Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660 /EEC and 83/349/EEC, repeal. Directive 84/253 /EEC)

2004/0065(COD) - 16/03/2004 - Legislative proposal

PURPOSE: To improve the EU's statutory audit of annual accounts and consolidated accounts. PROPOSED ACT: Directive of the European Parliament and of the Council. CONTENT: This Commission proposal is being presented to the European Parliament and the Council in the wake of recent US and EU auditing scandals. The Commission insists that the proposal is not a knee-jerk reaction to these scandals. Rather, it is being proposed, in line with years of thinking on this matter. It seeks to broaden the scope of existing EU legislation: by clarifying the duties of statutory auditors; by clarifying their independence and ethics; by introducing a requirement of external quality assurance; by ensuring robust public oversight over the audit profession; and by improving co-operation between oversight bodies and the EU. The proposal also provides a basis for effective and balanced international regulatory co-operation with oversight bodies of third countries - crucial given the global nature of capital markets. It also maintains the basic conditions on education and training already present in existing Directives. At the same time, however, the scope of EU legislation is broadened by introducing new requirements concerning the manner in which an audit should be carried out and the structures needed to ensure audit quality as well as guaranteeing trust in the audit function. The main elements being introduced by the proposed Directive can be summarised as follows: - "Statutory auditor" and "audit firm" are separately defined. - Statutory audit is defined as the audit of annual or consolidated accounts of entities covered by EU Directives. - Public interest entities (all listed companies whose securities are admitted to trading on a regulated market, all banks and insurance undertakings etc) will become subject to more stringent independence requirement. Their auditors will be obliged to publish an annual transparency report. - There will be a removal of restriction on ownership and management. The majority ownership of an audit firm can only be held by statutory auditors or audit firms approved in any Member States. - Aptitude tests will need to be taken for the approval of statutory auditors from other Member States to take account of specific legislation. - Statutory auditors and audit firms will need to be registered electronically. - Statutory auditors and audit firms will be subject to robust professional ethics adopted by the "International Federation of Accountants (IFAC). - Rules on confidentiality and professional secrecy will not be allowed to stand in the way of financial reporting enforcement or the exchange of information between Member State's authorities. - The statutory auditor or audit firm must be independent of the audited entity and must in no way be involved in management decisions of the audited entity. - An auditor will be obliged to refuse any non-audit engagement which might compromise his/her independence - An auditor's fee can not be based on any form of contingency and the fee can not be influenced by the provision of additional services to the audited entity. - All statutory audits prescribed by EU law should be carried out in accordance with International Standards on Auditing (ISA). - The standards must be of a high quality and contribute to the annual accounts and the consolidated accounts showing a true and fair view. - Member States may only impose additional audit procedures if these follow from specific requirements relating to the scope of the statutory audit. - The Commission may adopt a common standard audit report for annual or consolidated accounts which have been prepared in accordance with adopted international accounting standards. - All statutory auditors or audit firms will be subject to a system of quality assurance based on the "Quality Assurance for the Statutory Auditor in the EU". - Member States will be obliged to organise systems of investigation and effective and dissuasive sanctions including the withdrawal of statutory auditors or audit firm approval. - Principles on public oversight will introduced to ensure sufficient public integrity and independence. For public entities, the oversight of auditors will be carried out exclusively by non-practitioners, who should, nevertheless, be sufficiently knowledgeable about accounting and auditing. - Member States will recognise each other's oversight and regulatory systems. - New procedures will be introduced regarding the appointment of a statutory auditor or audit firm to ensure their independence from those who prepare financial statements within the audited entity. - A statutory auditor or audit firm can only be dismissed if there is a significant reason why they are enable to finalise the audit. - Statutory auditors or audit firms will be obliged to provide the public with detailed reports when conducting work relating to public interest entities. The audit firm will provide a governance statement, a description of the Internal Quality Control System and a statement on the effectiveness of its functioning by the administrative or management body. - An audit committee will be given a crucial role in guarding auditor independence. - The audit review cycles will be shortened to three years. - Stricter requirements will be introduced for public oversight by excluding any practitioner from the governance of public oversight systems. - Auditors and/or audit firms from third countries that issue audit reports on securities traded in the EU, will need to be registered in the EU and be subject to Member States systems of oversight, quality assurance and investigations and sanctions. - Exemption from registration ethic is allowed provided the third country audit firm is subject to an equivalent system of oversight OR if there is a reciprocal treatment of Member States by the third country. - A new audit regulatory committee composed of representatives of Member States and chaired by a representative of the Commission is introduced. The Committee will assist the Commission in establishing the implementing measures under thecomitology procedures. - Audited companies will be required to disclose feeds paid to the statutory auditory or audit firm broken down by fees for audit services, other assurance services, tax services and other non-audited services. BUDGET: Budget line: A0-7031, ABB 12.010211.01.03 "Expenditure on meetings of Committees " (Compulsory Committees). Total Annual Cost: EUR 46 800.