



Fédération des Experts-comptables Européens
Federation of European Accountants

A view from FEE: European Audit Reform & beyond...

Petr Kriz, FEE President

ABIAL event on New Developments in the
Profession – Are you really up to date?

Luxembourg, 2 June 2015



Fédération des Experts-comptables Européens
Federation of European Accountants

Introduction to the EU Audit Policy

What is the result?

- Directive 2014/56/EU **amending** Directive 2006/43/EC: All statutory audits within the EU
- **NEW** Regulation 537/2014: Audits of PIEs

When will this take effect?

27 May 2014

Publication in the Official Journal of the EU



16 June 2014

Entry into force

Transitional arrangements start to take effect



17 June 2016

Directive need to be transposed into national laws

Most of the provisions in the regulation take effect



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Main Reform Provisions

Directive

- **Definition of PIE**



Determines the scope
of the Regulation

- **More specific provisions in areas of**

- Independence and objectivity
- Quality assurance, investigation and sanctions
- Internal organisation of audit firm & audit work
- ISA adoption: EC development process

Definition of Public Interest Entities (PIEs)

- Same definition as in the Accounting Directive 2013/34/EU (and similar to the 2006 SAD)

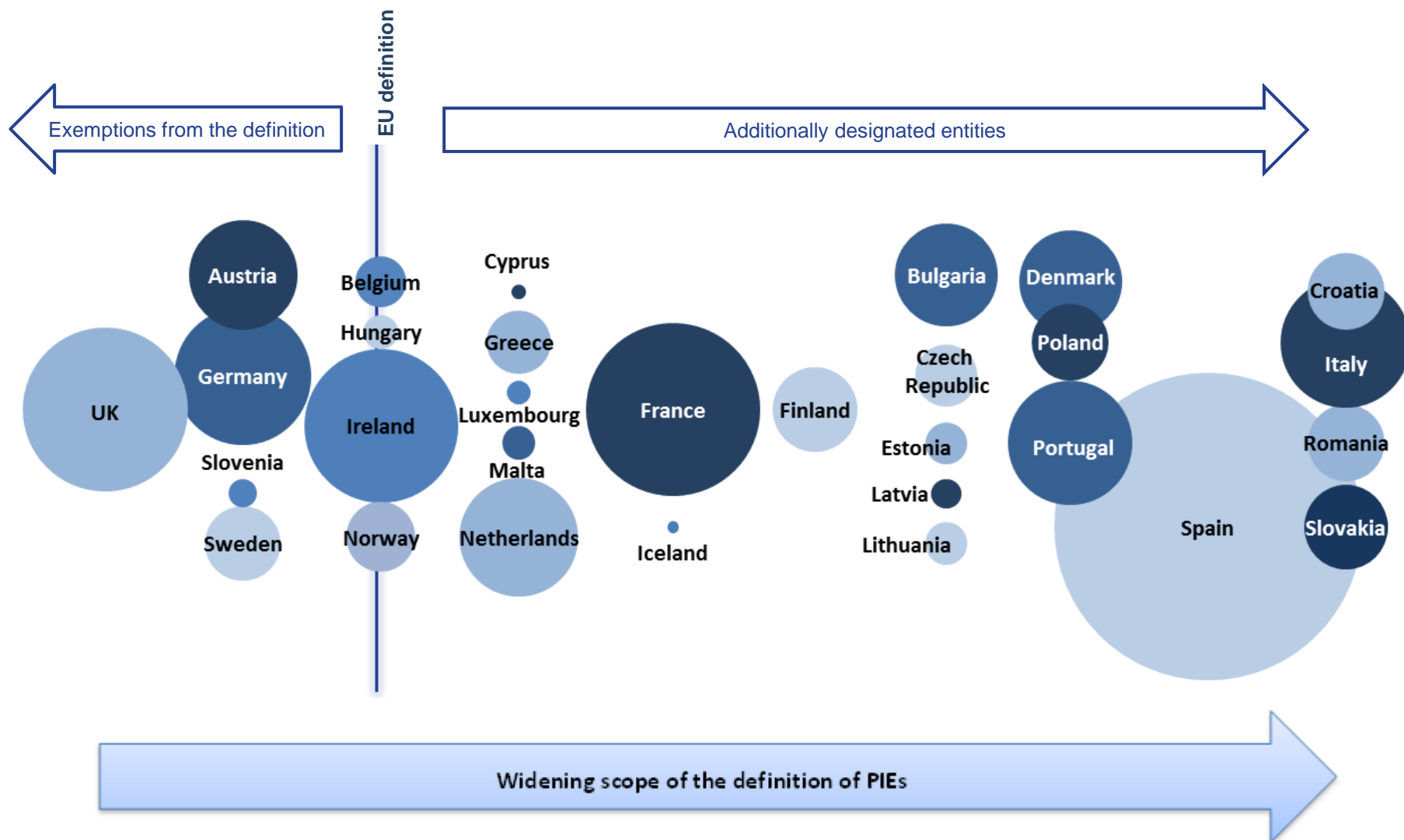


PIEs

Listed companies
Credit institutions
Insurance undertakings
Other entities designated
by Member States

