

The logo for the Federation of European Accountants (FEE) features the letters 'FEE' in a bold, white, sans-serif font. The letters are set against a dark blue background. A thick, orange curved line sweeps across the bottom of the letters, starting from the left and curving upwards towards the right.

Federation of European Accountants
Fédération des Experts comptables Européens

XI OROC CONGRESS

Auditing: Future Challenges

André Killesse

FEE President

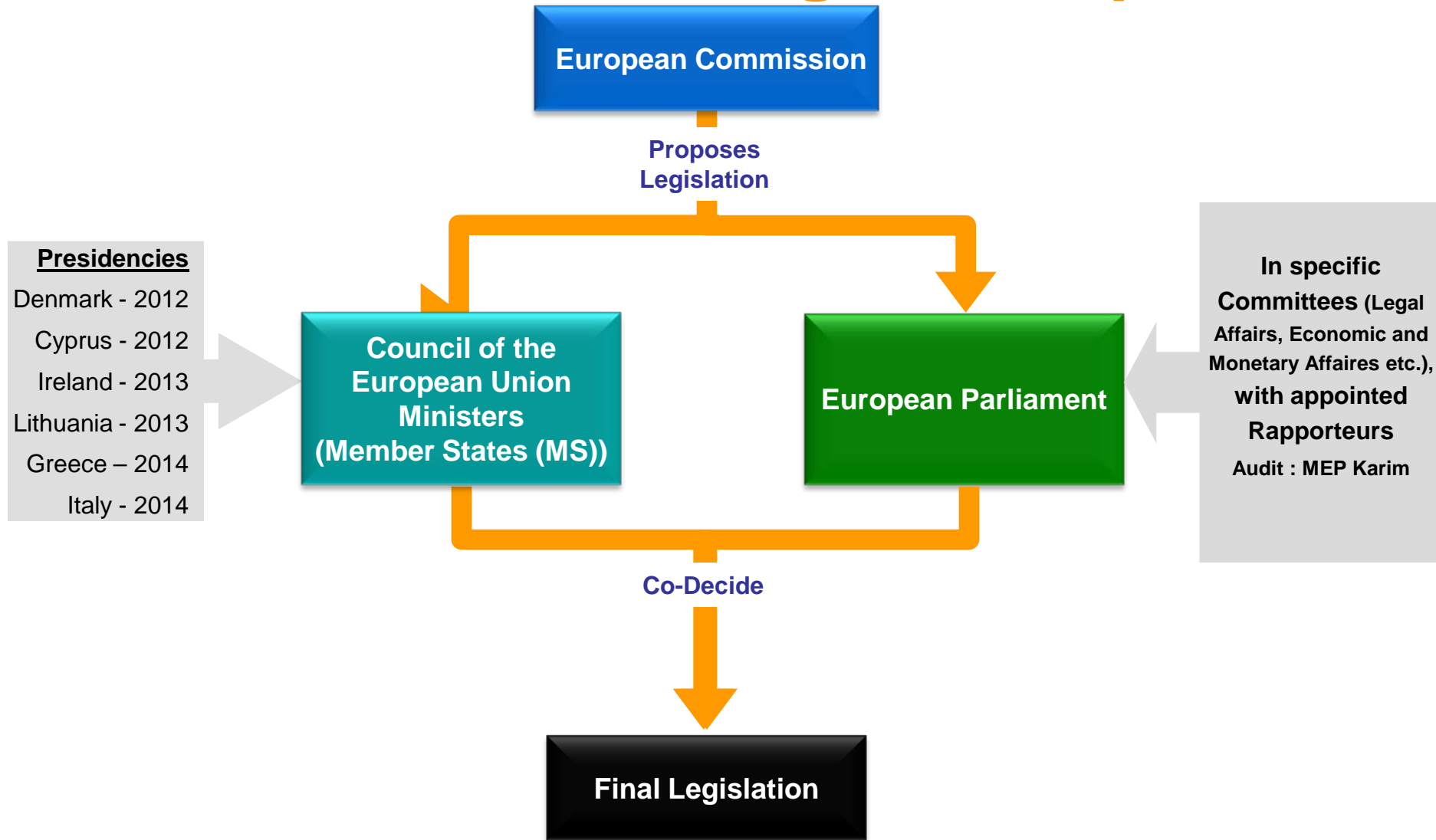
Sintra, 12 September 2013

Federating the European Profession

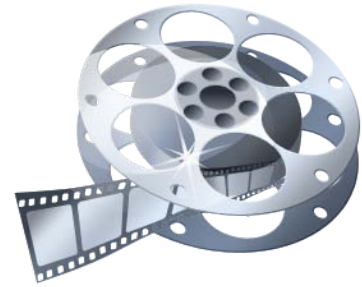


- 45 professional institutes of accountants
- 33 European countries, including all 28 EU Member States
- 700,000 professional incl. all sections of the profession: large, medium, small practices, business, public sector

Foreword: The EU legislative process



Audit Policy: Work in progress



EP JURI Committee
Reports
13 May 2013

EP Plenary
Vote
H2 2013 (?)

Council
Compromise
Sept 2013 (?)

Previous and next steps

EU Body		Vote	Opinion/Report
European Parliament (EP)	ITRE Committee	29 Nov 2012	4 Dec 2012
	ECON Committee	11 Mar 2013	14 Mar 2013
	JURI Committee	25 Apr 2013	15/22 May 2013
	EP Plenary Vote	H2 2013 (?)	H2 2013 (?)
Council	MS Compromise	H2 2013 (?)	H2 2013 (?)

now

Lithuanian Presidency in the Council

- ✓ Took over the file on 1 July 2013 after the Irish
- ✓ Is still working on a Compromise Text
- ✓ Willing to advance the Dossier



Key battle grounds EP / EC / Council

- **Legal instrument:** Regulation / Directive
- Combination of **MAFR** and/or **Tendering, Quality Assessment, Joint Audit**
- **List of non-audit services** and audit-related & other assurance services
- **Cap** on non-audit services maintained or not? At which level?
