

Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 16/04/2014 - Final act

PURPOSE: to reform the audit market in the European Union.

LEGISLATIVE ACT: Directive 2014/56/EU of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

CONTENT: this Directive aims to modify [Directive 2006/43/EC](#) of the European Parliament and Council which lays down the conditions for the approval and registration of persons that carry out statutory audits, the rules on independence, objectivity and professional ethics applying to those persons, and the framework for their public oversight. The objectives are:

- **to further harmonise those rules at Union level** in order to allow for greater transparency and predictability of the requirements applying to such persons and to enhance their independence and objectivity in the performance of their tasks;
- **to increase the minimum level of convergence** with respect to the auditing standards on the basis of which the statutory audits are carried out;
- **to reinforce investor protection** by strengthening public oversight of statutory auditors and audit firms by enhancing the independence of Union public oversight authorities and conferring on them adequate powers (including investigative powers and the power to impose sanctions) with a view to detecting and preventing infringements of the applicable rules in the context of the provision of auditing services.

This Directive is part of a package of legislative provisions to reform the audit market in the EU which also includes a [Regulation](#) on specific requirements regarding statutory audit of public-interest entities.

The Directive introduces the following key changes:

Recognition of audit firms: the Directive provides that an audit firm that wishes to carry out statutory audits in a Member State other than its home Member State shall **register with the competent authority in the host Member State**. The competent authority in the host Member State shall register the audit firm if the latter is registered with the competent authority in the home Member State.

Continuing education: statutory auditors will be required to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level; failure to respect the continuing education requirements will be subject to sanctions.

Approval of statutory auditors from another Member State: the procedures for the approval of statutory auditors who have been approved in other Member States shall not go beyond the requirement to complete **an adaptation period (of a maximum period of three years) or to pass an aptitude test**. The approved statutory auditors must be entered in a public register.

Professional ethics and scepticism: in order to improve audit quality, the Directive provides that the audit firms must maintain professional scepticism, that is to say, **a spirit of critical enquiry throughout the audit**. They 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: the Directive strengthens the independence of audit firms, an essential element when carrying out statutory audits. The statutory auditors or audit firms should be **independent of the audited entity** and should not be involved in the audited entity's decision-making process, and **conflicts of interests** should be avoided.

In particular, statutory auditors, audit firms and their employees should **refrain** from carrying out the statutory audit of an entity if they have a business interest or financial interest in it. They should be prevented from being involved in the audited entity's decision-making process or taking up duties at managerial level in the audited entity before a period of **at least one year** has elapsed (or in the case of statutory audit of public-interest entities a period of at least two years) since the end of the audit engagement.

Strict rules on confidentiality and professional secrecy are provided in order to respect the rights to private life and data protection of the clients of audit firms.

Adequate internal organisation: the Directive lays down that **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 out the statutory audit on behalf of the audit firm.

Additionally, statutory auditors and audit firms should establish **appropriate internal policies and procedures** in relation to employees involved in the statutory audit activity within their organisations, in order to ensure compliance with their statutory obligations.

An **internal quality control system** should ensure the quality of the statutory audit.

Auditing standards and audit reports: the Directive specifies that all statutory audits of accounts be carried out in compliance **with international auditing standards adopted by the Commission**. However, Member States may apply national auditing standards, as long as the Commission has not adopted an international auditing standard covering the same subject-matter.

The audit firm shall present the results of the statutory audit in an audit report, prepared in accordance with the requirements of auditing standards adopted by the Union. The elements to be contained in the audit report are set out in the Directive.

Sanctions: the Directive **enhances the powers** of the competent authorities to adopt supervisory measures and to impose sanctions, including the imposition of administrative pecuniary sanctions on natural and legal persons. Measures taken and sanctions imposed on audit firms are to be appropriately **disclosed to the public**. The publication of sanctions, should, however, be done with respect to the rights of personal data protection.

Furthermore, the Directive provides for the establishment of effective mechanisms **to encourage reporting of breaches**.

Audit Committee: each public-interest entity should establish an audit committee in the form of either a stand-alone committee or a committee of the supervisory body. The Directive strengthens the independence and technical competence of the audit committee by requiring that a majority of its members be independent and that at least one of its members have competence in auditing and/or accounting.

ENTRY INTO FORCE: 16.06.2014.

TRANSPOSITION: no later than 17.06.2016.

DELEGATED ACTS: the Commission may adopt delegated acts in order to take into account the developments in auditing and the audit profession, and to facilitate the oversight of statutory auditors and audit firms. The power to adopt delegated acts shall be conferred on the Commission for a period of **five years as from 16 June 2014**. The European Parliament or the Council may object to a delegated act within a period of **four 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.