** 2006 SAD – option to exclude PIEs from some requirements if not listed*

Definition of PIEs in Europe



Quality assurance and public oversight

- **Quality assurance reviews (QAR)**
 - Frequency depending on risks and if PIE/non-PIE
 - Proportionate to the scale and complexity of audited entity
- **Competent Authority (CA) has ultimate responsibility for:**
 - Approval & registration of auditors
 - Adoption of relevant standards
 - Continuing education
 - Quality assurance system
 - Investigative & administrative disciplinary systems


QAR, investigations & disciplinary matters can no longer be delegated to PAOs for PIE audits

Public oversight - challenges

- **Change in responsibilities** of oversight bodies and delegation to the professional bodies
- **Creation of CEAOB:** what role will they play?

Regulation

1. Auditor reporting



Basic requirements in
2013 Accounting
Directive

- **All entities**

- exception reporting if going concern issues

- **PIEs only**

- **most significant risks** of material misstatements

2. Prohibition of Non-Audit Services

PIEs only

Prohibited
NAS

- Tax services
- Involvement in the management or decision making
- Bookkeeping
- Payroll
- Designing or implementing internal controls
- Valuation services
- Services linked to the financing, capital structure etc.

2. Prohibition of Non-Audit Services

When does the prohibition FIRST apply?

- For the audited financial year
(Financial year – ending as from 17/06/2017, eg. 2017)
- The financial year preceding the audited period
(Financial year – ending as from 17/06/2016, eg. 2016)

**All
blacklisted**

**Internal
controls and
risk
management**

Limitation of permitted NAS

PIEs only

70 %

Statutory audit fees



Average 80
70 % = 56

Cap on NAS



Prohibition of NAS - challenges

- **Choice between audit and** provision of prohibited **NAS** for the same audit client
- **Planning ahead** – cease the provision of NAS if the auditor wants to tender
- **Monitor the fees** on permitted NAS to comply with the cap

3. Mandatory audit firm rotation (MAFR)

Min - 1 year
Max - 10 years

Cooling-off - 4 years

In some EU
Member States,
already set
differently

- **Transitional arrangements apply**
- **Extension options**
 - **Tender – additional 10 years**
 - **Joint audit – additional 14 years**

Timeline for transitional measures



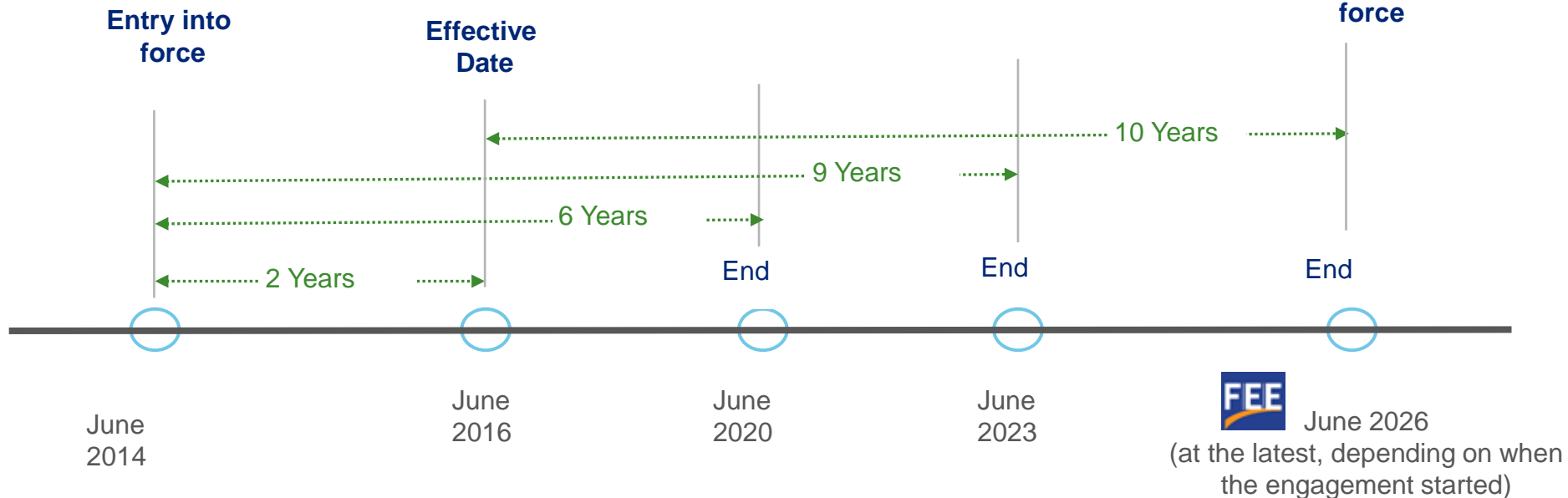
*EC - Different interpretation

- MAFR applies retrospectively – 1st rotation by June 2016 at the latest

Mandate in place
≥ 20 years at entry
into force

Mandate in place ≥
11 years < 20 years
at entry into force

* All other mandates in
place before entry into
force and still in force 2
years after entry into
force



MAFR – challenges

- **Transitional arrangements** => avoiding the cliff-effect
- **Cross-border effect** of different rotation periods in different MS
- Increased **tendering activity** => preparation for tenders, monitoring the market




International Standards on Auditing (ISAs)

- **ISAs to be adopted by the European Commission**
- Areas to be covered by the adopted ISAs
 - Audit practice
 - Independence
 - Internal quality controls of statutory auditors and audit firms

General challenges ahead

- **Interpretation** of the provisions
- Disruption caused by **cross-border differences** and divergent national frameworks
- Different initiatives of national sectorial regulators (banking) - possible **disruptions between sectors**
- Defining the scope of the Regulation (definition of PIEs)

In summary, challenges bring opportunities

- **Enhanced engagement with stakeholders**
 **REDUCING THE EXPECTATION GAP?**
- **Disclosure of more valuable and relevant information**
 **INCREASED VALUE OF AUDIT?**
- **MAFR and prohibition of certain NAS**
 **PUSH TO DEVELOP
ALTERNATIVE ALLOWED SERVICES?**

Looking ahead

...beyond the audit reform



- The audit profession should be more **self-critical** and **self-questioning**



**Embrace change
Be innovative**

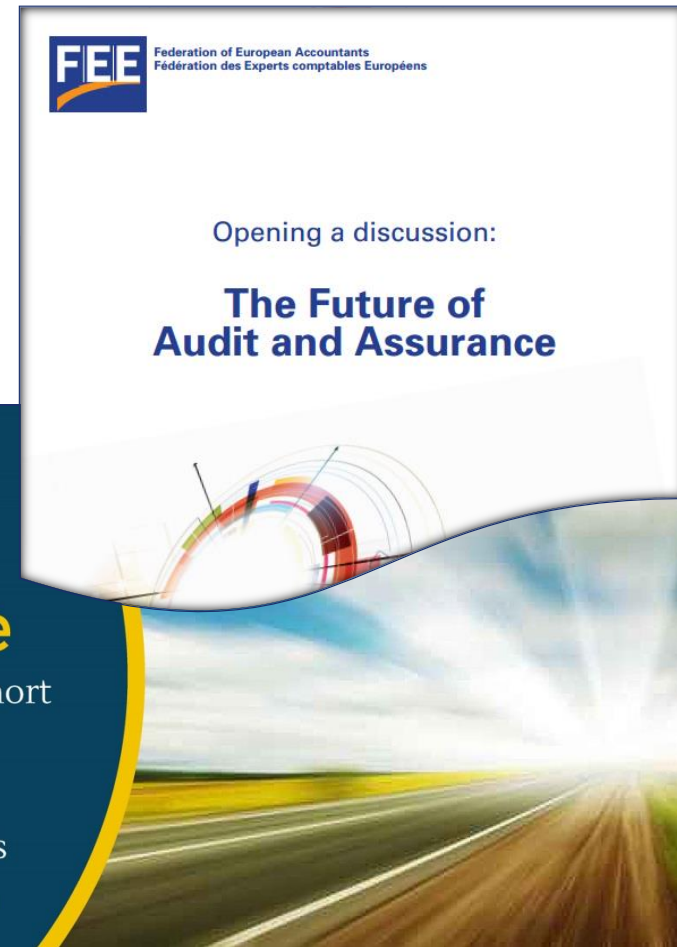
- **Improving quality** both in corporate reporting and audit & assurance
- Making our services **the most relevant** possible

Looking ahead

...beyond the audit reform



- FEE launched a discussion paper on the Future of Audit and Assurance
- ...to be continued at the FEE Audit Conference



Looking ahead

...beyond the audit reform



The discussion outcome so far

- **Over-focus on financial information**
 - => develop beyond numbers to better meet stakeholders needs
 - i.e. assurance on the front half of annual report
- **Future skill-set**
 - => critical importance of IT and “soft skills”
- **Auditor communication**
 - Is expressing audit opinion enough?
 - Positive assurance on going concern?