- Role of **ESMA**

Amendments to the 2006 Audit Directive (1/2)

➤ **EC Proposal**

- ↪ Extended definition of PIEs
- ↪ Role of professional bodies limited to possible delegation of registration and approval of auditors
- ↪ ISA adoption by MS for all audits
- ↪ MS to determine auditing standards and quality assurance reviews for SMEs proportionally

➤ **EP JURI Committee**

- ↪ PIE definition as 2006 definition – MS option to add publicly listed companies, credit institutions and insurance undertakings
- ↪ Proportionality of ISAs to be recognised by MS
- ↪ Removal of limitation of delegation of tasks to professional bodies

Amendments to the 2006 Audit Directive (2/2)

➤ Council current discussion directions **(not final)**

- ↪ PIE definition same as the one approved in the Accounting Directive (listed entities, credit institutions, insurance undertakings)
- ↪ ISA adoption: by the EC, not by MS (unclear process as far as possible wider stakeholder consultation than MS)
- ↪ Role of professional bodies preserved as in the 2006 Audit Directive
- ↪ Proportionality of SME audit quality assurance reviews and small entity audits performed on voluntary basis

Regulation: Mandatory Rotation for PIEs (1/2)

➤ EC Proposal

- ↪ Initial appointment > 2 years, renewable once
- ↪ Total duration ≤ 6 years, longer if joint-audit
- ↪ Cooling-off 4 years

➤ EP JURI Committee

- ↪ Initial appointment of minimum 1 year
- ↪ Maximum duration shall not exceed 14 years except if
 - Public tendering during these years; or
 - Yearly comprehensive quality assessment by the Audit Committee (AC); or
 - Joint-audit
- ↪ Renewal upon recommendation of Audit Committee or other board
- ↪ Total maximum duration of 25 years

