

Statutory audits of annual accounts and consolidated accounts

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Following the Irish Presidency's presentation of a progress report, ministers expressed views on outstanding issues of the ongoing reform aimed at improving audit rules in the EU. The outcome of the debate provides **political guidance** for taking the reform forward.

The Presidency invited ministers to express their views on the Presidency compromises as regards three main issues :

1. Mandatory rotation of auditors and audit firms of public interest entities: given the need to ensure the high quality of audits, including independence and objectivity of auditors of public interest entities in particular, the Presidency suggested as a compromise setting a maximum period of appointment of 7 years (8 years for joint audits), renewable, subject to the satisfaction of certain criteria, for a maximum of 7 further years (8 years for joint audits). In addition, the Presidency compromise provides that, on an exceptional basis, the Public Interest Entity may request the competent authority to grant another extension to re-appoint the statutory auditor or audit firm for a maximum of 2 further years (3 years for joint audits). **The majority of Ministers could support the general principle of a mandatory rotation subject to certain conditions.**

2. Restriction on the provision of related financial audit services and prohibition of non-audit services: in order to address the need to **reinforce independence**, the Commission proposed to limit the services that statutory auditors and audit firms of public interest entities are allowed to carry out. To this end, it proposed to differentiate certain categories of services and to limit the provision of related financial audit services to no more than 10 % of the fees paid by the audited entity for the statutory audit.

In order to facilitate a compromise, the Presidency proposed to **increase this threshold to no more than 70 % of the fees paid in any three-year period**. In addition, services related to audit work imposed by Union legislation would not be counted against this threshold.

Under the Presidency proposal, this limitation is applicable to all services that **do not feature on the list of prohibited services (“black list”)** which it proposes. The concept and content of a black list, with auditors permitted to provide all other services that do not feature on this list, was developed by the Presidency in response to a request from delegations for a simpler system of permitted/ prohibited services. It was also designed to meet the objectives of reinforcing the independence of auditors and avoiding conflicts of interest, with regard to which there were divergent views on the means of achieving this and on the specific services that should be prohibited.

A large number of Ministers could agree to the establishment of a black list. However, a **number of them were not in favour of the cap of 70%.**

3. Cooperation of national audit oversight bodies:

the Commission proposal envisages that EU-wide cooperation on auditor supervision between the national competent authorities takes place within the European Securities and Markets Authority (ESMA). The proposed committee would assume functions previously undertaken by the European Group of Auditors' Oversight Bodies (EGAOB), an expert group chaired by the Commission. The Presidency compromise proposal attempts to address concerns expressed by several delegations in this regard, by providing for the

creation of a Committee of European Auditing Oversight Bodies (CEAOB) within ESMA, composed of the members of EGAOB and having **decision-making powers**. A number of delegations proposed an **alternative to ESMA**, namely the strengthening of existing co-operation provided under the EGAOB by means of the establishment of a body to be known as the “European Board of Auditors’ Oversight Bodies” (EBAOB).

Many delegations were in favour of establishing the European Board of Auditors' Oversight Bodies, although some support was also expressed for the cooperation to take place within ESMA.