Looking ahead

...beyond the audit reform



All about audit quality

Audit quality indicators

- A lot of initiatives in this field
 - **Global:** Global Public Policy Committee (GPPC)
 - **US:** US Center for Audit Quality (CAQ)
 - **Europe:** NBA (Dutch professional body)
 - **Asia:** Accounting and Corporate Regulatory Auditory (ACRA)

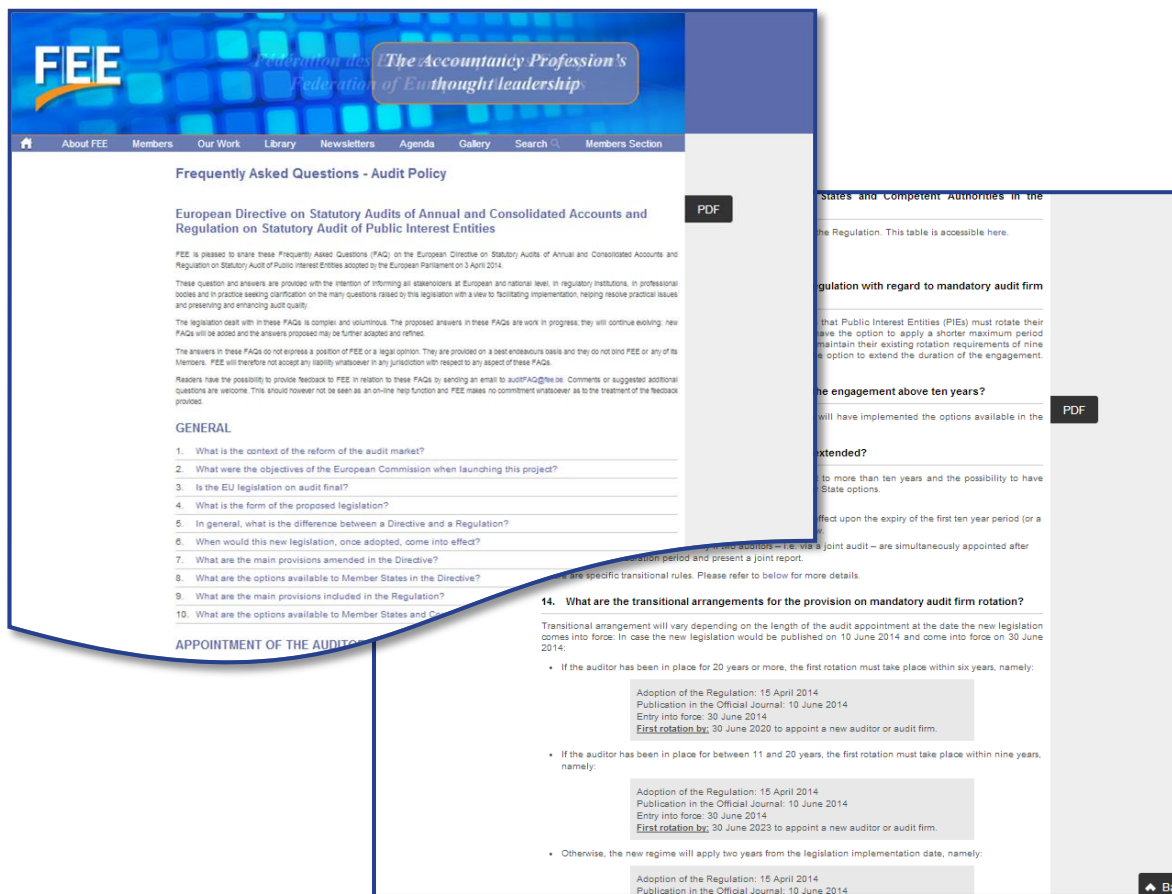
Chance for the profession to move ahead of the regulators and enable objective ranking of auditors based on audit quality.



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FEE projects connected to the implementation process

Online FAQ



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Frequently Asked Questions - Audit Policy

European Directive on Statutory Audits of Annual and Consolidated Accounts and Regulation on Statutory Audit of Public Interest Entities

FEE is pleased to share these Frequently Asked Questions (FAQ) on the European Directive on Statutory Audits of Annual and Consolidated Accounts and Regulation on Statutory Audit of Public Interest Entities adopted by the European Parliament on 3 April 2014.

These questions and answers are provided with the intention of informing all stakeholders at European and national level, in regulatory institutions, in professional bodies and in practice seeking clarification on the many questions raised by this legislation with a view to facilitating implementation, helping resolve practical issues and preserving and enhancing audit quality.