Regulation: Mandatory Rotation for PIEs (2/2)

- **Council proposed compromise (not final)**
 - ↪ MAFR after 7 years renewable once within certain criteria
 - ↪ Some MS agree on the MAFR principle, but MS are still divided on the duration, scope and the renewal principles

Regulation: Provision of Non-Audit Services (NAS) for PIEs (1/2)

➤ EC Proposal

- ↪ Long list of prohibited services without materiality thresholds
- ↪ Some subject to prior approval of Audit Committee / competent authority
- ↪ Allowed “related financial services” to max. 10% audit fees

➤ EP JURI Committee

- ↪ List of prohibited NAS in line with IESBA Code of Ethics
- ↪ Pre-approval by audit committee (according to a policy made public by the company)
- ↪ **Deletion of the cap** of provision of NAS to 10% of the total audit fees

Regulation: Provision of Non-Audit Services (NAS) for PIEs (2/2)

- **Council proposed compromise (not final)**
 - ↪ Black list of prohibited non-audit services only
 - ↪ Cap of 70% over three years to be applied on other related services
 - ↪ A large number of MS agreed on the 'black list only' principle, whereas they were divided on the cap principle and/or on the level of the cap proposed. Adjustments on the content of the list are requested as well.

Regulation: 'Pure audit firms' concept

- **EC proposal** to create 'Pure-audit firms', i.e.
 - ↳ Audit firms with $>1/3$ of annual audit revenues from large PIEs, and belonging to a network with total annual audit revenues >1.5 billion € (EU) **shall not provide NAS to any PIE**
- **EP JURI Committee**
 - ↳ Deletion of 'audit-only firm' concept requested by **both**
- **Council proposed compromise (not final)**
 - ↳ No in-depth discussion on the subject matter so far
 - ↳ Seemed to follow the EP on that issue

Regulation: Joint-audit for PIE audits

- **EC proposal** to enhance voluntary **joint-audit**
 - ↪ Extension of the mandate duration (9y instead of 6y)
 - ↪ MS allowed to introduce it or not and to establish the conditions

- **EP JURI Committee**
 - ↪ Smaller extension of the mandate if joint-audit
 - ↪ Used as one condition (with others) for reappointment

- **Council proposed compromise (not final)**
 - ↪ No in-depth discussion on the subject matter so far
 - ↪ Seemed to be a strategic issue for the French Council Representative

Regulation: Supervision at EU level (1/2)

➤ EC Proposal

- ↪ ESMA to **strengthen supervision** at EU level
- ↪ **Coordination** within ESMA with national regulators
- ↪ ESMA to issue **guidance** at EU level to further improve the single market with harmonised standards

Ex: supervision of audit committees, quality assurance reviews etc.

➤ EP JURI Committee

- ↪ ESMA as a **cooperation body** of national competent authorities, and especially with the European Group of Audit Oversight Bodies (**EGAOB**).

Regulation: Supervision at EU level (2/2)

- **Council proposed compromise (not final)**
 - ↪ Creation of a Committee of European Oversight Bodies within ESMA
 - ↪ A lot of MS prefer another proposal put forward by 9 MS* establishing by Directive the European Board of Auditors' Oversight Bodies (EBAOB): extension of the current EGAOB (collaboration between national oversight at EU level)

* Incl. Czech Republic, Germany, Estonia, Austria, Poland, Slovakia, Finland, Sweden and the UK

Post scriptum: influence from the United States?

- **Audit Integrity Act** prohibits PCAOB from implementing mandatory audit firm rotation in the USA
- **Bill to be considered by the Senate** : must be approved for president to sign and make it a law
 - ✓ US House Financial Services Committee unanimously approved the Act on 19 June 2013
 - ✓ Approved by House of Representatives on 8 July 2013
- **Potential impact on the European debate is unclear**

A close-up photograph of a hand with a pointing finger directed towards a globe. The globe is partially visible on the left side of the frame. The background is a soft, out-of-focus blue and white gradient.

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