

**EN**

## MEMORANDUM TO THE COMMISSION

### **Memorandum from Mr Bolkestein to the Commission** **on the proposal for a Directive of the European Parliament and of the Council on** **statutory audit in the EU**

Recent scandals such as Parmalat, Ahold, Enron, Worldcom, etc. confirm the urgency for the envisaged EU initiatives on statutory audit outlined in the May 2003 Commission Communication “Reinforcing the statutory audit in the EU”. The proposal for a new Directive on statutory audit is one of the most important initiatives of that Communication.

This proposal is not a mechanical reaction to recent corporate scandals. It is the consequence of a reorientation of the EU policy on statutory audit that started in 1996 with a Green paper on the role and responsibility of the statutory auditor in the EU.

However, the initial thinking on the proposal has been adapted to take account of the most recent scandals. For example, the proposal now states that the group auditor bears full responsibility for the audit report on the consolidated accounts of a group of companies and it requires an independent audit committee in all public interest entities.

The proposed Directive aims at reinforcing the statutory audit function in the EU which is one of the crucial elements for underpinning the trust in the functioning of the European capital market. The proposal will considerably broaden the scope of the existing Eighth Council Directive that basically deals with the approval of auditors, by clarifying the duties of statutory auditors, their independence and ethics, by introducing a requirement for external quality assurance, by ensuring robust public oversight over the audit profession and by improving co-operation between competent authorities in the EU. Moreover, a new decision making structure including an audit regulatory committee will allow for swift regulatory responses via the adoption of implementing measures on certain provisions of the proposed Directive.

The proposal also foresees the use of international standards on auditing for all statutory audits conducted in the EU. Adoption of these standards which at present are developed by the IAASB (the International Auditing and Assurance Standards Board), will be subject to strict conditions, such as the respect of proper due process. A final decision on whether and to what extent to endorse ISAs will depend largely on satisfactory governance arrangements relating to the operation of the IAASB being established.

Whilst most of the Directive deals with enhancing audit quality within the EU, the external dimension has been significantly reinforced. The proposal provides a basis for balanced and effective international regulatory co-operative approach with oversight bodies of third countries such as the US Public Company Accounting Oversight Board (PCAOB). This is crucial because capital markets today are globally interconnected.

However, statutory audit is not the only factor under examination after the recent financial scandals. It is important to see the proposal on statutory audit in the wider context of other actions that were announced in the Commission’s Communication of 21 May 2003 on ‘Modernising Company Law and Enhancing Corporate Governance in the EU – A plan to

Move forward<sup>1</sup>. In particular, proposals on the role of non-executive directors, director's responsibility for company accounts, and full disclosure in the company's accounts of offshore special purpose vehicles which will be accelerated.

**The Commission is invited to:**

- **Adopt this proposal for a Directive;**
- **Give its agreement that this proposal for a Directive can be sent to the Council, the European Parliament and the European Economic and social Committee.**
- **Publish it in the C Series of the Official Journal**

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<sup>1</sup> COM(2003) 284 final