The legislation dealt with in these FAQs is complex and voluminous. The proposed answers in these FAQs are work in progress; they will continue evolving; new FAQs will be added and the answers proposed may be further adopted and refined.

The answers in these FAQs do not express a position of FEE or a legal opinion. They are provided on a best endeavours basis and they do not bind FEE or any of its Members. FEE will therefore not accept any liability whatsoever in any jurisdiction with respect to any aspect of these FAQs.

Readers have the possibility to provide feedback to FEE in relation to these FAQs by sending an email to auditFAQ@fee.be. Comments or suggested additional questions are welcome. This should however not be seen as an on-line help function and FEE makes no commitment whatsoever as to the treatment of the feedback provided.

GENERAL

1. What is the context of the reform of the audit market?
2. What were the objectives of the European Commission when launching this project?
3. Is the EU legislation on audit final?
4. What is the form of the proposed legislation?
5. In general, what is the difference between a Directive and a Regulation?
6. When would this new legislation, once adopted, come into effect?
7. What are the main provisions amended in the Directive?
8. What are the options available to Member States in the Directive?
9. What are the main provisions included in the Regulation?
10. What are the options available to Member States and the Commission?

APPOINTMENT OF THE AUDITOR

14. What are the transitional arrangements for the provision on mandatory audit firm rotation?

Transitional arrangement will vary depending on the length of the audit appointment at the date the new legislation comes into force. In case the new legislation would be published on 10 June 2014 and come into force on 30 June 2014:

- If the auditor has been in place for 20 years or more, the first rotation must take place within six years, namely:
 - Adoption of the Regulation: 15 April 2014
 - Publication in the Official Journal: 10 June 2014
 - Entry into force: 30 June 2014
 - First rotation by: 30 June 2020 to appoint a new auditor or audit firm.
- If the auditor has been in place for between 11 and 20 years, the first rotation must take place within nine years, namely:
 - Adoption of the Regulation: 15 April 2014
 - Publication in the Official Journal: 10 June 2014
 - Entry into force: 30 June 2014
 - First rotation by: 30 June 2023 to appoint a new auditor or audit firm.
- Otherwise, the new regime will apply two years from the legislation implementation date, namely:
 - Adoption of the Regulation: 15 April 2014
 - Publication in the Official Journal: 10 June 2014

Tables of Options available in both texts

Regulation

Option Table – 2014 Audit Regulation

The purpose of this document is to highlight the options available to Member States and Competent Authorities in the Regulation on statutory audit of public-interest entities and thereby assist FEE Member Bodies and other relevant stakeholders in advising each European Union Member State as to the selection of the most appropriate option.

Legend

The document is formatted to follow the order of the Articles as contained in the 2014 Audit Regulation.

CONTENT	EXAMPLES	EXPLANATIONS
Normal text	Provide that a competent authority may, upon a request...	The text of the Article containing the Member State option
Items in bold and underlined	may request	The Member State option being discussed
Text in italics in quotations within square brackets	<i>“...The imposition of penalties, including sanctions and measures...”</i>	Explanatory text taken verbatim from the Regulation in order to assist in the understanding of the Article being discussed
Text in italics contained within square brackets	<i>[...provision of tax services, services that involve playing any part in the management of decision-making process, bookkeeping and preparing accounting records and financial statements...]</i>	Additional information, which may be paraphrased and not taken verbatim from the Regulation, inserted in the body of the Article to provide the context of the Article being discussed without the necessity of referring to another Article
Article reference numbers	17.2(a)	This article reference number signifies, for example, Article 17, point 2, point (a). The notation follows the logical progression within the 2014 Audit Regulation but is not used verbatim within it.
Abbreviation	MS	Member State
Abbreviation	CA	Competent Authority
Abbreviation	2014 Audit Regulation	Regulation as referred to in the second subparagraph of paragraph 1 <i>“Neither shall the Member State nor the competent authority impose a maximum duration of ten years”</i> and <i>“neither shall the Member State nor the competent authority impose a maximum duration of ten years”</i>

This document has been prepared by FEE to the best of its knowledge and ability to ensure that it is accurate in point (b) of paragraph 2 [MS may set a maximum duration of less than ten years], or audit firm simultaneously engaged, provided that the statutory audit results in the presentation of the audit report.

