

Public Oversight of the Audit Profession

Current Status:

- The objective of public oversight of the audit profession is to improve public confidence and the credibility of high quality financial reporting. Auditors lend credibility to financial statements only if those who rely upon the auditors report are confident that the auditor has conducted the audit in compliance with the required standards. Public oversight seeks to demonstrate that the audit profession is committed to working in the public interest at the required high level of quality.
- Article 32 of the Directive of 17 May 2006 on Statutory Audit in the European Union requires Member States to establish an effective system of public oversight of statutory auditors and audit firms. The system of public oversight must be governed by non-practitioners who are knowledgeable in areas relevant to statutory audit. Member States may however allow a minority of practitioners to be involved.
- There are a variety of ways of providing oversight. Article 32 par. 4 of the Directive states that the system of public oversight should have ultimate responsibility for the oversight of:
 - ↪ the approval and registration of statutory auditors and audit firms;
 - ↪ the adoption of standards on ethics, internal quality control of audit firms and auditing;
 - ↪ continuous education, quality assurance and investigative and disciplinary systems.
- Article 32 par. 5 of the Directive gives this system of public oversight the right, where necessary, to conduct investigations and to take appropriate measures.
- The European Commission set up in December 2005 a "European Group of Auditors' Oversight Bodies" (EGAOB) to ensure coordination of new public oversight systems of statutory auditors and audit firms within the European Union. The EGAOB may also provide technical input to the preparation of implementing measures of the Directive.
- The International Forum of Independent Audit Regulators (IFIAR) was established on 15 September 2006 to share knowledge of the audit market environment and practical experience of independent audit regulatory activity. In addition, it aims to promote collaboration in regulatory activity and to provide a focus for contacts with other international organisations which have an interest in audit quality.

FEE Positions:

- FEE supports the organisation of a robust oversight of the auditing profession in the public interest.
- FEE expresses a preference for mechanisms combining the profession and independent non-practitioners. While FEE welcomes a significant involvement of non practitioners who should be in a majority, in any event, oversight bodies need significant auditing expertise and competence and knowledge of the profession to provide a good insight into the profession and provide practical solutions concerning audit quality.

(continued overleaf)

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- The European Commission argued in its Communication of 21 May 2003 that: “No single supervisor or stakeholder has a sufficiently broad scope to adequately reflect these diverse interests in the oversight of auditors that perform more than one million audits in the EU”. FEE believes that there should be diversity as to how the public interest is represented so that oversight is not dominated by any single stakeholder, or even a public body.
- FEE considers that Article 32, paragraph 4 of the Directive, addresses supervision at a higher level by the public oversight authority, whilst paragraph 5 permits direct intervention by the public oversight system if it detects a particular problem. Quality assurance reviews or inspections are intended as a regular more neutral means of achieving a consistently high quality in statutory audits, whereas an investigation aims to detect, correct and prevent inadequate execution of the statutory audit in particular cases. A quality assurance review may reveal a problem which calls for a more detailed investigation.

Next Steps:

- Differences in Member States' legislation justify that public oversight structures are best organised at national rather than at European level
- While the EGAOB currently provides an EU mechanism to co-ordinate the national systems and to address cross border and other issues, FEE believes that the creation of a dedicated body should be prioritised in the near future by the European Commission. This future development of the co-ordination of audit oversight mechanisms in the EU could:
 - ↳ develop proposals for common principles and essential features for the organisation of national public oversight arrangements;
 - ↳ support appropriate convergence of good practices;
 - ↳ suggest improvements to arrangements and procedures for oversight at member state level;
 - ↳ provide a formal mechanism for timely exchange of information and co-ordination of oversight in cross border cases.
- Such a European co-ordination body should in time be preferably established as a legal entity to be effective and to build confidence. It should be visibly structured in the public interest and involve all stakeholders appropriately. This approach would also help in working with the oversight systems in the USA and elsewhere including through IFIAR, reducing the risk of unnecessary and burdensome duplication of oversight arrangements in accordance with the principles of the European Commission's Better Regulation Initiative.

References:

- DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/ 660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, OJEU L157, 9 June 2006
- FEE Discussion Paper “European Coordination of Public Oversight” September 2003
- EC Communication “A strategic review of Better Regulation in the EU” COM(2006) 689 final – 14.11.2006

FEE Contact:

Mr. Henri Olivier
FEE Secretary General
henri_olivier@fee.be

FEE Secretariat:

Fédération des Experts Comptables Européens
Ave d'Auderghem 22-28, B-1040 Bruxelles
tel: +32 2 285 40 85 - fax: +32 2 231 11 12 - web: www.fee.be

About FEE:

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 44 professional bodies from 32 countries. Between them, these bodies have a combined membership of 500,000 individuals.