

Basic information	
<b>2011/0389(COD)</b> COD - Ordinary legislative procedure (ex-codecision procedure) Directive	Procedure completed
Statutory audits of annual accounts and consolidated accounts  Amending Directive 2006/43/EC <a href="#">2004/0065(COD)</a>  <b>Subject</b>  2.50.08 Financial services, financial reporting and auditing 2.50.10 Financial supervision 3.45.01 Company law 3.45.03 Financial management of undertakings, business loans, accounting	

Key players				
European Parliament	<b>Committee responsible</b>		<b>Rapporteur</b>	<b>Appointed</b>
	<b>JURI</b>	Legal Affairs	KARIM Sajjad (ECR)	21/11/2011
			<b>Shadow rapporteur</b>  BODU Sebastian Valentin (PPE)  MASIP HIDALGO Antonio (S&D)  THEIN Alexandra (ALDE)  LICHTENBERGER Eva (Verts/ALE)  MAŠTÁLKA Jiří (GUE/NGL)	
	<b>Committee for opinion</b>		<b>Rapporteur for opinion</b>	<b>Appointed</b>
	<b>ECON</b>	Economic and Monetary Affairs	SWINBURNE Kay (ECR)	25/10/2011
	<b>ITRE</b>	Industry, Research and Energy	CREUTZMANN Jürgen (ALDE)	14/02/2012
	<b>IMCO</b>	Internal Market and Consumer Protection	The committee decided not to give an opinion.	
Council of the European Union	<b>Council configuration</b>		<b>Meetings</b>	<b>Date</b>
	Competitiveness (Internal Market, Industry, Research and Space)		3242	2013-05-30

	Agriculture and Fisheries	3308	2014-04-14
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union	BARNIER Michel	
European Economic and Social Committee			

Key events			
Date	Event	Reference	Summary
30/11/2011	Legislative proposal published	COM(2011)0778 	Summary
13/12/2011	Committee referral announced in Parliament, 1st reading		
25/04/2013	Vote in committee, 1st reading		
14/05/2013	Committee report tabled for plenary, 1st reading	A7-0171/2013	Summary
30/05/2013	Debate in Council		Summary
03/04/2014	Decision by Parliament, 1st reading	T7-0284/2014	Summary
03/04/2014	Results of vote in Parliament		
14/04/2014	Act adopted by Council after Parliament's 1st reading		
16/04/2014	Final act signed		
16/04/2014	End of procedure in Parliament		
27/05/2014	Final act published in Official Journal		

Technical information	
Procedure reference	2011/0389(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Directive
Amendments and repeals	Amending Directive 2006/43/EC <a href="#">2004/0065(COD)</a>
Legal basis	Treaty on the Functioning of the European Union TFEU 050
Mandatory consultation of other institutions	<a href="#">European Economic and Social Committee</a>
Stage reached in procedure	Procedure completed
Committee dossier	JURI/7/08047

Documentation gateway				
European Parliament				
Document type	Committee	Reference	Date	Summary

Committee draft report		PE494.556	04/09/2012	
Amendments tabled in committee		PE500.423	14/11/2012	
Committee opinion	ITRE	PE496.381	04/12/2012	
Committee opinion	ECON	PE496.499	13/03/2013	
Committee report tabled for plenary, 1st reading/single reading		A7-0171/2013	14/05/2013	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0284/2014	03/04/2014	Summary

#### Council of the EU

Document type	Reference	Date	Summary
Draft final act	00006/2014/LEX	16/04/2014	

#### European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2011)0778 	30/11/2011	Summary
Document attached to the procedure	SEC(2011)1384 	30/11/2011	
Document attached to the procedure	SEC(2011)1385 	30/11/2011	
Commission response to text adopted in plenary	SP(2014)471	09/07/2014	

#### National parliaments

Document type	Parliament/Chamber	Reference	Date	Summary
Contribution	BE_CHAMBER	COM(2011)0778	24/02/2012	
Contribution	PT_PARLIAMENT	COM(2011)0778	24/02/2012	
Contribution	CZ_SENATE	COM(2011)0778	08/05/2012	
Contribution	IE_HOUSES-OF-OIREACTHAS	COM(2011)0778	19/03/2013	

#### Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EDPS	Document attached to the procedure	N7-0123/2012 OJ C 336 06.11.2012, p. 0004	13/04/2012	Summary
EESC	Economic and Social Committee: opinion, report	CES1035/2012	25/04/2012	

#### Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	
European Commission	EUR-Lex	

Final act
<p>Directive 2014/0056 OJ L 158 27.05.2014, p. 0196</p> <p style="text-align: right;">Summary</p>

## Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 13/04/2012

### **Executive summary of the Opinion of the European Data Protection Supervisor on the Commission proposals for a directive amending Directive 2006/43/EC on statutory audit of annual accounts and consolidated accounts, and for a regulation on specific requirements regarding statutory audit of public-interest entities.**

The EDPS welcomes the fact that he is consulted by the Commission and recommends that a reference to this Opinion is included in the preamble of the directive. A reference to the EDPS consultation has already been included in the preamble of the proposed regulation. The financial crisis has highlighted weaknesses in the statutory audit especially with regard to public-interest entities (PIE). To address these concerns, the Commission has published a proposal to amend Directive 2006/43/EC on statutory audits, which concerns the approval and registration of auditors and audit firms, the principles regarding professional ethics, professional secrecy, independence and reporting as well as the associated supervision rules. The Commission has also proposed [a new regulation](#) on statutory audit of public-interest entities laying down the conditions for carrying out such audits.

The EDPS notes that the Commission proposes that Directive 2006/43/EC shall apply to situations not covered by the proposed regulation. Therefore, it is **important to introduce a clear separation between the two legal texts**. This means that the current provisions in Directive 2006/43/EC that only relate to the performance of a statutory audit on the annual and consolidated financial statements of the public-interest entities are moved to and, as appropriate, amended in the proposed regulation.

The EDPS **addresses issues relating to Directive 2006/43/EC that go beyond what is covered by the proposed amendments**. He emphasises the potential data protection implications of the Directive itself.

The Commission considers **audit firms as contributing players to the financial crisis**, and considers also that the financial crisis has highlighted weaknesses in the statutory audit especially with regard to public-interest entities (PIE). In order to address these concerns, the Commission has published this proposal to amend Directive 2006/43/EC on statutory audits and a new regulation on statutory audit of public-interest entities.

The EDPS notes that the Commission proposes that Directive 2006/43/EC shall apply to situations not covered by the proposed regulation. Therefore, it is important to introduce a clear separation between the two legal texts. This means that the current provisions in Directive 2006/43/EC that only relate to the performance of a statutory audit on the annual and consolidated financial statements of the public-interest entities are moved to and, as appropriate, amended in the proposed regulation.

**Recommendations of the EDPS:** the implementation and application of the legal framework for statutory audits may in certain cases affect the rights of individuals relating to the processing of their personal data. Directive 2006/43/EC in its current and amended form and the proposed regulation **contain provisions that may have data protection implications for the individuals concerned**.

The EDPS welcomes the attention specifically paid to data protection in the proposed regulation but identified some scope for further improvement and, accordingly, recommends the following:

- rephrasing Article 56 of the proposed regulation and inserting a provision in Directive 2006/43/EC **emphasising the full applicability of existing data protection legislation** and replacing the multiple references in different articles of the proposed regulation with **one general provision referring to Directive 95/46/EC as well as Regulation (EC) No 45/2001**. The EDPS suggests that the reference to Directive 95/46/EC be clarified by specifying that the provisions will apply in accordance with the national rules which implement Directive 95/46/EC;
- **specifying the kind of personal information that can be processed** under Directive 2006/43/EC and the proposed regulation, to define the purposes for which personal data can be processed by the competent authorities concerned and fix a precise, necessary and proportionate data retention period for the above processing;
- in view of the risks concerned regarding transfers of data to third countries, the EDPS recommends adding to Article 47 of Directive 2006/43/EC that in the absence of an adequate level of protection an **assessment should take place on a case-by-case basis**. He also recommends including a similar reference and the assessment on a case-by-case basis in the relevant provisions of the proposed regulation;

- replacing the minimum retention period of five years in Article 30 of the proposed regulation with a **maximum retention period**. The chosen period should be necessary and proportionate for the purpose for which data are processed;
- mentioning the purpose of the publication of sanctions in the articles concerned in Directive 2006/43/EC and in the proposed regulation and explaining the necessity and proportionality of the publication in the recitals of both Directive 2006/43/EC and the proposed regulation. He also recommends that **publication should be decided on a case-by-case basis** and that a possibility of publishing less information than currently required should be catered for;
- providing for **adequate safeguards regarding mandatory publication of sanctions** to ensure respect of the presumption of innocence, the right of the persons concerned to object, the security/accuracy of the data and their deletion after an adequate period of time;
- adding a provision in Article 66(1) of the proposed regulation saying that: 'The identity of these persons should be guaranteed at all stages of the procedure, unless its disclosure is required by national law in the context of further investigation or subsequent judicial proceedings.'

Lastly, the EDPS' analysis is directly relevant for the application of the existing legislation and for other pending and possible future proposals containing similar provisions, such as those discussed in the EDPS Opinions on the legislative package on the revision of the banking legislation, credit rating agencies, markets in financial instruments (MiFID/MiFIR) and market abuse. Therefore, the EDPS recommends reading this Opinion in close conjunction with his Opinions of 10 February 2012 on the abovementioned initiatives.

## Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 14/05/2013 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Legal Affairs adopted the report by Sajjad KARIM (ECR, UK) on the proposal for a directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

The committee recommends that the position adopted by the European Parliament at first reading according to the ordinary legislative procedure should amend the Commission's proposal as follows:

**Training:** the competent authorities shall cooperate with a view to achieving a minimum convergence of the requirements. When engaging in such cooperation, those competent authorities shall take into account developments in auditing and the audit profession, and in particular, the convergence that has already been achieved by the profession

As regards the **approval**, the adaptation period shall be subject to an assessment of the level of professional competence achieved through the application of national law relating to audits.

**Ethics:** Members consider that in order to improve audit quality, it is important that the **professional scepticism** exercised by auditors vis-à-vis the audited entity is reinforced. Auditors 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:** independence shall be required during both the period covered by the financial statements to be audited and the period during which the statutory audit is carried out. Auditors, audit firms and their employees should in particular **refrain from carrying out the statutory audit of an entity if they have a business interest or financial interest** in it. The statutory auditor or audit firm should abstain from the internal decision-making processes of the audited entity. Statutory auditors or their employees should be prevented from taking up duties in the audited entity at managerial or board level until an appropriate period has elapsed since the end of the audit engagement.

In this context, auditors shall not :

- own any financial instruments of the audited entity, the parent undertaking to which the audited entity is material, or any entity whose financial information is incorporated into the financial statements of the audited entity, other than interests owned indirectly through diversified collective investment schemes, including managed funds such as pension funds or life insurance;
- have or have had in the previous 12 months any personal, business, employment or other relationship with the audited entity.

An amendment stipulates that persons or firms shall not solicit or accept gifts, hospitality or similar favours from the audited entity unless an objective, reasonable and informed third party would consider their value to be trivial or inconsequential.

**Confidentiality and profession secrecy:** Members consider it is important that statutory auditors and audit firms respect the rights to private life and data protection of their clients. They should therefore be bound by strict rules on confidentiality and professional secrecy which, however, should not impede the proper enforcement of this Directive or the cooperation with the group auditor during the performance of the audit of consolidated financial statements when the parent undertaking is in a third country.

**Internal organisation of Statutory Audit Firms:** adequate internal organisation of statutory auditors and audit firms should contribute to preventing any threats to their independence. Thus,

- the 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 it out on behalf of the audit firm;
- statutory auditors and audit firms should establish appropriate **internal policies and procedures** in relation to employees and other persons involved in the statutory audit activity within their organisations in order to ensure that they comply with their statutory obligations.

The policies and procedures shall be documented and communicated to the employees of the statutory auditor or audit firm. The statutory auditor or audit firm shall take into consideration his, her or its size and complexity of activities when complying with the requirements.

**Scope of the audit:** given that the stakeholders might be unaware of the limitations of an audit, this may lead to an expectation gap. In order to reduce such gap, it is important to provide more clarity on what the scope of the statutory audit is.

**Organisation of the work:** Members stress that Securing **audit quality, independence and competence** shall be the main criteria for the audit firm to select the key audit partner(s) to be designated. A statutory auditor or an audit firm shall maintain a client account record, create an audit file for each statutory audit carried out, retain any other data and documents that are of importance in support of the reports.

To ensure the **integrity of financial reporting**, Member States have introduced a series of amendments to ensure that any incident that may have serious consequences for the integrity of the statutory audit activities should be appropriately managed. The statutory auditor or the audit firm should appropriately document the audit work. It is also stated that the statutory auditor or the audit firm should not issue his, her or its audit report until such an internal quality control review has been completed.

**Statutory auditor of the consolidated accounts:** in the case of consolidated financial statements, it is important that there is a clear definition of responsibilities of the statutory auditors who audit different entities of the group. For this purpose, the **group auditor** should bear full responsibility for the audit report.

**Audit report:** The statutory auditor or the audit firm shall present the results of the statutory audit in an audit report prepared in accordance with the requirements of the international auditing standards adopted by the Union. Amendments stipulate the information to be included in the report. **The report shall be signed and dated by the statutory auditor.**

**Penalties:** Members call on the Member States to provide that measures taken in respect of, or penalties imposed on, statutory auditors or audit firms in cases of public relevance are disclosed appropriately to the public, with details of the nature of the offence and the identity of those responsible.

**Audit committee:** the independence and technical competence of each audit committee should be reinforced by requiring that a majority of its members is independent and that at least one member of the committee has competence in auditing and another one in auditing and/or accounting.

## Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 30/05/2013

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.

## Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 03/04/2014 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 339 votes to 256, with 27 abstentions, a legislative resolution on the proposal for a directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

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:

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

Where the approval is withdrawn for any reason, the competent authority of the home Member State where the approval is withdrawn should communicate that fact and the **reasons for the withdrawal** to the relevant competent authorities of host Member States where the statutory auditor or the audit firm is also registered.

**Approval of statutory auditors already approved in other Member States:** those procedures should not go beyond the requirement to complete an **adaptation period** or to pass an **aptitude test**. The host Member State should decide whether the applicant seeking approval is to be subject to an adaptation period or an aptitude test.

Statutory auditors who have been approved should be entered in a **public register**.

**Continuing education:** according to the amended text, statutory auditors are 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, and failure to respect the continuing education requirements is subject to appropriate sanctions.

**Ethics and "professional scepticism":** audit firms should maintain professional scepticism – a questioning mind – throughout an audit. Auditors should recognise the **possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud or error**, notwithstanding past experience of the honesty and integrity of the audited entity's management.

The statutory auditor or the audit firm should maintain professional scepticism in particular when reviewing management estimates relating to fair values, the impairment of assets, provisions, and future cash flow relevant to the entity's ability to continue as a going concern.

**Independence and objectivity:** Parliament and the Council sought to strengthen the independence of audit firms, a key element when carrying out statutory audits.

Statutory auditors and audit firms should be independent when carrying out statutory audits of audited entities, and **conflicts of interest should be avoided**. In order for the independence of statutory auditors and audit firms to be determined, the concept of a network in which statutory auditors and audit firms operate has to be taken into account. An amendment stipulates that firms should not solicit or accept pecuniary and non-pecuniary gifts or favours from the audited entity unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.

**The independence of the auditor with respect to the audited entity** should at least be fulfilled during the period covered by the audit report, including both the period covered by the financial statements to be audited and the period during which the statutory audit is carried out.

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, and from trading in financial instruments issued, guaranteed or otherwise supported by an audited entity. They should abstain from participating in the **internal decision-making processes** of the audited entity and should be prevented from taking up duties in the audited entity at managerial or board level until at least **two years** have elapsed since the end of the audit engagement.

**Confidentiality and professional secrecy:** Parliament considered that audit firms should be bound by **strict rules** on confidentiality and professional secrecy. However, these rules should not impede the proper enforcement of the regulation nor the cooperation with the group auditor during the performance of the audit of consolidated financial statements when the parent undertaking is in a third country

**Internal organisation of audit firms:** adequate internal organisation of statutory auditors and audit firms should help to prevent any threats to their independence. The following organisational requirements have been laid down:

- appropriate policies and procedures to ensure that its **owners or shareholders**, as well as the members of the management of the firm, or of an affiliate firm, do not intervene in the carrying-out of a statutory audit in any way which jeopardises the independence and objectivity of the statutory auditor who is carrying out the statutory audit on behalf of the audit firm;

- an audit firm should have **sound administrative and accounting procedures**, internal quality control mechanisms, effective procedures for risk assessment, and effective control and safeguard arrangements for information processing systems;
- employees and any other persons who are directly involved in the statutory audit activities, have **appropriate knowledge and experience** for the duties assigned;
- **outsourcing** of important audit functions should not be undertaken in such a way as to impair the quality of the statutory auditor's or the audit firm's internal quality control;
- an audit firm should use appropriate systems, resources and procedures to ensure **continuity and regularity** in the carrying out of its statutory audit activities;
- adequate **remuneration policies**, including profit-sharing policies, are in place to provide sufficient performance incentives to secure audit quality.

These policies and procedures should be documented and communicated to the employees of the statutory auditor or the audit firm and should be proportionate in view of the scale and complexity of the activity of each statutory auditor or audit firm.

