies is kept confidential and does not get into the public domain of third countries where such companies are listed or where the parent company is incorporated.

Instrument of harmonisation: MEPs call on the Commission to make a careful evaluation of all national legislation transposing the Directive, to tackle resolutely the problems referred to above, and to report to

Parliament on this within two years. They doubt whether the chosen method of minimum harmonisation is really the right way to realise the objectives of this and other internal-market-related directives, since the many derogations allowed by the Directive will lead to further fragmentation of the accountancy market. They call on the Commission to make use of clear concepts when harmonisation is being carried out.

Recommendation on quality assurance: MEPs welcome Commission Recommendation 2008/362/EC on external quality assurance for statutory auditors and audit firms auditing public interest entities. In this context, they call on the Commission to promote national quality assurance structures, in close collaboration with the Member States, which ensures independent and external quality assurance for accountancy firms.

Auditors' liability: the report notes that divergences between Member States' liability regimes might lead to regulatory arbitrage and undermine the internal market.

Within the context of the current economic and financial crisis, MEPs stress that Commission Recommendation 2008/473/EC should not call into question the quality of the statutory audit or the confidence placed in the function of statutory audits. They call on the Commission to inform Parliament no later than in 2010 about the impact of, and the follow-up to, the recommendation, the important issue in this connection being, in particular, whether and to what extent the recommendation is leading to greater convergence between Member States.

In the event that further measures prove necessary, the Commission must undertake an impact study assessing the possible effects of limitation of civil liability of auditors and audit firms on the quality of audits, financial security and the concentration on the audit market.