

Statutory audit of public-interest entities: specific requirements

2011/0359(COD) - 03/04/2014 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 332 votes to 253, with 26 abstentions a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities.

Parliament adopted its position at first reading following the ordinary legislative procedure. The amendments adopted in plenary are the result of an agreement negotiated between the European Parliament and the Council. They amend the proposal as follows:

Subject matter and scope: the Regulation lays down requirements (i) for the carrying out of the statutory audit of annual and consolidated financial statements of public-interest entities, (ii) rules on the organisation and selection of statutory auditors and audit firms by public-interest entities to promote their independence and the avoidance of conflicts of interest and (iii) rules on the supervision of compliance by statutory auditors and audit firms with those requirements.

Parliament stipulated that where **a cooperative or a savings bank** or a similar entity is required or permitted under national provisions to be a member of a non-profit-making auditing entity, the Member State may decide that this Regulation should not apply to the statutory audit of such entity, provided that the principles of independence are complied with.

Prohibition to provide services other than auditing: the provision of certain services other than statutory audit (non-audit services) to audited entities by statutory auditors, audit firms or members of their networks may compromise their independence.

Therefore, it is appropriate to prohibit the provision of certain non-audit services such as **specific tax, consultancy and advisory services** to the audited entity, to its parent undertaking and to its controlled undertakings within the Union. Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity should, in principle, be prohibited.

Member States may decide to allow the statutory auditors and the audit firms to provide certain tax and valuation services when such services are **immaterial** or have no direct effect, separately or in the aggregate, on the audited financial statements. Where such services involve aggressive tax planning, they should not be considered as immaterial. Accordingly, a statutory auditor or an audit firm should not provide such services to the audited entity.

An audit firm should be able to provide non-audit services which are not prohibited under this Regulation:

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

Member States may establish **stricter rules** setting out the conditions under which an audit firm may provide other than the prohibited non-audit services referred to in the Regulation.

Audit fees: when an audit firm provides services other than auditing, the total fees for these services should be limited to **no more than 70% of the average of the fees paid in the last three consecutive financial years** for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings.

Audit report: Parliament and the Council laid down the aspects that need to be included in the audit report. Among other things, the report should:

- state by whom or by which body the statutory auditor(s) or the audit firm(s) was (were) appointed;
- indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the statutory auditors or the audit firms;
- provide, in support of the audit opinion, the following: (i) **a description of the most significant assessed risks of material mis-statement**, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and where relevant, key observations arising with respect to those risks;
- indicate any services, in addition to the statutory audit, which were provided by the statutory auditor or the audit firm to the audited entity and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.

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

This report should be submitted to the audit committee by the **same deadline** as the audit report.

Upon request, the statutory auditor or an audit firm should discuss key matters arising from the statutory audit, referred to in the additional report.

In addition, upon request, and in accordance with national law, the statutory auditors or the audit firms should **make available** without delay the additional report **to the competent authorities**.

Appointment of statutory auditors or audit firms: to strengthen the independence of the audit firm, the audited entity would be free to invite any audit firm to make an offer to provide the statutory audit service.

However, the organisation of the tender process does not in any way **preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees** from public-interest entities in the Member State concerned in the previous calendar year.

Duration of the audit engagement: a public-interest entity should appoint a statutory auditor or an audit firm for **an initial engagement of at least one year**. The engagement may be renewed but neither the initial engagement of a particular statutory auditor or audit firm, nor this in combination with any renewed engagements therewith should exceed **a maximum duration of 10 years**. This period may be increased to 20 years in total where a public tendering process for the statutory audit is conducted, or to 24 years, where more than one statutory auditor or audit firm is simultaneously engaged – when a business is audited by at least two audit firms.

The maximum durations referred should be extended only if, upon a recommendation of the audit committee, the administrative or supervisory body, proposes to the general meeting of shareholders or members, that the engagement be renewed and that proposal is approved.

Delegation of tasks: according to the amended text, the Member States should be able to delegate or allow their competent authorities to delegate any of the tasks required to be undertaken to other authorities or bodies designated or otherwise authorised by law to carry out such tasks, except for tasks related to the quality assurance system, investigations and sanctions.

Member States may, however, decide to delegate the tasks relating to systems of sanctions to other authorities or bodies designated or otherwise authorised by law to carry out such tasks, when the majority of the persons involved in the governance of the authority or body concerned is independent from the audit profession.

Cooperation with other competent authorities at national level: this should be organised within the framework of a Committee of European Auditing Oversight Bodies (**CEAOB**), which should be composed of high-level representatives of the competent authorities and a member appointed by the European Securities and Markets Authority (ESMA).