**Organisation of work:** the amended text provides that when the statutory audit is performed by an audit firm, this firm must **designate at least one key audit partner**. Securing audit quality, independence and competence should be the main criteria when the audit firm selects the key audit partner(s) to be designated.

Moreover, the audit firm should (i) keep records of any breaches of the provisions of this Directive; (ii) maintain a client account record; (iii) create an audit file for each statutory audit; and (iv) keep records of any complaints made in writing about the performance of the statutory audits carried out.

The audit file should be **closed no later than 60 days** after the date of signature of the audit report.

**Auditing standards:** it is stipulated that statutory audits should be carried out in compliance with **international auditing standards adopted by the European Commission**. The Member States may apply national auditing standards, procedures or requirements as long as the Commission has not adopted an international auditing standard covering the same subject-matter.

**Statutory audits of consolidated financial statements:** in the case of consolidated financial statements, there should be a clear definition of the responsibilities of statutory auditors who audit different entities within the group concerned. For this purpose, the **group auditor** should bear full responsibility for the audit report.

**Audit reporting:** the audit firm should 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 amendments stipulate the necessary contents of the report. The audit report should be signed and dated by the statutory auditor. In the case of disagreement among the audit firms, each audit firm should submit its opinion in a separate paragraph of the audit report and state the reason for the disagreement.

**Sanctions:** Parliament and the Council agreed to **enhance the powers** of the competent authorities to enable them to adopt supervisory measures and impose sanctions. The measures taken and the sanctions imposed on auditors are to be disclosed to the **public**. The disclosure of sanctions should however respect the legislation on personal data protection.

Furthermore, the amended text provides for the setting in place of effective mechanisms to **encourage the reporting of breaches** to the directive.

**Audit committee:** each public-interest entity should have an audit committee. The audit committee should be either a stand-alone committee or a committee of the administrative body or supervisory body of the audited entity. Parliament proposed **enhancing the audit committee's independence and technical competence** by requiring that the majority of its members should be independent and that at least one of its members should have competence in auditing and another in accounting and/or auditing.

## 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.

# Statutory audits of annual accounts and consolidated accounts

2011/0389(COD) - 30/11/2011 - Legislative proposal

PURPOSE: to enhance the internal market for statutory audits to allow small and medium-sized firms to grow and encourage the entry of new players.

PROPOSED ACT: Directive of the European Parliament and of the Council.

BACKGROUND: in a crisis where EUR 4 588.9 billion of taxpayer money was committed to support banks between October 2008 and October 2009 and where such aid accounted for 39% of EU 27 GDP in 2009, all components of the financial system need to be improved. **Robust audit is key to re-establishing trust and market confidence.** It contributes to investor protection by providing easily accessible, cost-effective and trustworthy information about the financial statements of companies. It also potentially reduces the cost of capital for audited companies by ensuring more transparency and reliability of financial statements.

It is also important to stress that auditors are entrusted by law to conduct statutory audits.

EU rules have partially regulated statutory audit through Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. However, the high degree of concentration in audit market and the multitude of approval procedures necessary to provide cross-border statutory audits prevent small and medium-sized audit firms from benefiting from the internal market.

The following problems are examined:

- § a high level of administrative burden resulting from **fragmented national regulation**;
- § the **provision of cross-border statutory audits** is allowed only if an auditor passes an aptitude test and gets approved and registered in every Member State;
- § a lack of **common standards** across the EU on audit practice, independence, internal control of audit firms;
- § auditing standards do not take into account the size of the audited companies, in particular of SMEs;
- § associated problems regarding **supervision** of non-PIEs.

This proposal on amending Directive 2006/43/EC aims to improve the internal market on statutory audits. It will coexist with a proposal for a regulation on the specific requirements on the statutory audit of public-interest entities. The two proposals are part of the ongoing regulatory reform in various domains of the financial sector.

IMPACT ASSESSMENT : the impact assessment concluded that the best options to improve the existing situation would be:

- § facilitation of the cross-border recognition of audit providers' competence;
- § streamlining of the standards on audit practice, independence and internal control of audit firms across the Union;
- § adaptation of audit standards to the size of the audited entity by requesting Member States to ensure that a proportionate and simplified audit for SMEs is possible.

LEGAL BASIS: Article 50 TFEU.

CONTENT: the proposal contains amendments to the provisions on the approval and registration of auditors and audit firms, on the existing principles in Directive 2006/43/EC regarding professional ethics, professional secrecy, independence and reporting as well as the associated supervision rules that remain applicable for the audit of non-public-interest entities (non-PIEs).