Designation of competent authorities	17.7 MS option	By way of derogation, Member States may require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity earlier than seven years from the date of their respective appointment.
	20.2 MS option	Member States may decide that the responsibility for ensuring that all or part of the provisions of Title III <i>“Appointment of statutory auditors or audit firms”</i> of this Regulation are applied is to be entrusted to, as appropriate, the competent authorities referred to in: (a) Article 48 of Directive 2004/39/EC; <i>[Investment firms]</i> (b) Article 24(1) of Directive 2004/109/EC; <i>[Transparency Directive for Security Market Entities]</i> (c) point (h) of Article 24(4) of Directive 2004/109/EC; <i>[Transparency Directive for Security Market Entities]</i> (d) Article 20 of Directive 2007/64/EC; <i>[Payment services on the internal market]</i> (e) Article 30 of Directive 2009/138/EC; <i>[Insurance and Reinsurance]</i> (f) Article 4(1) of Directive 2013/36/EU; <i>[Credit Institutions]</i> or to other authorities designated by national law.
Conditions of independence of CA	21 CA option	The competent authorities may consult experts, as referred to in point (c) of Article 26(1) <i>“...expert means a natural person, who has a specific expertise in financial markets, financial reporting, auditing or other fields relevant for inspections, including practising statutory auditors”</i> , for the purpose of carrying out specific tasks and may also be assisted by experts when this is essential for the proper fulfilment of their tasks. In such instances, the experts shall not be involved in any decision-making.

Directive

Option Table - Directive on Statutory Audits of Annual and Consolidated Accounts

The purpose of this document is to highlight the changes in the options available to Member States and Competent Authorities when transposing the Directive on statutory audits of annual accounts and consolidated accounts, as compared to those available under the 2006 Statutory Audit Directive, and thereby assist FEE Member Bodies and other relevant stakeholders in advising each European Union Member State as to the selection of the most appropriate option.

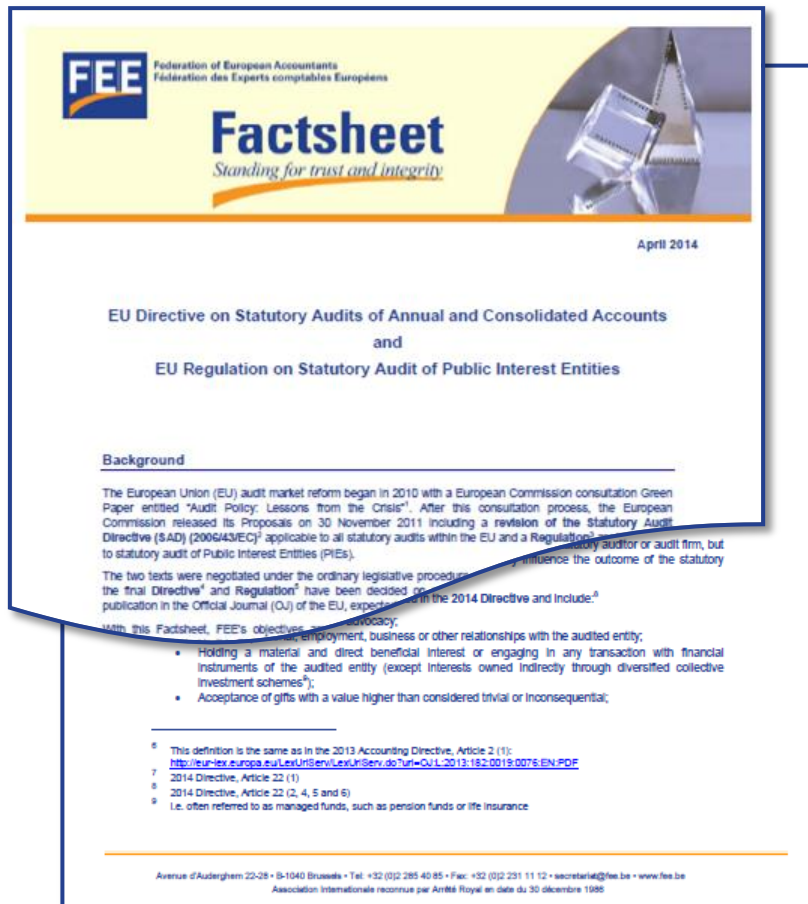
Legend

The document is formatted to follow the order of the Articles as contained in the 2014 Audit Directive.

