



IMPLEMENTING THE NEW EU LEGAL FRAMEWORK ON STATUTORY AUDIT

IAASB Meeting
Brussels, Wednesday 18 March 2015

Nathalie Berger
Head of Unit, Audit and Credit Rating Agencies
DG FISMA, 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/>