The main modifications to the Directive are:

**Articulation between the Directive and an additional legal instrument on specific requirements for the statutory audit of PIEs:** the proposal deals with the applicability of the amended Directive to the statutory audit of PIEs. Certain provisions apply to statutory auditors and audit firms, irrespective of the type of audited entity. However, for the rest of the Articles of the Directive, the situation is different: clauses on independence and objectivity, audit fees, audit reporting, quality assurance, investigations and penalties would not apply to the statutory audit of PIEs. On these specific issues more detailed rules would be enacted in the Regulation.

**Definition of "statutory audit" in order to take account of the new Accountancy Directive:** the new definition will continue to cover the instances where different Union legal texts impose an obligation on some undertakings to have their financial statements audited, depending on their legal form or on their activity. In order to guarantee the "unicity" of audit, the definition of "statutory audit" should also cover situations where Member States decide to impose an obligation on small undertakings to have their financial statements audited. Lastly, where a small undertaking decides voluntarily to have its financial statements audited, such audit should also be considered a statutory audit.

**Modification of the ownership rules:** currently, the Directive requires that a majority of the voting rights in an audit firm is held by licensed accountant practitioners. This requirement is no longer stipulated in the proposed amendment and Member States are forbidden to require that a minimum of capital or of voting rights in an audit firm is held by statutory auditors or audit firms. However, the proposal maintains the existing requirement that a majority of the members of the administrative or management body of the audit firm are audit firms or statutory auditors.

**Passport for audit firms:** the proposal for an amended Directive would allow audit firms to provide statutory audits in Member States other than the Member State in which they have been approved, provided that the key audit partner leading the audit is approved as an auditor in the Member State concerned. However, once approval is obtained in the home Member State, the host Member State may require some form of registration of audit firms from other Member States.

**Passport for statutory auditors and "softening" the conditions for a statutory auditor to be approved in a different Member State:** the proposed modifications regarding the approval of statutory auditors from other Member States are aligned with the provisions of the Directive 2005/36 on the recognition of professional qualifications.

- § The proposal would allow statutory auditors to provide cross-border statutory audit services on a temporary or occasional basis. The conditions set out in the Professional Qualifications Directive would apply, notably the obligation to communicate the intention to provide the services in question to the relevant competent authority.
- § A Member State will be able to offer the statutory auditor who is approved in another Member State the choice between an adaptation period and an aptitude test, if such auditor wants to set up a permanent establishment in that Member State. The test should be aimed at assessing the statutory auditor's knowledge of the laws and regulations of that Member State that are relevant for the carrying out of the statutory audit.
- § During the adaptation period, which should be offered to the applicant as an alternative to the aptitude test, the statutory auditor would be allowed to conduct statutory audit in the Member State, other than the one in which he or she is approved, under the supervision of a local auditor. The length of the adaptation period is three years.

**Requirements to competent authorities to cooperate regarding educational requirements and aptitude test:** in order to ensure more convergence of the educational qualifications of auditors at Union level, the competent national authorities in charge of the public oversight for statutory auditors must cooperate. Cooperation at Union level is also necessary to harmonise the requirements of the aptitude test.

**Auditing standards and audit reporting:** the proposal requires Member States to ensure that statutory auditors and audit firms carry out audits in accordance with the international auditing standards.

**New rules regarding competent authorities:** currently, the Directive requires Member States to organise a system of public oversight for statutory auditors and audit firms. The new amendment states that the competent authority responsible for public oversight will be a public authority that will be also responsible for approval, registration and quality assurance.

The competent authority responsible for the public oversight may delegate some of its tasks to other authorities or bodies with regard to the approval and registration of the statutory auditors and audit firms. Such delegation must be subject to several conditions and the body that bears the ultimate responsibility is the competent authority. Prohibition of contractual clauses: the proposal prohibits clauses according to which a third party suggests, recommends or requires the audited entity to appoint a specific statutory auditor or audit firm.

**Special rules for the statutory audit of small and medium-sized undertakings:** following [the recent Commission proposal](#), small undertakings would no longer be required by EU law to have their financial statements audited, although Member States may still require it. However, the requirement will continue to apply to medium-sized undertakings.

When medium-sized undertakings are audited pursuant to EU law, the amended Directive requires Member States to ensure that the way in which the auditing standards are applied are adapted to the dimension and scale of those undertakings.

**BUDGETARY IMPLICATIONS:** the proposal has no impact on the European Union budget.

**DELEGATED ACTS:** the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the EU.