CONTENT	EXAMPLES	EXPLANATION
Normal text	A majority of the voting rights in an entity must be held by audit firms which are approved in any Member State or by natural persons who...	The text of the Article containing the Member State option
Items in bold and underlined	may provide	The Member State option being discussed
Article reference numbers	Art. 3.4 (b)	This article reference number signifies, for example, Article 3, point 4, point (b). The notation follows the logical progression within the Directive but is not used verbatim within them.
Text in italics in quotations contained within square brackets	<i>“[Qualification through long-term practical experience]”</i>	Explanatory text taken verbatim from the Directive in order to assist in the understanding of the Article being discussed.
Text in italics contained within square brackets	<i>[a majority of the voting rights and a majority of the administrative or management body – up to 75% – to be held by approved audit firms or natural persons that satisfy conditions imposed by this directive on good repute, educational qualifications and continuous training.]</i>	Additional information, which may be paraphrased and not taken verbatim from the Directive or any other legislative texts, inserted in the body of the Article to provide the context of the Article being discussed without the necessity of referring to another Article.
Abbreviation	MS	Member State
Abbreviation	CA	Competent Authority
Abbreviation	2014 Audit Directive	Directive as referred to in the second subparagraph of paragraph 1 <i>“Neither shall the Member State nor the competent authority impose a maximum duration of ten years”</i> and <i>“neither shall the Member State nor the competent authority impose a maximum duration of ten years”</i>

Professional secrecy and regulatory cooperation between Member States	34.3 MS option	In the case of a company whose securities are traded on a regulated market in a Member State other than that in which that company has its registered office, the Member State in which the securities are traded may not impose any additional requirements in relation to the statutory audit concerning registration, quality assurance review, auditing standards, professional ethics and independence on a statutory auditor or audit firm carrying out the statutory audit of the annual or consolidated accounts of that company.	Art. 34.3 (slightly amended MS option)	In the case of a company whose securities are traded on a regulated market in a Member State other than that in which that company has its registered office, the Member State in which the securities are traded may not impose any additional requirements in relation to the statutory audit concerning registration, quality assurance review, auditing standards, professional ethics and independence on a statutory auditor or an audit firm carrying out a statutory audit of a subsidiary established in another Member State.
	n/a	n/a	Art. 36.4a (new MS option)	Member States may allow competent authorities to transmit to the competent authorities responsible for supervising public-interest entities, to central banks, to the European System of Central Banks and to the European Central Bank, in their capacity as monetary authorities, and to the European Systemic Risk Board, confidential information intended for the performance of their tasks. Such authorities or bodies shall not be prevented from communicating to the competent authorities information that the competent authorities may need in order to carry out their duties under the Regulation <i>[on Statutory Audits of Public Interest Entities]</i> .
	Art. 36.6	A competent authority of one Member State may also request that an investigation be carried out by the competent authority of another Member State on the latter's territory. It may further request that some of its own personnel be allowed to accompany the personnel of the competent authority of that other Member State in the course of the investigation.	Art. 36.6 (unmodified CA option)	A competent authority of one Member State may also request that an investigation be carried out by the competent authority of another Member State on the latter's territory. It may further request that some of its own personnel be allowed to accompany the personnel of the competent authority of that other Member State in the course of the investigation.

General Factsheet



FEE Federation of European Accountants
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Factsheet

Standing for trust and integrity

April 2014

EU Directive on Statutory Audits of Annual and Consolidated Accounts and EU Regulation on Statutory Audit of Public Interest Entities

Background

The European Union (EU) audit market reform began in 2010 with a European Commission consultation Green Paper entitled "Audit Policy: Lessons from the Crisis". After this consultation process, the European Commission released its Proposals on 30 November 2011 including a revision of the Statutory Audit Directive (SAD) (2006/43/EC)⁶ applicable to all statutory audits within the EU and a Regulation⁷ on the audit of or audit firm, but to statutory audit of Public Interest Entities (PIEs).

The two texts were negotiated under the ordinary legislative procedure and the outcome of the statutory audit reform. The final Directive⁸ and Regulation⁹ have been decided on and published in the Official Journal (OJ) of the EU, expected to enter into force in the 2014 Directive and include:⁹

- Holding a material and direct beneficial interest or engaging in any transaction with financial instruments of the audited entity (except interests owned indirectly through diversified collective investment schemes);
- Acceptance of gifts with a value higher than considered trivial or inconsequential;

⁶ This definition is the same as in the 2013 Accounting Directive, Article 2 (1): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

⁷ 2014 Directive, Article 22 (1)

⁸ 2014 Directive, Article 22 (2, 4, 5 and 6)

⁹ I.e. often referred to as managed funds, such as pension funds or life insurance

Avenue d'Auderghem 22-28 • B-1040 Brussels • Tel: +32 (0)2 285 40 85 • Fax: +32 (0)2 231 11 12 • secretariat@fee.be • www.fee.be
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SME Factsheet



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Factsheet

Standing for trust and integrity

April 2014

EU Directive on Statutory Audits of Annual and Consolidated Accounts and EU Regulation on Statutory Audit of Public Interest Entities: Main Provisions relevant for Small and Medium-sized Undertakings

Background

In April 2014, new legislation on audit policy reform was approved which consists of a Directive and a Regulation, namely:

- A revision of the Statutory Audit Directive (SAD) (2006/43/EC)⁶ containing a series of amended and new requirements applicable to all statutory audits within the European Union (EU) (hereafter "the 2014 Directive"). This Directive will need to be transposed by Member States into their national law within two years after its entry into force; and
- A Regulation⁷ applicable only to statutory audit of Public Interest Entities (PIEs) (hereafter "the 2014 Regulation"). This technically comes into effect 20 days after publication in the Official Journal. Nevertheless, mainly due to the fact that this Regulation refers to the Directive, there is also a two-year delay in the application of most provisions of the Regulation.

