

Brussels, 13 May 2008

## **Auditing: Commission issues Recommendation to strengthen confidence in statutory audit (see [MEMO/08/300](#))**

***The European Commission has issued a Recommendation on "external quality assurance for statutory auditors and audit firms auditing public interest entities". It provides guidance to Member States for establishing an independent and effective system of inspections on the basis of the Directive on Statutory Audit. In essence, this Recommendation gives more responsibilities to the public oversight bodies, strengthens the independence of inspection teams and enhances transparency on the results of inspections of individual audit firms.***

External quality assurance for the statutory audit is fundamental for high audit quality. Internal Market and Services Commissioner Charlie McCreevy said: *"It is important that audit quality standards are high in the EU. We need to continue to improve the quality of audits. New global trends on inspections also require us to give a prompt European answer. This Recommendation is certainly a way forward in dealing with these urgent issues."*

The Recommendation only deals with inspections of statutory auditors or audit firms auditing public interest entities, since co-operation between Member States is a priority with regard to audits of public interest entities.

The main features of the Recommendation:

- It recommends an active role of the public oversight authorities in inspections. Professional associations can still assist the public oversight authorities, but should be subject to important safeguards, including accountability to the public oversight authority.
- The Recommendation invites Member States to clarify that practitioners from audit firms (peers) should no longer have a leading role in inspections system and inspections teams.
- It also recommends to Member States to enhance transparency on the outcome of the inspections in order to improve accountability of the inspection system towards investors, companies and other stakeholders. The transparency reports published by audit firms should contain no misleading information in comparison to the findings of inspections. Major deficiencies in internal controls of audit firms should be disclosed if an audit firm does not address appropriately the recommendations for improving the audit quality.

The Recommendation, including frequently asked questions are available at:

[http://ec.europa.eu/internal\\_market/auditing/communications/index\\_en.htm](http://ec.europa.eu/internal_market/auditing/communications/index_en.htm)