



LATEST DEVELOPMENTS ON THE NEW EUROPEAN UNION (EU) AUDITING FRAMEWORK

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Agenda Item I**

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Internal Market
and Services

*Disclaimer:
The views expressed are those of the author and do not necessarily reflect those of the
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Objectives of the Audit reform

Background – 1/4

- Improve audit quality
- Clarify the role of auditors
- Strengthen the independence of auditors
- Strengthen investors' and market confidence
- Ensure more dynamic and open EU audit market
- Improve supervision of auditors

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Preparatory Work

Background – 2/4

- **October 2010** – Green Paper *"Audit policy: Lessons from the crisis"*
- **February 2011** – Conference *"Financial Reporting and Auditing – A time for change?"*
- **November 2011** – Study *"on the effects of the implementation of the acquis on statutory audits of annual and consolidated accounts including the consequences on the audit market"* (ESCP Europe)
- **November 2011** – Two legislative proposals (Directive and Regulation) and an Impact Assessment

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Intermediate Legislative process

Background – 3/4

- **European Parliament:**
 - Several Committees
 - JURI Report adopted 25 April 2013
- **Council:**
 - Several EU Presidencies
 - Many Meetings with Member States Experts

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Final Legislative process

Background – 4/4

- Political agreement reached on 17 December 2013
- Adoption by European Parliament and Council in April/May 2014
- Publication and entrance into force around June/July 2014



Reporting on the Audit

- New rules for the audit report (for PIEs and non-PIEs)
- Additional report to the audit committee in case of PIEs
- Regular reporting and dialogue with supervisors of audited entities (e.g. banks)



Audit Committee

- **Competences and role reinforced**
- **Most members shall be independent**
- **Knowledge of the sector of the client required**
- **More relevant role in appointing the auditor, monitoring audit performance and independence of auditors**

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International Standards on Auditing - ISAs

- **The European Commission is empowered to adopt them**
- **No specific deadline required**
- **Member States may, under certain conditions, introduce add-ons**

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A strong auditor independence regime

- Mandatory rotation of audit firms
- Prohibition of the provision of certain non-audit services
- Cap on the provision of related services
- Prohibition of "Big 4 only contractual clauses"

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Mandatory audit firm rotation

- Mandatory rotation with a maximum duration of 10 years
- Member States' option to extend the maximum duration to:
 - *20 years in case of tendering*
 - *24 years in case of joint audit*
- Cooling off period: 4 years
- Hand-over file

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Prohibition of non-audit services to audit clients

- Strict non-exhaustive black list of prohibited non-audit services
- Member States' possibility to allow limited number of services if:
 - *they have no direct or have immaterial effect separately or in aggregate on the audited financial statements;*
 - *the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee; and*
 - *the principles of independence laid down in Directive 2006/43/EC are complied with by the statutory auditor or audit firm.*



Cap on the fees for the provision of other services to the audit client

- 70% of the total statutory audit fees paid in average for three consecutive financial years
- Calculation at group level
- Exclusion of services imposed by national or EU legislation
- Possibility for the competent authority to disapply the cap for a period of 2 financial years



More open and dynamic intra-EU market

- European passport for audit firms
- Simplified approval for statutory auditors from other Member States



Strengthening oversight at national level

- National audit oversight authorities strengthened:
 - More independence from the audit profession
 - More powers
- Ultimate responsibility for the competent authority for all tasks
- No delegation of tasks with regard to:
 - Quality assurance system for PIE audits
 - Investigations for PIE audits
 - Sanctioning systems for PIE audits



Coordination of audit oversight at EU level

- EU-wide oversight coordinated by the CEAOB:
 - Composition and voting rules
 - Chair and secretariat
 - Subgroups and experts
 - Tasks

- Role of ESAs (European Supervisory Authorities) with regard to international cooperation in case of PIE audits



New rules for the sanctioning regime

- **Common minimum standards on:**
 - The types and addressees of sanctions
 - The criteria to be taken into account by competent authorities when applying sanctions
 - The publication of sanctions
 - The mechanism to encourage reporting of potential violations



Transitional Provisions

- Application of both the Regulation and the Directive – 2 years after the entry into force
- Calibrated application of the audit firm mandatory rotation
- Prohibition of "Big 4 only" contractual clauses – 3 years after the entry into force



***Thank you
for your attention***

Further questions:

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