The legislation will be applicable in all European Union (EU) Member States and in the area of small and medium-sized PIEs are Area (EEA), being Iceland, Liechtenstein and Norway.

Small- and Medium-sized Practices⁸ (SMPs) and Small- and Medium-sized Enterprises⁹ (SMEs) as per the criteria laid down in Article 16 (3) (2014 Directive) and Article 1 (4) (2014 Regulation). This Factsheet is focused on SMPs and SMEs.

About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organization based in Brussels that represents 48 Institutes of professional accountants and auditors from 38 European countries, including all of the 28 EU member states.

FEE has a combined membership of more than 800,000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

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Briefing Paper
Standing for trust and integrity
August 2014

**THE APPOINTMENT OF THE AUDITOR AND THE DURATION OF THE AUDIT ENGAGEMENT:
Striving for a Workable Single Market in the EU**

Introduction

FEE seeks to provide an overview of the changes included in the updated European Union (EU) requirements regarding the appointment of the auditor and the duration of the audit engagement.

Whilst primarily targeted at the the audit legislation...

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Fédération des Experts comptables Européens

Briefing Paper
Standing for trust and integrity
June 2014

**PROVISION OF NON-AUDIT-SERVICES TO PUBLIC INTEREST ENTITY STATUTORY AUDIT CLIENTS:
A Need for Clarification and Consistency**

Introduction

In the context of the implementation of the new European audit legislation, FEE seeks to address in this paper issues that Public Interest Entities (PIEs), their audit committees and auditors may face in relation to interpreting the requirements...

with the objective to enhance consistency meaning as far as below...

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Fédération des Experts comptables Européens

Briefing Paper
Standing for trust and integrity
June 2014

**PUBLIC OVERSIGHT OF THE AUDIT PROFESSION:
Enhancing Credibility and Supporting Cooperation**

Background

In the context of the new European audit legislation, FEE seeks to provide an overview of the changes included in the updated European Union (EU) provisions regarding public oversight of statutory auditors and audit firms. These provisions are included in the two following pieces of legislation:

series of amended and new requirements governing every statutory audit in the European Union as "the Directive..."

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Briefing Paper
Standing for trust and integrity
February 2015

RECENT DEVELOPMENTS IN AUDITOR COMMUNICATION

Introduction

This publication provides an overview of the recent changes to the European Union (EU) legislative requirements on auditor communication. It also compares these provisions with the international developments taking place under the remit of the International Auditing and Assurance Standards Board (IAASB) and highlights those areas where the requirements are equivalent or complementary.

An appendix is attached with a detailed comparison of the EU and IAASB requirements.

Even though the EU...

... Beyond the audit reform

FEE opens a discussion on the Future of audit and assurance



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Opening a discussion: The Future of Audit and Assurance

February 2014

As part of FEE's commitment to promoting a public debate on the areas of audit and assurance, FEE has published a discussion paper on the Future of Audit and Assurance. The paper lays out initial observations which could result in potential longer-term developments in audit, assurance and other services.

FEE firmly believes that the audit profession should have the courage to question itself, especially at times such as this one where there are new developments in audit policy.

Ultimately, accounting and auditing are directed towards achieving more efficient, transparent and trustworthy corporate reporting. The common objective is therefore to improve quality in both corporate reporting and assurance and make audit, assurance and other services the most relevant possible. In order to ensure that we move in the right direction to fulfil this objective, keeping in mind the public interest, we should work towards enhancing quality and promoting the reliability of our services, improving the different forms of auditor communication, and ensuring that practitioners' services respond to stakeholders' needs.

These matters are further developed in the paper.

As the start of a journey, this paper examines the above areas of development and poses questions. FEE is committed to initiating and encouraging reflection for developing a vision for the future.

The paper poses a series of questions to which FEE is seeking answers from stakeholders and interested parties by 30 June 2014. Please submit comments/responses by e-mail or via the online survey below.

Related files:

- FEE Discussion Paper - Opening a Discussion: The Future of Audit and Assurance

Auditor selection
Towards best practices

The functioning of Audit Committees
Discussion Paper

June 2012

Comments to be submitted by 28 September 2012

Standing for trust and integrity

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