IMPLEMENTING THE NEW EU LEGAL FRAMEWORK ON STATUTORY AUDIT

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Disclaimer:
The views expressed are those of the author and do not necessarily reflect those of the European Commission.
The Juncker Commission

- A new DG responsible for financial stability, financial services and capital markets union.

- Objectives
  - Jobs and Growth
  - Investment plan
  - Capital Markets Union
The EU Statutory Audit Reform (2014)

- **Objective:** Improve audit quality to restore investor trust

- **Combination of two legal instruments**
  - Directive amending existing Directive 2006/43/EC
  - New Regulation establishing stricter requirements for the audit of public-interest entities (PIEs)

- **Scope:** statutory auditors, audit firms & companies in the EU
Enhanced information to investors

- Better and more information in audit report, including
  - Statement on any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern
  - Date of appointment of auditor and duration of engagement (PIEs)
  - Most significant assessed risks of material misstatements (PIEs)
  - Capacity to detect irregularities, including fraud (PIEs)
Enhanced communication with audited entities

- **Strengthened role for audit committees**

- **Additional confidential report to the audit committee, including**
  - declaration of independence; identification of each key audit partner involved
  - methodology used for the statutory audit
  - quantitative level of materiality applied
  - possible significant deficiencies in the internal control system
  - judgements about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty
  - significant matters involving actual or suspected non-compliance with laws and regulations

- **Possibility for 5% of the audited entity's shareholders to initiate an action to dismiss the auditor**
A strengthened independence regime

- **Applicable to all statutory audits**
  - New organisational requirements for statutory auditors and audit firms
  - Simplified requirements for small undertakings
  - Prohibition of "Big Four-only" third party contractual clauses

- **Applicable to the statutory audits of PIEs**
  - Mandatory rotation of audit firms and statutory auditors
  - Prohibition of the provision of certain non-audit services
  - Cap on level of fees for the provision of non-audit services
Strengthened oversight of the EU audit market

- Harmonised & tougher EU-wide sanctions
- Enhanced EU-wide audit supervision via the CEAOB
- 'Early warning' mechanism
- Monitoring of EU audit market developments
International Standards on Auditing (ISAs)

- Possibility for European Commission to adopt ISAs at EU level
- National auditing standards continue to apply
- Possibility for the Member States to add on to the ISAs
FOR MORE INFORMATION:

http://ec.europa.eu/finance/auditing/