

Statutory audit of public-interest entities: specific requirements

2011/0359(COD) - 16/04/2014 - Final act

PURPOSE: to increase the transparency of the audit market enhancing the degree of confidence of the public in the annual and consolidated financial statements of such public-interest entities (PIE)

LEGISLATIVE ACT: Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

CONTENT: the Regulation establishes:

- **the requirements for the carrying out of the statutory audit of annual and consolidated financial statements of public-interest entities** which are enterprises that display a notable public interest by virtue of their field of activity, of their size, of their effects or their legal framework and which include the banks, insurance companies and companies quoted on the stock exchange;
- **the 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;
- **the rules on the supervision of compliance** by statutory auditors and audit firms with those requirements.

The Regulation is part of a package of legislative measures for the **reform of the EU audit market** which also includes [Directive 2014/56/EU of the European Parliament and Council](#) on statutory audits of annual accounts.

The main elements of the Regulation are the following:

Conditions for carrying out the statutory audit of public-interest entities:

- when the audit firm provides non-audit services, the total fees for such services shall be limited to a **maximum of 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;
- the Regulation **prohibits auditors from providing 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. An audit firm should be able to provide non-audit services except those prohibited under this Regulation: i) if the provision of those services has been approved in advance by the audit committee; and ii) if 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;

- with a view to avoiding conflicts of interest, the auditors, before accepting or continuing an engagement for a statutory audit of a public-interest entity, should assess whether the **independence requirements** are met, and in particular whether any threats to independence arise as a result of the relationship with that entity;
- the results of the statutory audit of the public-interest entity shall be presented to interested parties in an **audit report**. This report should provide, in particular: i) sufficient information on the independence of the audit firm; ii) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud, as well as a summary of the auditor's response to those risks; iii) explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud;
- the auditor should draw up an **additional report to the audit committee**. This report would provide more detailed information on the audit, the situation of the company as such (for example, capacity to continue its activities) and on the findings of the audit accompanied by the necessary explanations, as well as report on any significant deficiencies in the audited entity's internal financial control system;
- an audit firm that carries out statutory audits of public-interest entities should publish a **transparency report** on its website. This report shall remain available for at least five years from the day of its publication.

The appointment of statutory auditors or audit firms:

- the appointment of the auditor proposed at the meeting of shareholders should be based on a **recommendation of the audit committee**. Unless it concerns the renewal of an audit engagement, it should contain at least two choices and express a duly justified preference for one of them. It should be formulated on the basis of a tendering process in good and due form;
- to strengthen the independence of the audit firm, the audited entity would be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service. However, the organisation of the tender process should not exclude the participation in the selection procedure of small 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;
- the Regulation establishes a **compulsory rotation of audit firms after a period of up to 10 years at most**. This period may be extended to **20 years** where a public tendering process is conducted, or to a **total of 24 years** in the case of joint audits – where an enterprise is audited by at least two audit firms. The Regulation also provides for a break of **four years** to apply before an audit firm could again carry out statutory audits of the same entity.

Surveillance of the activities of auditors and audit firms:

- each Member States should designate a competent authority responsible for the surveillance of auditors and audit firms which carry out statutory audits of public-interest entities. The competent authorities should be independent of the audit firms;
- Member States should be able to **delegate** any of the tasks of those competent authorities to other authorities or bodies except those related to the quality assurance system, investigations and disciplinary systems;

- the competent authorities should establish an **effective system of audit quality assurance** and carry out quality assurance reviews of statutory auditors and audit firms.

Cooperation between the competent authorities: 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).

ENTRY INTO FORCE: 16.06.2014. The Regulation shall apply from 17.06.2016.

DELEGATED ACTS: the Commission may adopt delegated acts in order to take into account the developments in auditing and in the audit profession. The power to adopt delegated acts shall be conferred on the Commission for a period of **five years from 16 June 2014**. The European Parliament or the Council may object to a delegated act within a period of two months from the date of notification (this period can be extended for two months). If the European Parliament or the Council make objections, the delegated act will not enter into force.