

Statutory audit of public-interest entities: specific requirements

2011/0359(COD) - 29/08/2013 - 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 regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities.

The Committee on Economic and Monetary Affairs, exercising its prerogatives as an associated committee under Parliament's [Rule 50 of the Rules of Procedure](#), also gave an opinion on the report.

The committee recommended that Parliament's position adopted at first reading following the ordinary legislative procedure should amend the Commission proposal as follows:

Independence and objectivity: Members sought to ensure that the independence of the statutory auditor or audit firm carrying out the statutory audit is not compromised by financial, personal, business, employment or other relationships involving the statutory auditor, the audit firm, its network, or any natural person in a position to directly or indirectly influence the outcome of the statutory audit.

Supply of non-audit services: according to the amended text, an audit firm may provide other assurance services, tax advisory services and other non-audit services other than prohibited non-audit services where:

- **the provision of those services has been approved by the audit committee;**
- the audit firm is itself satisfied that the provision of those services does not pose a threat to the independence of the statutory auditor or audit firm that cannot be reduced to an acceptable level by the application of safeguards.

Where the statutory auditor or audit firm belongs to a network and services are provided to undertakings outside the Union which are controlled by the audited entity, the statutory auditor or audit firm shall assess whether his, her or its independence could be compromised by the provision of such services.

Audit report: the statutory auditor or the audit firm should present the results of the statutory audit of the public-interest entity in an audit report prepared in accordance with the international auditing standards. The report should, inter alia:

- identify the title of each financial statement included in the annual or consolidated financial statements of the individual entity or consolidated group and state the date of, or the period covered by, each financial statement;
- express an opinion on whether the management report is consistent with the financial statements for the same financial year or whether it has been prepared in accordance with the applicable legal requirements;
- state whether the statutory auditor or audit firm has identified material misstatements in the management report, and give an indication of the nature of any such misstatements;
- provide: (i) a description of the most important assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and (iii) key observations arising from the audit work;
- provide where relevant to the above information provided in the audit report concerning each significant audit risk, a clear reference to the relevant disclosures in the financial statements shall be provided;
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identify any breach of accounting or legal requirements that are significant to the governance of the entity or to its continued operation.

Additional report: this should include a description of the scope and timing of the audit, and detailed information on the significant findings from the statutory audit.

Report to supervisors of public-interest entities: at least once a year, the European Systemic Risk Board (ESRB) should organise a meeting with the statutory auditors and audit firms or networks carrying out the statutory audit of any FSB-identified systemically important financial institutions in order to inform the ESRB of sectoral or any significant developments in those systemically important financial institutions.

Appointment of the statutory auditors or audit firms: the audited entity should be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that the organisation of the tender process **does not in any way preclude the participation in the selection procedure of firms who received less than 15 % of the total audit fees** from public-interest entities in the Member State concerned in the previous calendar year.

The public-interest entity should appoint a statutory auditor or audit firm for an **initial engagement of at least one year**. Member States should ensure that the **maximum duration of the combined engagements does not exceed 14 years** (the European Commission proposed that the public-interest entity may renew this engagement only once and that the maximum duration of the combined two engagements should not exceed 6 years).

By way of derogation, Member States may provide for the maximum duration to recommence if for instance a public tendering process for the statutory audit is conducted. Where one or more derogations are applied the total duration of the audit engagement period shall not exceed 25 years.

Penalties: Member States should ensure, in conformity with their national law, that at least the appropriate administrative sanctions and/or measures applicable to persons responsible for breaches of the provisions of this Regulation and of Directive 2006/43/EC may be taken.

It should be noted that Members proposed moving a number of measures to [Directive 2006/43 of the European Parliament and of the Council](#) on statutory audits of annual accounts and consolidated accounts. These measures concern for instance: internal quality control review; professional scepticism; scope of the statutory audit; disclosure to third-country auditors and to third country authorities; organisation of the work; market integrity; audit of consolidated financial statements.