

Audit of company accounts: Commission sets out ten priorities to improve quality and protect investors

The European Commission has proposed ten priorities for improving and harmonising the quality of statutory audit throughout the EU. The objectives are to ensure that investors and other interested parties can rely fully on the accuracy of audited accounts, to prevent conflicts of interest for auditors and to enhance the EU's protection against Enron-type scandals. The plan announces forthcoming proposals for new EU laws to radically overhaul existing legislation and to extend it. Once adopted, these proposals will, for the first time, provide a comprehensive set of EU rules on how audits should be conducted and on the audit infrastructure needed to safeguard audit quality. The plan is divided into short and medium-term priorities. Among the short-term ones are strengthening public oversight of auditors at Member State and EU level, requiring ISAs (International Standards on Auditing) for all EU statutory audits from 2005 and the creation of an EU Regulatory Committee on Audit, to complement the revised legislation and allow the speedy adoption of more detailed binding measures. The priorities on audit complement the Commission's wider action plan on company law and corporate governance, published simultaneously (see [IP/03/716](#)).

Internal Market Commissioner Frits Bolkestein said: "The integration of European capital markets requires the quality of auditing in the EU to be reinforced further. This means building on the steps already taken by strengthening audit quality assurance and auditor independence. It means thinking progressively about measures to improve long-term audit performance in an expanding European Union. I want European solutions tailored to our needs, respectful of our different cultures with the full support of the European profession. I do not accept the imposition of US standards on our firms and that is why the European Union strongly opposes registration of EU audit firms with the United States' Public Company Accounting Oversight Board. The EU will regulate its own businesses."

Once implemented, the steps set out in the Communication will significantly change the EU regulatory landscape. In particular, a forthcoming proposal for a new Directive on auditing would replace and extend the current EU legislation, the 8th Company Law Directive, covering the education, approval and registration of persons who can be approved by Member State authorities to perform audits.

The EU regulatory infrastructure would also be altered. The Commission is proposing that it would be able to adopt, on the basis of the new Directive and in accordance with comitology procedures, binding implementing measures. A new Audit Regulatory Committee will be established and the present EU Committee on Auditing, will be renamed the Audit Advisory Committee.

The main driver for this Communication is the development of the single European capital market with 7000 listed companies and continued efforts to harmonise and improve the approximately two million statutory audits conducted annually in the EU.

Rapid progress on the priorities in the Communication will also be crucial to the EU-US regulatory dialogue on audit issues. A legally underpinned comprehensive audit regulatory and supervisory environment in the EU will be least equivalent to the regulatory systems currently being developed by the US PCAOB (Public Company Accounting Oversight Board). It will be a sound bedrock for exempting EU auditors from unnecessary and burdensome US regulatory outreach, which constitutes a barrier to an efficient transatlantic and global capital market.

Summary of the short-term priorities:

Modernising the 8th Company Law Directive

The Commission will propose to modernise the 8th Company Law Directive (84/253/EEC) to ensure a comprehensive, principles-based Directive applicable to all statutory audits conducted in the EU. The modernised Directive would include principles on: public oversight, external quality assurance, auditor independence, code of ethics, auditing standards, disciplinary sanctions and the appointment and dismissal of statutory auditors.

Reinforcing the EU's regulatory infrastructure

The proposals for a modernised 8th Directive will also include the creation of an Audit Regulatory Committee. The Commission will adopt, in accordance with comitology procedures, the implementing measures necessary to underpin the principles set out in the modernised 8th Directive. The present EU Committee on Auditing, renamed the Audit Advisory Committee, composed of representatives of Member States and of the profession, will continue its work as an advisory committee.

Strengthening public oversight of the audit profession

The Commission, together with the Audit Advisory Committee, will analyse existing systems of public oversight and develop minimum requirements (principles) for public oversight. The Commission will define a co-ordination mechanism at EU level to link up national systems of public oversight into an efficient EU network.

Requiring International Standards on Auditing (ISAs) for all EU statutory audits

The Commission and the Audit Advisory Committee will work to prepare the implementation of ISAs from 2005. These will include: an analysis of EU and Member State audit requirements not covered by ISAs; the development of an endorsement procedure; a common audit report and high-quality translations. The Commission will work towards further improvements to the IFAC/IAASB audit standard setting process, notably by ensuring that public interest is taken fully into account. Assuming satisfactory progress, the Commission will propose a binding legal instrument requiring the use of ISAs from 2005.

Summary of the medium-term priorities:

Improving disciplinary sanctions

The Commission and the Audit Advisory Committee will assess national systems of disciplinary sanctions to determine common approaches and will introduce an obligation on Member States' to co-operate in cross border cases.

Making audit firms and their networks more transparent

The Commission and the Audit Advisory Committee will develop disclosure requirements for audit firms, covering among other things their relationships with international networks.

Corporate governance: strengthening audit committees and internal control

The Commission and the Audit Advisory Committee will work on the appointment, dismissal and remuneration of statutory auditors, and on communication between the statutory auditor and the company being audited. The Commission and the Committee will also examine statutory auditors' involvement in assessing and reporting on internal control systems.

Reinforcing auditor independence and code of ethics

The Commission will carry out a study on the impact of a more restrictive approach on additional services provided to the audit client. The Commission will continue the EU-US regulatory dialogue on auditor independence, with the aim of obtaining US recognition of the equivalence of the EU approach. The Commission and the Audit Advisory Committee will analyse existing national codes of ethics and the IFAC code of ethics and consider further appropriate action.

Deepening the Internal Market for audit services

The Commission will work on facilitating the establishment of audit firms by proposing to remove restrictions in the present 8th Directive on ownership and management. The Commission will exempt the provision of audit services from its proposal on the recognition of professional qualifications (see [IP/02/393](#)) by amending the 8th Directive to include the principle for mutual recognition subject to an aptitude test. The Commission will carry out a study on the EU audit market structure and on access to the EU audit market.

Examining auditor liability

The Commission will also study the economic impact of auditor liability regimes.

The full text of the Communication is available at:

http://europa.eu.int/comm/internal_market/en/company/audit/index.htm