



Federation of European Accountants  
Fédération des Experts comptables Européens

# INFO

*Standing for trust and integrity*

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## **Council split on European Commission's Proposals on audit policy**

**FEE calls on all parties to find solutions that support audit quality and are compatible with international standards**

**Brussels, 30 May 2013** - The Competitiveness Council of the European Union met yesterday on the audit policy reform for public interest entities audits to discuss the Irish Presidency compromise on three questions being: mandatory rotation of audit firms; restrictions on the provision of non-audit services, and; cooperation of national audit oversight bodies.

It appears that Member States are still significantly split on the Proposals made by the European Commission and on the compromise proposed by the Presidency.

In many instances, Member State governments seem to have ignored the extensive work carried out in the European Parliament where issues have been debated at length. FEE thinks that more attention should have been given to the outcome of the Parliament's democratic debate.

This lack of alignment of the Council and the Parliament makes an agreement more remote and shows that the original Proposals of the Commission continue to prove highly controversial. However we welcome the signs of openness shown by Commissioner Barnier in his closing remarks at the Council yesterday.

All parties should now work together to find solutions that promote the supply of high quality audit services, are practicable and compatible with international standards, facilitate the development of a vibrant audit market and support an independent and sustainable audit profession.

### **Mandatory rotation of auditors**

The views of Member States in relation to mandatory rotation of audit firms differ significantly on the principle, duration and scope of such rotation.

FEE opposes the principle of making auditor's rotation mandatory as it is detrimental to audit quality and, as shown by experience, will increase – not reduce – concentration on the audit market. The audit committee should decide when to rotate the company's auditor.

### **Restrictions on the provision of non-audit services**

FEE notes the vast support expressed by Council to a "black list" approach to prohibit non-audit services but highlights that a majority of Member States question the extensive list of proposed prohibitions. A significant number of Member States are also against the principle of capping or limiting the provision of services as a percentage of the audit fees.



FEE welcomes a "black list" of non-audit services provided that it is consistent with international standards to enhance credibility and minimise administrative burdens. Moreover, a "black list" only approach provides more legal certainty than the cumbersome proposals of the EC.

FEE believes that, in line with the Parliament, auditors should be permitted to provide all services which are not prohibited and that such prohibitions should be based on the IESBA Code of Ethics that proves in a number of instances to be more robust and stringent than the restrictions proposed by the Commission<sup>1</sup>.

FEE is concerned by the principle of a capping of the provision of services as a percentage of the total fees for the statutory audit as this goes against many national supervisors' and regulators' demands for insightful and useful reporting from the statutory auditor. Audit work imposed by EU and national laws and regulations can be very significant and a percentage limitation will be impracticable. In addition, it should be reminded that such an approach will not add to independence as the auditor already has to be independent to provide most of the services concerned. Therefore, the Parliament's approach requiring approval by the audit committee for the provision of services to audit clients appears more realistic and practicable.

#### **Cooperation of national audit oversight bodies**

FEE notes the opposition of the majority of Member States to having auditors' supervision in ESMA. FEE believes that as ESMA is a securities regulator there are significant risks of conflict of interest between oversight and other supervisory responsibilities like enforcement of IFRS. At this time, ESMA does not have the necessary technical expertise, competences and market understanding in auditing. In addition, because ESMA's focus is only on listed entities or Public Interest Entities (PIEs), there is a significant risk to create additional barriers for entry of non-PIE auditors into the market of PIEs which would go against one of the stated objectives of the Commission Proposals.

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## **NOTES FOR EDITORS**

### **About FEE**

**FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 EU Member States.**

FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

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<sup>1</sup> See [http://www.fee.be/index.php?option=com\\_content&view=article&id=1300:fee-paper-on-auditor-independence-provisions&catid=37:ethics&Itemid=172](http://www.fee.be/index.php?option=com_content&view=article&id=1300:fee-paper-on-auditor-independence-provisions&catid=37:ethics&Itemid=172)