

Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 14/05/2013 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Legal Affairs adopted the report by Sajjad KARIM (ECR, UK) on the proposal for a directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

The committee recommends that the position adopted by the European Parliament at first reading according to the ordinary legislative procedure should amend the Commission's proposal as follows:

Training: the competent authorities shall cooperate with a view to achieving a minimum convergence of the requirements. When engaging in such cooperation, those competent authorities shall take into account developments in auditing and the audit profession, and in particular, the convergence that has already been achieved by the profession

As regards the **approval**, the adaptation period shall be subject to an assessment of the level of professional competence achieved through the application of national law relating to audits.

Ethics: Members consider that in order to improve audit quality, it is important that the **professional scepticism** exercised by auditors vis-à-vis the audited entity is reinforced. Auditors should recognise the possibility that a material misstatement due to fraud or error could exist, notwithstanding the auditor's past experience of the honesty and integrity of the audited entity's management.

Independence and objectivity: independence shall be required during both the period covered by the financial statements to be audited and the period during which the statutory audit is carried out. Auditors, audit firms and their employees should in particular **refrain from carrying out the statutory audit of an entity if they have a business interest or financial interest** in it. The statutory auditor or audit firm should abstain from the internal decision-making processes of the audited entity. Statutory auditors or their employees should be prevented from taking up duties in the audited entity at managerial or board level until an appropriate period has elapsed since the end of the audit engagement.

In this context, auditors shall not :

- own any financial instruments of the audited entity, the parent undertaking to which the audited entity is material, or any entity whose financial information is incorporated into the financial statements of the audited entity, other than interests owned indirectly through diversified collective investment schemes, including managed funds such as pension funds or life insurance;
- have or have had in the previous 12 months any personal, business, employment or other relationship with the audited entity.

An amendment stipulates that persons or firms shall not solicit or accept gifts, hospitality or similar favours from the audited entity unless an objective, reasonable and informed third party would consider their value to be trivial or inconsequential.

Confidentiality and profession secrecy: Members consider it is important that statutory auditors and audit firms respect the rights to private life and data protection of their clients. They should therefore be bound by strict rules on confidentiality and professional secrecy which, however, should not impede the

proper enforcement of this Directive or the cooperation with the group auditor during the performance of the audit of consolidated financial statements when the parent undertaking is in a third country.

Internal organisation of Statutory Audit Firms: adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus,

- the owners or shareholders of an audit firm, as well as those managing it, should not intervene in the carrying out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who carries it out on behalf of the audit firm;
- statutory auditors and audit firms should establish appropriate **internal policies and procedures** in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure that they comply with their statutory obligations.

The policies and procedures shall be documented and communicated to the employees of the statutory auditor or audit firm. The statutory auditor or audit firm shall take into consideration his, her or its size and complexity of activities when complying with the requirements.

Scope of the audit: given that the stakeholders might be unaware of the limitations of an audit, this may lead to an expectation gap. In order to reduce such gap, it is important to provide more clarity on what the scope of the statutory audit is.

Organisation of the work: Members stress that Securing **audit quality, independence and competence** shall be the main criteria for the audit firm to select the key audit partner(s) to be designated. A statutory auditor or an audit firm shall maintain a client account record, create an audit file for each statutory audit carried out, retain any other data and documents that are of importance in support of the reports.

To ensure the **integrity of financial reporting**, Member States have introduced a series of amendments to ensure that any incident that may have serious consequences for the integrity of the statutory audit activities should be appropriately managed. The statutory auditor or the audit firm should appropriately document the audit work. It is also stated that the statutory auditor or the audit firm should not issue his, her or its audit report until such an internal quality control review has been completed.

Statutory auditor of the consolidated accounts: in the case of consolidated financial statements, it is important that there is a clear definition of responsibilities of the statutory auditors who audit different entities of the group. For this purpose, the **group auditor** should bear full responsibility for the audit report.

Audit report: The statutory auditor or the audit firm shall present the results of the statutory audit in an audit report prepared in accordance with the requirements of the international auditing standards adopted by the Union. Amendments stipulate the information to be included in the report. The **report shall be signed and dated by the statutory auditor.**

Penalties: Members call on the Member States to provide that measures taken in respect of, or penalties imposed on, statutory auditors or audit firms in cases of public relevance are disclosed appropriately to the public, with details of the nature of the offence and the identity of those responsible.

Audit committee: the independence and technical competence of each audit committee should be reinforced by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting.