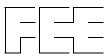


QUALITY ASSURANCE ARRANGEMENTS ACROSS EUROPE

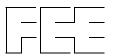
December 2006

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1. EXECUTIVE SUMMARY

In this paper, FEE sets out the analysis of responses to its extensive survey on quality assurance and related public oversight arrangements across Europe as well as its findings and recommendations. FEE undertook this survey of 29 European countries including all European Union Member States to provide an understanding of quality assurance arrangements and their oversight in Europe in the light of current regulation, recommendations and standards. European Union Member States are responsible for implementing the June 2006 European Union Statutory Audit Directive, by June 2008. FEE hopes that this paper will contribute to the debate among legislators, regulators, public oversight bodies and the profession on the implementation of the Statutory Audit Directive regarding quality assurance systems and their oversight. To stimulate the debate, the paper includes conclusions and recommendations.

1.1. Summary of Significant Findings

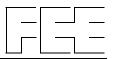
In the light of the recent official publication (June 2006) of the Statutory Audit Directive, a significant number of European Union Member States are still considering the impact of the Directive on their country. This is notably the case in relation to the creation of a system of public oversight, as currently only about half of the countries have such a system in place. Some of the other countries struggle with the concept of a *public* oversight system, especially in an environment with a small active capital market.

All European countries surveyed except one have a system of quality assurance in place that covers all audit firms or statutory auditors as defined in the Statutory Audit Directive. A wide variety of quality assurance systems are currently operative in Europe. The profession not only played a major and active role in putting such systems in place but also in their continuing enhancement, especially following publication of the European Commission Recommendation on Quality Assurance.

1.2. Statutory Audit Directive

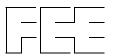
FEE believes that the findings of this paper, based on the survey (with information updated to 1 July 2006), provide an in-depth understanding of the current quality assurance arrangements and their oversight. It is hoped that this paper will drive changes related to the establishment of systems of public oversight, which have ultimate responsibility for the oversight of the adoption of standards on internal quality control of audit firms and of quality assurance systems. As far as the debate on quality assurance systems is concerned, some recommendations for a system of quality assurance are presented which could be considered when further developing systems of quality assurance in line with the stipulations included in Article 29 of the Statutory Audit Directive.

The last question in each of the Sections 5.1 to 5.6 (on pages 30 to 74) provides more detailed information on the extent of change expected following the implementation of the Statutory Audit Directive on the review methodology, review selection, review process, reviewers and the reporting process; the investigation of complaints, follow-up process and sanctions of quality assurance arrangements in Europe.



1.3. Conclusions and Recommendations

In the Section "Conclusions and Recommendations" (on page 10), a number of important aspects of quality assurance and oversight arrangements are highlighted, including such issues as the prerequisites for audit quality, auditor's professional competencies, oversight structures, extraterritoriality of quality assurance reviews and inspections, monitoring and monitored peer review as a basis for quality assurance, statutory auditors and audit firms as the subject of quality assurance reviews, funding, the enforcement of auditing standards and recommendations for a system of quality assurance.



2. Introduction

2.1. Background

In April 1998, FEE published a paper, "Continuous Quality Assurance - Statutory Audit in Europe". That paper sets out the results of a study by FEE of the mechanisms for quality assurance of statutory audit in twenty European countries. It reflected the considerable work done by professional bodies throughout Europe to develop systems to ensure quality in statutory audit. It was also framed in the context of work by the European Commission with respect to a single market for accountancy services, including statutory audit.

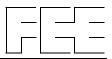
In November 2000, the European Commission issued its "Recommendation on Quality Assurance for the Statutory Audit in the European Union: Minimum Requirements" (the EC Recommendation on Quality Assurance, EC Recommendation or Recommendation), in whose development the 1998 FEE paper is believed to have been instrumental. The current FEE survey is, in part, a tool to assess compliance with this Recommendation.

In November 2003, FEE organised a roundtable on Audit Quality Assurance at the request of the European Commission and provided a forum for people responsible for quality assurance in the European Union (EU) Member States to discuss the major practical issues they face, to exchange ideas and to share experiences.

In 2004, the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) issued International Standard on Quality Control 1 (ISQC1) "Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements". This standard requires audit firms to establish a system of quality control designed to provide it with reasonable assurance that the audit firm and its personnel comply with professional standards and regulatory and legal requirements, and that auditor's reports issued are appropriate in the circumstances. The current FEE survey also aims to review compliance with the core principles of ISQC1.

On 9 June 2006, the Directive of the European Parliament and of the Council of 17 May 2006 on "Statutory Audit of Annual Accounts and Consolidated Accounts" (the Statutory Audit Directive or Directive) was published in the Official Journal of the European Union. It deals with approval, education and registration of auditors, professional ethics and independence, auditing standards and reporting, provisions for public interest entities (PIEs) and the international aspects related to these matters. It introduces a requirement for all statutory auditors and audit firms to be subject to a system of quality assurance, organised in a manner that remains independent from the reviewed statutory auditors and audit firms and subject to public oversight. The requirements of this Directive might necessitate changes to the quality assurance arrangements in a number of European countries. The FEE survey also focuses on these anticipated changes. However, European Union Member States have two years, that is up to mid-2008 to implement the provisions of the Statutory Audit Directive.

It should be noted that, with the adoption of the new Statutory Audit Directive, the minimum requirements, recommendations and principles contained in the "European Commission Recommendation on Quality Assurance for the Statutory Audit in the European Union: Minimum Requirements" have, in fact, been recognised in law. Indeed, the minimum requirements included in the Recommendation provide useful explanatory material and guidance as to how the requirements in Article 29 - on quality assurance systems - of the Statutory Audit Directive can be implemented. The Statutory Audit Directive is, however, more stringent; for example, concerning the length of time in which to achieve full coverage of all audit firms.



2.2. Objectives

The objectives of this FEE report on quality assurance arrangements across Europe are to provide an understanding of quality assurance arrangements and best practice, to determine compliance with the core principles of the "Recommendation on Quality Assurance for Statutory Audit in the European Union: Minimum Requirements" and to some extent with the main stipulations of the IFAC Statements of Membership Obligations. It also aims to demonstrate how the accountancy profession can function within a system of quality assurance as prescribed by the Statutory Audit Directive, and show that the profession is responsible for constant progress in quality assurance. The paper also aims to share best practice on the qualification and training of quality assurance reviewers, and to consider, based on findings, how quality assurance recommendations are enforced, as the implementation of reforms will become important.

2.3. Purpose and Project Scope

FEE has launched a survey with all its Member Bodies to provide an insight into the current quality assurance arrangements and related oversight structures across Europe and has received responses from the 25 EU Member States, Bulgaria, Romania, Norway and Switzerland. These were updated to reflect the position as at 1 July 2006 or even later. Insight into the applicable quality assurance arrangements can contribute to an understanding of the quality of audits within Europe, ahead of the implementation of the Statutory Audit Directive.

The scope of the project is to:

- Describe the quality assurance¹ policies and procedures in place at national level to ensure compliance with national audit standards and national ethical requirements;
- Ensure that national quality reviews cover compliance of an audit firm's systems of quality control² with ISQC1;
- Identify and share generic elements of best practice in Europe with regard to quality assurance systems; and
- Provide some recommendations for quality assurance systems and their oversight;

In order to contribute to the debate on the implementation of the recently approved Statutory Audit Directive within national systems.

2.4. Survey

The FEE survey consisted of 36 questions regarding the current quality assurance arrangements across Europe as applicable to the audit profession. The questions focused not only on the main features of the quality assurance arrangements such as the review methodology, the review selection, the review process, the reviewers and the reporting process; the investigation of complaints, follow-up process and sanctions, but also on the public oversight on quality reviews.

Quality assurance is the external system at a national level to ensure the quality of and to review the work performed by an audit firm or a statutory auditor.

Quality control is the internal system, policies and procedures within an audit firm to ensure the quality of and to review the work performed by its personnel.

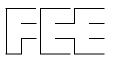


Sections 4 and 5 (on pages 19 to 74) set out the main findings and results together with some conclusions regarding the current quality assurance arrangements across Europe and details of the anticipated changes in EU Member States following the implementation of the Statutory Audit Directive.

Appendix I contains a summary of survey results for every country that responded.

Appendix II includes the detailed questionnaire and a summary of responses.

Note: In this paper the term "European Union Member State(s)" may also mean the government, the review organisation or the FEE Member Body(ies) of the European Union Member State(s), as applicable in the context.



3. CONCLUSIONS AND RECOMMENDATIONS

3.1. Prerequisites for Audit Quality

Although the subject of this FEE Survey is primarily focused on quality assurance arrangements, it is important to note that quality assurance, both internally within audit firms and externally by a review organisation, is only one of the drivers of audit quality. Therefore, the first consideration is: "What is audit quality?".

At its heart, audit quality is primarily about delivering an appropriate professional opinion on the financial statements of a company. This is supported by the necessary evidence and objective judgments. Audit quality normally includes:

- Leadership, including tone at the top and audit firm strategy;
- People of competence, quality, objectivity and integrity;
- Working practices and quality control procedures;
- Internal monitoring by audit firms of leadership, people, client relationships and working practices; and
- External monitoring under public oversight to encourage and assist audit firms to improve audit quality.

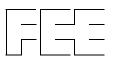
Some of these audit quality drivers, like 'tone at the top', competencies and quality control procedures have to be in place before any audit work is undertaken, while internal and external monitoring are rather detective or corrective in nature and can only be performed after an audit has been executed. It goes without saying that corrective actions alone cannot prevent unacceptable audit quality but more specifically in relation to the subject of this paper, quality assurance systems should improve audit quality over time.

3.1.1. The Issue of Auditor's Professional Competencies

A prerequisite for good quality audits is to ensure the quality of the auditors performing an audit. This includes the processes of recruitment, education, continuous development, appraisal, procedures, etc. In particular, this requires that every auditor is competent which comes from proper education and training, both leading up to approval as an auditor and also during his entire career through continuing professional development (CPD). Without ensuring auditors have the necessary competencies and education to perform a quality audit, there is little point in 'assuring audit quality'.

Requirements related to auditor education and training already formed part of the European Economic Community Eighth Council Directive of 10 April 1984 based on Article 54.3.(g) of the Treaty on the approval of persons responsible for carrying out the statutory audits of accounting documents (84/253/EEC) (Eighth Directive). Most European Union Member States and other European countries have applied the requirements of this Directive through their professional bodies by setting minimum education levels, theoretical instruction, practical training and examination of professional competence. For example, in response to the globalisation of business activity, the single market and regulatory harmonisation, eight of Europe's professional accountancy institutes from France, Germany, Ireland, Italy, the Netherlands and the UK are working together in the "Common Content Project" to bring their professional accountancy qualifications closer together.

Most European professional accountancy bodies are also committed to continuing professional development for auditors and run such programs following the International Standards on Education from the International Accounting Education Standards Board (IAESB) of the IFAC.



A very significant majority of audit firms in Europe also apply the requirements of ISQC1. This standard requires audit firms to establish a system of quality control which includes policies and procedures addressing, amongst other elements, the issue of human resources. Personnel issues such as capabilities and competence should be addressed and developed through a variety of methods including professional education and continuing professional development through training, work experience and coaching by more experienced staff.

The new Statutory Audit Directive of 2006 reconfirms and expands the requirements relating to approval, continuing education and mutual recognition for statutory auditors and audit firms already included in the Eighth Directive. It will need to be implemented by EU Member States by mid-2008.

3.2. Oversight Structures across Europe

One of the most significant and innovative requirements of the Statutory Audit Directive is for EU Member States to create an effective system of public oversight for statutory auditors and audit firms on the basis of home country control.

Currently, fourteen EU Member States plus Norway already have a public oversight body in place, which they deem to be consistent with the Statutory Audit Directive. It should be noted that among these countries, different models have been created, involving one or several bodies. According to the Directive, the system of public oversight has to be governed by non-practitioners, which is also the case in these countries, although many EU Member States have decided to include a minority of practitioners in their respective systems.

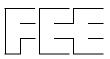
The other EU Member States envisage further changes following their adoption of the Statutory Audit Directive. In this regard, it cannot be ignored that the issue of a public oversight body, as required by the Directive, may be a difficult concept for some of the new EU states where significant additional changes in national legislation may be required in order to create an appropriate system of oversight balancing the interests of all stakeholders.

For the countries that have yet to develop an oversight system, there is a range of different structures including supervisory public authorities which fulfil to some extent part of the oversight function of the profession. Following the significant efforts accomplished by these countries in order to meet the criteria of a modern market economy, the profession has, for many years, devoted a considerable amount of effort to creating an independent profession and adapting and developing the profession to high standards of quality.

There is a certain degree of reluctance to implement the requirements of the Directive related to oversight systems in some countries, considering the relatively small size of an active capital market and the large number of small companies, reducing the urgency for additional investor protection.

Accordingly, FEE would like to contribute to the ongoing debate which will take place during the implementation period of the Directive by supporting and promoting the following suggestions for creating a public oversight system at EU Member State level:

- FEE recognises that, according to the Statutory Audit Directive, there is a range of possible models of public oversight system involving one or several bodies.
- FEE believes an oversight system should reflect a necessary wide range of stakeholders, including representatives of business, regulators, shareholders and not only government officials. FEE also believes that a minority of practitioners may play an active role in the oversight system.



- FEE believes that it is absolutely essential that, as prescribed by the Directive, the oversight body should consist of competent and knowledgeable members in the areas relevant to statutory audit.
- Finally, FEE strongly believes that the purpose of public oversight is to support audit quality in small and larger audits. In practical terms, it means that public oversight bodies must have ultimate responsibility for oversight which does not exclude significant delegation to the profession.

3.3. Issues Related to the Extraterritoriality of Quality Assurance Reviews and Inspections

3.3.1. Within the European Union

The Statutory Audit Directive allows for the application of a variety of different quality assurance systems in the European Union and requires mutual recognition of these different regulatory arrangements of European Member States, so respecting the principle of home country regulation and oversight by the Member State in which the statutory auditor or audit firm is approved and the audited entity has its registered office. This also includes the principle of home country quality assurance reviews in the case of a cross-border statutory audit of consolidated accounts or of a company with listings in different EU Member States. This should also address the application of the home country principle for statutory auditors approved in more than one European Member State.

To ensure the effective co-ordination of new public oversight systems of statutory auditors and audit firms within the European Union, in December 2005 the European Commission set up the "European Group of Auditors' Oversight Bodies" (EGAOB). It is composed of high-level representatives of the entities responsible for the public oversight of statutory auditors and audit firms in Member States or, in their absence, of representatives of the competent national Ministries.

In a 2003 Discussion Paper on Co-ordination of Oversight of the Audit Profession, FEE strongly proposed the development of the public interest oversight and stated its view that public oversight structures are best organised at Member State level, as the Directive on Statutory Audit now provides.

While the EGAOB currently provides an EU mechanism to co-ordinate the national systems and to address cross-border and other issues, FEE continues to believe that the creation of a dedicated body functioning as an EU co-ordinator of national audit mechanisms 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.

The implementation of the home country principle on quality assurance and oversight within the EU will, to a large extent, depend on the ability of each Member State to demonstrate the equivalence of



its systems in order to build trust and co-operation among Member States to rely on each other's systems and exchange information.

FEE would therefore like to emphasise the need to implement the principle of home country regulation and oversight in such a way that it:

- Stimulates agreement of mutual recognition between each European Union Member State;
- Avoids double quality assurance reviews and inspections of statutory auditors and audit firms in the European Union.

3.3.2. Outside of the European Union

The Statutory Audit Directive includes provisions related to third-country auditors and audit entities and their systems of oversight, quality assurance systems and systems of investigation and penalties. Such systems may be recognised as equivalent by Member States until the European Commission decides on equivalence at an EU level under the comitology or implementation procedure. Subsequently, the European Commission would be able to decide on the equivalence of such systems at an EU-wide level.

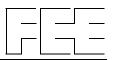
FEE would favour an EU decision as soon as possible because different national recognition initiatives might confuse third countries if they are not consistent.

Also, the impact of third-country legislation and regulations on the systems of oversight, quality assurance systems and systems of investigation and penalties for audits of European companies performed outside of the European Union or for significant European subsidiaries of third-country companies listed on a third-country stock exchange should not be ignored. Such legislation and regulations from a considerable number of third countries will have a significant influence in Europe, not least those from the United States of America (USA or US).

For example, the US's Public Company Accounting Oversight Board (PCAOB) Rule 4012 on the inspections of foreign registered public accounting firms is very prescriptive and includes a number of requirements which go further than the EU requirements. The PCAOB will determine the degree of reliance (if any), it will place on the non-US inspection based on an evaluation of the level of the non-US system's independence and rigour, including the adequacy and integrity of the system, its independence from the auditing profession, its funding, the transparency of the system, and its historical performance.

In the section-by-section analysis of the PCAOB's rules, it is explained that the degree of reliance on non-US inspections (and, in the case of complaints, on the investigation systems) will be determined on a sliding scale with increasing reliance in the case of increasing independence and rigour of the non-US system of inspections or external quality assurance. It is also very apparent that the PCOAB will seek to be involved in performing inspections of non-US audit firms auditing US registered companies or significant subsidiaries of US registered companies.

The establishment of the International Forum of Independent Audit Regulators (IFIAR) on 15 September 2006 is relevant in this respect. The Forum will share knowledge of the audit market environment and practical experience of independent audit regulatory activity, will promote collaboration in regulatory activity and will provide a focus for contacts with other international organisations which have an interest in audit quality. The independent audit regulators of the following countries agreed to the creation of the Forum: Australia, Austria, Brazil, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Mexico, the Netherlands, Norway, Singapore, South Africa,



Spain, Sweden and the United Kingdom. The US Public Company Accounting Oversight Board participated as an observer at the roundtable at which the forum was created.

Regulators from within the European Union and outside the European Union should be encouraged to co-ordinate and co-operate with each other to ensure that oversight regimes are of equivalent quality, to promote future confidence and minimise, or at least accommodate to a reasonable degree, the serious concerns and issues related to duplication of oversight, quality assurance reviews, inspections and penalties for statutory auditors and audit firms. At a European Union level, the Statutory Audit Directive forms the basis for such co-ordination and co-operation with third countries. Another issue that will need to be addressed is professional secrecy and confidentiality of company information in audit working papers. It is essential to the effectiveness of audits that companies have full confidence in the confidentiality of information available to auditors, as recognised in related legal obligations placed on auditors in many European countries.

The creation of a dedicated EU body for the co-ordination of audit oversight mechanisms would also help in working with the oversight systems in the USA and elsewhere, reducing the risk of unnecessary and burdensome duplication of oversight arrangements in accordance with the principles of the European Commission's Better Regulation Initiative.

European audit firms who registered with the PCAOB because they audit European companies listed in the US (European foreign registrants) or significant non-US subsidiaries of companies listed on a US stock exchange, will very soon also be inspected under PCAOB rules related to the oversight of non-US public accounting firms.

3.3.3. Public Interest Entities

Since public interest entities have a higher visibility and are economically more important, the Statutory Audit Directive applies stricter requirements in the case of the statutory audit of their financial statements. For example, related to quality assurance, the Directive requires that quality assurance reviews for statutory auditors or audit firms that carry out statutory audits of public interest entities are carried out at least every three years whereas the frequency for quality assurance reviews of audits of other entities is at least every six years.

Due to the higher visibility of public interest entities, some regulators and public oversight bodies are looking for further special procedures for the quality assurance of their audits, adapted to their economic significance. Related to the quality review of the audits of public interest entities, certain European Union Member States have, for instance, put greater emphasis on the appearance of independence of the quality assurance reviewers.

Similar to the concept of "an audit is an audit", which supports one benchmark audit and under which an audit report is expected to offer consistent audit assurance based on consistent audit quality, FEE is in favour of one quality assurance system regardless of the size of the audit firm or its clients. However, as it is recognised in the Statutory Audit Directive, European Union Member States can choose from a range of possible structures for organising quality assurance reviews. Therefore the specific procedures and methods for quality assurance reviews may vary considerably for reviews of audits of public interest entities compared to audits of other entities. Thus there could be variations in the organisation, frequency and methodology of reviews to reflect the different levels of public interest. Inspection by public oversight bodies is the most articulated solution, but it is far from being the only one allowed under the Directive. A quality assurance system in less developed countries could not always be based on monitoring by non-practitioners because the review organisation might



not have the ability to recruit such people due to the limited size of the profession or due to restricted funding of the review organisation.

3.4. Monitoring and Monitored Peer Review Systems for Quality Assurance

The Statutory Audit Directive does not mandate a particular form of quality assurance system. It does, however, set out a number of key organisational characteristics:

- Those who undertake reviews must be independent of those who are to be reviewed and free from any conflicts of interest;
- The reviewers must be technically competent and be trained in review work;
- Funding of the system is secure and free from influence by the audit firms;
- The system has adequate resources;
- The system is subject to public oversight.

Within Europe there are a number of different systems. However, these are largely of two types. In the 'monitoring' variation, quality assurance reviews are undertaken by staff employed by a review organisation. In the 'monitored peer review' variation, the review organisation organises and supervises the reviews to be undertaken by experienced and authorised practitioners of audit firms or statutory auditors (hence the reference to 'peer').

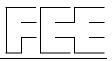
Further variation is provided in both methods according to the type of review organisation. It may be a professional institute, a government entity or some other body. Under the Statutory Audit Directive, a professional institute would be subject to oversight from the public oversight body. In the 'monitoring' variation, the review organisation is inherently independent of the reviewed audit firms. In the 'monitored peer review', the review organisation is also inherently independent of the audit firms and it also ensures that those who undertake reviews are independent and free of conflicts from the audit firms they review.

Both variations use competent staff to undertake the reviews. In the 'monitored peer review' system, the reviewers may be accompanied by members of the review organisation and, of course, the public oversight body may also attend the reviews under either system as part of its oversight work. That the systems are appropriately funded and resourced is firstly a consideration for the review organisation and also the public oversight body.

So, despite the differences noted above, both systems of monitoring and monitored peer review comply with the Statutory Audit Directive. Both systems have to pay special attention to different aspects of a quality assurance review: maintaining current experience and competencies for reviewers in a monitoring approach; and appearing independent for reviewers in a monitored peer review system.

3.5. Quality Assurance Review of all Statutory Auditors and Audit Firms

The subject for a quality review in the articles of the Statutory Audit Directive as compared to the recitals in the Statutory Audit Directive and the EC Recommendation on Quality Assurance could be interpreted differently. The Directive implies that *all* statutory auditors, being a natural person, *and* audit firms, being a legal person, are to be subject to a system of quality assurance. The statement in the recitals of the Statutory Audit Directive that for the application of quality assurance systems, Member States may decide that if individual statutory auditors have a common quality assurance policy, only the requirements for audit firms need to be considered, indicates that the application of quality reviews under the Statutory Audit Directive can focus mainly on audit firms. The EC



Recommendation also stipulates that the subject for a quality review is the statutory auditor which can be an audit firm *or* an 'individual' auditor.

In order to avoid the imposition of double regulation on performing quality assurance reviews following the principles of the European Commission's Better Regulations Initiative, FEE is of the opinion that the subject for a quality review should be *either* the audit firm *or* the individual statutory auditor.

3.6. Funding of Quality Assurance Systems

The Statutory Audit Directive requires that funding for the quality assurance system is secure and free from any possible undue influence by statutory auditors or audit firms.

Currently, the quality assurance systems across Europe, whether a system of monitoring or monitored peer review, are in most cases funded to a large extent by the audit profession.

It is important to note that control or influence over the quality assurance systems is, in most countries, very different from the source of its funding and thus not with the audit profession, especially in those countries where ultimate responsibility for the quality assurance system rests with a public oversight body. It would appear that such methods of recovering costs are, in principle, acceptable under the Statutory Audit Directive.

3.7. Enforcement of Auditing Standards

All European countries apply principles-based auditing standards and about three-quarters use auditing standards which are closely related to the International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB). A few countries have already adopted the ISAs as their national auditing standards.

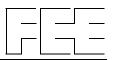
The vast majority of European countries have so far not encountered difficulties in interpreting their auditing standards to determine, during a quality review, whether the audit work complies with the standards. Only two review organisations of European Union Member States have so far experienced some difficulty in enforcing their current principles-based auditing standards.

Therefore, the adoption of the ISAs is not expected to cause major upheaval in the application of quality assurance systems, but a certain flexibility in the review methodology and process applied will be necessary to accommodate the testing of compliance with auditing standards in the review of audit files during the transition period to ISAs.

3.8. Recommendations for a System of Quality Assurance

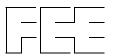
In summary, drawing on the experiences in different European countries, the following points are some of the features that FEE recommends for an effective system of quality assurance:

- 1. The system of quality assurance is supervised by a public oversight body to ensure that the audit function is delivered in the public interest.
- 2. A risk-based approach for carrying out quality assurance reviews, for example in determining the frequency of the reviews.



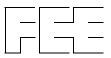
- 3. Systems reviewing either individual statutory auditors or the internal quality control policies and procedures of audit firms.
- 4. An assessment of the design, implementation and effectiveness of the audit firm's internal quality control systems.
- 5. Selecting an appropriate number of audit files for review to assess the proper application of the audit firm's internal quality control systems in practice.
- 6. When testing audit files, an assessment of the quality of the evidence, compliance with auditing, ethical and independence standards and assessment of the auditor's judgement.
- 7. The need for principles-based auditing, ethical and independence standards to cater for all types of audits and their quality assurance review.
- 8. The submission of an annual return including some minimum information on each statutory auditor or audit firm.
- 9. A review visit to the relevant statutory auditor or audit firm's offices.
- 10. Reviewers with the necessary competencies acquired through proper initial education, continuing education and training and with relevant professional experience.
- 11. Reviewers who are objective and independent of the reviewed auditor or audit firm and whose selection for any quality assurance review lies ultimately with the review organisation or the public oversight body.
- 12. Reviewers who maintain confidentiality regarding client information and who appropriately document their review work.
- 13. Reviewers who are under the supervision of the review organisation for the performance of any quality assurance review.
- 14. Proper and timely communication of detailed findings of quality assurance reviews to the reviewed auditor or firm.
- 15. Recommendations and assistance by the review organisation to the reviewed auditor or audit firm for the correction of significant deficiencies noted, follow-up by the review organisation of the actions taken by the reviewed auditor or audit firm as well as the imposition of further corrective action by the review organisation, if necessary.
- 16. Timely reporting of the main conclusions of the quality assurance review to the reviewed auditor or audit firm and review organisation.
- 17. Public reporting on a regular basis on the summarised outcome of quality assurance programs.
- 18. A range of penalties in proportion to any deficiency noted during the quality assurance review being available, so as to effectively sanction auditors and audit firms for deficiencies where necessary.
- 19. A system for receiving complaints about auditors and audit firms from third parties, including the possibility for effective investigation of the complaint and the ability to impose sanctions.
- 20. A system of appeal procedures for the auditor or audit firm against any adverse quality assurance decision.
- 21. Any body or committee which can take actions against auditors should include experienced auditors and members who are not accountants or auditors to apply appropriate judgement on the compliance with principles-based standards.

This list of recommended features for a quality assurance system is not exhaustive. Other aspects of quality assurance systems dealing with the review methodology, review selection, review process, reviewers, reporting process, investigation of complaints, follow-up process and sanctions need to be considered for a well-functioning and effective system of quality assurance.



3.9. Overall Conclusion

The profession is fully committed to achieving a consistently high quality in statutory audits and believes that well-functioning and effective systems of quality assurance can contribute to a great extent to reaching this goal. FEE hopes that this paper will be helpful in implementing systems of quality assurance which aim to maintain or enhance the quality of the audits performed by all practitioners.



4. Public Oversight

4.1. Oversight Structures in the EU

The new Directive of the European parliament and of the Council on the statutory audit of annual accounts and consolidated accounts (Statutory Audit Directive, or Directive) and amending council Directive 78/660 EEC and 83/349/EEC was adopted on 17 May 2006 by the Council of Ministers of the EU³.

This formal adoption will be followed by an implementation period of 24 months during which European Union (EU) Member States are responsible for implementing the provisions of the Statutory Audit Directive.

Among the significant and important provisions of the Statutory Audit Directive, one of the new requirements for EU Member States is the compulsory creation of an effective system of public oversight for statutory auditors and audit firms on the basis of home country control, which will entail significant changes in the supervision of the profession in several EU Member States. This issue is dealt with in Article 32 of the Directive which states that:

Article 32 - Principles of Public Oversight:

- 1. Member States shall organise an effective system of public oversight for statutory auditors and audit firms based on the principles set out in paragraphs 2 to 7.
- 2. All statutory auditors and audit firms shall be subject to public oversight.
- 3. The system of public oversight shall be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit. Member States may, however, allow a minority of practitioners to be involved in the governance of the public oversight system. Persons involved in the governance of the public oversight system shall be selected in accordance with an independent and transparent nomination procedure.
- 4. The system of public oversight shall have the ultimate responsibility for the oversight of:
 - (a) The approval and registration of statutory auditors and audit firms,
 - (b) The adoption of standards on professional ethics, internal quality control of audit firms and auditing, and
 - (c) Continuing education, quality assurance and investigative and disciplinary systems.
- 5. The system of public oversight shall have the right, where necessary, to conduct investigations in relation to statutory auditors and audit firms and the right to take appropriate action.
- 6. The system of public oversight shall be transparent. This shall include the publication of annual work programmes and activity reports.
- 7. The system of public oversight shall be adequately funded. The funding for the public oversight system shall be secure and free from any undue influence by statutory auditors or audit firms.

Recital 20 of the Directive states that one of the main features of the public oversight structure is that "it must be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit." The same recital also recognises that, in principle, these non-practitioners may be specialists who have never been linked with the audit profession or former practitioners who have left the profession. It is also recognised that EU Member States may however allow a minority of practitioners to be involved in the governance of the public oversight system.

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http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_157/l_15720060609en00870107.pdf.



The concept of public oversight which is developed in the Directive may seem to be entirely new but such an assumption can be questioned. Discussions related to oversight of the accountancy profession and public reporting were launched several years ago. For example, when considering carefully the Commission Recommendation of 15 November 2000 on Quality assurance for the statutory audit in the EU: Minimum requirements⁴, the issue of public oversight was considered and duly addressed.

If Section 6 of the EC Recommendation is considered, it is obvious that the issue has been clearly described and dealt with.

6. Public oversight and public reporting

6.1. Quality assurance systems should have adequate public oversight consisting of a majority of non-practitioners on the overview board of the quality assurance system.

Quality assurance systems in the European Union should have enough credibility to satisfy the external objectives: sustaining public confidence and demonstrating to regulators the adequate discharge of self-regulating responsibilities. The public oversight requirement is meant to ensure that the quality assurance is in fact and appearance an exercise with sufficient public integrity. The actual organisation of public oversight for quality assurance will differ between Member States depending on existing structures of supervision on the statutory audit profession and the importance of sector specific regulatory monitoring of statutory audit quality.

Public oversight for quality assurance could be an 'add-on' to existing supervision structures on the audit profession that already involve public participation, whilst in other situations it would require a separate committee including non-professionals such as representatives of business, representatives of securities regulators and representatives of shareholders.

The objectives of public oversight on quality assurance could include:

- 1. Supervision of the management (planning and control) of the quality assurance system;
- 2. Evaluation of the review results;
- 3. Approval of public reporting of results of quality assurance (see point 6.2, as quoted on page 64).

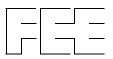
In addition, the International Federation of Accountants (IFAC) has published Statements of Membership Obligations (SMOs). IFAC SMO 1 on "Quality Assurance" and SMO 6 on "Investigation and Discipline" are relevant to quality assurance. These IFAC SMOs are to be applied by IFAC member bodies to quality assurance review programs for their members performing certain audit engagements of financial statements.

A further example can be found in the work produced by the technical committee of the International Organisation of Securities Commissions (IOSCO)⁵. This organisation has pointed out that effective oversight of the accounting profession and of independent audits is critical to the reliability and integrity of the financial reporting process.

In 2002, the technical committee developed six general principles for the oversight of audit firms and auditors that audit financial statements of companies whose securities are publicly traded in the capital market. These principles are:

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2001/1 091/1 09120010331en00910097.pdf.

http://www.iosco.org/library/pubdocs/pdf/IOSCOPD134.pdf.



- 1. A mechanism to require that auditors have proper qualifications and competency before being licensed to perform audits, and maintain professional competence. A mechanism also should exist to withdraw authorisation to perform audits of publicly traded companies if proper qualifications and competency are not maintained.
- 2. A mechanism to require that auditors are independent of the enterprises that they audit, both in fact and in appearance. Effective standards, regular assessments, and regulatory oversight generally increase the likelihood that independence is maintained.
- 3. A mechanism should exist to provide that a body, acting in the public interest, provides oversight over the quality and implementation of auditing, independence, and ethical standards used in the jurisdiction, as well as audit quality control environments.
- 4. A mechanism should exist to require auditors to be subject to the discipline of an auditor oversight body that is independent of the audit profession, or, if a professional body acts as the oversight body, is overseen by an independent body. Such an auditor oversight body must:
 - 1. Operate in the public interest, and
 - 2. Have an appropriate membership,
 - 3. Have an adequate charter of responsibilities and powers,
 - 4. Have adequate funding that is not under the control of the auditing profession, to carry out those responsibilities.
- 5. An auditor oversight body should have the authority to stipulate remedial measures for problems detected, and either to initiate or carry out disciplinary proceedings to impose sanctions on auditors and audit firms, as appropriate.
- 6. In relation to companies operating or listing on a cross-border basis, IOSCO members are encouraged to provide each other, whether directly or through co-ordinating with the auditor oversight body in their jurisdiction, with the fullest assistance permissible in efforts to examine or investigate matters.

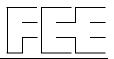
Therefore, it appears clearly that, although addressed formally by EU legislation in the Directive, the concept of a public oversight system has long been initially closely linked to the issue of quality assurance. Accordingly, it should be kept in mind that public oversight systems are of particular importance regarding quality assurance. This is also echoed by Article 29.1.(a) of the Directive which states that:

Article 29.1.(a):

The quality assurance system shall be organised in such a manner that it is independent from the reviewed statutory auditors and audit firms and subject to public oversight as provided for in Chapter VIII (of the Directive).

Oversight structures are also an attempt to respond to two main issues:

- From a public interest perspective, can a self-regulated private body alone be in charge of public interest responsibilities such as: approving standards on financial reporting or auditing?
- Can a self-regulated body on its own be a credible and effective disciplinary body without any public involvement?



This may be the reason why a significant number of EU Member States, influenced by significant regulatory changes - particularly in the United States - and also by the necessity to react to financial scandals which occurred in certain EU countries and elsewhere but also influenced by the EC Recommendation, have decided to address this issue in their national legislation in advance of the final approval of the Statutory Audit Directive.

The issue of oversight is addressed in a single article in the Directive Article 32, which contains provisions of a substantially different and detailed nature from the content of the EU Recommendation.

Paragraph 1 of this Article creates a specific requirement to have an oversight structure in place in each Member State.

Paragraph 2 provides a definition of the scope: all statutory auditors and audit firms must be subject to public oversight.

Paragraph 3 addresses the composition of the oversight structure.

Paragraphs 4, 5 and 6 deal with the various responsibilities of such a system.

Paragraph 7 addresses the issue of funding.

The purpose of this section of the survey is to provide, at this relatively early stage, a clear picture or a state of play of the situation in the various EU Member States regarding the public oversight system issue as dealt with by the Directive. In other words, this paper tries to identify whether EU Member States have effectively created and put into operation a public oversight system in their regulatory framework.

Additionally, this paper examines the extent to which the various types of public oversight systems do effectively respond to the requirements of the Directive in terms of status and composition. It provides a detailed overview of the different responsibilities of such systems in place and an assessment on the extent to which the oversight systems in place do effectively respond to the Directive requirements in respect of "ultimate responsibility for (the) oversight".

Finally, the paper tries to evaluate the spectrum of expected changes in the various EU Member States which will be needed in order to comply with the Directive's requirements at the end of the implementation period.

An analysis of the responses to the FEE survey follows.



Question 1 asked whether there is or will soon be a public oversight system in Member States or other European countries.

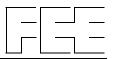
Regarding the first question, as it has been pointed out earlier above, it is obvious that in order to react to financial scandals and to provide an appropriate response in order to restore or increase confidence in the financial markets, a significant number of EU Member States also influenced by the content of the EC Recommendation, have decided to implement in their national legislation a public oversight system which responds to criteria fixed by the draft of the Directive, with respect to status and composition. The survey demonstrates that at this early stage, fourteen Member States and Norway have decided to do so. Among respondents to the survey, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Malta, the Netherlands, Norway, Spain, Sweden, and the UK declared that they have a public oversight body in their regulatory environment although in the Spanish oversight body voting rights are with the government-appointed ICAC President whereas another governing body of ICAC, including government regulatory bodies, professional bodies and other stakeholders, is an advisory committee without decision powers. In addition, eight countries are in the process of setting up a public oversight body of which two are expected to be operational in 2006, two in 2007 and the others in 2008.

Composition and nomination process

As regards the nomination process for members and the composition and status of the oversight structure, although the Directive provides a certain number of prescriptions, it should be kept in mind that the current organisation of public oversight systems differs significantly between EU Member States depending on existing structures of supervision of the statutory audit profession and also specific details linked to the regulatory framework for monitoring the statutory audit activity. In certain countries, the oversight structure will consist of two types of bodies in order to reflect the administrative organisation of the profession. This is the case, for example, in Finland and Austria while in other countries the structure will differentiate the field of competence of the oversight body regarding listed or non-listed entities, as in Italy. Further differentiation may occur as various bodies respond to the necessity to segregate the tasks, for example in Germany where the Public Oversight Body has ultimate responsibility and decision-making powers in the areas of quality assurance and discipline even though the Wirtschaftsprüferkammer plays an effective role regarding the operation of the quality assurance and disciplinary system. In cases of presumed severe breaches of professional duties, the public prosecutor is responsible for disciplinary investigations and proceedings.

Accordingly, it would be a fastidious and probably useless exercise to provide too detailed a description of those differences. The following examples can briefly illustrate that compliance with the Directive does not preclude significant differences in status, composition and nomination process of an oversight structure.

In the UK, there is a very structured oversight system in place. The Financial Reporting Council (FRC) was set up by the Secretary of State for Trade and Industry and its remit was recently extended to oversight of the accountancy profession and specifically to auditors. Its governing body consists of a majority of non-practitioners and its work is carried out by a number of subsidiary boards. Although qualified accountants (including auditors) are on these boards, the general principle is that they are not in sole charge of the boards. The boards deal with accounting and auditing standards, oversight of the accountancy profession, reviews of financial reporting and investigation and disciplinary matters. The oversight board includes the Auditing Inspection Unit (AIU) that reviews the audits of economically significant entities.



In Germany, the public oversight system consists of an independent body composed of six to ten members who are appointed by the Federal Ministry of Economics. The German Auditor Oversight Commission is independent of the audit profession. Members are appointed for four years and shall not be or have been public auditors during the five years prior to their appointment.

In France, the oversight system was put in place in 2003. The "Haut Conseil" consists of three judges, the President of the "Autorité des Marchés Financiers" (AMF, the security regulator), one person representing the Minister of Economy and one academic with appropriate skills representing university, three individual representatives of the business community and not-for-profit sector and three statutory auditors.

In the Netherlands, the Authority for Financial Markets (AFM) has been designated by law to perform the oversight of the accountancy profession. The effective starting date of oversight by AFM is 1 October 2006.

In Spain, the function of public oversight is performed by the "Instituto de Contabilidad y Auditoria de Cuentas" (ICAC). This body is responsible for the control of statutory audit activity. It is established by law but under the authority of the Ministry of Economics. All members are appointed by government (the Ministry) and include, apart from the president with voting rights, government regulatory bodies, professional bodies and other stakeholders who are members with advisory but not decision powers.

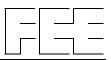
Among the criteria fixed by Article 32 of the Directive, regarding composition, the presence of practitioners is of particular importance. It is interesting to note that 18 respondents to the survey declare that their oversight structure includes or will include a minority of practitioners. These countries are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, France, Hungary, Ireland, Italy (in Ministerial Committee, not in Consob), Malta, the Netherlands (from 1 October 2006), Slovak Republic, Spain, Sweden, the UK and Switzerland. It should be noted that practitioners in the Spanish oversight structure are non-voting members. Also significant in this respect is that in certain countries, where the oversight structure consists of more than one body, due to cultural or administrative reasons, such as the existence of a national and a regional level, it may well be the case that practitioners may only serve on one body. This is the case in Austria and Germany.

Scope of activities

Regarding the scope of activities of these relatively new structures, all respondents having a public oversight system in place mentioned that its overall function includes the monitoring and supervision of the auditing profession. But, in fact, it covers a wide range of different situations which can be analysed as follows.

Among the fifteen respondents having an appropriate body in place, all of them (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy (Consob only for listed entities), Malta, the Netherlands (from 1 October 2006 for PIEs), Norway, Spain, Sweden, and the UK) have effective responsibility for the oversight of external quality assurance systems.

Regarding standard setting on auditing, only a minority of respondents referred explicitly to some responsibility of the public oversight system for professional standards. This is the case in Finland, France, Spain, Switzerland (for auditors of listed entities) and the UK. In Ireland, the oversight system provides an agreement on the standards. In Germany, the Public Oversight Body holds observer status on the IDW's Accounting and Auditing Board, thereby overseeing the development of professional standards and interpretations. It seems that in many surveyed countries, standard setting remains, to a



large extent, in the hands of the profession or that at least, standards are initially set out by the profession, and further adopted or endorsed by the public oversight system or another public authority. Therefore, it seems fair to say that in many countries standard setting remains currently a monitored self-regulated activity or at least that responsibilities are shared between the profession and the various oversight structures in place. It should be kept in mind that the situation will change in the future according to the provisions of Article 26 of the Statutory Audit Directive which states that under certain conditions, the international standards on auditing issued by IAASB should be endorsed by the EU Commission and applied uniformly by all Member States.

It appears that in seven of the fourteen European countries (Finland, France, Germany, Italy, Malta, Norway and Sweden), the public oversight body is also responsible for the approval of auditors. In the UK and Ireland, the public oversight body grants recognition to the professional bodies to approve individual auditors.

As far as discipline and inspections are concerned, nine respondents have structures in place in which the public oversight system plays an effective role. This is the case in Austria, Denmark, Finland, France (level of appeal), Germany, Ireland, Italy (listed entities only), Malta, Norway and the UK. In the UK, the oversight body only deals with public interest cases for disciplinary matters and listed companies for inspections. Finally, it has to be kept in mind that the Directive requires the oversight structure also to be entitled, where necessary, to conduct investigations in relation to statutory auditors and audit firms, and to have the right to take appropriate action. Accordingly, it means that the oversight structures in the EU are competent to require appropriate measures to solve detected problems and consequently, either to launch or carry out disciplinary proceedings in order to impose sanctions where appropriate.

Funding

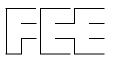
The situation regarding funding falls into two different categories.

In a majority of EU Member States, it seems that the various oversight structures are funded publicly either directly by ministries, or equivalent governmental agencies or public authorities. This is or will be the case in Austria, Cyprus, Denmark, France, Hungary, Italy, Slovak Republic, Spain, and Switzerland.

A second category can be identified which combines a funding shared between public authorities and the profession. This is the case in Belgium, Finland, Greece, Ireland, Malta, and Sweden.

It should be noted that in the UK, funding is shared between government, the business community and the profession, although some aspects such as the inspection arrangements fall totally on audit firms. In Germany, the oversight body is funded from the budget of WPK subject to approval by the Federal Ministry of Economics. In the Netherlands, the public oversight authority will charge their costs directly to audit firms. In Denmark the funding of the general public oversight performed by the Commerce and Companies Agency is taken care of by the government, whereas the work of the Supervisory Authority on auditing (responsible for the quality assurance programme) is funded by the annual fee for all auditors.

In other countries where a public oversight system will be established in the near future, it is not yet clear how such a structure will be financed.



In summary, the results of our survey on public oversight arrangements in different European countries demonstrate that the number of changes and amount of work needed to comply with the requirements of the Statutory Audit Directive vary significantly from one country to another. A significant number of countries already have an oversight body in place which is consistent with the Statutory Audit Directive. It is also clear that all respondents declare that the establishment of an oversight body is in preparation. Finally it cannot be ignored that a significant number of countries decided to wait until final adoption of the Directive before launching new regulatory initiatives. It should also be noted that this group (including some of the new states to the EU) includes a significant number of countries where the profession has, for many years, devoted a significant amount of effort to adapting and developing the profession to meeting high standards of quality. An independent profession has been created in these countries and one should keep in mind that significant additional changes in national legislation (in order to create an appropriate structure of oversight balancing the interests of all stakeholders) will take place during the implementation period of the Directive. All respondents declare that the establishment of an oversight body is in preparation or under consideration. The Statutory Audit Directive allows for practitioners to be part of the public oversight body but does not require this, although many countries have decided to include a minority of practitioners.

Please refer to Appendix II on page 140 for a summary of responses to Question 1.

Question 2 considered whether the public oversight system is ultimately responsible for standard setting and endorsement of standards as well as for quality assurance enforcement and disciplinary measures and sanctions.

Paragraph four of Article 32 of the Directive states that the system of public oversight must have ultimate responsibility for oversight. This sentence illustrates clearly that, according to the provisions of the Directive, the oversight body should play an important role in the supervision of the profession including the supervision of monitoring systems. But it should be noted in the meantime that the wording which is used in this provision also allows EU Member States considerable flexibility in implementing this new regime.

In other words, whilst the oversight body should bear ultimate responsibility for supervision and oversight, it is also possible for the profession or other specific bodies to undertake such functions as standard setting, quality assurance and discipline. Therefore, it can be argued that an "oversight body" should, in principle, restrict itself to oversight activities and should not become involved in detailed cases. It will become clear hereinafter that in many countries the national legislators have decided to provide sufficient flexibility and space in their regulation to recognise that monitored self-regulation or the recognition of a concept which leads to sharing the various responsibilities, although the oversight structure remains ultimately responsible, can be a very effective method of providing a workable structure that recognises the valuable and efficient contribution that the profession can make to satisfying the need for public oversight.

Two different types of examples are particularly significant to illustrate this trend. As far as standard setting is concerned, it appears that only the UK (although the Auditing Practices Board includes a significant minority of practitioners) has decided that professional standards should be entirely in the hands of the oversight structure. In a vast majority of EU Member States, the tasks and responsibilities are effectively shared. This is the case in Belgium (but the profession may ignore the advice of the public oversight body), Germany, Ireland, Spain, and will be the case in Switzerland. In France, standards are set by the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the public oversight structure provides advice before endorsement by the Ministry of Justice. In Italy, standards are developed by the two professional bodies together with Consob.



Regarding external quality assurance systems, it seems that EU Member States have taken a more stringent route although the profession remains active and plays a significant role. This reflects the willingness of EU Member States to recognise and implement the clear principle that a statutory audit has to be carried out in compliance with legal requirements, established auditing standards and ethical rules. This is crucial to users of audited financial statements because it enhances the credibility of audited financial statements. Therefore it is not surprising that a significant majority of Member States have decided to give ultimate responsibility to the various oversight structures, and are already compliant with the provision of the Directive. This is the case in Finland, France, Germany, Malta, Spain, Sweden and the UK for listed entities and other public interest entities, and will be the case in the Netherlands and Switzerland.

In a number of countries though, the oversight structure is ultimately responsible but has chosen to delegate or share quality control in different ways. This is the case in Denmark, Finland, France, Germany, Malta, Spain and Sweden.

In Ireland, as in the UK (except for public interest entities in the UK), the relevant statute establishes an oversight body to be ultimately responsible for the oversight of the quality assurance and disciplinary functions carried out by the professional bodies.

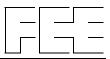
In practical terms, in many countries, the oversight structure has ultimate responsibility for providing guidance on the nature and structure of the reviews. It is responsible for the work programme and for publishing the outcome of the reviews although certain operational tasks may be partly or fully delegated to professional institutes.

Regarding disciplinary measures and sanctions in those countries which decided to create a public oversight system, it appears that disciplinary measures and sanctions are effectively in the hands of the public oversight systems. This is the case in Austria, Denmark, Finland, France, (level of appeal), Germany, Greece, Italy, Norway, Malta, Spain and Sweden, and will be the case in the Netherlands (for breaches of the law on the supervision of the audit profession – WTA) and Switzerland. In Ireland and the UK the oversight body is responsible for the supervision of the disciplinary system operated by the professional bodies. In Ireland, the oversight body has intervention powers set out in statute and in the UK the oversight system includes a separate independent disciplinary body to deal with disciplinary matters in public interest cases only. But here again, it has to be recognised that in terms of quality assurance and discipline, the various regimes will differ between EU Member States depending on existing structures of supervision, the traditional regulatory framework and legal traditions.

It should be kept in mind that in certain countries the disciplinary measures and sanctions were traditionally not in the hands of the profession and left to courts or specific bodies. This was the case in certain countries such as Belgium, Denmark, France, the Netherlands (where it will remain the case for disciplinary measures and sanctions outside the direct domain of AFM from 1 October 2006) and Malta.

The responses to Question 2 demonstrate that a delicate balance has been reached between the oversight structure and the tasks which remain in the hands of the profession. Although the oversight structure remains ultimately responsible, a certain flexibility is also in place in many EU Member State regulations, which demonstrates that the profession may also contribute efficiently to public oversight.

Please refer to Appendix II on page 148 for a summary of responses to Question 2.



Question 3 asked to what extent the Statutory Audit Directive would cause change in a Member State's public oversight system.

Responses to Question 3 fall broadly into two categories: in accordance with responses to the previous questions, respondents illustrate that significant changes are expected in those countries where there is no oversight structure in place and which decided to wait for final adoption of the Directive, before undertaking further work on their regulatory framework. This is the case for Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovak Republic and Slovenia. In Greece the issue of quality assurance is going to be extensively modified and re-adjusted for the provisions of the Statutory Audit Directive.

In those countries which have a public oversight body, minor changes are expected in various areas. In Belgium and Finland, ongoing discussions are taking place, and it seems difficult at this stage to predict any significant changes in the nomination process for members, the composition, the scope of activities, the funding and the transparency of the work.

In Italy some significant changes will be needed to the scope of competencies, working methods and transparency of the oversight system for auditors and audit firms of non-listed entities.

In Malta, changes are expected to the nomination process, to the composition of the public oversight structure and also to funding.

In Spain, some significant changes should also occur to the nomination process and composition of ICAC.

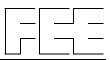
In the UK and Ireland, significant changes are not expected except for the need to address the issue of the recognition of third-country auditors, which is an issue to be addressed in all countries.

Finally, it seems that Austria, Denmark, France, Germany, Norway and Sweden do not expect any significant changes.

It should be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation. In Switzerland a public oversight body for all auditors of listed entities will be established in 2007.

The adoption of the Statutory Audit Directive will lead to a large group of countries rapidly launching initiatives and additional work on a new regulatory framework. In those countries where an oversight structure is in place, due to recent changes in national legislation, there is probably a degree of reluctance to envisage further significant steps.

Please refer to Appendix II on page 149 for a summary of responses to Question 3.



As a general conclusion on the issue of public oversight, responses to this section highlight certain facts:

By 1 July 2006, fourteen Member States plus Norway already had a public oversight body in place, which they deem to be consistent with the Statutory Audit Directive, and accordingly at this stage no further significant changes are believed to be necessary. Among those countries which do have an effective system, it should be noted that different models involving one or several bodies have been created. According to the Directive, the system of public oversight has to be governed by non-practitioners. This is the case in these fourteen countries, although many Member States have decided to include a minority of practitioners in their respective systems.

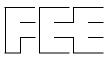
The survey also indicates that adoption of the Statutory Audit Directive will require major changes in the other countries. In this regard, it cannot be ignored that the creation of a public oversight body, as required by the Directive, may be a difficult concept for some of the new Member States.

In these other countries, the number of structures including supervisory public authorities of the profession which, to some extent, fulfil a part of the oversight function varies. In the significant efforts accomplished by these countries in order to meet the criteria of a modern market economy, the profession has, for many years, invested considerable effort in adapting and developing the profession to high standards of quality.

An independent profession has been created in these other countries, and there is a degree of reluctance to implement the requirements of the Directive related to oversight systems. This is also probably partly due to the relatively small size of capital markets in these countries and the large number of small companies. There is probably also a lack of interest due to the fact that the objective of oversight is to protect investors, which makes public oversight more important in countries where the capital market is more active.

Accordingly, FEE would like to help and contribute to the ongoing debate which will take place during the implementation period of the Directive by supporting and promoting the following points:

- FEE recognises that, according to the Statutory Audit Directive, there is a range of different models of public oversight system involving one or several bodies.
- FEE believes an oversight system should reflect a necessary wide range of stakeholders, including representatives of business, regulators and shareholders and that a minority of practitioners may play an active role in this respect.
- FEE believes that it is absolutely essential that, as prescribed by the Directive, the oversight body should consist of competent and knowledgeable members in areas relevant to statutory audit.
- Finally FEE strongly believes that the purpose of public oversight is to support audit quality in smaller and larger audits. In practical terms, it means that public oversight bodies must have ultimate responsibility for oversight; this does not exclude significant delegation to the profession.



5. QUALITY ASSURANCE ARRANGEMENTS

5.1. Background Statistics

The three questions below on the number of registered auditors, the estimated number of companies requiring a statutory audit report and the estimated number of listed companies in each country are meant to give background information on the size and scale of the audit market in Europe. This is useful for forming an idea of the magnitude of quality assurance efforts and work in each European country.

Question 4 asked about the number of "registered auditors" in each country.

Please refer to Appendix II on page 152 for a summary of responses to Question 4.

Question 5 concerned the estimated number of companies on which a statutory audit report is given in each country.

Since the number of companies on which a statutory audit report is given in a country varies considerably because of "audit thresholds", which are applied in such a country, the audit thresholds for limited liability companies are considered together with the number of statutory audits in each country. In some countries, no audit thresholds apply, whereas in other countries, maximum thresholds as indicated below are applied.

The European Union Fourth Company Law Directive on "the annual accounts of certain types of companies" (78/660/EEC)⁶ applies to all limited liability companies and provides options for the European Union Member States to ease the financial reporting requirements on small and medium-sized companies.

The definition of what constitutes a small company varies considerably between EU Member States. Additionally, the use of the Directive's thresholds for what is defined as small companies is not used in all Member States. Member States have the opportunity to allow small companies, if defined, to draw up abridged accounts and notes to the accounts and exempt small companies from the requirement for a statutory audit and audit opinion a well as from drawing up an annual report.

The Directive defines companies as "small" companies if, for two consecutive years, they do not exceed the limit of two of the following three criteria:

- Balance sheet total: €3.650.000
- Net turnover: €7.300.000
- Average number of employees during the financial year: 50.

It should be noted that in virtually all countries, listed entities, financial institutions, insurance companies and certain public interest entities are required to have an annual statutory audit.

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http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31978L0660:EN:HTML.



On 16 August 2006, amendments to the EU Fourth Company Law Directive of 14 June 2006 (2006/46/EC)⁷ were published in the Official Journal of the European Union. These amendments alter two of the three limits in the criteria for the definition of a small company as follows:

• Balance sheet total: €4.400.000

• Net turnover: €8.800.000.

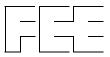
However, these limits in the criteria for the definition of a small company are not mandatory and European Union Member States do not have to implement these particular amendments to the Fourth Directive.

Please refer to Appendix II on page 154 for a summary of responses to Question 5.

Question 6 dealt with the estimated number of listed companies audited in each country.

Please refer to Appendix II on page 155 for a summary of responses to Question 6.

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/1_224/1_22420060816en00010007.pdf.



5.2. The Review Methodology

Question 7 concerned the nature of the quality assurance system.

The new Directive includes provisions and requirements for quality assurance systems in Article 29 as a good means of achieving a consistently high quality in statutory audits, as described in Recital (17):

Article 29.1:

Each Member State shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance which at least meets the following criteria: [...]

These criteria, in so far as they relate to the review methodology, include, in relation to the quality assurance system in Article 29.1.(a), as quoted on page 21, a requirement that the quality assurance system shall be organised in such a manner that it is independent of the reviewed statutory auditor and audit firm, and subject to public oversight. Articles 29.1.(d), as quoted on page 55, and 29.1.(e), as quoted on page 57, might also be relevant in this respect.

The EC Recommendation on Quality Assurance already included minimum requirements on coverage and methodology of the quality assurance regime:

1. Coverage of the quality assurance regime

Member States should take measures to ensure that all persons carrying out statutory audits are subjected to a quality assurance system.

The term persons is related to the eighth Directive which defines rules on the approval of persons carrying out statutory audits (statutory auditors). Currently not every person in the European Union carrying out statutory audits is subject to a system of quality assurance⁸.

2. Methodology

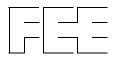
Both peer review and monitoring are acceptable methodologies for quality assurance.

There are essentially two different methodologies of quality assurance applied within the European Union: monitoring and peer review. Monitoring refers to a situation where staff employed by the professional body or regulator manages the quality assurance system and carries out the quality assurance reviews. Peer review refers to a situation where (active) members, 'peers', carry out review visits.

Monitoring and peer review are considered as methodologies of equal stature. In either case, care should be taken to ensure both the quality of the reviewers and their objectivity. Adequate measures should be taken to ensure that reviewers have an up-to-date knowledge on auditing standards and quality control systems (see also point 9, as quoted on page 55). This is in particular relevant where the monitoring methodology is applied.

Concerns regarding reviewers objectivity should be mitigated by a sufficient public supervision over the administration and functioning of the quality assurance system and the presentation of its results (see also points 6 and 10, as quoted on pages 20, 64 and 57 respectively). This is of

The Eighth Council Directive of 10 April 1984 (84/253/EEC) has been replaced by the Statutory Audit Directive of 9 June 2006 (2006/43/EC).



particular importance when the peer review methodology is used.

Many countries have already introduced systems of quality assurance either as a result of their own initiatives or as a result of the previously issued EC Recommendation on Quality Assurance. These systems were generally introduced by the professional Institutes. In a number of countries, governments have introduced systems of Quality Assurance as a result of financial scandals.

The Directive requires a system of quality assurance which is independent from the statutory auditor or the audit firm and which is subject to public oversight (as set out in Article 32). It also requires an inspection process and sets certain criteria for areas to be covered in the inspection, however it does not express a preference for 'monitoring' or monitored 'peer review'; in fact, the EC Recommendation on Quality Assurance produced by the Commission allows either. Earlier FEE papers have deliberated on both types of regime and whilst recognising the positive and negative aspects of both, neither regime has been preferred over the other.

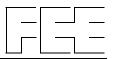
The terms "monitoring" or "monitored peer review" are used to classify countries' quality assurance system. "Monitoring" is defined as "review by full-time staff employed by the review organisation". "Monitored peer review" is "a review by experienced authorised practitioners who do this work on a part-time basis, but where the reviews are organised and supervised by full-time staff of the review organisation".

It should be noted that monitoring and monitored peer review can include a variety of different structures. The review organisation can either be a public oversight body, a government entity or a professional institute, where the professional institutes can either be supervised by a public oversight body or not.

In a number of countries, both structures of monitoring exist side by side, as in the UK, where the audit firms which perform the audits of public interest entities are monitored by the Audit Inspection Unit of the FRC, the public oversight body; other audits are monitored by the professional institutes.

The majority of countries indicated that a system of monitored peer review was in operation; however a significant number operate a system of monitoring. One country, the Czech Republic, operates a joint system were the inspection team involves two people, one a full-time staff member of the institute and the other a statutory auditor. Only one country (Switzerland) currently has no monitoring or review system; this will be introduced in 2007. In the vast majority of countries there are procedures in place to ensure that the reviewers are both competent and independent for the particular review engagement (see Question 26 on page 55).

However, in a significant number of cases, countries still have to comply with the requirement for the quality assurance system to be subject to independent public oversight. In fact, of the 21 countries (including, until 1 October 2006, the Netherlands) where monitored peer review is in place only eleven countries have in place an independent oversight body, although in a number of instances these will be established in the near future. Of the twelve countries where a monitoring system applies (including from 1 October 2006 the Netherlands and from 2007, Switzerland), seven already have a public oversight body. It should be noted that five countries have a mixed system of monitoring and monitored peer review.



There is no clear preference for monitoring or monitored peer review methodology and in fact there are merits in both. The most important requirement regardless of the methodology used is that the system is as robust as possible to ensure high quality audits and public confidence in the quality assurance systems.

The most important issues relate to the competence and independence of the reviewers.

For methodologies that use a monitoring approach, the expertise of the inspectors/staff performing the quality review and their awareness of professional developments is of utmost importance, since it can be difficult for full-time inspectors to maintain their knowledge of professional developments and their understanding of the day-to-day business and audit techniques, especially with regard to issues which are very specific to certain types of companies or industries.

For methodologies that use a monitored peer review approach, special attention needs to be paid to the independence of the reviewer. Under a monitored peer review system, it is of utmost importance to have appropriate selection and appointment procedures in place to ensure not only, that the peer acts independently, but that he is also seen to be independent by the public. In this respect, it might be necessary to place limits on the choice of peer reviewer by the audit firm under review, at least to a certain extent.

Please refer to Appendix II on page 156 for a summary of responses to Question 7.

Question 8 concerns the focus of the monitoring or review.

The criteria that the system of quality assurance should meet in relation to the quality assurance review include the following:

Article 29.1.(f):

The scope of the quality assurance review, supported by adequate testing of selected audit files, shall include an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged and of the internal quality control system of the audit firm.

The Directive requires the monitoring or review to include an assessment of compliance with auditing standards and independence requirements, internal quality control of the audit firm, the quality of resources spent and the audit fees charged. The assessment should include testing of selected audit files.

The manner in which the monitoring or review is conducted is generally established by the organisation carrying out the review, albeit within the parameters set by the Directive. Whilst setting the areas of coverage, the Directive does not indicate any area of emphasis.

Therefore, this paper focuses on the extent of the assessment of internal quality controls, the extent of the file reviews as well as the balance between the two.



It appears that the focus of the inspections in the majority of cases adopts a risk-based approach (15 countries). This approach involves a critical assessment of the internal quality control procedures (including compliance with ISQC1), sometimes by way of a questionnaire. Having considered the results of the assessment, the reviewer will determine the extent of the file testing required to provide evidence of the quality of the engagement performance.

All countries adopting this approach include testing of individual files to provide a comprehensive review. However, positive results from the assessment of the audit firm's internal quality control procedures will result in fewer files being reviewed. In only a few cases (six countries) is a minimum level of file testing set out, this can include a minimum number of files generally (Hungary, Lithuania, Slovak Republic), a minimum number of files per engagement partner (Germany and Slovenia) or the requirement to review sufficient files to cover a percentage (10%) of the audit fee income (France). In Denmark, a minimum number of files has been prescribed depending on the number of branches of the audit firm, the number of employees and the number of auditors.

Only three countries indicated that their approach was to review the individual engagements and not to review the internal quality controls in place. The majority always assess the internal quality controls for compliance with the ISQC1 although this is an integral part of the review rather than a risk assessment process.

The preferred approach of most countries is to adopt a risk-based approach when carrying out the quality assurance review. This entails an initial assessment of the audit firm's internal quality control procedures and using the results of this assessment to determine the extent and nature of the audit files to be tested. Conversely, the results of audit file testing provide evidence for the reviewer on the operating effectiveness of the internal quality control system in place. This would appear to be the most sensible way to comply with the requirements of the Directive and to ensure that the resources of the organisation conducting the review are deployed in those audit firms where there is a greater risk in relation to audit quality.

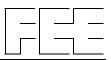
Please refer to Appendix II on page 158 for a summary of responses to Question 8.

Question 9 concerns the scope of the Quality Assurance Programme.

The Directive relates only to statutory auditors and/or audit firms in the performance of a statutory audit. It does not extend to other services provided by statutory auditors or to members of professional institutes providing services other than audit.

In addition, the International Federation of Accountants (IFAC) has published Statements of Membership Obligations (SMOs)⁹. IFAC SMO 1 on "Quality Assurance" and SMO 6 on "Investigation and Discipline" are relevant to quality assurance review programs for their members when they perform certain audit engagements of financial statements.

⁹ http://www.ifac.org/Store/Details.tmpl?SID=10814385036021759.



However, according to paragraph 8 of IFAC SMO 1, it is recommended to extend the scope of quality assurance programmes as follows:

8. IFAC believes that it is desirable for a wide range of professional services performed by professional accountants to be subject to quality assurance review programs that are commensurate with the nature of the services. It therefore encourages member bodies to extend the scope of quality assurance review programs to cover as many professional services as possible.

In the light of this, a number of professional institutes (six) have extended their systems of quality assurance to include all services provided by all members to the public.

Other institutes (five) have extended the review of statutory auditors to cover other functions which may be defined as audit-related.

In general, where the monitoring or review process has been extended, it at least covers compliance of auditors with the Anti Money Laundering Procedures, compliance with the disclosure requirements in relation to audit fees, etc. and other audit-related services.

Whilst it would be in the public interest to extend the scope of countries' quality assurance programmes to cover all the services provided by statutory auditors, this remains an area for possible development in the future.

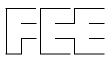
Please refer to Appendix II on page 159 for a summary of responses to Question 9.

Question 10 concerned responsibility for the monitoring or review.

The Directive, whilst requiring that the quality assurance system be independent from the statutory auditor or audit firm and subject to public oversight, as per Article 29.1.(a) as quoted on page 21, does not stipulate which organisation is responsible for the review or monitoring function, allowing this to be determined by the EU Member State. As a result, this allows the professional institute or some other competent organisation appointed by government to operate the system of Quality Assurance, under the supervision of an independent public oversight body.

However, paragraphs 5 and 6 of IFAC SMO 1 make reference to responsibility for monitoring or review, which can lie with an IFAC member body or professional body, government, regulator or other appointed authority:

- 5. The member body should ensure a mandatory quality assurance review program is in place for those of its members performing audits of financial statements of, as a minimum, listed entities. The member body should establish and publish criteria for evaluating all other audits of financial statements to determine whether they should be included in the scope of the program; any engagements meeting these criteria should be included in the scope of the quality assurance review.
- 6. Where government, regulators or other appointed authorities perform any of the functions covered in this Statement, member bodies should:
 - (a) Use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them; and
 - (b) Assist them in that implementation where appropriate.



In the majority of countries (20) the monitoring or review function is the responsibility of the professional institute under the supervision of an oversight body. This is likely to be a result of the fact that many of the institutes already had some form of quality assurance programme.

In these cases, authority usually derives from a combination of law and regulation (ten countries), with the law establishing the requirement for a structure of supervision and the regulations of the professional institute compelling the participation of members and setting out the procedures. In six countries, the authority of the professional institute is derived solely from its regulations. In these countries, with the exception of Finland, a public oversight body has yet to be established. However, in the Netherlands, for example, this has been changed with the enactment with effect from 1 October 2006 of a new law establishing the AFM as the oversight body for the audit profession. In the case of Germany, the authority of the AOC and WPK is established in law.

In eight cases (Austria, Denmark, France, Greece, Italy, Malta, Spain and Switzerland) the monitoring and review function is the responsibility of an external body, although in Denmark the institute operates a non-statutory system of quality assurance focusing on other professional services. In France, whilst responsibility for the supervision of auditors is external (i.e. the "Haut Conseil") the actual monitoring function is delegated to the institute (CNCC). A similar structure applies in Spain with the ICAC being responsible for the quality assurance system and delegating the monitoring function to the institute.

In the UK the quality assurance system differs for significant public interest entities (including listed companies). Here the responsibility for the quality assurance system is shared with the AIU a body independent from the professional bodies and under the supervision of the FRC. The institutes continue to be responsible for the supervision of all other audits. A similar situation will apply in the Netherlands when the new oversight body (the AFM) assumes responsibility for the quality assurance system, including monitoring. Here, it is indicated that they will concentrate on the audits of public interest entities, with the institutes continuing to supervise all other auditors.

Any system of quality assurance should be developed with the aim of ensuring that the audit function is delivered in the public interest. It would appear to us that the best method for ensuring that the public interest is served is to separate the operation of the system of review from the operation of the system of public oversight.

The oversight body should have an active role in developing high-level standards in the public interest and in assessing the performance of the professional bodies in delivering these standards and in assessing their performance. In this way, the integrity and reputation of the oversight body can be preserved should a commercial failure result in accusations from the public that the regulatory system has failed. If the oversight body is not kept above the line of executive responsibility, then the regulators have no defence against public criticism and the public cannot be protected from the cost and consequences of over-regulation.

Please refer to Appendix II on page 160 for a summary of responses to Question 10.

Question 11 concerned the differences between listed and other companies in the review methodology, review cycle and review selection.

The new Directive requires that all statutory auditors and/or audit firms are covered by a system of quality assurance and consequently be subject to a system of monitoring or review.



The criteria that the system of quality assurance should meet in relation to visit cycle include the following:

Article 29.1.(h):

The quality assurance review shall take place at least every six years.

This applies except in relation to public interest entities (as defined) where the review must be at least every three years. While the Directive defines "public interest entities" as listed companies, credit institutions and insurance undertakings, it allows Member States to designate other entities as public interest entities, for example entities that are of significant public relevance because of the nature of their business, their size or the number of their employees.

Article 43:

The quality assurance review referred to in Article 29 shall be carried out at least every three years for statutory auditors or audit firms that carry out statutory audits of public interest entities.

The EC Recommendation also addresses the differentiation in methodology between public interest and other entities:

5. Differentiation in methodology

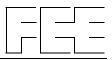
5.1. It is considered appropriate to differentiate between the approach of quality assurance for statutory auditors with public interest entity clients and quality assurance for those with no public interest entity clients. The differentiation relates to some systematic aspects of quality assurance such as a higher frequency of coverage, increased public oversight on managing the quality assurance, and the possibility of access to files of the reviewer by the competent authorities (see point 5.2). Differentiation does not alter the scope, the objectives or the overall methodology of the individual quality review.

The term 'public interest entity' includes amongst others: listed companies, credit institutions, insurance companies, investment firms, UCITS (undertakings for collective investments in transferable securities) and pension funds.

5.2. The regulator or competent authority ultimately responsible for administrating and maintaining the quality assurance system may have access to individual files of the reviewer prepared on statutory auditors with, in particular, public interest entity clients. The access to files of the reviewer should be subject to the confidentiality provisions outlined under point 8, as quoted on page 59.

The review will be required to take place at least every six years, or every three years for statutory auditors of public interest entities. Further, the review must include an assessment of compliance with applicable auditing standards, independence requirements, internal quality control systems, resources and audit fees, and all of this should be supported by adequate testing of selected audit files (see Question 8 above). The Directive is silent on the review methodology.

This question did not focus on what the review methodology is, instead it asked if there is any differentiation. Where the question has been specifically responded to, the majority of countries have indicated that there was no significant (if any) differentiation in their review methodology.



In the majority of cases (15), a common visit cycle is applied. No reduction in the cycle is made for public interest entities. In these cases, the cycle varies from three to six years although in one case the cycle is ten years. Lithuania operates a common five-year visit cycle, but the reduced three-year visit cycle is used when the results of a previous visit to an auditor have been negative, as well as for listed and public interest entities.

Five countries reduce the cycle for listed and public interest entities. In these cases the visit cycle for listed and public interest entities is three years and six years for all other audits.

Two countries, Slovenia and Portugal, reduce the visit cycle for listed company auditors only. In the UK and Ireland there are three different visit cycles for listed, public interest entities and other auditors. In Ireland small, low-risk auditors may still receive a visit on a ten-year cycle (in accordance with the provision of the Recommendation on Quality Assurance). This will be amended in accordance with the requirements of the Directive.

In most cases, the review methodology does not vary, only the visit cycle. The visit cycle depends on whether the auditor conducts audits of public interest entities or not. This would seem acceptable.

Please refer to Appendix II on page 161 for a summary of responses to Question 11.

Question 12 concerns funding and resources.

The criteria that the system of quality assurance should meet in relation to funding and resources include the following:

Article 29.1.(b):

The funding for the quality assurance system shall be secure and free from any possible undue influence by statutory auditors or audit firms.

And

Article 29.1.(c):

The quality assurance system shall have adequate resources.

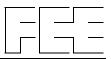
The EC Recommendation on Quality Assurance already called for adequate resources:

11. Resources

Adequate resources (input) should be allocated to quality assurance systems in order to give them a realistic impact in the light of public credibility.

It will be clear that quality assurance systems cost money and should therefore be as efficient and effective as possible in order to fulfil the realistic requirements of the public and regulators. If a system of quality assurance is applied in an even-handed way to all statutory auditors in the European Union it will not effect the level playing field of competition in this area.

There are apparent differences in resources used for quality assurance. For meaningful comparison the total resources should be related to the number of statutory audits, taking into account the (lack of) public interest entity clients of statutory auditors (See also point 3.4 full



cycle of coverage, as quoted on page 46). Publication of the resources allocated to external quality assurance will add public credibility.

The overall objective of these principles is to ensure that the effectiveness of individual quality assurance reviews is not impaired by insufficient resources spent on the system as a whole and on individual reviews.

All countries are committed to ensuring that the quality assurance system is adequately resourced. However, given the variety of ways in which the quality assurance functions are delivered, the statistical information available from each country varies significantly. Countries operating a monitoring system seem to be more readily able to provide information on man-hours expended, as the reviewers are full-time employees, compared with those operating a monitored peer review system, where the reviewers operate outside the organisation responsible for the process. In addition, it is unclear whether the man-hours and costs should include administration and committee time or simply the time spent on reviews only. However, the responses indicated that considerable resources are expended on this work.

The Directive requires that the funding be secure and free from undue influence by the statutory auditor. In most cases, the costs of the review or monitoring are funded by way of either a levy issued by the professional institute (16) or by the statutory auditor paying the party undertaking the monitored peer review (five cases) directly. In a number of cases (five) where the institutes issue the levy this applies to all members, not just statutory auditors. In one case there is an annual levy charged to members plus the payment of the direct cost of the review to the reviewer.

In some jurisdictions, where the costs of the quality assurance reviews are carried directly by the statutory auditor or audit firm under review, the review organisation assesses the resources (e.g. manhours and qualification of the review team) spent on individual reviews.

Despite the lack of homogeneity in the funding mechanism of quality assurance systems across Europe, the review or monitoring is, in most cases, funded to a large extent by the audit profession. However, it is important to note that the control or influence over the quality assurance system is often very different from the source of its funding and thus not with the audit profession, especially in those countries where ultimate responsibility for the quality assurance system rests with a public oversight body.

In three cases the oversight board will recover the costs directly from either the audit firms or members.

In the case of Italy, the quality assurance system is funded from within the general budget of Consob. Audit firms and listed companies pay an annual registration fee to Consob.

In a further two cases where the professional body is generally responsible for the review, with an external body responsible for the review of statutory auditors of public interest entities (UK and Norway), the professional body issues an annual charge on audit firms which includes the external body costs.

The main concern of the Directive is that the funding be secure and free from influence. It would appear that any of the above methods of recovering costs would meet the criteria of the Directive.

Please refer to Appendix II on page 163 for a summary of responses to Question 12.



Question 13 concerns changes required to comply with the Directive.

Many countries are already well placed to comply with the requirements of the Directive with a significant number indicating that no or only minimal changes will be required.

A number of countries (eight) need to amend the visit cycle and an equal number (eight) need to implement ISAs.

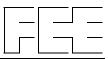
However, a large number of countries have indicated that they are still in the process of considering the implications of the Directive and consequently are not in a position to respond to this question.

It should be noted, however, that fourteen countries have no oversight board in place although seven indicate that the establishment of such boards is in progress.

It should also be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation.

The majority of countries have made good progress in ensuring they will be in a position to comply with the Directive in relation to the quality assurance review with the main change necessary relating to the visit cycle. This is due to the fact that most countries have been for some time working towards compliance with the Recommendation on Quality Assurance. However, a large number of countries have yet to establish an independent oversight board but all are working towards having one in place by 2008 at the latest.

Please refer to Appendix II on page 164 for a summary of responses to Question 13.



5.3. The Review Selection

Question 14 concerned the basis for review selection.

The relevant article related to quality assurance in the Statutory Audit Directive does not prescribe what the basis for review selection should be or how statutory auditors, audit firms or audit engagements should be selected for review. The Directive only includes a general requirement in the introduction to Article 29 that Member States shall ensure that all statutory auditors and audit firms are subject to a system of quality assurance, as already quoted on page 32.

However, the EC Recommendation on Quality Assurance makes a number of recommendations related to the review coverage and selection of reviewees in Chapter 3 as follows:

3. Review coverage and selection of reviewers

3.1. The subject for a quality review is the statutory auditor, which can be an audit firm or an individual auditor.

Some Member States require joint audits. In this situation the starting point for selection of the subject of quality review could be the individual statutory audit assignment instead of the statutory auditor but the subject of quality review remains the statutory auditor.

It should be noted that the subject for a quality review in the Statutory Audit Directive as compared to the EC Recommendation on Quality Assurance could be interpreted differently. Article 29.1 of the Directive implies that *all* statutory auditors¹⁰, being a natural person, *and* audit firms¹¹, being a legal person, are to be subject to a system of quality assurance.

The EC Recommendation stipulates that the subject for a quality review is the statutory auditor which can be an audit firm *or* an 'individual' auditor.

The Statement in Recital (17) of the Statutory Audit Directive states that for the application of Article 29 on quality assurance systems, Member States may decide that if individual statutory auditors have a common quality assurance policy, only the requirements for audit firms need to be considered, may indicate that the application of quality reviews under the Statutory Audit Directive can focus mainly on audit firms.

FEE is therefore of the opinion that the subject for a quality review should be either the audit firm or the individual statutory auditor.

In addition, IFAC, according to paragraph 5 of IFAC SMO 1, as quoted on page 36, states that the member body should ensure that a mandatory quality review program is in place for those of its members performing audits of financial statements of, as a minimum, listed entities.

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^{&#}x27;Statutory auditor' means a natural person who is approved in accordance with the Statutory Audit Directive by the competent authorities of a Member State to carry out statutory audits.

^{&#}x27;Audit firm' means a legal person or any other entity, regardless of its legal form, that is approved in accordance with the Statutory Audit Directive by the competent authorities of a Member State to carry out statutory audits.



Also, paragraph 15 of IFAC SMO 1, on the design of the quality assurance review program, stipulates that:

- 15. The subject of the quality assurance review program may be either a firm or a partner as determined by the member body.
 - (a) Where the firm is the subject, the program should be designed to obtain reasonable assurance that:
 - (i) The firm has an adequate system of quality control for its practice relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);
 - (ii) The firm complies with that system; and
 - (iii) The firm and engagements teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.
 - (b) Where a partner is the subject, the program should be designed to obtain reasonable assurance that:
 - (i) The partner is subject to an adequate system of quality control for the practice of the partner's firm relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);
 - (ii) The partner complies with that system; and
 - (iii) The partner has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.

In virtually all countries (26), the basis for the review selection is the statutory auditor, the audit firm or a combination of both. One country responded that its review selection is based on audit engagements and another country responded that it is based on audit offices. In the remaining country, the implementation of the new quality assurance arrangements has not yet started.

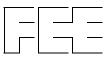
The terminology in the three documents quoted above regarding who is the subject for quality review is somewhat different and is as follows:

- In the Statutory Audit Directive the subject is both the statutory auditor and the audit firm;
- In the EC Recommendation, the subject is the statutory auditor which is the common term for both an audit firm and an individual auditor;
- In SMO 1 the subject is an audit firm or a partner.

Because of the differences in terminology, it appears that most countries have made different interpretations of what the terms statutory auditor and audit firm represent in this context. For the purposes of this paper, it was not meaningful to separate statutory auditor from audit firm.

Even though not all countries have explicitly stated that review selection covers all statutory auditors and/or audit firms, it appears that it is the case in the vast majority of the countries.

In summary, it can be concluded that review selection methods based on either the audit firm or the individual statutory auditor are in accordance with the Statutory Audit Directive and the EC Recommendation on Quality Assurance where all statutory auditors and audit firms are subject to a system of quality assurance. A review selection based on audit engagements would not meet these requirements. Whether the selection is based on individual statutory auditors or audit firms, reviews must cover the audit firms' quality control systems if it is to meet the scope requirements of the EC Recommendation.



Question 14 is also about how the audit firms or statutory auditors are selected within the review cycle.

The Statutory Audit Directive does not prescribe how statutory auditors or audit firms should be selected within the review cycle.

The EC Recommendation provides some advice on how statutory auditors should be selected for review within the review cycle as follows:

- 3. Review coverage and selection of reviewers
 - 3.2. The selection of the statutory auditors for review should be made on a consistent basis so as to ensure coverage of all statutory auditors over a predetermined period.

Provided that a full coverage of all statutory auditors is ensured over a predetermined period of time, the annual selection of statutory auditors for review could be made on a risk basis (for example based on the nature of the client portfolio, the turnover from auditing in relation to total turnover or the results of previous reviews), on a random basis or by a combination of these methods.

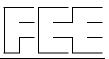
Paragraphs 20, 21, 22 and 24 of IFAC SMO 1 on review cycle, cycle approach and risk-based approach includes the following stipulations:

- 20. A member body should choose either a cycle or a risk-based approach for selecting members for review.
- 21. Member bodies that select a cycle approach should:

 Adopt a maximum cycle of three years when a firm is the subject of the review.
- 22. The review cycle for partners is to be determined by the member body. The length of the review cycle takes into consideration the frequency the partner is reviewed under the firm's internal monitoring program, as well as the procedures performed.
- 24. Member bodies that select a risk-based approach should consider various risk factors when determining the firms or partners to be reviewed. Member bodies should ensure that firms or partners are reviewed with reasonable frequency even if not selected for review based on risk factors.

The Statutory Audit Directive, the EC Recommendation and IFAC SMO 1 all require that the entire population of statutory auditors and audit firms is reviewed during a cycle. Only the EC Recommendation states that the selection within the cycle could be made on a risk basis, on a random basis or using a combination of these methods. The others do not state any specific method for making the selection within the cycle.

Therefore, three selection methods within a review cycle were identified for the purposes of this paper. Their characteristics are described in further detail below.



Random method

With a random method, an audit firm or statutory auditor may be selected for review using some kind of lottery draw in any year within a cycle. This method will guarantee a review during a cycle, but an individual audit firm or statutory auditor may be reviewed early in one cycle and later in the next cycle. The interval between the reviews may therefore, from the individual's perspective, be shorter than the cycle period but should, however, never be longer.

In eleven countries, the random method is used to select audit firms or statutory auditors for review within a cycle.

In a few countries, the lottery draw is a rather open event. In Latvia the annual lottery is organised during the extraordinary meeting of the members of the Associations of the Certified Auditors of Latvia. In Portugal the annual lottery draw is a public event with Government officials, regulators and journalists attending.

It can also be noted that some countries divide statutory auditors or audit firms into categories from which a stratified sample can be made. Countries with stratified samples are Cyprus and Lithuania and the categories they use are:

- Cyprus: sole practitioners, firms of two to five partners and firms over ten partners;
- Lithuania: sole practitioners, firms of two partners and firms of three or more partners.

Regular method

With a regular method each audit firm or statutory auditor is selected for review in a specific year within the cycle. This method is applied in thirteen countries.

Risk-based method

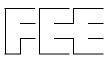
With a risk-based method, each audit firm or statutory auditor is selected for review on the basis of the risk category to which it or he belongs. This method is applied in three countries.

In the remaining countries, either the information on the method used to select audit firms or statutory auditors for review within a cycle of quality reviews is not available or the implementation of the new quality assurance arrangements has not yet started. It should also be noted that a limited number of countries use a combination of methods.

In summary, drawing on the experiences in European countries, it appears that either one of these cycle approach methods (random method, regular method or risk-based method) are acceptable provided that:

- It contains some unpredictability when it comes to the samples the reviewer will make during the review. For example, if the review of a statutory auditor usually takes place in the first year in a cycle (regular method), that auditor should not be able to predict which assignments the reviewer will select;
- Risk-based methods also ensure that the entire population is selected during the cycle, and not only statutory auditors or audit firms with a higher risk profile.

Please refer to Appendix II on page 165 for a summary of responses to Question 14.



Question 15 dealt with how often the audit firms or statutory auditors are reviewed.

The frequency of a quality review for all statutory audits in the European Union is defined in Article 29.1.(h) of the Statutory Audit Directive, as quoted on page 38 and states that quality assurance reviews shall take place at least every six years.

However, the Statutory Audit Directive includes special provisions for the statutory audit of public interest entities and Article 43, as quoted on page 38, stipulates that, for quality assurance of public interest entities, the quality review referred to in Article 29 shall be carried out at least every three years for statutory auditors or audit firms that carry out statutory audits of public interest entities.

The EC Recommendation on Quality Assurance in Chapter 3, paragraph 3, included the frequency of at least every six years for all statutory auditors but also included additional guidance for shorter quality review intervals for public interest entities and statutory auditors with less satisfactory results in a previous review and for longer intervals for low-risk entities as follows:

- 3. Review coverage and selection of reviewers
 - 3.4. The cycle to achieve full coverage of all statutory auditors should be a maximum of six years.

The current EU systems of quality assurance achieve full coverage in cycles varying from one year to 10 years. In accordance with the differentiation under point 5.1, (as quoted on page 38) the cycle of full coverage should be shortened for statutory auditors with "public interest entity" clients.

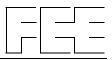
Where a statutory auditor audits only small low-risk entities it may be acceptable for the cycle of review to extend to a maximum of 10 years. In such cases it will be necessary to obtain regular information from the statutory auditor to confirm that the nature of his client portfolio has not changed significantly.

3.5. The cycle should be shortened for statutory auditors previously reviewed with less than satisfactory results.

In situations where the outcome of the quality review was in general satisfactory but with some recommendations for improvement it could be more effective to follow up the implementation of the specific recommendations than to carry out a new comprehensive quality review.

Paragraph 21 of IFAC SMO 1, as quoted on page 44, also deals with how often audit firms or statutory auditors are to be reviewed.

The countries' normal cycle for quality reviews varies considerably. Only two countries have a normal cycle that exceeds six years; nine countries have a six-year cycle; nine countries a five-year cycle; four countries a four-year cycle; and four countries have a three-year cycle. In the remaining countries, the implementation of new quality assurance arrangements has not yet started. It should also be noted that one country with a five-year cycle allows those audit firms which only perform audits of small, low-risk entities to be reviewed every ten years. This is in accordance with the EC recommendation but not with the Directive.



Thirteen countries have stated that statutory auditors or audit firms performing audits of listed entities or other public interest entities are reviewed more often than the normal review cycle. For ten countries, the cycle to review the audits of public interest entities and listed entities is three years and for two countries, it is two years. For one country, audit firms performing audits of listed entities are reviewed every ten years.

In the UK, audit firms performing audits of listed companies are generally reviewed every three years, except for the largest audit firms which are reviewed annually.

Increasing the frequency of quality reviews does not only depend on whether the audit concerns a listed entity or another public interest entity. Examples of other reasons that require higher review frequency than the normal cycle are:

- Newly certified auditors;
- Auditors or audit firms with less than satisfactory results in a previous review;
- Complaints about auditors or audit firms from external parties;
- Auditors of companies with high potential risk due to the nature of their business.

In conclusion, the Statutory Audit Directive and the EC Recommendation require a frequency of reviews of six years in general, but this is shortened for statutory auditors and audit firms that carry out audits of public interest entities. The Directive, in Article 43, states that the frequency should be shortened to a review at least every three years.

Thirteen countries responded that they have already implemented a review cycle of all statutory auditors of public interest entities every three years or less, which appears to meet the Directive's requirement. The two countries that already have shortened the review frequency for statutory auditors of listed entities will also have to extend this to other public interest entities to comply with the Directive. The remaining fourteen countries in the survey that responded that they have not implemented a shortened review frequency will need to take some action to comply with the Directive.

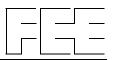
The option in the EC Recommendation to extend the review cycle to ten years for audit firms who only perform audits of small, low-risk entities is not in accordance with the Directive but has been implemented in only a very limited number of countries.

Please refer to Appendix II on page 166 for a summary of responses to Question 15.

Question 16 concerns the submission of information regardless of review visits.

In 22 countries, auditors or audit firms are required to prepare an annual return. In one of these countries this information is only requested from audit firms performing audits of public interest entities. The annual returns appear to be filed with the institute, the public oversight authority or elsewhere. Recurring examples of information to be included in the annual returns are stated below, by number of occurrence in any particular country:

- Employees in eleven countries;
- Audit fees in ten countries;
- Type of audit opinions in four countries;
- Professional training in six countries;
- Clients in thirteen countries;
- Professional indemnity insurance in six countries;
- Results from quality assurance reviews or internal quality control reviews in five countries.



In two countries, a return has to be prepared and submitted, but only every second or every third year.

In three countries, auditors or audit firms are only required to provide information to the public oversight authority, the institute or other body to update the registered data of addresses, etc. or when the auditor or audit firm files an application to retain professional qualification.

In the two remaining countries, either information on the need for a return is not available or implementation of the new quality assurance arrangements has not yet started.

In summary, based on the current practices in European countries, in order to carry out quality assurance reviews, the public oversight system, as a minimum, requires information about audit firms or statutory auditors, public interest entity clients, other clients and the results of previous quality control reviews. This information is available in different ways in the various countries. It is important that complete and correct information is made available on a timely basis, but no particular method of collecting this information is recommended.

Please refer to Appendix II on page 168 for a summary of responses to Question 16.

Question 17 dealt with modifications to comply with the Statutory Audit Directive.

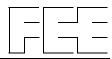
Twenty countries consider that no modifications could be identified and/or foreseen and nine countries responded that modifications will be made.

Examples of changes to be implemented are as follows:

- Belgium will select a reviewer who is competent in quality assurance reviews in public interest entities. The frequency of reviews will change from the present five-year cycle to six years (for non-public interest entities) and three years (for public interest entities);
- Bulgaria will give priority to reviews of the auditors of public interest entities ("material engagements"). The frequency of reviews of other auditors will change from the present four-year cycle to six years;
- Estonia will change the review frequency of auditors with no public interest entities from three to six years; and of auditors with public interest entities to three years. Audit firm based reviews in addition to or instead of statutory auditor based reviews might also be introduced;
- Germany will modify the review cycle for auditors of entities which are not public interest
 entities, from three to six years whereas the cycle for auditors of public interest entities will
 remain three years.
- Ireland will shorten the review frequency for some small audit firms to six years;
- Malta will implement a three-year cyclical review system;
- Norway will shorten the review frequency of auditors and audit firms carrying out audits of public interest entities.

It should be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation.

Please refer to Appendix II on page 169 for a summary of responses to Question 17.



5.4. The Review Process

Question 18 enquired whether all reviews involve a visit to the relevant auditor's offices.

The Statutory Audit Directive does not include any requirements in this respect.

The EC Recommendation on Quality Assurance considers that the office of an audit firm is the most appropriate subject for quality assurance reviews.

- 3. Review coverage and selection of reviewers
 - 3.3. In the case of a multi-office audit firm the optimal unit size for a quality review is the office. A quality assessment of a multi-office audit firm should always include an adequate coverage of its offices.

Larger audit firms have firm wide control policies and procedures ensuring a certain degree of uniformity but individual offices might apply norms and standards differently. It is therefore considered that offices are the most appropriate subject for quality assurance reviews.

In almost all countries this is done, although, where there is more than one office, not necessarily all offices of an auditor are visited, and this would be considered on a case-by-case basis. In Malta, although most reviews involve a visit to the auditor's premises, it is considered possible for reviews to be carried out without physically visiting the relevant auditor's offices, for example by requesting files to be sent to the reviewer to review off-site.

In summary, it can be concluded that a strong system of reviews will involve visits to the relevant auditors' offices, as this will allow the reviewers to see systems and procedures integral to the firm's quality control system in operation.

Please refer to Appendix II on page 171 for a summary of responses to Question 18.

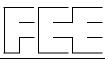
Question 19 concerned the assessment by the quality review of the design, implementation and effectiveness of the audit firms' internal quality control system.

With regard to the assessment of the internal quality control system, the Statutory Audit Directive states at the end of Article 29.1.(f), as quoted on page 34 that the scope of the quality assurance review should include an assessment of the internal quality control system of the audit firm.

This principle was already mentioned in the EC Recommendation:

- 4. Scope of quality review
 - 4.1. Quality assurance relates to statutory audits of financial statements carried out by statutory auditors in public practice. The scope of the quality review should include an assessment of the internal quality control system of an audit firm with sufficient compliance testing of procedures and audit files to verify its adequate functioning.

All Member States have already required audit firms to implement an internal quality control in line with the International Standard on Auditing 220 'Quality Control for Audit Fork'. In addition to the black-lettered paragraphs of ISA 220 it could be necessary to establish at



Member State level more specific requirements on the internal quality control of statutory auditors underpinning the quality reviews. These additional requirements could be based on the quality control procedures as mentioned in point 6 of ISA 220, dealing with the objectives of internal quality control systems of audit firms¹².

In addition, according to paragraphs 28 and 29 of IFAC SMO 1 on quality assurance review team procedures:

- 28. The member body should require quality assurance review teams to follow procedures that are based on published guidelines. These procedures should include reviews of engagement working papers and discussions with appropriate personnel.
- 29. The procedures performed during the quality assurance review should include:
 - An assessment of the system of quality control relating to audits of financial statements of listed entities.
 - Sufficient review of the quality control policies and procedures and reviews of engagement working papers to evaluate:
 - The functioning of that system of quality control, and compliance with it; and
 - The compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.

Virtually all countries currently perform such an assessment, and where this is the case, the results of the review are generally available to the audit firm reviewed. Only four countries appear to base judgments in this area on local standards, all others undertaking such reviews have moved over to ISQC 1. No information is available for two countries.

The quality control reviews in the majority of countries cover the audit firm's policies and procedures for acceptance and continuance of client relationships and specific engagements.

The quality control reviews in these countries also consider an audit firm's own internal review procedures. One country limits this to larger audit firms. Other countries did not explicitly state that they also do this, but it is likely that many small audit firms will not yet have in place a policy of performing annual reviews and, therefore, this is likely to be more of an ideal than a reality at present. The exceptions to the above mostly cover the new EU entrants.

Eight countries including Belgium, the Czech Republic, Denmark, France, the Netherlands (in the situation of monitored peer review, up to 1 October 2006), the Slovak Republic, Slovenia and Sweden prescribe the extent of compliance testing. However, it was not clear how rigid such a prescription is. Most other countries leave this to the discretion of the reviewer. Five countries did not express an opinion.

ISA 220 as referred to in the EC Recommendation on Quality Assurance is no longer relevant in this context as it has been replaced by International Standards on Quality Assurance 1 (ISQC 1) "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements".



In summary, a good quality review includes an assessment of the design, implementation and effectiveness of the audit firm's internal quality control system based on ISQC 1. The results of this assessment should be made available to the audit firm being reviewed. This should cover areas such as policies and procedures for acceptance and continuance of client relationships and specific engagements. The audit firm's own regular reviews of its compliance with its own internal control system should also be considered as part of the strength of the control system and, therefore, subject to external review. Due to the wide variety of audit firms, the extent of compliance testing should not be strictly prescribed but should be considered on a case-by-case basis, within reasonable guidelines.

Please refer to Appendix II on page 172 for a summary of responses to Question 19.

Question 20 dealt with certain aspects of the testing of individual audit files.

As already pointed out, with regard to the testing of individual audit files, the Statutory Audit Directive states in Article 29.1.(f), as already quoted on page 34, that the scope of the quality assurance review should be supported by adequate testing of selected audit files and should include an assessment of the quantity and quality of resources deployed and of the audit fees charged.

The EC Recommendation on quality assurance did not go further than to imply in paragraph 4.2, as quoted on page 52, that individual audit files should be tested.

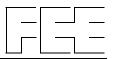
Only ten countries have a prescription on the number of individual audit engagement files that need to be tested for the quality review. However, it is not clear whether this is merely a minimum prescribed, although this would seem more consistent with the other findings. Only one country (Lithuania) that is currently performing quality control reviews does not consider quantity and quality of resources. Nine countries do not currently consider the appropriateness of audit fees charged.

It can be concluded that an appropriate minimum number of audit files should be prescribed for a quality review, although an upper limit should vary depending on findings on a case-by-case basis and the size of the audit firm as well as its risk basis. These reviews also contribute to the assessment of the proper application of the audit firm's internal quality control systems in practice. The actual number of files retained for quality review will depend on an assessment of the particular circumstances and risk profile of the audit firm under review. Consideration should be paid to both the quantity and quality of resources deployed on the audit and the appropriateness of the audit fees charged.

Please refer to Appendix II on page 174 for a summary of responses to Question 20.

Question 21 asked about how the testing of audit files is addressed.

As already pointed out, with regard to the testing of individual audit files, the Statutory Audit Directive states in Article 29.1.(f), as quoted already on page 34, that the scope of the quality assurance review should be supported by adequate testing of selected audit files and should include an assessment of compliance with applicable auditing standards and independence requirements.



The EC Recommendation stipulates that:

4. Scope of quality review

- 4.2. The scope of the quality review should include the following subjects for testing individual audit files:
 - The quality of the evidence from the audit working papers as a basis for assessing the quality of the audit work;
 - Compliance with auditing standards;
 - Compliance with ethical principles and rules, including independence rules;
 - Audit reports:
 - 1. Appropriate format and type of opinion;
 - 2. Compliance of financial statements with the financial reporting framework as referred to in the audit report;
 - 3. Failure to mention non-compliance of financial statements with other legal requirements as referred to in the audit report.

A statutory audit carried out in compliance with legal requirements, established auditing standards and respecting ethical rules is crucial to users of audited financial information because it ensures a certain level of credibility of audited financial statements. Specific requirements are laid down concerning the audit report because of its importance as the public product of a statutory audit. Compliance with a financial reporting framework is included to underline the instrumental role of the statutory audit for the enforcement of accounting standards.

According to paragraph 30 of IFAC SMO 1 on quality assurance review team procedures:

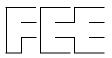
- 30. The review of engagement working papers should include evaluating:
 - The existence and effectiveness of the system of quality control implemented by the member, and the performance of the engagement.
 - Compliance with professional standards and regulatory and legal requirements related to the engagement.
 - The sufficiency and appropriateness of evidence documented in the working papers.
 - Based on the above, whether the auditor's reports are appropriate in the circumstances.

Almost all countries stated that, at least to some extent and, based on the review of internal quality control procedures of the audit firm and/or of the individual audit engagements, their reviews covered: an assessment of the quality of the evidence; compliance with auditing standards; the ethical principles including testing of the proper application of requirements on auditor independence; and an assessment of the auditor's judgements. However, in a couple of cases, countries such as Bulgaria omit some of these areas, for example the consideration of application of ethical procedures and independence issues.

In summary, a good system of review should test the quality of audit evidence and compliance with auditing standards, ethical principles and independence standards.

It may also include some assessment of auditors' judgement on whether:

- The company's accounting policies are appropriate and legal and regulatory standards are applied appropriately;
- Management's estimates are reasonable;



- The auditor has obtained sufficient appropriate evidence;
- The audit report was in the appropriate format, and type of opinion, made correct reference to the financial reporting framework and did not fail to mention non-compliance with statutory requirements.

Please refer to Appendix II on page 175 for a summary of responses to Question 21.

Question 22 concerned the basis of national standards and whether they are closely related to International Standards on Auditing (ISAs).

Article 26 of the Statutory Audit Directive states that Member States will require statutory auditors and audit firms to carry out statutory audits in compliance with international auditing standards adopted by the European Commission.

The only existing set of international auditing standards are the International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB). Since Article 29.1.(f), as quoted on page 34, requires that the scope of the quality review is supported by adequate testing of selected audit files and should include an assessment of compliance with applicable auditing standards, it is appropriate to consider the link between the currently applicable national auditing standards in EU Member States and the ISAs.

Six countries felt that their national auditing standards were not closely related to ISAs, but nevertheless relied more on the application of principles than on compliance with procedures. Apart from these exceptions, countries generally have auditing standards consistent with ISAs.

FEE is of the opinion that auditing standards should at least allow for a principles-based approach but in order for a pan-European audit regime to have any credibility, national auditing standards need to be consistent with ISAs.

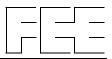
Please refer to Appendix II on page 176 for a summary of responses to Question 22.

Question 23 asked whether, where national auditing standards are based on ISAs or are principles-based, reviewers have experienced any difficulties in interpreting the auditing standards to determine whether the audit work complies with the standards.

The majority of countries felt that there were no significant difficulties in interpreting the auditing standards. Two felt there were some difficulties (Estonia and Hungary). Five countries including Austria and Denmark had not assessed the matter so far.

The vast majority of European countries have not so far encountered difficulties in interpreting their auditing standards to determine, during a quality review, whether the audit work complies with the standards. Only one European Union Member State and two other European countries have so far experienced some or considerable difficulty in enforcing their current principles-based auditing standards.

Please refer to Appendix II on page 177 for a summary of responses to Question 23.



Question 24 asked whether, where national auditing standards are not based on ISAs or are not principles-based, reviewers have experienced any difficulties in determining whether the required procedures have been appropriately supplemented by additional audit steps to achieve the underlying objectives of the standards.

No country gave this option as a response to Question 22, therefore this question was uniformly not applicable.

It should be noted that all European countries and European Union Member States use principles-based auditing standards and that not one country uses rigid, rules-based standards. As already referred to in the conclusion to Question 22, a considerable number of European countries as well as European Union Member States use ISAs as their auditing standards or standards closely based on the ISAs.

Please refer to Appendix II on page 178 for a summary of responses to Question 24.

Question 25 asked about the extent to which implementation of the Statutory Audit Directive could cause change in a Member State's review process.

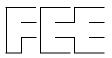
Ten countries including Belgium, France, Italy, Poland and the Slovak Republic felt that it would be a partial change, largely due to the move to ISAs and ten countries including Austria, Cyprus, the Netherlands and the UK thought that there would be no significant changes. Seven felt unable to assess at this time how much change, if any, would be needed and one could not provide a clear answer.

It should be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation.

Adoption of the Statutory Audit Directive does not have a direct impact on the review process as currently performed in European Union Member States. However, implementation or comitology measures taken under the Directive whereby the European Commission would adopt the International Standards on Auditing (ISAs) in the European Union would have an impact. Adoption would result in changes varying from 'some' to 'considerable' in the quality review process in approximately one third of countries. Another third of countries would expect no such changes but the remainder are currently unable to assess the impact such an adoption would have on their quality review process.

If the professional standard on internal quality control systems for audit firms, ISQC1, forms part of the adoption of the ISAs, a limited number of countries that have not yet adopted this standard will need to do so.

Please refer to Appendix II on page 178 for a summary of responses to Question 25.



5.5. The Reviewers and the Reporting Process

Question 26 concerned the quality of review teams.

With regard to the quality of the individuals who perform the quality assurance reviews, it is essential they have the necessary competencies and relevant professional experience in the areas of accounting, auditing, ethics and quality assurance standards.

According to the new Statutory Audit Directive:

Article 29.1.(d):

Persons who carry out the quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting combined with specific training on quality assurance reviews.

The EC Recommendation also addresses the quality of the reviewer:

9. Quality of reviewer

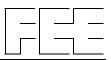
The quality assurance system should ensure that the persons, either peers or employees of a monitoring organisation, who carry out quality reviews should have appropriate professional education and relevant experience combined with specific training on quality assurance reviews.

In several countries only professionals active in public practice can be appointed as a peerreviewer. The relevant experience can also relate to sector specific experience.

In addition, according to paragraphs 36 and 37 of IFAC SMO 1 on skills and competence:

- 36. Members of a quality assurance review team should have the necessary competencies to perform the work expected of them. These competencies include:
 - (a) Appropriate professional education;
 - (b) Relevant professional experience; and
 - (c) Specific training on performing quality assurance reviews.
- 37. Members of the quality assurance review team should possess certification or credentials the member body requires.

In nearly all countries quality assurance reviews are conducted by qualified or certified auditors. The persons who undertake the reviews are either employed by a professional body or another competent authority or are "practising auditors", subject to supervision by the relevant review organisation. In most countries, additional requirements are laid down to ensure that the reviewers have the necessary professional competence to carry out quality assurance reviews. In countries with monitored peer review systems, qualified auditors with substantial or senior expertise and experience in audit work are usually responsible for the reviews. In some countries, for example in Austria, Bulgaria, Germany and Hungary, reviewers must be specifically registered with the professional body or competent authority in order to act as a quality reviewer. In the UK, Ireland, Italy, Spain and Malta, the reviewers are not registered auditors but have all had considerable experience in audit work; in Spain, the reviewers are mainly qualified auditors, who are either retired partners or former audit managers with more than ten years experience; in the Czech Republic, the review is performed by two reviewers - one being a member of the full-time staff employed by the Chamber of Auditors, one being a member of the



Supervisory Commission. The member of the Supervisory Commission is always an experienced auditor.

In Bulgaria, Germany, Hungary and the Netherlands, practitioners or audit firms cannot be registered as quality reviewers unless they themselves have participated successfully in the quality assurance system. If, during the latest review performed, the quality of the audit services rendered was assessed as unsatisfactory, they may not be registered as quality reviewers.

Relevant knowledge and experience applicable to specific assignments are usually taken into account during the selection process when a monitoring unit or a professional organisation is responsible for the selection and assignment of the reviewers. Knowledge and experience must also be considered by the reviewers themselves since professional standards requires sufficient knowledge and experience to perform engagements properly, in particular, when the statutory auditor or audit firm under review audits specific industries or where audit clients use specific accounting standards.

In the vast majority of countries surveyed, reviewers receive initial training in performing quality assurance engagements and reporting thereon as one prerequisite for registration or assignment as a quality reviewer (25 countries). They also receive periodic training on quality assurance reviews in order to maintain their specific knowledge in performing quality assurance reviews (25 countries). In most countries reviewers generally receive initial training of between one and two days and continuing specific training of normally one day per year. The training of reviewers generally requires similar skills to those of an auditor and is aimed at explaining the procedures and methodology of the review, including the reporting requirements and the application of professional standards. In many countries, regular training or information meetings are organised by the professional organisations and/or the reviewer organisations in order to address practical problems experienced and to respond to practical questions relating to the efficient execution of a quality control review. It is worth mentioning that a number of countries with fewer professional resources receive considerable support from the professional bodies of other European countries regarding the training of the reviewers.

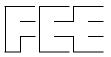
In the UK and Ireland, reviewers meet in regional teams on a monthly or regular basis to discuss technical and emerging issues. Furthermore, in nearly all countries, as the reviewers are qualified auditors, they are also subject to the usual requirement for continued professional education.

In summary, drawing on the experiences in different European countries, quality assurance reviews should be undertaken by persons that have the necessary competencies and relevant professional experience. These include:

- Appropriate professional education;
- A minimum of professional experience in audit work and financial reporting;
- Introductory training in performing quality assurance reviews and reporting thereon.

Furthermore a minimum amount of periodic training in performing quality assurance reviews and reporting thereon should be compulsory for reviewers to maintain their specific knowledge.

Drawing on the experience in different Member States which use the monitoring system, it is of the utmost importance that particular attention is given to ensuring that inspectors/staff have the necessary expertise to perform the quality assurance reviews. This includes their awareness of professional developments and their understanding of day-to-day business and audit techniques, especially with regard to issues which are very specific to certain types of companies or industries.



Question 26 also concerned the selection procedures and other measures to ensure objective and independent quality assurance reviews.

Both monitoring and monitored peer review systems need to be as robust as possible in order to ensure high quality audits and public confidence in the quality assurance systems. Therefore, it is crucial that the reviewers adhere to ethical requirements. These require independence - in fact and in appearance - to be maintained with respect to the reviewed audit firm by review team members and by any other individuals who participate in or are associated with the review.

Article 29 of the Directive emphasises the need for objective procedures in the selection of reviewers for specific quality assurance review assignments:

Article 29.1.(e):

The selection of reviewers for specific quality assurance review assignments shall be effected in accordance with an objective procedure designed to ensure that there are no conflicts of interest between the reviewers and the statutory auditor or audit firm under review.

Thus, the selection must be made under an objective procedure designed to ensure that there are no conflicts of interest between the reviewers and the statutory auditor or audit firm under review.

This principle has already been mentioned in the European Commission's Recommendation on Quality Assurance:

10. Independence and objectivity of reviewer

The quality assurance system should ensure that for the selection of reviewers for individual review assignments possible conflicts of interest are adequately taken into account. The reviewers should be subjected to the independence requirements applicable to statutory auditors.

The selection of reviewers for individual quality assurance reviews should be based on criteria ensuring the reviewer's independence and objectivity in fact and appearance. The actual application of selection criteria for reviewers could be monitored by the public oversight board.

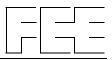
The Recommendation points out that concerns regarding reviewers' objectivity should be mitigated by sufficient public supervision of the administration and functioning of the quality assurance system and the presentation of its results. This is of particular importance when monitored peer review methodology is used.

Furthermore, Paragraph 45 of IFAC SMO 1 on ethical requirements indicates:

When selecting a review team for an individual quality assurance review assignment that those responsible for selection and approval should consider whether the independence of the quality assurance review team leader and each member of the quality assurance review team has been determined. Quality assurance review team members are expected to be independent of the member and the member's clients selected for review.

According to paragraph 47 of IFAC SMO 1:

Firms and their peers should not perform reciprocal quality assurance reviews.



In the majority of countries (17), reviewers are directly selected and assigned by a monitoring unit or the professional organisation administering the quality assurance reviews. In other countries, the selection procedure provides certain mechanisms to ensure the independence of the reviewers. For example, in Belgium, the review is performed by a reviewer chosen by the reviewee from a list of three registered auditors imposed by the board of the institute; in Germany, the reviewee is required to submit to the WPK proposals for up to three reviewers that he intends to engage. Within a reasonable time, the WPK, indicating the reasons why, can reject one or all proposals.

Furthermore, in order to deal with the specific risks inherent in mechanisms whereby practising auditors review other auditors, many countries have specifically put in place different rules and procedures to avoid conflicts of interests, for example:

- Professional rules or codes of conduct that oblige practitioners not to accept or continue a quality assurance engagement when there are any conflicts of interest, for example, if the reviewer has any capital, financial or personal relationships or where they have had a previous connection (former employment, etc.) with a reviewee;
- Explicit prohibition of reciprocal reviews;
- Written independence declarations by the selected reviewers in relation to the reviewed auditor and the reviewed audit engagements;
- Approval, on a periodic basis, of a list of reviewers by the relevant review organisation;
- Random selection of the auditors and audit firms to be reviewed or of the reviewer;
- Reviews by two reviewers independent of each other (joint reviews).

In Belgium and Denmark, neither reciprocal quality assurance reviews nor quality assurance reviews amongst former partners or former personnel in the same audit firm are permitted. In Hungary and the UK, there is a policy of rotating the lead reviewers after a pre-defined period.

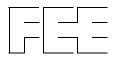
In most countries, compliance with independence requirements is subject to supervision by the review organisation and/or the public oversight body.

In summary, the selection of reviewers for individual quality assurance reviews should be based on rules ensuring the reviewers' independence and objectivity in fact and appearance and should ultimately be with the review organisation.

Both the monitoring methodology and the monitored peer review methodology require a code of conduct that enables the reviewer to determine his independence and objectivity in fact and appearance. If threats to the independence and objectivity in fact and appearance regarding the individual quality assurance review cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, the involvement of the respective reviewer should be prohibited. Written independence declarations may contribute to greater transparency regarding the selected reviewers' compliance with the applicable independence requirements.

The process for selecting reviewers for individual review engagements should take into account that there is a higher risk regarding reviewee independence in appearance when using monitored peer review methodology. To allow for this, a third-party who is independent of the reviewee - for example the review organisation or a professional body - could be entitled to object to a selected reviewer or to the inclusion of a reviewer on a list of proposed reviewers.

All measures to ensure objective and independent quality assurance reviews shall be subject to sufficient public supervision and oversight.



Question 26 also concerned the confidentiality of client information.

The EC Recommendation on Quality Assurance stipulates the following as far as confidentiality is concerned:

8. Confidentiality

8.1. The statutory auditor should be exempted from confidentiality clauses concerning audit files of clients for quality assurance reviews.

Most Members States with a quality assurance system have exempted the handing over of audit working files to reviewers from the normal rules on auditor confidentiality. This implies that handing over audit files to the reviewer cannot be a breach of confidentiality and therefore cannot lead to liability actions.

8.2. The reviewer should be subject to confidentiality rules similar to those that statutory auditors have to comply with. Nevertheless, when giving the regulator or competent authority access to the files of the reviewer (see point 5.2, as quoted on page 38), this cannot constitute a breach of confidentiality.

Most Member States with a quality assurance system have included rules on the confidentiality of the reviewer identical to the confidentiality rules that statutory auditors have to comply with when performing statutory audits.

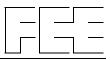
8.3. It should be provided for that all persons who work or who have worked for the relevant regulators or competent authorities responsible for administrating and maintaining the quality assurance system, as well as the members of the public oversight board, shall be bound by the obligation of professional secrecy.

Ultimately depending on national legislation, professional secrecy in this context implies that persons concerned may not divulge confidential information which has been received in the course of their duties to any person or authority whatsoever, save in summary or aggregate form such that the reviewer or statutory auditor subjected to the quality review, and the audit client to whom the reviewed files relate and the related parties of this audit client cannot be individually identified.

These recommendations are in line with the membership requirements of IFAC (see SMO 1, paragraphs 49 - 51).

In most countries, confidentiality of client information is ensured by the fact that the reviewers are bound by general principles and rules of professional secrecy when conducting the reviews. In Bulgaria, Finland, Hungary, Luxembourg and the Netherlands, reviewers have to sign a specific declaration or agreement of confidentiality. In Germany, and similarly in the Netherlands and France, auditors are exempt from confidentiality rules by law, to the degree necessary to facilitate the performance of the external quality assurance engagement. Confidential treatment of client information is guaranteed since all parties involved in the quality assurance system as well as the members of the public oversight body are obliged to maintain confidentiality regarding matters that become known to them during quality assurance reviews even after completion of their activities.

Some countries have provided for the confidentiality of information contained in engagement documentation, or documentation prepared by the auditors for the relevant review organisation prior to the quality review, by adopting certain retention policies. In France, once the conclusions are finalised,



the review files are destroyed and a summary note is filed without any mention of the audit client. It is similar in Belgium and Hungary. In the Czech Republic, review reports are filed separately within the review organisation but access to them is restricted. In Norway, confidentiality is ensured by using specific control numbers instead of names, and by maintaining strict access control to documentation and reports.

Drawing on experiences in different European countries, it can be concluded that reviewers as well as members of the public oversight body and other parties involved in the quality assurance system should be obliged (e.g. by a declaration of confidentiality) to maintain confidentiality of client information that becomes known to them during quality assurance reviews.

Question 26 also concerns review documentation.

IFAC SMO 1, Paragraph 32, requires member organisations to ensure that:

- 32. The quality assurance review team should document matters that:
 - (a) Provide evidence supporting the quality assurance review report; and
 - (b) Establish that the quality assurance review was carried out in accordance with the guidelines the member body established.

In all countries, reviewers are required to document their work in working papers. To this end, several countries require the use of standard documentation, such as checklists and questionnaires. Furthermore, in some countries, there are standard formats for quality assurance reports, for example in Belgium, Denmark, Germany, Luxembourg, Slovenia and Sweden.

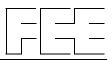
Generally, reviewers must document in their working papers or reports:

- A description of the reviewee's profile (including its organisation, business environment, main activities and quality control system);
- Deficiencies identified in the quality control system;
- Possible violations of law, regulation and professional standards;
- Recommendations and suggestions for improvement and the results; and
- Main conclusions of the review.

In countries where quality reviewers are responsible for determining the review strategy and the review program, the documentation or report usually includes a description of how the review was performed and a list of the reviewed audit files and/or the criteria, on which the selection of audit files was based.

In the majority of countries (23), standard documentation has to be used and completed in full. In Ireland, whilst standard documentation is available, it has been designed so as not to restrict the scope of the review. Other countries have developed standard questionnaires and a review guide to help reviewers in their work. However, such questionnaires do not replace professional judgment. In the UK, standard documentation is kept to a minimum and is used primarily as an organisational tool to aid review completion and management.

In many countries surveyed (24), the work performed is reviewed by the reviewer organisation on the basis of the reports, questionnaires or files received from the reviewers. In some countries (seven), documents prepared during the reviews are also accessible to the public oversight bodies.



In Germany, members of the oversight body are entitled to take part in a review and meetings of the Commission on Quality Assurance. The oversight body may also request all necessary clarifications and documentation from the reviewer. In Sweden, the public oversight body selects a number of reviews annually and collects all documentation from the reviewers for detailed review. Likewise, in the UK, the Institute of Chartered Accountants in England and Wales operates a system of quality assurance whereby a sample of completed reviews is selected for subsequent review.

In conclusion, preparing sufficient and appropriate review documentation helps to enhance the quality of the reviews and facilitates the effective review and evaluation of the evidence obtained and the conclusions reached on the subject matter. Furthermore, adequate review documentation enables the review team to be accountable for its work and assists members of the review team responsible for supervision to direct and supervise the review work.

Hence, reviewers should document their work and their conclusions in working papers and /or in the review report.

Standardised checklists, questionnaires, formats for quality assurance reports, etc. can give guidance on performing the quality assurance review and facilitate comparability of documentation and reporting, but they should not be used at the expense of exercising judgment.

The work performed by the review team should be subject to review by the engagement leader and, in particular in countries where reviewers are responsible for determining the review strategy and the review program, by the review organisation.

Please refer to Appendix II on page 179 for a summary of responses to Question 26.

Question 27 dealt with communication of review results with the reviewed audit firm.

Although the Statutory Audit Directive does not explicitly require a discussion of the findings with the statutory auditors or audit firm under review, some remediation efforts are required.

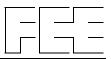
Article 29.1.(j):

Recommendations of quality reviews shall be followed up by the statutory auditor or audit firm within a reasonable period.

If the recommendations referred to in point (j) are not followed up, the statutory auditor or audit firm shall, if applicable, be subject to the system of disciplinary actions or penalties referred to in Article 30.

In most quality assurance systems (27), procedures for communicating the results of quality reviews are similar. The reviewer discusses the preliminary findings with the reviewed auditor or the management of the reviewed audit firm in a final meeting, usually based on a draft report. After completion of the final report, the final report is sent to the relevant review organisation. The reviewer organisation considers the report and determines, if necessary, the appropriate action to be taken. A feature common to most systems is also that, once reports have been considered by the review organisation, the reviewee is informed of its decisions.

Since an objective of the review is to maintain and continually improve audit quality, it is common practice in all countries for the preliminary findings of reviews to be discussed and agreed with the reviewed auditor or with the management of the reviewed audit firm. In this way misunderstandings



can be corrected and minor matters cleared. In most countries, the auditor or audit firm under review is entitled to comment in writing on the findings to the review organisation.

It is also usual, as part of the review process, for audit firms to be given help and constructive advice on improving their performance and their internal quality control systems by drawing attention to their systems' deficiencies and by making recommendations as to their elimination. In nearly all countries (25), the reviewer is either required or entitled to give recommendations in the reviewer's report to help implement corrective measures. In France, the reviewer is not allowed to give recommendations to the reviewee. Because the correction of deficiencies is the sole responsibility of the statutory auditor or the audit firm, reviewers are prevented from doing any work in this respect.

Nevertheless, in nearly all countries, regulatory action can be taken to ensure deficiencies are properly and adequately addressed and rectified by an audit firm.

In summary, it is important that the results of a quality assurance review are properly communicated to the reviewed practice and reviewed auditor. The reviewer should discuss preliminary findings with the reviewed audit firm. In this way, misunderstandings can be corrected, minor matters can be cleared up and the reviewed auditor or audit firm is helped to understand the review findings and, if any, proposed corrective action or recommendations of the reviewer.

Recommendations to eliminate deficiencies within the quality control system will make an important contribution to the continual improvement of audit quality. The reviewed organisation and the reviewee should be given details of such recommendations.

Please refer to Appendix II on page 191 for a summary of responses to Question 27.

Question 28 concerns the review report.

The Statutory Audit Directive stipulates the following:

Article 29.1.(g):

The quality assurance review shall be the subject of a report which shall contain the main conclusions of the quality assurance review.

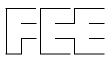
IFAC SMO 1, paragraph 52 requires that:

The quality assurance review team leader should issue a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment.

The report should include the following elements:

- The guidance utilised by the quality assurance review team;
- The review conclusions;
- The reasons for negative conclusions on the above; and
- Recommendations for areas of improvement.

In all countries, a report containing the main conclusions and findings of the quality assurance review is prepared by the reviewer and, in most cases, made available to the reviewed practice before it is submitted to the review organisation. In Finland, a summary report is sent to the reviewed practice on request.



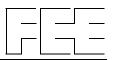
Review organisations normally accept written representations from reviewed practices and can also ask the reviewer to clarify or justify points in the report. Reviewed practices are usually required, or have the opportunity, to consider the findings and provide written comments, normally within a predetermined time limit (e.g. within 14 days of receiving the report). In the UK and Ireland, reviewed practices have the opportunity to consider the final report before it is submitted to the review organisation. In most countries, however, whilst the findings are discussed with the reviewed practice on a draft basis, the final report is submitted to the reviewed practice and to the review organisation concurrently.

In the UK, all audit firms receive information about the visit process and the matters raised during the visit. A detailed report is only required for consideration by the Audit Registration Committee in the case of an audit firm which audits listed companies, or where the reviewer has concerns about the continuing eligibility or competence of an audit firm. In France, separate reports are issued in relation to the assessments and review of the design, implementation and effectiveness of the audit firm's internal quality control system and related to the assessment of each reviewed audit assignment.

The time taken to issue the final report varies widely across Europe. It ranges from a few days to six months. On average, it takes two to three weeks. In Germany and Poland, there is no specified time limit for the issue of the report. However, it is expected that the reviewer will issue the report without undue delay after completion of the review.

In those countries that have external oversight bodies, reports are usually submitted to these bodies either on a mandatory basis or on request. In Finland, quality review reports are directly referred to the auditing board of the Central Chamber of Commerce when the reviewed auditor is not a member of the institute. In France, the report is made available to the secretary general of the "Haut Conseil" and, when appropriate, to the securities regulator. In Belgium the report is made available, on request, to the High Council for Economic Professions or the Advisory or Supervisory Committee on the Independence of the Statutory Auditor. In Germany, the report is submitted, on request, to members of the Auditor's Oversight Commission (AOC). The AOC is entitled to ask the Commission on Quality Assurance and the reviewer responsible for the quality assurance review to provide it with the necessary information and supporting documents. The members of the AOC are also entitled to take part in any quality assurance engagement and meetings of the Commission on Quality Assurance and have ultimate responsibility in relation to decisions made in the quality assurance process.

With the exception of Italy, where the reports are addressed to the competent Consob disciplinary office, there is no structure which requires reports to be referred automatically to the disciplinary body. However, in many jurisdictions (thirteen), a referral will be made in those cases where a quality assurance review has had a negative outcome. In Germany, the disciplinary body is only involved where there is any justification for the revocation of the appointment of the reviewee as a "Wirtschaftsprüfer" or recognition as a "Wirtschaftsprüfungsgesellschaft". Arrangements are similar in Finland, Norway and Sweden. In the Netherlands, the disciplinary body is only involved when a follow-up review also reveals insufficient results. In the UK, it will be for the Audit Registration Committee to determine whether a report should be referred for investigation or possible disciplinary action. Such referrals could include situations where there is concern about the integrity of the audit firm or its principals. In Bulgaria, the report is referred to the disciplinary body in all cases involving non-provision of documents and hindrance of the review.



It can be concluded that the individual quality assurance review should result in a report which contains the main conclusions of the quality assurance review.

It is important that reports are evaluated as soon as possible by the review organisation, so that significant deficiencies identified in the working procedures or in the quality control system of the reviewed audit practice can be rectified promptly by corrective actions imposed by the review organisation. Therefore, the period between the completion of the review and issue of the report should not be too long.

The addressee of the report should be the review organisation. The final report should also be made available for the reviewee.

If the disciplinary body is responsible for imposing measures to eliminate substantial deficiencies in the quality control system, the disciplinary body should be informed as soon as possible whenever a quality assurance review has a negative outcome.

Please refer to Appendix II on page 194 for a summary of responses to Question 28.

Question 29 dealt with public reporting on the overall results of the quality assurance system.

According to the Statutory Audit Directive, some overall reporting is required.

Article 29.1.(i):

The overall results of the quality assurance system shall be published annually.

The EC Recommendation advises that:

- 6. Public oversight and public reporting
 - 6.2. The results of quality assurance should be adequate

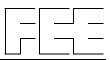
Publication of quality assurance results is another means of adding public credibility to the quality assurance systems. Publication of aggregated results of the quality assurance without naming individual audit firms is considered to be adequate. Public credibility would be enhanced if the reporting also includes recommendations for professional and/or regulatory actions, follow-up to recommendations and sanctions.

Equally, paragraph 55 of IFAC SMO 1 requires that:

55. The member body should prepare and make available to the public an annual report summarising the results of the quality assurance review program and send copies of the report to regulatory authorities, on request.

Public Reports are not only issued to add public credibility to the quality assurance system, but also as a means of further developing and improving overall systems and of improving the quality of work in individual practices.

With minor exceptions (four), in all countries surveyed, the relevant bodies produce annual reports on their external quality assurance reviews or are in the process of establishing such a public reporting function. In a minority of countries (three), a report is published twice a year.



Reports cover the work undertaken and the overall results of reviews, on an anonymous basis. Where a public oversight body or other competent body is responsible for the organisation of quality assurance reviews, this body usually issues a report on its quality assurance activities and reports on its oversight activities in relation to quality assurance reviews performed by the responsible review organisation.

Reports normally include the number of auditors subject to quality review during the reporting period and the overall results in percentages (approved, approved with comments, sanctions imposed or special reviews, etc.).

In Germany, the Auditors' Oversight Commission (AOC) supervises the adequacy and effectiveness of the system of quality assurance and makes statements thereon. It makes recommendations to further develop and improve the system and draws up an annual public report on all these matters. The annual report of the AOC is submitted to the Federal Ministry of Economics and Labour, the professional organisation's Advisory Board and Board of Management and is published in the official journal and on the website of the professional organisation.

In the UK, an annual report is presented to the Department of Trade and Industry. This is also published on the institute's website. In future this report will be submitted to the Professional Oversight Board (POB). POB publishes an annual report on its statutory work, including oversight of audit inspection, to the Secretary of State for Trade and Industry. The Audit Inspection Unit also makes a public, annual report on its work. Specific audit firms are not identified.

In Belgium, the results of quality assurance reviews are published in the report of the institute. The institute organises a quarterly meeting between the Commission for Quality Assurance and the Commission of Surveillance in order for both Commissions to work in a homogenous manner and to have an overall view of the situation. In addition, the Board of the institute reports its quality assurance reviews to the High Council for economic professions.

In France, the overall results of the quality assurance system are submitted to the "Haut Conseil", which is entitled to issue an analysis of outcomes each year.

At present, in the Netherlands, the Quality Assurance Committee reports annually on an anonymous basis to the Board of the Dutch Institute. The Board of the Dutch Institute prepares a public report on the basis thereof. It is not yet known how the AFM plans to report on its oversight function from 1 October.

Whilst in the majority of countries annual reports are used for general publication, for example via the internet or the official journals of professional bodies, in some cases (thirteen), the results of quality assurance reviews are also reported directly to the government, regulators or similar institutions. In Romania, an overall report of quality assurance reviews is presented for internal use only to the Permanent Committee of the professional body. In Bulgaria, Estonia, Lithuania, Luxembourg, Portugal and the Slovak Republic, a report is presented once a year to the general assembly of members of the professional body and in some cases to other authorities.

In summary, drawing on the experiences in different European countries, external quality assurance programs, supported by adequate public oversight, demonstrate the profession's commitment to the public interest and to ensuring that audit quality is continually enhanced by the sharing of best practice and addressing poor performance.



Therefore, a process of public reporting on quality assurance programs is an important means of adding public credibility to quality assurance systems, providing a summary of the review work undertaken and the overall results of that process. The overall results of the quality assurance system should be published periodically (e. g. annually). Contents of the overall report can be on an anonymous basis: number of auditors subject to quality review during the reporting period, overall results (e.g. approved, sanctions imposed or special reviews), and recommendations to improve the quality assurance system, etc.).

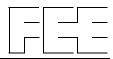
Please refer to Appendix II on page 202 for a summary of responses to Question 29.

Question 30 is about the possible impact of the Statutory Audit Directive on the Reviewers Reporting Process.

Potential changes resulting from the implementation of the Statutory Audit Directive are currently under consideration in most countries (21). In a minority of countries (twelve), significant changes are not expected to be necessary. In Bulgaria and Spain, overall reports to the public on the results of the quality assurance reviews will be implemented. In Poland, the transparency of the quality assurance review results will also be enhanced.

It should be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation.

Please refer to Appendix II on page 207 for a summary of responses to Question 30.



5.6. Investigation of Complaints, Follow-Up Process and Sanctions

Question 31 concerned who can make complaints, how the complaints process works and whether the quality assurance system can be used to investigate complaints.

Article 30 of the Statutory Audit is about systems of investigations and penalties and it states:

Article 30:

- 1. Member States shall ensure that there are effective systems of investigations and penalties to detect, correct and prevent inadequate execution of the statutory audit.
- 2. Without prejudice to Member States' civil liability regimes, Member States shall provide for effective, proportionate and dissuasive penalties in respect of statutory auditors and audit firms, where statutory audits are not carried out in conformity with the provisions adopted in the implementation of this Directive.
- 3. Member States shall provide that measures taken and penalties imposed on statutory auditors and audit firms are appropriately disclosed to the public. Penalties shall include the possibility of the withdrawal of approval.

The essence of Article 30 of the Directive is that EU Member States must have systems to investigate poor audit work. These are to be distinct from the ordinary civil liability arrangements that already exist in Member States.

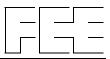
Such systems also need to be distinguished from the quality assurance systems required by Article 29, as quoted on page 32, but there is a link. One of the outcomes of quality assurance work may be a recommendation to a statutory auditor that certain changes or other actions be taken. If these recommendations are not dealt with by the statutory auditor within a reasonable period, then Article 29 requires a referral to the systems established under Article 30.

The EC Recommendation on Quality Assurance, at Chapter 7, also makes the point that there should be a link between poor work as shown in quality reviews and the disciplinary system. It states:

7. Disciplinary sanctions

It is necessary to have a systematic link between negative outcomes of quality reviews and initiating sanctions under the disciplinary system. The disciplinary system should include the possibility of removal of the statutory auditor from the audit register.

Quality assurance is not in itself the only tool for disciplinary sanctions. Quality assurance aims at enforcing, demonstrating and improving audit quality. The link between quality reviews and disciplinary sanctions is adding public credibility and is also logical because quality assurance can be seen as an enforcement tool. The possibility of removal from the register is particularly relevant for countries where the registration of certified auditors is separated from the professional body carrying out the quality assurance system.



IFAC SMO 6 on Investigation and Discipline covers a broader range of topics but it includes the following requirement at paragraph 4:

Sanctions

IFAC member bodies should provide in their constitution and rules for the investigation and discipline of misconduct, including breaches of professional standards and rules by their individual members (and, if local laws and practices permit, by firms).

Misconduct includes all and any of the following:

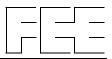
- Criminal activity;
- Acts or omissions likely to bring the accountancy profession into disrepute;
- Breaches of professional standards;
- Breaches of ethical requirements;
- Gross professional negligence;
- A number of less serious instances of professional negligence that, cumulatively, may indicate unfitness to exercise practising rights; and
- Unsatisfactory work.

Thus the reference to unsatisfactory work and breaches of professional standards and ethical requirements (amongst others) also shows that poor work should not be tolerated. The SMO goes into much more detail than Article 30 and deals with how the investigation of complaints should be carried out to establish if there is a complaint to answer. If there is, then separate disciplinary arrangements will reach a decision on the sanction, if any, to be imposed. Throughout the process there should be a right for the individual or audit firm to make representations and also to appeal against the disciplinary decision.

While not an explicit requirement of Article 30, one further aspect is to have arrangements for dealing with complaints about auditors that are received from outside the monitoring system. Virtually all the audit systems in the EU accept complaints from third parties. In a majority of countries, complaints are made to the relevant professional body. In others, the public oversight arrangements deal with complaints.

Countries generally distinguish between their complaint handling arrangements and their quality assurance arrangements. However, some countries use the quality assurance system as a very direct way of investigating the matter. For example Romania uses the quality assurance system to investigate the complaint but with specific terms of reference related to the complaint. Others, such as Bulgaria, use the existence of complaints as a factor in deciding when an audit firm should next receive a monitoring visit. In these latter cases, the specific matter may not be the focus of the visit; rather it is just a factor in accelerating the timing of the visit. In a minority of countries, there is no scope to refer matters to the quality assurance system. Complaints are dealt with in isolation, but even here change is underway. For example Germany will allow the Auditor's Oversight Commission to initiate a special inspection if there are indications of professional misconduct by an audit firm (refer to Question 36 on page 73).

While most countries have procedures to compel the auditor to provide documentation and attend hearings, it is not always the case that there is a compulsion for other entities, such as the company being audited, to supply information. However, in Ireland the regulatory body can compel someone other than the auditor to provide information relevant to a complaint. This is rare and in many cases this is not an issue, as the evidence of a 'deficient' audit is usually within the auditor's own files.



However, the ability to call for documentation from third parties or to require third parties to attend to give evidence could be useful. In a number of countries, the option exists to deal with investigations into companies where, although not involved in the particular matter under investigation, the auditor may be questioned.

Many countries use some form of committee to reach a decision. Usually, these committees comprise experienced auditors and those from outside the profession. In this way there is a balance in the workings of the committee. It is able to draw on the experience of auditors but the presence of non-auditors provides a useful external perspective and avoids the potential challenge that the committee is not sufficiently robust. In those countries where the investigation of complaints is outside the profession (for instance Norway with the financial services authority and France with the "Chambre de discipline") the presence of auditors is not a requirement.

In those countries where the investigation of complaints is in the hands of the profession, there are sometimes other procedures to mitigate any claim that the profession is dealing with complaints in an inappropriate manner. The entire disciplinary process may be under the oversight of a publicly appointed body. This body can review overall processes but not necessarily the outcome of individual cases. However, in some countries, there are provisions to transfer cases of 'public interest' to the oversight body. Indeed, the oversight body may have the power to require that specified cases are transferred to it for investigation, as is the case in the UK.

In summary, the experiences in different countries allow the following conclusions to be drawn about the investigation of complaints.

The complaints system should be able to receive complaints about auditors from third parties who are outside the quality assurance system, and not just as an outcome of quality assurance visits. The investigation system should be able to require the auditor to submit evidence (subject, of course, to consideration of the confidentiality of this information in the hands of the investigation system). If necessary, it should be possible to visit the auditor, either to review a specific matter, or to review generally the issues raised by a matter and the consequences for the rest of the firm's audit work. Some of those making decisions on a specific case should have first-hand knowledge of audit work, but they should work with others who have no such experience.

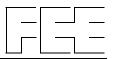
If the investigation process is in the hands of the profession, there should be some public oversight of the process, including the possibility of the public oversight system taking over the handling of specific cases.

Please refer to Appendix II on page 209 for a summary of responses to Question 31.

Question 32 was concerned with how the matter is dealt with and whether there are appeal procedures in place in situations where the quality assurance system noted a shortcoming in a firm's audit work.

As a result of a quality assurance visit to an audit firm, an issue may arise about the audit firm's conduct. There may be problems with the way in which the audit firm is undertaking audit work, its competence may be in doubt, or there may be concerns about whether the audit firm is still of 'good repute' as required by Article 4 of the Statutory Audit Directive. If these or similar issues arise, then there needs to be a mechanism in place to deal with these matters.

Although the individual processes may vary, there are common features across all countries.



At the conclusion of the monitoring review, virtually all countries produce a report on the visit. Audit firms are generally given time to discuss this report with the quality assurance reviewer. This is to check that there have not been any misunderstandings and the reviewer has correctly identified the issues, if any.

There is then a process for considering any issues that may be raised in the report and taking appropriate action. If the report has to be sent to a committee to make a decision about the outcome of the quality assurance visit, the majority of countries allow the audit firm either to comment further on the report (which takes on greater importance when there are points raised in the report that are critical of the audit firm's work, competence, etc.) or to comment on the proposed decision of the committee. Some, but by no means all countries also allow the audit firm to attend the meeting at which a decision is to be made. For example, in Denmark the Supervisory Authority on Auditing sends a draft decision to the audit firm and invites comments; then it makes its decision, whereas Germany allows (indeed can require) the audit firm to appear before the Commission on Quality Assurance. Thus the audit firm can generally make its views known before a decision is finally reached. A similar process exists in Belgium whereby the reviewee can be heard by the Commission on Quality Assurance before a final decision is proposed to the Board of the Institute.

Once a decision is made, then most countries allow an appeal against the decision. For some this is to another committee of the professional body (e.g. Czech Republic), the oversight body (e.g. Austria) or the courts (e.g. Poland). Only one country indicated that there was no appeal against the decision. As is discussed in a later section, many countries regard the decisions as being of a disciplinary nature. This may explain why, in many countries, the ultimate appeal is to the courts.

In summary, drawing on the experiences in different countries, there should be procedures in place to deal with a quality assurance report that reveals issues of concern. These are needed in the interests of dealing efficiently with the outcome of a visit but also to be fair to the audit firm concerned.

The procedures should also allow the audit firm to make an appeal against any adverse decision.

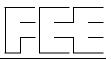
The case should be dealt with by those who have experience in audit matters but with the presence of independent non-auditors so as to ensure that the public interest is taken into account in reaching the decision. For this reason, the courts should not normally be part of the appeal process, as they may not have the necessary experience. However, it is probably not possible to stop an auditor taking his appeal to court, when every stage of the due process has been exhausted, especially in cases where the sanction is the removal of an audit firm's licence to audit.

Please refer to Appendix II on page 210 for a summary of responses to Question 32.

Question 33 considered whether the use of principles-based standards causes any difficulty for the disciplinary body in justifying its decisions due to uncertainty over the requirements of the auditing standards.

The majority of countries are using ISAs, either directly or with some modification. Those few who are not using ISAs are using principles-based auditing standards. No country has adopted auditing standards that require compliance with specified procedures.

The issue is whether this causes difficulties for the disciplinary process in justifying its decisions. If an auditing standard is set as a principle, then it can be complied with in a number of ways. Does this then cause difficulties in determining whether an audit firm has or has not complied with the underlying principle? Some countries have only just adopted ISAs and so have little experience of this



issue. Of those that have had such experience, nearly all indicated that applying principles-based standards in a disciplinary type environment was not a problem. Only two countries indicated any difficulty; but not sufficient to prevent a final conclusion on the particular issues being reached. One country indicated that while it had no experience to date, it could foresee potential problems.

An audit involves numerous matters of judgement when applying auditing standards in the wide range of circumstances found in practice; no two companies to be audited are exactly the same. Therefore it is important that auditing standards are principles-based and do not tie the auditor into applying prescribed objectives that may be irrelevant or inappropriate. Experience to date shows that regulators are quite capable of making their own judgements about the sufficiency or otherwise of an auditor's work.

If a disciplinary case arises, it would be for the auditor to explain how it dealt with a particular audit task, as evidenced in its working papers. Then it would be for the disciplinary body to take a view on the adequacy of that evidence and any other explanation the auditor gives. This matter alone is a powerful argument for including experienced auditors on disciplinary panels. The ability of an auditor to adopt a flexible audit approach, using principles-based standards, should not be restricted simply in order to make the disciplinary process, when called upon, easier to operate.

Please refer to Appendix II on page 213 for a summary of responses to Question 33.

Question 34 asked about the sanctions that may be imposed and whether these are published.

Article 30 requires that EU Member States should have the ability to impose 'sanctions' on statutory auditors and that these are 'appropriately' disclosed to the public. The sanctions should include the option of withdrawing an auditor's approval to be an auditor. IFAC SMO 6 on Investigation and Discipline, at paragraph 7 also calls for a range of sanctions, including exclusion from membership of the professional body:

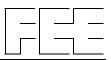
Sanctions

IFAC member bodies should operate a just and effective investigative and disciplinary regime unless (a) such a regime is maintained by a third-party, or (b) local laws prevent it. That regime should allow those who judge such issues to impose a range of penalties, including, if local laws permit:

- Reprimand;
- Loss or restriction of practice rights;
- Fine/payment of costs;
- Loss of professional title (designation); and
- Exclusion from membership.

All countries can take action against individual statutory auditors and most can take action against audit firms. The apparent lack of ability to take action against audit firms is not considered to be a problem. In an audit firm it is those individuals who are statutory auditors who must be in charge of audit work. If action is taken against all the statutory auditors in an audit firm then effectively it is also taken against the audit firm.

Countries have interpreted 'sanctions' differently. Approximately half have described their sanctions as disciplinary measures, using words such as reprimand, censure, warning and fine, for example Latvia. This, and the fact that, in many cases, the sanction is applied by a disciplinary committee or



board, indicates that countries see sanctions as a disciplinary measure that has an element of punishment to it.

Other countries adopt a different approach. They distinguish between disciplinary action for past offences against professional rules (as set out above) and other action that is designed to ensure the future adequacy of the auditor's work. Ireland is an example of this approach. Thus the 'sanctions' in these cases are all about how the auditor improves his work. These 'regulatory' sanctions include additional training and adoption of specified audit measures. Frequently the auditor is required to propose a plan of remedial action to deal with the matters raised during a monitoring visit. This is reviewed for adequacy and additional conditions may be imposed. To protect the public interest, further controls may be put in place to check that the desired improvements take place. These range from requiring the auditor to submit evidence of the additional work undertaken, to scheduling a further monitoring visit earlier than the date the next one would normally be due, to recheck the quality of the audit work. It is only when these improvements in the quality of audit work have been shown to be in place that the 'regulatory oversight' of the audit firm ceases.

Most country said that, as the ultimate sanction, they can withdraw an auditor's approval to audit. In many cases there is a further sanction: as well as losing the right to do audit work, membership of the professional body may also be withdrawn.

On publicity, different approaches have been adopted. Some countries publish all decisions taken, although not all will give the name of the particular auditor. This is particularly the case for decisions that are more disciplinary in nature. Others only publish those cases where the approval to audit is withdrawn. The final group publishes summaries in annual reports.

Taking all the above into account, and the requirements of the revised Directive, what is an appropriate system of sanctions?

Firstly, it should be possible to take action against individual statutory auditors and audit firms. The audit firms provide the environment in which the individual statutory auditors work and if necessary it may be this that needs changing, by the application of sanctions.

There then needs to be a gradation of sanctions within two groups. The first group of sanctions aim to improve an auditor's work and protect the public interest while this improvement takes place. Here it is important that the auditor understands what improvement is required. This could be achieved by requiring the auditor to develop a plan of remedial action. This plan must, of course, be reviewed and strengthened where necessary and its implementation monitored. Such monitoring could take the form of submission of evidence that the action has been successfully undertaken; or a further monitoring visit could take place earlier than the next normal routine visit.

The second group of sanctions are of a disciplinary nature and include the withdrawal of the approval to audit and monetary penalties. These disciplinary sanctions are used where the auditor has shown wilful disregard for the requirements placed upon him or has not co-operated with the systems of monitoring or public oversight.

Finally, there should be some form of publicity for these sanctions. In the case of withdrawal of approval to audit, publicity should be given at the time the withdrawal is made (subject to the expiry of any time for appeals) and the name of the auditor given. With the other decisions, the case for publicity is less clear cut, and even less so when the sanctions are aimed at improvements in the auditor's work. On balance, when the sanction is disciplinary in nature (a reprimand or fine), then publicity should be given. In other cases it would be sufficient for an annual summary to be provided.



Please refer to Appendix II on page 214 for a summary of responses to Question 34.

Question 35 asked if data was available on the sanctions imposed.

A large majority of countries produce some form of information about sanctions but not all publish this information. For those that do, some publish details of the individual sanctions whereas others publish some form of annual summary. The other countries either did not appear to have the data available or had yet to decide whether some form of summary should be made available.

For the overall transparency of the system, it is important that a summary of monitoring visit outcomes is made available. This would include statistics on the number of visits undertaken and the outcomes of those visits. This should include information on any sanctions imposed, be they of a regulatory or disciplinary nature. By providing such information, public trust in the audit monitoring and oversight systems would be enhanced.

If the summary also discusses common issues, it enables other audit firms which were not the subject of a visit that year, to receive useful information about the types of matters identified during monitoring visits so that they can also improve their audit work.

Please refer to Appendix II on page 218 for a summary of responses to Question 35.

Question 36 asked about the extent to which the Statutory Audit Directive would cause changes in a Member State's systems in relation to sanctions.

The Statutory Audit Directive, Article 32, paragraphs 4 (c) and 5, as quoted on page 19, requires the system of public oversight to be ultimately responsible for the investigative and disciplinary systems and to have the right to conduct investigations. In countries that already have a public oversight body (fourteen EU Member States plus Norway), all except one (Belgium) already have a disciplinary system supervised by the public oversight body.

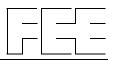
In all other countries (except in the Netherlands), the disciplinary system currently falls under the supervision of the professional institute. In these countries, a public oversight body will need to be established to meet the requirements of the Statutory Audit Directive.

In the Netherlands, the Disciplinary Board is independent and its oversight structure is being reconsidered in the context of a new law on the supervision of the audit profession.

In Germany, according to draft legislation amending the Public Accountants Act, the current system of inspections and investigations will be supplemented by an additional element. This is because legislation has explicitly assigned to the Public Oversight Body the right to initiate special inspections. Further details are included in Appendix I.10 - Germany on page 95.

The Statutory Directive also has the potential to require changes to the systems of sanctions in individual Member States. This is not necessarily a negative issue. It does not mean that the range of sanctions available in individual Member States is deficient, merely that there is a move to a more standard approach.

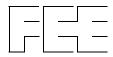
The majority of Member States are of the view that few or no changes are required to the range of sanctions they already have. The majority of the remainder indicated that it was too early to say whether changes would be needed.



Nevertheless, this report recommends a range of 'regulatory' sanctions together with a range of 'disciplinary' sanctions. Not all Member States, including some of those who indicated no changes were needed, have a sufficiently diverse range of sanctions.

It should be noted that Switzerland has not been included in the preceding analysis as it is a country without a formal obligation to implement European Union legislation.

Please refer to Appendix II on page 219 for a summary of responses to Question 36.



APPENDIX I - COUNTRY SUMMARIES

Appendix I.1 - Austria

General

The statutory audit function in Austria is carried out by registered auditors ("Wirschaftsprüfer"). They may be sole practitioners or corporate bodies.

The registration body is the Austrian Chamber of Chartered Auditors ("Kammer der Wirtschaftstreuhänder" or "KWT"). The KWT maintains a professional register of its members which is open to the public. In addition, Wirtschaftsprüfer can be voluntary members of the Institute of Austrian Certified Auditors ("Institut Österreichischer Wirtschaftsprüfer" or "IWP"), involved with accounting and auditing standard setting.

Public Oversight

A public oversight system was established by the Audit Quality Assurance Act in 2005, the "Abschlussprüfungs-Qualitätssicherungsgesetz".

The system required the installation of two bodies as follows:

- Members of the *Working Party for External Quality Control*, the "Arbeitsauschuss für externe Qualitätsprufungen" consists of practitioners only who are nominated by the profession (Chamber and other auditors' controlling bodies);
- Members of the *Oversight Board*, the "Qualitätskontrollbehörde" consists of non-practitioners only who are nominated by the Minister of Industry.

Quality assurance systems also include discipline and withdrawal of approval to audit in cases where necessary. Funding is provided by the Ministry of Industry and by the profession for the Oversight Board and by auditors undergoing quality reviews for the Working Party for External Quality Control. The Oversight Board publishes an annual report.

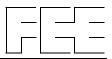
The public oversight system is not responsible for standard setting and endorsement of standards.

Quality Assurance Review Organisation

The review process

The quality assurance system is a "monitored peer review" by authorised and experienced practitioners, supervised by the Working Party for External Quality Control and the Oversight Board.

The review is system-based and focused on the assessment of internal procedures for quality control, following Austrian and international standards, for instance ISQC 1. The review of audit engagements forms an essential part of a complete review in Austria. The number of files selected depends on the number of partners, number and types of audit engagements etc.



The review cycle for auditors of public interest companies is three years, for other auditors it is six years. A certificate which permits an auditor to audit is issued following the quality review. The certificate is limited to a maximum of three years for auditors of public interest companies and to a maximum of six years for other auditors. Auditors have to pay the fees for the reviews.

An annual transparency report including the date of the last quality review must be submitted by auditors.

The reviewers

Reviews may be performed by listed "quality auditors" only. They need special training or sufficient experience as well as special continuing education. The objectivity and independence as well as client confidentiality is governed by law and supervised by local bodies.

Quality auditors have to prepare working papers and a long form report. Standard documentation is required for certain items which are to be included in the report.

The review work will be reviewed by the Working Party for External Quality Control. The Oversight Board is also entitled to all information during and after a review.

The review reporting process

The auditor or audit firm is permitted to discuss and provide answers to the preliminary findings with the reviewer. It is the obligation of the reviewer to provide solutions for making improvements and for rectifying the deficiencies that are included in the report.

A report which contains the main conclusions of the quality assurance review is issued. The report is made available to the auditor and the quality assurance bodies (Working Party for External Quality Control and Oversight Board).

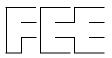
The annual report of the Oversight Board is made public.

Investigation of Complaints and Sanctions

Complaints can be made to the disciplinary body of the professional body. Such bodies cannot, however, request the review organisation to undertake specific reviews or visits to assist in the investigation of complaints.

In the case where the quality assurance review has noted a deficiency, a fair hearing is a legal right of the auditor. In a first instance, the decision power is with the Working Party for External Quality Control. Following this, the auditor may appeal to the Oversight Body for a final decision.

Sanctions are imposed by the Working Party for External Quality Control. Sanctions including a different review cycle, special quality audits and correction of deficiencies within a certain time frame may be imposed on individuals and/or audit firms. There is no publishing of sanctions imposed on individual auditors or audit firms. In the annual report of the Oversight Board, sanctions are published anonymously.



Appendix I.2 - Belgium

General

The statutory audit function in Belgium is exclusively carried out by "Reviseurs d'Entreprises - Bedrijfsrevisoren", a professional title which may include either a sole practitioner or a corporate entity. The statutory audit profession has its legal body: the "Institut des Reviseurs d'Entreprises – Instituut der Bedrijfsrevisoren" (IRE-IBR) (Institute of Registered Auditors). The Institute of Registered Auditors has itself the legal authority to supervise the auditors pursuant to the Law of 22 July 1953.

Public Oversight

Two external organisations have a supervisory role over the profession, completely independent from the profession:

- The High Council for the Economic Professions, the "Conseil Supérieur des Professions Economiques", installed in 1985 to advise the government on matters concerning the Belgian national economy. This Council is competent for the general supervision of the profession and it is funded by three institutions for the Economic Professions (Institute of Registered Auditors, Institute of Accountants and Tax Consultants and the Institute of Chartered Accountants and Tax Experts);
- The Advisory and Supervisory Committee on the Independence of the Statutory Auditor, the "Comité d'Avis et de Contrôle de l'indépendance du commissaire", established in September 2003. This Committee has an advisory role on individual requests entered by statutory auditors regarding the interpretation of the existing rules on independence. It may also start disciplinary procedures for infringements on independence matters. It is funded by the Institute of Registered Auditors and by companies in the first year of starting these activities and exclusively by companies depositing their annual accounts in the following years.

The ultimate supervisory authority is with the Minister of Economic Affairs.

Setting and endorsement of standards and quality assurance enforcement remain the responsibility of the Institute, after having requested advice from the High Council for the Economic Professions. If applicable the Board of the Institute may refer cases to the Disciplinary Commission.

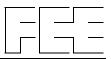
Quality Assurance Review Organisation

The review process

The quality assurance system is a "monitored peer review" system, subject to the supervision of the Commission for quality assurance (hereinafter, the "Commission") and the Board of the Institute of Registered Auditors (hereinafter, the "Institute"), both comprised of registered auditors.

Legal and administrative staff of the Institute supports the work carried out by both of the aforementioned bodies (i.e. Commission and Institute).

The Institute organises a program of quality assurance review so that the professional activity of the registered auditors in Belgium is subject to a quality control review at least every five years.



Such a program is subject to the supervision of the Commission of quality assurance and the Board of the Institute, both composed of registered auditors and developed in the Mission Statement of the Institute as well as in the following standards:

- The Law of 22 July 1953, creating the Institute of Registered Auditors;
- Article 25 of the Royal Decree of 20 April 1989;
- Quality assurance standards of 8 November 2002 (approved by the Board);
- Mission Statement of the Commission of quality assurance.

There is no differentiation in the review methodology nor in the frequency of the review cycle. The Board of the Institute will select, whenever is necessary, a reviewer who is familiar with and competent to carry out the quality review of activities and missions related to public interest entities.

The quality assurance review implies that the reviewer visits the office of the reviewee. In this regard, the reviewer has to fill in a questionnaire related to the organisation of the audit firm and the profile of the reviewee, covering the assessment of the internal quality assurance system of the audit firm.

The reviewer decides on the nature and the extent of the review of individual audit engagement files which will need to be carried out. The minimum is one file relating to the audit of financial statements and one file relating to another legal assignment for each statutory auditor in charge of an engagement.

The general assessment in the final report of the reviewer will reflect whether the organisation of the audit firm and the quality assurance procedures are adequate in relation to the nature and the extent of his activities and whether the working files are well kept.

The Board of the Institute takes the ultimate decisions concerning the possible referral of files to the Disciplinary Commission.

In the event that the results of the review are not satisfactory and provided that the shortcomings are not of such an importance that require immediate disciplinary sanctions, the Board of the Institute may subject the registered auditor (statutory auditor or audit firm) to an intermediate early quality assurance review upon proposal of the Commission of quality assurance. In the course of such quality assurance reviews, the reviewer will verify whether the reviewee has taken effective measures to remedy his weaknesses.

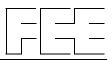
The reviewers

The review is performed by a registered auditor chosen by the reviewee from a list of three registered auditors imposed by the Board of the Institute.

A registered auditor may apply for a role as reviewer, provided that he has been listed on the register of auditors for more than five years.

The review reporting process

Before being dealt with by the Commission, the staff (non-practitioners) of the Institute are charged to review the work carried out by the reviewer in order to ensure that the reviewer's reports comply with the standards relating to quality assurance. The final report of the reviewer is, other than the reviewee himself, only available for the Commission, which is subject to the professional secrecy rules.



The results of quality assurance reviews of the professional activity of registered auditors are adopted by the Board of the Institute upon proposal of the Commission of quality assurance. Therefore the Commission may propose opening a disciplinary file in the case of a negative outcome of a quality assurance review.

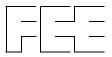
The results of the quality assurance reviews are subject to publication in the annual report of the Institute.

Investigation of Complaints and Sanctions

Complaints against auditors can be made by third parties, public authorities and others. Complaints must be made to the internal disciplinary body namely "Commission de Surveillance", under the supervision of the Institute. If necessary the Commission proposes to the Board the transfer of the case to the External Disciplinary Commission, composed of magistrates and registered auditors.

The disciplinary measures and sanctions determined by law are a warning, a reprimand, a prohibition to accept or to carry forward certain missions, a suspension for a period which may not exceed one year and removal from the register of auditors.

All disciplinary actions are published on the website of the Institute and included in the annual report of the Institute.



Appendix I.3 - Bulgaria

General

The statutory audit in Bulgaria can be carried out only by registered auditors in public practice or audit firms. They both must be members of the *Institute of Certified Public Accountants in Bulgaria* (ICPA), which is the Registration Body and organises and provides exams for entering the profession of a registered auditor.

The Institute of Certified Public Accountants in Bulgaria is established by the Independent Financial Audit Act and is completely independent from the state. The Institute maintains a professional register - list of the members - which is published in the State's Gazette once a year. Names, addresses and phone numbers of the members are also published on the internet site of the Institute.

Public Oversight

The establishment of an oversight body to monitor the quality of audit services in Bulgaria is in the process of preparation. It is envisaged that practitioners shall form one third of the members of the public oversight commission, and that these members shall be from the National Audit Office of the Republic of Bulgaria and from the Institute of Internal Auditors.

Quality Assurance Review Organisation

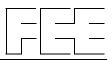
The review process

Quality assurance reviews on audit services are one of the functions within the operations of the Institute of Certified Public Accountants in Bulgaria. Within the quality assurance system, the adherence to professional standards in performing audit engagements, the obligation of continued professional qualification and independence requirements are reviewed. On the grounds of the Law on Independent Financial Audit (LIFA), the General Assembly of the ICPA passed Rules and Procedures on Quality Control on Audit Services (RPQCAS).

The quality assurance system is organised as a "monitored peer review" system. It is organised at two levels: by the Audit Services Quality Assurance Board (ASQAB or the Board) and by controllers specifically approved by the Board. The ASQAB was established as a body of ICPA according to the Independent Financial Audit Act. Its members are members of the Institute and are elected by the General Assembly for a three-year period.

The ASQAB has the following responsibilities, among other things:

- Development of a mandatory working programme for quality assurance reviews;
- Definition of the scope of information on quality control which is to be provided by the "Report on the Auditor's Activities";
- Development and improvement of the methodology for the performance of the reviews;
- Organisation and planning the scope of the audit engagement reviews of registered auditors;
- Approval, on an annual basis, of the composition of the controllers and assignment of reviews to be carried out;
- Organisation of controller training;
- Summary of the results of the reviews.



Assessment of the internal quality control procedures in the audit firm is carried out on the basis of a "Questionnaire on the implementation of a quality control system on the audit work performed in the registered auditor's firm". The auditor or audit firm under review is required to provide the working papers for review onsite.

The reviewers

A reviewer can be each registered auditor (excluding audit firms) who:

- has performed audit activities over the last five consecutive years;
- has completed successfully training as a controller of the quality of audit services organised by the Quality Control Board.

Each controller attends, on an annual basis, training units organised by the Quality Control Board.

The review reporting process

The controller prepares a draft "Review Results Report". The report includes a conclusion as to the compliance of the internal quality control system of the auditor and the performance of the audit engagements to professional standards and a summary of the findings and recommendations of the controller. The report contains remarks regarding a remedy for weaknesses found, but without references to the names of specific engagements, auditors or other staff.

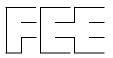
The report on the review is presented to the Audit Services Quality Assurance Board. The review is completed following a decision of the Board to approve the controller's report. If deficiencies or cases of non-compliance were identified the Board submits proposals to be reviewed by the Disciplinary Board. The Disciplinary Board is informed in all cases of unsatisfactory assessments and in all cases of non-provision of documents or hindrance to the review.

Investigation of Complaints and Sanctions

Complaints from third parties, including state authorities, may be submitted to the Management Board, the Disciplinary Board, the Professional Ethics Board or the Audit Services Quality Assurance Board of the ICPA. Complaints that fall within the competencies of the Audit Services Quality Assurance Board and are related to the adherence to professional standards on auditing are subject to discussion and decision making, including reviews or visits, in order to support the investigation of the complaints.

A register is kept as to the sanctions imposed on the members of the ICPA, the data therein is periodically announced to the ICPA members and in cases of a prohibition to perform audits of financial statements, a public announcement is made as well. In cases of violations of professional duties, sanctions are imposed on individual auditors and audit firms. The sanctions are imposed by the Chairman of the Management Board of the ICPA under a proposal by the Disciplinary Board. The Disciplinary Board makes a proposal to the Chairman of the Management Board as to a sanction on the registered auditor, and the Chairman imposes the sanction and announces this information.

The disciplinary measures and sanctions depend on the nature and magnitude of the violation and are determined by law. They are a warning, an obligation to undertake certain corrective actions, a monetary fine, various forms of suspensions and an expulsion from the ICPA.



Appendix I.4 - Cyprus

General

Although there is a threshold for "small business" in the Companies Law, audits are required for tax purposes. Accordingly all companies are currently subject to audit. There is a draft bill for the abolition of the "small business" threshold and the introduction of a "small group" threshold. Statutory audit is carried out by members of the *Institute of Certified Public Accountants of Cyprus* (ICPAC). The work of statutory auditors and audit firms is monitored by ICPAC. According to guidance issued by ICPAC in 1981, the accounting profession in Cyprus follows the International Standards on Auditing.

Public Oversight

At present there is no public oversight system.

A public oversight system will be introduced in response to the requirements of the new Statutory Audit Directive. It is expected that:

- Its nomination process for members and its composition will be left to the Council of Ministers. ICPAC will ensure that it includes a minority of practitioners;
- Its scope of activities will be limited to monitoring the work carried out by the Institute of Certified Public Accountants of Cyprus (ICPAC) in respect of the quality assurance, standard setting, approval of auditors, discipline, education and other relevant matters for listed, public interest or other entities;
- Its funding will be from the Government;
- There will be transparency of its work.

Standard setting will be performed by ICPAC.

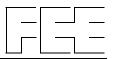
Quality Assurance Review Organisation

The review process

ICPAC is responsible for the approval of auditors and for education, quality assurance and discipline of auditors of listed, public interest and other entities. Audit firms are selected for review on a random basis from three groups: sole practitioners, firms of two to five partners and firms over five partners. Reviews are carried out at least once every six years. However when the first visit discloses weaknesses, follow-up visits within a shorter period are made.

The reviewers

ICPAC carries out monitoring with the assistance of the Association of Chartered Certified Accountants (ACCA) of the UK. People responsible for the review are qualified administrators of the Office of the Chamber of Auditors and qualified auditors, members of the Supervisory Commission. Reviewers are employees of ACCA, qualified accountants with previous experience in auditing. They continually develop their qualification, primarily through training provided by the Chamber of Auditors. Training is focused on the latest developments in relevant areas.



The process is funded by ICPAC through members' subscriptions. The work of the reviewers is fully reviewed by the Supervisory Commission.

ICPAC's agreement with ACCA is that the monitoring visits shall conform with the European Commission Recommendations on Quality Assurance dated 15 November 2000 and with any other European Commission Recommendations made in the future. Internal control is judged on the basis of ISQC1. The methodology does not prescribe the extent of compliance testing.

There is no prescription on the number of individual audit engagements that need to be tested. The number depends on the assessment of the internal control system. The appropriateness of the audit fees charged is reviewed as well.

The review reporting process

A written review report is prepared following each review. The reviewer discusses the preliminary findings with the audit firm. A report on findings is sent to the auditor after obtaining his comments on a draft report. The reviewer is not expected to assist in the correction of deficiencies. The turnover time for the issue of reports ranges from three to six months. The reports are copied to the General Manager of the Institute who decides whether a follow-up visit shorter than six years is necessary and advises the auditor accordingly. Cases of a disciplinary nature often relate to independence issues.

Reviewers are obliged to maintain confidentiality. Review reports are filed separately from other files of the Chamber of Auditors with limited access to them.

The audit monitoring system was introduced in January 2005. The issue of a summary report for the year 2005 is planned, giving the results without mentioning names. The report will also be sent to the Ministry of Commerce, Industry and Tourism. This will be done on a voluntary basis because there is no legal requirement for this at present. The ICPAC Council will also decide as to further publication such as in the Institute's magazine.

Investigation of Complaints and Sanctions

Complaints are referred to by the Council to an Investigating Officer, normally the General Manager, who carries out an examination as to whether there is a case for referral to the Disciplinary Committee. The specific review is expected to be covered by the Investigating Officer but there is nothing to stop the Disciplinary Committee to request specific reviews.

In respect of complaints following monitoring visits, the results of the first visit are considered to be of an educational nature. A follow-up visit is undertaken to determine whether there has been progress. In cases where there is no progress a warning is issued followed by a third visit. If the weakness continues, there is the possibility of withdrawing the licence to practise. Members have the right of appeal within 15 days from the decision of the Disciplinary Committee.

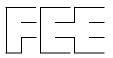
The Disciplinary Committee has not yet been involved in issues requiring interpretation of auditing standards.



The Disciplinary Committee may impose the following penalties or a combination of penalties, depending on the case:

- Striking off from the Register for a specific period of time or permanently;
- Suspension of the licence to practice the profession for such a period as the Disciplinary Committee may deem advisable;
- Keeping the licence to practise the profession under such conditions and for such a period as the Disciplinary Committee may deem advisable;
- Withdrawal of the licence to practise the profession;
- Deprivation of the right to obtain a licence to practise the profession;
- Severe reprimand;
- Reprimand;
- A fine, the amount of which shall be decided by the Disciplinary Committee.

The Council of the Institute may publish in the newspapers and periodicals such details as may be considered appropriate or necessary of any finding or decision of the Disciplinary Committee.



Appendix I.5 - Czech Republic

General

The *Chamber of Auditors* is responsible for standard setting and endorsement of standards as well as for quality assurance enforcement and disciplinary measures and sanctions. Its activities are governed by the Act on Auditors.

Public Oversight

In accordance with the requirements of the Statutory Audit Directive, a public oversight system will be implemented before June 2008.

Quality assurance, standard setting, approval of auditors, discipline and education is performed and organised by the Chamber of Auditors of the Czech Republic. The Chamber is funded by subscriptions by auditors and audit firms and from own resources.

Quality Assurance Review Organisation

The Supervisory and Disciplinary Commissions of the Chamber are responsible for monitoring and examining the appropriate performance of audit services by auditors and audit firms. These commissions are elected by the General Assembly of all registered auditors for a period of three years. The work of these commissions is supported by employees of the Office of the Chamber. Responsibility and authority of these commissions is derived from the Act on Auditors.

The review process

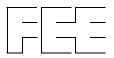
The review is focused on compliance with the Act on Auditors, International Standards on Auditing, the Code of Ethics and other professional standards.

The basis for review selection is the amount of fees invoiced by the firm or auditor, type of clients (public interest entities, listed companies), results of the last review, time elapsed from the last review and, if applicable, complaints regarding an audit firm or auditor. Audit firms and auditors auditing listed and other public interest entities have been preferably selected for reviews since 2005. There is no special review methodology for these subjects.

The number of individual audit engagement files is not prescribed. The quantity and quality of resources spent is reviewed. The appropriateness of the audit fees charged may be discussed with the auditor or audit firm.

The review comprises an assessment of compliance of audit procedures with relevant auditing standards including the Ethical Code. The review is performed based on a standard checklist. An assessment of the auditor's judgment and an assessment of the proper format and type of the audit opinion form a standard part of the review.

A written review report is prepared for each review.



The reviewers

The reviews are carried out by two groups of reviewers: one being full-time staff employed by the Chamber of Auditors and another one being members of the Supervisory Commission.

The reviewers continually develop their qualification, primarily through training provided by the Chamber of Auditors. Training is focused on latest developments in relevant areas. The objectivity of the reviewers is assessed by the Supervisory Commission.

Reviewers are obliged to maintain confidentiality. Review reports are filed separately from other files of the Chamber of Auditors with limited access to them.

The work of each reviewer is fully reviewed by the Supervisory Commission.

The review reporting process

The preliminary findings are discussed with the auditors or audit firm prior to the issue of the final review report. Reviewers provide auditor with the technical assistance in audit methodology based on the results of the review. They also provide the auditor or audit firm with recommendations for improvement in their audit work.

Investigation of Complaints and Sanctions

Complaints received by the Chamber of Auditors are investigated by the Supervisory Commission and, if the complaint is upheld, it is further assessed by the Disciplinary Commission. In the case of a breach of the laws, standards and regulations, the Disciplinary Commission takes relevant action.

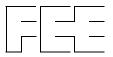
Each deficiency is discussed with the auditor and a review report is prepared as a result of the review. The auditor or audit firm is entitled to appeal to the chairman of the Supervisory Commission.

In the case of a significant deficiency, the matter is judged by the Disciplinary Commission. The auditor or audit firm is entitled to appeal against the decision of the Disciplinary Commission to the Appeal Commission. The Appeal Commission is appointed by the Council of the Chamber of Auditors from its members.

Sanctions can be imposed on individual auditors and audit firms. Types of sanctions are:

- Reprimand;
- Public reprimand;
- Penalty;
- Temporary removal of license;
- Exclusion of membership to professional institute (e.g. withdrawal of certificate).

Sanctions are imposed by the Disciplinary Commission. The sanctions, except from Reprimands, are published in the register of auditors maintained by the Chamber of Auditors. This register is publicly available on the internet.



Appendix I.6 - Denmark

General

The statutory audit function in Denmark is carried out by State authorised accountants and Registered public accountants.

Public Oversight

The Danish Commerce and Companies Agency (DCCA) is the ultimate responsible authority for Auditors' Public Oversight in Denmark. DCCA has in accordance to the law established the Supervisory Authority on Auditing (SAA) – ("Revisortilsynet", sometimes referred to as "The Auditor's Public Oversight Body"). The actual quality assurance reviews are carried out by qualified auditors from audit firms, specially trained and approved by SAA. The reviewers are compensated by the reviewed audit firm in accordance with a special agreement.

SAA has the responsibility to define the framework and methods of periodic inspections, supervise their implementation and ensure the proper conduct of the reviews in accordance with regulations issued by DCCA.

Quality Assurance Review Organisation

The review process

The reviews of audit firms are carried out following a "monitored peer review" system. The reviews include a visit to the audit firm. An assessment of the internal quality control system is made and individual engagements/files are selected for compliance testing. The audit firms are selected on a cyclical basis for review every four years.

The reviewers

Only qualified and approved auditors may conduct the reviews on appointment from SAA.

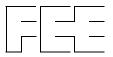
The review reporting process

The reviewer issues a report after discussion with the audit firm. A copy of the final report is delivered to SAA, which annually publishes the overall results of the quality assurance.

Investigation of Complaints and Sanctions

Complaints against auditors can be made to the Disciplinary Body by third parties, public authorities and others.

Sanctions in the form of reprimands, with or without a renewed quality review and submissions for the Disciplinary Body for state authorised and registered accountants, are imposed on the audit firms by the Supervisory Authority on Auditing. Sanctions imposed on individual auditors, e.g. fines or deprivation of the licence, are made by the Disciplinary Body."



Appendix I.7 - Estonia

General

Audits are undertaken by members of the *Board of Auditors*. This is the self-governing professional association of Estonian auditors which organises the professional activities of auditors and protects the rights of auditors. Auditors can be individuals or legal persons. Audits are conducted in accordance with Estonian Auditing Guidelines. These are based on ISAs but the guidelines are to be updated to conform much more closely to ISAs.

Public Oversight

At the moment the Board of Auditors operates under the Authorised Public Accountants Act and is supervised by the Minister of Finance. This supervision is of the Board of Auditors' adherence to the Act and other relevant law. The Act will be changed to deal with the Statutory Audit Directive requirements but the form of public oversight is still under discussion. At the moment the Board of Auditors is responsible for preparing the audit rules (which are based on ISAs), exercising supervision over the activities of auditors (who are members of the Board of Auditors) and dealing with any complaints against auditors, including taking disciplinary action.

Quality Assurance Review Arrangements

The review process

Individuals, not firms, are subject to the review process and the review is focussed on individual audit engagements and typically two are reviewed. The auditor's internal quality control system is not the direct subject of the review. This may change. Auditors are required to submit a report of their activities every third year to the Board of Auditors. Using information in the return and other information (such as about complaints), auditors are selected for a visit.

At the moment auditors are visited over a ten-year cycle. This is to change to a six-year cycle, with a three-year cycle for auditors of public interest entities. Usually the review is conducted at the auditor's offices and usually two audit engagements are reviewed.

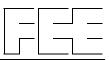
Implementation of the Statutory Audit Directive is expected to change these arrangements.

The reviewers

The review teams consist of a qualified auditor from the management board of the Board of Auditors (these individuals are not employed by the Board) and another qualified auditor.

The review reporting process

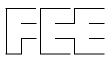
A report is written on each visit which the auditor under review sees and it is then sent to the Board of Auditors. The overall results of the quality reviews are presented to the General Assembly of the Board of Auditors but are not made public. Implementation of the Statutory Audit Directive is expected to change the review and reporting arrangements considerably.



Investigation of Complaints and Sanctions

Complaints can be made against auditors by anyone. These are investigated by the Ethics Committee of the Board of Auditors and any necessary action is taken by the management board. Sanctions range from an early repeated monitoring visit to requirements, fines and withdrawal of approval as an auditor. These are not published but in the case of loss of approval to audit the name of the auditor is removed from the public list of auditors and so publicity is given in this way.

Implementation of the Statutory Audit Directive is unlikely to change the range of sanctions but may change the publicity that is given to them.



Appendix I.8 - Finland

General

The statutory audit function in Finland is carried out by either KHT auditors and KHT audit firms or HTM auditors and HTM audit firms. In very small entities the audit may be performed by a layman auditor i.e. a general examiner without formal audit education. The system of layman auditors will be abandoned according to the government bill amending the Auditing Act, which is expected to come into force as at 1 January 2007. According to the proposal layman auditors will, however, be allowed to continue as auditors until the first general meeting in 2009 in the company in question.

KHT auditors and KHT audit firms are authorised by the *Auditing Board of the Central Chamber of Commerce* (the Auditing Board). HTM auditors and HTM audit firms are authorised by the *Auditing Committee of a local Chamber of Commerce* (the Auditing Committees). There are currently 20 local Auditing Committees. Both bodies have a majority of non-practitioners. They are responsible for keeping a register of the auditors and audit firms and are responsible for the supervision of their respective category of auditors and audit firms.

Public Oversight and supervision

Due to the two-tier system of auditors, the public oversight also consists of two levels, KHT and HTM. The public oversight function is general in nature. It addresses development issues, both nationally and internationally and interaction between the oversight bodies and auditors. Its operational oversight, which is comprised of investigations and inspections is referred to as supervision.

The statutory audit function is, as described above, placed under supervision of either the Auditing Board (KHT auditors) or the Auditing Committee (HTM auditors). Both bodies are funded by fees from the auditors and audit firms. The Auditing Board of the Central Chamber of Commerce has both supervisory and public oversight functions.

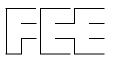
The Auditing Board of the State, which is organised by the Ministry of Trade, provides for general guidance, development and public oversight of the audit function. It shares its public oversight functions with the Auditing Board of the Central Chamber of Commerce.

The Auditing Board and the Auditing Committees are public bodies and the Act on Openness of Government Activities is applied. These bodies may impose disciplinary sanctions limited to remarks and warnings on auditors and audit firms. In the case the bodies regard a matter so serious that the authorisation of an auditor or audit firm should be cancelled, an application will be made to the Auditing Board of the State who will try the application.

The oversight role of the Auditing Board and the Auditing Committees over the auditing profession includes two main tasks:

- Supervision of the qualifications of professional auditors;
- Supervision of compliance with the rules of professional ethics and good auditing practice.

In order to accomplish these tasks, the Auditing Board and the Auditing Committees co-operate with the two Auditor Institutes in Finland to develop the system for quality assurance. The quality assurance reviews of auditors are organised by the Quality Assurance Committees within the Institutes. However, these reviews are limited to auditors who are members of the institutes. Reviews



of auditors that are not members of an Institute are organised by the Auditing Board or the Auditing Committees, as a "monitored peer review" system, with the reviews being carried out by the Institutes.

According to the government bill to amend the Auditing Act the quality assurance of KHT auditors and HTM auditors will be the responsibility of the Auditing Board and the Auditing Committees, respectively.

Quality Assurance Review Organisation

The review process

Accordingly, under the supervision of the Auditing Board and the Auditing Committees, the Institutes are responsible for organising and carrying out the reviews of statutory auditors. The quality assurance system is a "monitored peer review" system. The Quality Committees of each Institute are responsible for selecting reviewed auditors, recruitment, tuition and qualification of controllers including their independence, the review process, the review methodology, dispatching of reviewers, harmonisation and consistency of the work issued by reviewers. Concerning the review cycle, auditors are selected on a cyclical basis over five years.

All reviews include a visit to the relevant auditor's office, an assessment of the internal quality control system of the firm in combination with testing of individual audit files. The review visits are funded by the profession through a review fee.

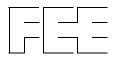
The target of the review is the individual auditors (natural person) and makes no distinction between auditors of PIEs, listed companies and others. All individual auditors are reviewed equally. There are not yet external quality assurance reviews targeted to audit firms. The review process, however, considers whether the internal quality control system of the audit firm includes policies and procedures for acceptance and continuance of client relationships and specific engagements and whether the internal quality control system of the audit firm itself performs an annual review of its own compliance. Auditors who work in audit firms are inspected in a way which takes into account the quality assurance reviews of the audit firm.

According to the government bill to amend the Auditing Act the quality assurance of KHT auditors and HTM auditors will be the responsibility of the Auditing Board and Auditing Committees, respectively. The review cycle will be six years for all auditors and three years for auditors of listed companies.

The reviewers

Only qualified auditors specially trained for quality reviews may conduct the reviews.

Reviews of auditors who are not members of the Institutes are performed by the Auditing Board or the Auditing Committees as a "monitored peer review" system. The reviews of non-members are carried out by the Institutes and the results are sent to the Auditing Board or the Auditing Committees.



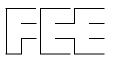
The review reporting process

Annually, the Institutes report the overall results of the reviews to the Auditing Board, which will give feedback and comment on issues which should be developed and improved.

Investigation of Complaints and Sanctions

Complaints against auditors can be made to the Auditing Board and the Auditing Committees by third parties, public authorities, etc.

Sanctions ranging from reminders to warnings are given by the Auditing Board and the Auditing Committees. Cancellation of authorisations are decided by the Auditing Board of the State upon applications from the Auditing Board and the Auditing Committees or after investigations on own initiative. The Auditing Board of the State tries appeals concerning sanctions and cancellations. Members who do not comply with the quality assurance obligations may be dismissed as members by the Institutes.



Appendix I.9 - France

General

The statutory audit function in France is exclusively carried out by "Commissaires aux comptes", a professional title which may include either a sole practitioner or a corporate entity. The statutory audit profession has its legal body: the "Compagnie Nationale des Commissaires aux Comptes" (CNCC) is the professional body of statutory auditors. The registration procedure and the disciplinary committee are not in the hands of the profession.

Geographically and for administrative matters each statutory auditor or firm of statutory auditors has to be registered with a regional body: "Compagnie Régionale des Commissaires aux Comptes" (CRCC). The CNCC is responsible for co-ordination of the activities of all CRCCs.

Public Oversight

The statutory audit function is placed under supervision of the "Haut Conseil du Commissariat aux Comptes" (High council for statutory audit), an independent public interest authority, entirely funded by the Ministry of Justice which is responsible for the oversight of the profession. The oversight role of the "Haut Conseil" over the auditing profession includes two main tasks:

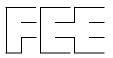
- Supervision of the profession, with the assistance of CNCC; and
- Ensuring compliance with the rules of professional ethics and good conduct, and especially, to ensure the independence of statutory auditors.

In order to accomplish these tasks, the "Haut Conseil" is responsible for identifying and promoting best professional practices. It provides opinions on proposals made by CNCC on professional standards before endorsement by the Minister of Justice and the professional code of ethics before approval by decree issued by the "Conseil d'Etat". The "Haut Conseil" has also the responsibility to define the framework, orientation and methods of periodic inspections, supervise their implementation and ensure the proper conduct of these inspections.

Quality Assurance Review Organisation

The review process

Accordingly, under the supervision of the "Haut Conseil", CNCC is responsible and has to carry out the reviews of statutory auditors and audit firms. The reviews of statutory audits relevant to listed entities are subject to a co-operation agreement between the "Authorité des Marchés Financiers" (AMF), the securities regulator, and CNCC in order to define the input provided by AMF regarding the reviewed entities. The quality assurance system is a "monitored peer review" system. Permanent staff of CNCC are responsible for selecting firms and files to be reviewed, recruitment, tuition and qualification of controllers including their independence, the review process, the review methodology, deployment of reviewers, harmonisation and consistency of the work issued by reviewers. The review methodology which is issued is the same although the structure and content of questionnaires may vary according to the size of the file. Concerning the review cycle, firms with a significant number of audits of listed entities are controlled every year. A new system currently under consideration by the "Haut Conseil" will be put in place in order to ensure a periodicity of the review cycle of three years for all firms dealing with audits of public listed entities, in order to fulfil the requirements of the new Statutory Audit Directive. The rest of the auditing firms are normally reviewed every six years.



All reviews include a visit to the relevant auditor's office, an assessment of the internal quality control system of the firm, individual files are also tested, ten percent of the total amount of hours of audit work is covered, adequacy of resources and appropriateness of fees are considered.

The reviewers

Only qualified auditors with senior experience may be responsible for the reviews. Quality control reviews are predetermined by the "Haut Conseil", and further review of the CNCC review work is carried out by the secretariat of the "Haut Conseil".

An open discussion to be noted is that the French oversight body together with the CNCC are currently reflecting on the possibility of introducing a monitoring system of inspections for audit firms of certain types of entities.

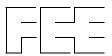
The review reporting process

The overall results of the quality assurance system are submitted to the "Haut Conseil" which issues each year an analysis of the remark and conclusions on the activity of the quality assurance system. This report is published.

Investigation of Complaints and Sanctions

Complaints against auditors can be launched by third parties, public authorities (Minister of Justice, securities regulator, etc) and the President of the Institute. Complaints must be made to the disciplinary organ namely "Chambre de discipline" which is not in the hands of the profession.

Sanctions going from warning to exclusion are given by the "Chambre de discipline" with appeal to the "Haut Conseil". Sanctions are published by CNCC anonymously.



Appendix I.10 - Germany

General

The statutory audit function in Germany is carried out by officially approved and registered auditors ("Wirtschaftsprüfer") in public practice. They may be sole practitioners, partnerships or corporate bodies. In addition, registered sworn accountants (vereidigte Buchprüfer) are entitled to conduct statutory audits of medium-sized limited liability companies and medium-sized partnerships.

Registered auditors and audit firms are entitled to conduct statutory audits in Germany provided that they have successfully undergone an external quality assurance review. In addition, they may provide accounting services, assurance services, tax services, business consulting services as well as trusteeship services.

The Registration body is the *German Chamber of Public Auditors* (WPK). The WPK, a corporation established under public law, is the supervisory body of the auditing profession in Germany. The WPK is under the public oversight of the *Auditor Oversight Commission* (AOC) and under state supervision by the Federal Ministry of Economics and Labour. The WPK maintains a professional register, which contains professional data on members and, to the extent that this is mandatory, personal data. The professional register is open to the public.

In addition, Wirtschaftsprüfer are voluntary members of the "Institut der Wirtschaftsprüfer in Deutschland e.V." (IDW), an independent, non-profit organisation under private law. The IDW issues auditing standards and standards on accounting issues.

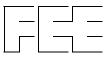
Public Oversight

The AOC, the creation of which is mandated by the Auditor Oversight Act, is responsible for public oversight on statutory auditors and audit firms.

The AOC is composed of six to ten members who are appointed by the Federal Ministry of Economics for a four-year term. The Ministry also supervises the AOC's work. The AOC is independent from the audit profession. To ensure the required expertise, the Auditor Oversight Act requires AOC members to have an adequate background in accounting, finance, economy, academics or jurisdiction. The AOC acts independently and is not bound by any instructions.

The AOC is charged with public oversight over all activities of the WPK, relating to statutory auditors and audit firms. The AOC's oversight responsibilities applies to the professional examination, the aptitude tests for foreign auditors, the approval and registration of statutory auditors and audit firms, quality assurance and investigative and disciplinary systems, and the adoption of professional rules. In cases of professional supervision with cross-border relevance the AOC is the contact for authorities from abroad.

The AOC has ultimate authority to issue binding instructions to the WPK, both with respect to general issues and in individual cases.



Quality Assurance Review Organisation

The review process

The Quality assurance system established in Germany is a "monitored peer review" system. "Wirtschaftsprüfer" and "Wirtschaftsprüfungsgesellschaften" that offer statutory audit services have to submit themselves to external quality assurance reviews every three years¹³. These reviews are not limited to those whose audit clients include listed companies. Practitioners and firms not providing statutory audit services may participate on a voluntary basis and are subject to the same rules.

The basic requirements of the German quality assurance system have been legally established by inclusion in the Law Regulating the Profession of Wirtschaftsprüfer (WPO).

The reviewers

The reviews are carried out by members of the accounting profession who are required to possess the relevant expertise, be independent from the statutory auditor or audit firm under review and hold a spoecific license to carry out such reviews. (Reviewers for Quality Assurance).

After first-time registration the reviewers have to demonstrate that they have participated in special training on quality control assurance matters on a regular basis.

The review reporting process

The quality assurance system is organised and monitored by WPK which is responsible for registration of the reviewers and monitoring their qualifications, independence and continuing education.

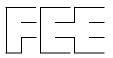
Before a quality assurance review, the statutory auditor or audit firm has to present the WPK with up to three proposals for reviewers including a declaration of independence for each. WPK can refuse any or all proposals, e.g. for independence reasons.

Each quality assurance review of an audit practice's quality control system ends with a written long-form report including an opinion summarising the overall results of the review. The report is intended to provide information about the practice's quality control procedures as well as the nature and extent of the reviews and the findings it revealed. In the event of a qualification or disclaimer of opinion the reasons for the qualification or disclaimer must be given. The report is made available to the statutory auditor or audit firm under review, the Commission on Quality Assurance and the AOC.

The Commission on Quality Assurance reports annually on the overall results of the quality reviews. The report is presented to the AOC, the WPK Advisory Board and WPK Board of Management and published in the official journal of WPK and on the WPK website. The AOC reports annually on the adequacy and effectiveness of the system of quality assurance and gives recommendations for further developing and improving the system. The annual report of the AOC is submitted to the Federal Ministry of Economics and Labour, WPK Advisory Board and WPK Board of Management and published in the official journal and on the WPK website.

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According to draft legislation amending the Public Accountant Act, the review cycle for auditors of entities, which are not public interest entities will be modified from three to six years whereas the cycle of auditors of public interest entities will remain three years.



Investigation of Complaints and Sanctions

When the review has revealed no significant deficiencies in the quality control system of the statutory auditor or audit firm, the Commission on Quality Assurance issues a certificate confirming the statutory auditor's or audit firm's participation in this legally required quality assurance review. The certificate and, thus, participation in the quality assurance review, is a prerequisite for the statutory auditor's or audit firm's continued qualification to carry out statutory audits. A certificate cannot be issued if the quality assurance review report contains a disclaimer of opinion, whether due to severe deficiencies in the quality control system, or an inability to assess the adequacy and effectiveness of the system with reasonable assurance.

Furthermore, the Commission on Quality Assurance can order measures the statutory auditor or audit firm should take to rectify deficiencies detected by the quality assurance review or release an order for a special review. If the statutory auditor or audit firm does not appropriately respond to these measures, the Commission on Quality Assurance is entitled to impose fines. Ultimately, it may also decide to revoke the certificate on the statutory auditor's or audit firm's participation in the quality assurance review.

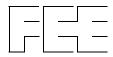
Special inspections

According to draft legislation amending the Public Accountants Act, the current system of inspections and investigations will be <u>supplemented</u> by an additional element, in so far as the legislator explicitly assigned to the Public Oversight Body the right to initiate special inspections. A special inspection may be conducted in three distinct cases:

- Indications exist that a statutory auditor or firm has violated professional duties;
- The Public Oversight Body wishes to conduct special inspections on a sample-basis (pro-active special inspections); that is, there need not be a concrete cause for an inspection. Only those statutory auditors or audit firms that provide audit services to public interest entities will be subject to sample-based inspections;
- A foreign oversight authority approaches the Public Oversight Body with a request to conduct an
 inspection and the Public Oversight Body concludes that the request is justified (e.g., if the
 accounting form concerned provides audit services for a company that used the capital market of
 a foreign jurisdiction).

Special inspections will be conducted by the WPK under the close supervision of the AOC. The WPK will operate with its own staff which include Wirtschaftsprüfer however, these are not practising individuals but are specifically employed by the WPK. In specific circumstances, the WPK may need to make use of external experts in relation to certain matters. When necessary, the AOC may instruct the Wirtschaftsprüferkammer to engage outside experts for assistance.

This system will run parallel to the current system of quality assurance reviews which covers all statutory auditors and audit firms.



Appendix I.11 - Greece

General

The statutory audit function in Greece is regulated by the *Greek Accounting and Auditing Oversight Board* (ELTE) under the provisions of law (3148/2003). The ELTE has two subordinate Boards being the *Quality Assurance Board* (SPE) and the (to be established) *Disciplinary Board*.

Public Oversight

The ELTE is an independent body supervised by the Minister of National Economy & Finance (the Minister).

The Board (ELTE) has seven members appointed by the Minister. The SPE is also governed by a seven-man board, again appointed by the Minister. The composition of both Boards is mainly public servants and representatives of the Bank of Greece, the Hellenic Capital Market Commission and the Federation of Greek Industry.

The Board (ELTE) is responsible for the supervision of the profession including the quality assurance process, the introduction of a Code of Ethics (in co-operation with the profession (SOEL)) and making recommendations on standards (accounting and auditing) to the Minister.

The Board is funded by way of a one percent levy on audit invoices issued by auditors. If this is insufficient to cover the cost it will be covered by state budget.

A number of changes will be necessary to the Greek system following the implementation of the Statutory Audit Directive including setting a cycle for quality assurance visits.

Quality Assurance Review Organisation

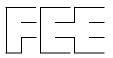
The review process

The quality assurance process is a monitored "peer review" system. The reviewers will be selected randomly from amongst the members of SOEL. A maximum of three reviewers can be appointed to any one review.

The quality assurance process involves until now only an inspection, there is no annual return requirement.

The objectives of the review are to assess the compliance with the auditing standards and the Code of Ethics (including independence requirements).

The ELTE determines the visit selection. The law requires that a quality assurance review is conducted yearly in a random sample of at least ten percent of listed entities and one percent of non-listed audited entities. This would imply a ten-year visit cycle for audited listed entities but could be 100 years for audited non-listed entities. In addition a visit can be requested outside these cycles.



The reviewers

The Board will appoint the reviewers from the members of SOEL selected randomly among the qualified auditors, except for auditors of the audit firm that performed the audit under review. A maximum of three reviewers can be appointed to any one review.

There are no specific requirements for the reviewers to have sufficient expertise although they must be members of SOEL. Nor is there any requirement for the reviewers to undergo a programme of continuing professional development although could be covered if required by an ELTE decision.

In relation to the independence of the reviewer, reviewers are required to be selected randomly among qualified auditors excluding auditors of the audit firm that is subject to the review.

The review reporting process

It is not specified in the Greek law whether the results of the annual activities of ELTE and/or SPE should be collated in an annual report and published. According to the law, the specific content of quality review as well as its practicing details and any other related issues, must be defined by a decision of ELTE, after the corresponding SOEL proposal, abiding by the new Statutory Audit Directive. Thus, in the aforementioned ELTE decision, the regulation of the above is expected.

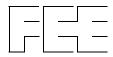
Investigation of Complaints and Sanctions

Complaints can be made to ELTE, since the supervision of SOEL falls under its jurisdiction. Complaints can also be made to SOEL, since the supervision and control of auditors' performance in terms of law application, code of ethics and quality assurance, still falls under its jurisdiction as well. The Scientific Board of SOEL carries out the quality review over the performance of all Certified Public Accountants examining audit documentation, and submitting the corresponding report to the Supervisory Council of SOEL upon request or in any case of well-founded accusation by a third party. The Scientific Board is composed of four members and its president, all being elected by the General Assembly of SOEL, among present or former Certified Public Accountants, and / or university professors in the fields of accounting and finance or auditing.

The Board of ELTE, the Bank of Greece or the Hellenic Capital Market can by order, require a quality assurance review to be conducted.

Sanctions will be imposed by the Disciplinary Board and can range from a caution to exclusion from the profession and/or a fine.

In relation to a disciplinary finding an appeal can be made to the Administrative Courts.



Appendix I.12 - Hungary

General

Statutory auditing in Hungary is governed by the Company Act, the Accounting Act and the Act on Auditing. According to the Audit Act the *Hungarian Chamber of Auditors* is the leading organisation in the field of auditing and is responsible for the preparation and issue of the auditing standards.

Public Oversight

There is no public oversight system in Hungary. Currently, there are expectations that a new law, after approval by the Parliament, will come into force on 1 January 2008 which would introduce a public oversight system in Hungary in line with the Statutory Audit Directive. The law is expected to set the basis for the public oversight system which is supposed to be responsible for quality assurance and monitoring. Standard setting and endorsement will remain the responsibility of the Chamber of Auditors.

Quality Assurance Review Organisation

The review process

The quality assurance system in Hungary is a "monitored peer review" system. The external quality control of the statutory auditors is performed by the Chamber of Hungarian Auditors - Quality Control Committee. So far simplified quality reviews have been performed, mainly focusing on engagement letters, representation letters and audit reports. Complete reviews are expected from the year 2006.

There are differences in the review cycle. Public interest and listed entity audits are reviewed every three years, others every six years. No risk analysis is used for the selection. Ethical matters may instigate reviews.

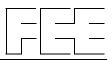
Only statutory auditors are selected for the review, audit firms are not reviewed. Two engagements from each statutory auditor are selected for the review, mainly focusing on qualified reports or reports with emphasis of matter paragraphs. With the exception of very few cases, the reviews are performed at the location of the statutory auditor.

Audit firms and statutory auditors are annually required to submit the following information:

- Number of audits performed;
- Audit fees income;
- Income from other services;
- Number of auditors employed;
- Number of public interest audits.

For the purpose of quality review the information about audited companies' names and fees is also needed.

The Chamber does not report to the state bodies.



External quality control is funded by the Chamber from the membership fees.

The reviewers

The reviews are performed by qualified reviewers (practising auditors), who are obliged to have the same training as the statutory auditors. Additionally, they receive continuing education for reviewers on an annual basis.

The review reporting process

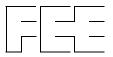
The engagements selected for the review are coded and only summarised data (without clients' names) are forwarded for further processing. During the review the reviewer prepares standard checklists as well as a brief summary of findings and any possible qualification of the conclusions. One day after the review a report containing the main conclusions of the quality assurance review is issued. The report is made available to the reviewed auditor and the Quality Control Committee. There is no discussion with the auditor under review, but his reply can be added to the assessment sheet. The review work is not usually reviewed. In some cases the review is second-reviewed by a member of the Quality Assurance Committee.

The Quality Control Committee prepares an annual summary which is publicly available on its website.

Investigation of Complaints and Sanctions

Complaints can be made to the President of the Chamber who may request the review function to undertake specific reviews to assist in the investigation of complaints. In the case of deficiency the auditor receives a qualification which is either (a) pass, but improvement needed or (b) not pass. The qualification requires extra training hours to be financed by the statutory auditor and a new review within one year. If the subsequent review continues to show deficiencies, disciplinary procedures can be initiated. In the disciplinary procedures a fine can be imposed or the statutory auditor can be excluded from the membership.

The sanctions are not published and only summarised data is available.



Appendix I.13 - Ireland

Introduction

The FEE Member Bodies for Ireland are the Institute of Chartered Accountants in Ireland (ICAI) and the Institute of Certified Public Accountants in Ireland (ICPAI). Both these professional bodies are recognised as audit regulators under Irish Company law. However, Irish Company law also recognises a number of other bodies based both in Ireland and the UK.

The responses in the appendix (and the paper generally) in so far as they relate to the licensing, monitoring and disciplining of auditors in Ireland refer to the systems operated by the ICAI and ICPAI. The systems of the UK based professional bodies are included in Appendix I.29.

General

The professional accountancy bodies have for many years operated a system of quality assurance including the licensing and monitoring of registered auditors. This process was given the force of law when the 1990 Companies Act required all persons wishing to act as a statutory auditor to be regulated by a recognised accountancy body.

From 2006 the regulatory functions will be subject to the oversight of the *Irish Auditing and Accounting Supervisory Authority* (IAASA or the Board).

Public Oversight

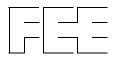
IAASA, designated by the Minister in January 2006 under statute (Companies (Auditing and Accounting) Act 2003), is the public oversight body in Ireland.

IAASA is an independent statutory body with a full-time executive staff and a Board of 15 directors, not more than five of whom can be members of an accountancy body.

The functions of the Board as set out in law include supervision of the regulatory (including monitoring) functions of the professional accountancy bodies and the promotion of high professional standards in the auditing and accounting profession. In order to fulfil those functions, a number of specific powers including co-operating with other interested parties in the development of auditing and accounting standards and standards relating to the independence of auditors were given to IAASA. IAASA also has the authority to intervene in the disciplinary processes of the accountancy bodies in certain prescribed circumstances. IAASA can, in its own right, undertake investigations into possible breaches by a member of the standards of the accountancy body to whom he belongs.

IAASA is not a standard setting body. The standards applicable in Ireland are the ISAs (UK and Ireland) issued by the Auditing Practices Board (APB). These standards are effectively ISAs with a small amount of additional material to maintain the requirements and clarity of the previous UK and Irish standards. The additional material is clearly differentiated from the original ISA text.

IAASA is funded 40% by the State and 60% by the accountancy profession.



Quality Assurance Review Organisation

The review process

The quality assurance process is "monitoring" with staff directly employed by the relevant professional body reporting to a regulatory committee within the professional body.

The monitoring function is the responsibility of the professional accountancy bodies as agreed with the Minister on the commencement of the Companies Act 1990.

The quality assurance process involves the submission of detailed returns and periodic visits to the firms' office/offices.

The professional accountancy bodies require the submission of an annual return. These returns will be subject to a desk top review. The return includes details about the management and resources of the firm, information regarding compliance with standards and regulations and details of all practice activities, including client numbers and income.

The quality assurance review includes an assessment of the firm's internal quality control procedures and compliance testing of procedures and files. Firms are in fact required to carry out their own compliance review (similar to that now required by ISQC1). The internal quality control assessment covers all aspects of ISQC1.

The visit cycle is variable with listed auditors visited on a two to three-year cycle and auditors of other public entities on a five-year cycle. The cycle for low-risk firms can be ten years. However the cycle can be shortened depending on a risk assessment conducted on the annual returns submitted by the firms or if weaknesses identified at an inspection visit require a follow-up visit.

In Ireland the quality assurance process applies to all the professional activities of all practising certificate holders.

Monitoring is funded by way of a levy on the firm.

The reviewers

Reviewers employed by the professional bodies are qualified accountants with considerable audit experience. Reviewers cannot themselves be registered auditors.

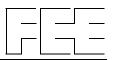
They receive considerable training and undergo extensive continuing professional development.

They are selected for specific assignments based on relevant experience and having determined that there are no threats to their independence or other conflicts of interest.

The review reporting process

A report is produced on the visit which includes the conclusions of the reviewer. Members are given an opportunity to comment on any reports before they are considered by a committee.

The regulatory committee can impose a wide range of orders including restrictions and conditions, regulatory penalties and/or the withdrawal or suspension of licenses without the matter being referred to a Disciplinary Committee although the Committee may determine that it is appropriate to do so.



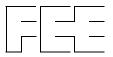
The overall results of the quality assurance process are reported to the Minister for Enterprise, Trade & Employment.

Investigation of Complaints and Sanctions

Complaints against auditors can be made by third parties, public authorities and other committees within the professional bodies. Complaints are investigated by the professional bodies and, if necessary, referred to the Disciplinary Committee.

As noted above, the regulatory committees (which consider the reports produced as a result of quality assurance inspections) have a wide range of sanctions up to and including withdrawal of audit rights which it can employ without recourse to the Disciplinary Committee.

The Disciplinary Committee has a further range of powers including financial penalties (fines) and withdrawal of membership.



Appendix I.14 - Italy

General

Audits of financial statements of PIEs can only be performed by audit firms registered with "Consob", an independent authority which is the Regulator of the Italian Stock Exchange. at present, 21 audit firms are listed in this register.

Statutory audits of the financial statements of unlisted companies are performed by auditors or audit firms registered with the Commissione Centrale per i Revisori Contabili (CCRC) established within the Ministry of Justice. Statutory audits of these companies can also performed by the "Collegio Sindacale", provided that consolidated accounts are not required by law. In the latter case all the members of the Collegio Sindacale, whose main activity is then similar to the one generally attributed to audit committees, are requested to be registered auditors.

Consob is funded with a specific allocation of the central government and through fees paid by the registered audit firms and listed companies.

The auditors registered with the Commissione Centrale per i Revisori Contabili pay a small annual fee, and the balance is covered by the Ministry of Justice.

Italian Auditing Standards are issued by a joint committee (*Commissione paritetica per la statuizione dei principi di Revisione*) of the two professional bodies (Consiglio Nazionale Dottori Commercialisti and Consiglio Nazionale Ragionieri, which are in the process of merging) in concert with Consob. These standards follow ISAs, sometimes with limited local modifications. Only a few Italian Standards are not yet aligned to ISAs. Currently the Joint Committee and Consob are endorsing the audit risk model and the conforming changes.

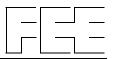
The audit of the financial statements of unlisted companies is recommended by the professional bodies to be performed in accordance with these standards.

For the audit of listed companies, Consob, according to the law, is ultimately responsible for endorsement of auditing standards. The approach followed up to now by Consob is to require the registered audit firms to comply with the auditing standards issued by the professional bodies.

Public Oversight

The "Commissione Centrale per i Revisori Contabili" (CCRC), established within the Ministry of Justice, supervises all the auditors and audit firms which are authorised to perform audits according to the Italian requirements. This supervision is mainly linked to the power of approval of auditors and audit firms and restricted to follow-up on complaints about inadequate performance (mainly independence issues) of the statutory audits. The CCRC does not have a quality assurance program in place.

Consob is an independent authority which supervises financial markets through a regulated control system on markets, intermediaries, listed companies and audit firms. For the purpose of auditing of listed companies, approved audit firms which are regularly registered with the Ministry, are required to be also enrolled in the special register of Consob, on the basis of additional regulatory requirements. Consob has the right to subject these 21 audit firms to a quality assurance controls beside the general supervisory power of the CCRC to which they are subjected as other audit firms. Consob has the legal competency of supervising the audit activities of the firms, their independence and technical adequacy



of their structure. Consob has the power to address within quality assurance the internal quality control system of the audit firm and its client dossier.

Quality Assurance Review Organisation

The review process

As stated above, Consob is the only body with powers in respect of quality assurance reviews. The CCRC does not at present perform any quality assurance review. The Statutory Audit Directive is expected to have a significant impact in this area, especially on CCRC's competencies.

The reviewers

Reviewers are staff employed by Consob and they usually have previous experience in auditing.

The review reporting process

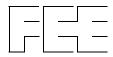
Reviewers issue a report addressed to the competent Consob disciplinary office. This Office assesses the conclusions issued by reviewers and discusses them with the audit firm.

The report issued by reviewers is not public. Where a disciplinary action is applied to an outcome of the quality assurance review, the sanctions are made public.

Investigation of Complaints and Sanctions

Complaints against registered auditors can be filed with the CCRC, which after the investigation and the hearings considered necessary in the circumstances, may impose sanctions to the registered auditors.

The Consob has the power to impose sanctions on the basis of its review of audit files or of an audit firm. Such sanctions can be imposed on the individual auditor or on the audit firm. A claim against such sanctions can be filled with the "Tribunale Amministrativo Regionale" (TAR), a regional administrative appeal court.



Appendix I.15 - Latvia

General

The statutory audit function in Latvia is carried out by registered auditors, which may include either a sole practitioner or a corporate form. The statutory audit profession has its legal body "Latvijas Zvērinātu Revidentu Asociācija" (LZRA) or the Association of Certified Auditors of Latvia which is the professional body of statutory auditors. For the time being the statutory audit profession is self-regulated.

Public Oversight

For the time being the statutory audit function is self-regulating with the Ministry of Finance fulfilling certain supervision functions (approval of core principles of operations of LZRA, including areas of certification, licensing, examination and quality control). However, it is envisaged that in the future the Ministry of Finance will hand over its supervisory role to a public oversight body. Currently the potential models for a public oversight system are being designed.

Quality Assurance Review Organisation

The review process

LZRA is responsible for carrying out the reviews of statutory auditors and audit firms. The quality assurance system is a "monitored peer review" system.

The Quality Committee of LZRA is in charge of overseeing quality assurance matters related to the review methodology, briefing of controllers, monitoring their independence and reviewing the reports. Auditors subject to review are determined via the lottery. The lottery is organised during the general meeting of the members of LZRA. Each statutory auditor must be reviewed at least once in five years. The reviews are meant to be cyclical.

All reviews include a visit to the relevant auditor's office, an assessment of the internal quality control system of the firm. Individual files are also tested, two files per certified auditor.

The reviewers

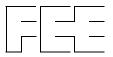
Only certified auditors with at least three years of practice, relevant training and impeccable reputation may be appointed as reviewers.

The review reporting process

The overall results of the quality assurance system are published on the LZRA website.

Investigation of Complaints and Sanctions

Third parties can launch complaints against auditors. Such complaints are handled by LZRA itself, however they can be resubmitted to the Ministry of Finance.



Appendix I.16 - Lithuania

General

Quality assurance for auditors is carried out by the Chamber of Auditors, which is the professional body for auditors. The Chamber has responsibility for developing auditing standards and ethical statements but quality assurance is the responsibility of the *Audit Quality Control Committee* (AQCC). The Chamber of Auditors can appoint three of the nine members, with the others appointed by the government and other public bodies. The AQCC makes decisions about auditors following the outcome of monitoring visits.

Public Oversight

There is no system of public oversight as envisaged in the Statutory Audit Directive.

Quality Assurance Review Organisation

The review Process

The AQCC carries out the review process, using auditors who are appointed for a three-year term by the AQCC. The quality assurance system is a "monitored peer review" system.

Firms are selected so that they are visited every five years. Auditors of public interest entities are reviewed every three years. Auditors working in the audit firms are reviewed at the same time as the firm.

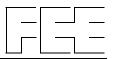
The internal quality control system of the firm and three engagements are reviewed. The reviews are conducted by visiting the firm's offices.

The reviewers

The reviewers are appointed for a three-year term by the AQCC. Each review is co-ordinated by two members of the AQCC who may review the review material before it is formally submitted to the AQCC.

The review reporting process

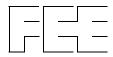
The reviewer will discuss his initial findings with the auditor who is invited to make written comments. A copy of the written report is also sent to the auditor and he can give written comments. These comments are included with the report to the AQCC. The AQCC reports every six months to the Ministry of Finance on the outcome of reviews. These are published annually on the website of the Chamber of Auditors, but no details of the individual auditors are given.



Investigation of Complaints and Sanctions

Complaints can be received from third parties. Any investigation is conducted by the AQCC which can make decisions ranging from sanctions such as a warning or reprimand to withdrawal from the audit firm of approval to audit. Publicity is given to these decisions.

AQCC may also apply to the Auditors' Court of Honour to bring a disciplinary action against the auditor. The Auditors' Court of Honour has the power to suspend or even cancel the validity of the auditor's certificate.



Appendix I.17 - Luxembourg

General

The statutory audit function in Luxembourg is carried out by "Reviseurs d'Entreprises".

Under the current organisation, the Ministry of Justice is responsible for registering and de-registering the auditors. The national Institute "Institut des Reviseurs d'Entreprises" (IRE) is responsible for setting auditing standards, the code of ethics and the quality control system. The Institute's disciplinary council is dealing with all breaches of the rules regarding the audit profession, professional misconducts and negligence. The supervisory bodies are ensuring that the auditors have the necessary knowledge, experience and resources to perform statutory audits within the financial and insurance sectors.

Public Oversight

At present, there is no separate oversight body to oversee the conduct of the audit profession as provided for in the Statutory Audit Directive. Responsibility in this respect lies with the Ministry of Justice, the "Institut des Reviseurs d'Entreprises" (IRE) and, for their specific field of activities, the supervisory bodies (CSSF and Commissariat aux Assurances).

With regards to the Statutory Audit Directive, matters related to public oversight have not been defined yet but they are currently being discussed.

Quality Assurance Review Organisation

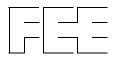
The review process

The quality assurance system is a "peer review" monitored by the national Institute with a frequency of a review at least every five years. The interval may be shorter in the case of unsatisfactory results. The monitored peer review system is the responsibility of the national institute president who has delegated the execution of the peer review to a Peer Review Committee composed of practitioners and non-practitioners.

Peer reviewers are selected amongst registered auditors. The national institute has enacted standard questionnaires and a peer review guide to help the peer reviewer in his quality control review. However, such questionnaires shall not replace professional judgment. At the end of his review, the peer reviewer will prepare a review report following a specific format provided by the Institute.

The quality control system requires, as a minimum, an assessment of the firm's general organisation, including internal control systems, and compliance with money laundering and financial terrorism standards and legislation. These minimum requirements are applicable to all registered firms without making a distinction of their main activities.

The quality review implies that the reviewer visits the office of the reviewee.



The reviewers

The review is performed by registered auditors. They are required to sign a standard engagement letter with the practitioners being reviewed which comprises objectivity, independence and confidentiality clauses.

The review reporting process

The review report, once approved by the reviewee and reviewer, will be subject to the Peer Review Committee Chairman's examination. The Chairman will review the report to ensure compliance with the peer review standard requirements and the overall quality of the review. The report will then be discussed by the Peer Review Committee.

Should the result not be satisfactory, the Peer Review Committee may recommend to the Institute's President, depending on the materiality of the findings:

- Another peer review be performed by another peer reviewer;
- A shorter interval:
- An action plan from the reviewed auditor to address the weaknesses;
- A convocation of the registered auditor being reviewed;
- A disciplinary procedure to be opened; or
- A mixture of the above.

The overall results of the quality control system are presented once a year to the registered auditors' general assembly within the Institute's annual report and to different other authorities and associations. This report is also distributed to the Ministry of Justice, the two supervisory bodies, the Luxembourg Stock Exchange and other selected professional associations.

Investigation of Complaints and Sanctions

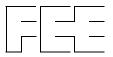
The investigative and disciplinary system is embedded in the law of 28 June 1984, as subsequently amended, organising the auditing profession.

The Institute's President is responsible for the investigative process. Only the President of the IRE may open an enquiry on his own initiative or upon receipt of a complaint from whatever the source.

Upon the IRE President's appreciation of the enquiry he may wish to bring the case to the Disciplinary Council (five members). His decision on the outcome of the enquiry is confidential. However, he must bring to the disciplinary Council any case forwarded by the Public Prosecutor.

The possible sanctions are a warning, reprimand, fine, suspension of voting rights (maximum six years), suspension and exclusion. Any suspension and exclusion are published in the Official Journal. Other decisions (warning, reprimand, fine, suspension of voting rights) are only notified to the practitioners involved.

Should the practitioners not accept a decision from the Disciplinary Council he may appeal to the Appeal Civil Chamber which forms part of the Luxembourg judicial system.



Appendix I.18 - Malta

General

The statutory audit function in Malta is regulated by the *Accountancy Board* established under the provisions of the Accountancy Profession Act of 1979. In February 2006 the Accountancy Board published its directive on quality assurance. This enacts a system of quality assurance which is expected to commence in 2007. A new committee, the *Quality Assurance Oversight Committee* (QAOC), reporting to the Accountancy Board, has been established to supervise the quality assurance process.

Public Oversight

The Accountancy Board, an independent body appointed by the Minister and funded by the government under the provisions of the 1979 Accountancy Profession Act has fulfilled a public oversight role since 1979.

The Board has seven members, all of whom are holders of a warrant to practice as an accountant. Two of the seven members are non-practitioners.

The functions of the Board include approving (if appropriate) warrants to practice as an accountant or practising certificates in auditing, to deal with cases of professional misconduct and other disciplinary proceedings. The Accountancy Board is therefore responsible for quality assurance enforcement and disciplinary measures and sanctions.

The Accountancy Board does not adopt a standard setting role as Malta adopts full compliance with IFRSs and ISAs through its Companies Acts.

In February 2006 the Accountancy Board published the quality assurance directive which introduced a system of quality assurance in Malta. A Quality Assurance Oversight Committee (QAOC) was established to implement the quality assurance regime. The QAOC has five members, all of whom are non-practitioners.

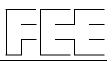
No significant change to the processes, other than to restructure the Accountancy Board to ensure it has a majority of non-practitioners, and to consider the funding of the QAOC which will be entirely funded by regulatory fees on warrant holders, are considered necessary to ensure compliance with the Statutory Audit Directive.

Quality Assurance Review Organisation

The review process

The quality assurance process will be a "monitoring" system. The QAOC, which has responsibility for the monitoring function, has the authority to appoint agents who will be in the full-time employ of the QAOC.

The quality assurance process will involve the submission of detailed returns and periodic visits to the firms office/offices.



The directive requires that warrant holders submit an annual return to the Accountancy Board. These returns will be subject to a desktop review. It is anticipated this return will include details about the management and resources of the firm, information regarding compliance with standards and regulations and details of all practice activities.

The quality assurance directive states that one of the objectives is to provide assurance as to the quality of professional work, thus the inspection will certainly involve assessing:

- The firm's internal quality control measures;
- Compliance with ISAs;
- Compliance with the Code of Ethics, continuing professional developments directives, etc.

The quality assurance inspection process will therefore include reviewing the quality of evidence obtained, compliance with statements (including ISQC1) and compliance with the Code of Ethics (IFAC). An assessment of the auditors judgement on the appropriateness of accounting policies will be measured against the IFRS framework.

Visit selection is at the absolute discretion of the QAOC. The frequency of inspection visits is not specifically addressed in the directive, however, it is anticipated that a two to three-year cycle will apply to auditors of public interest entities, and a cycle of three to four years for other auditors. Follow-up visits may be carried out where shortcomings have been identified.

The quality assurance process applies to all warrant holders, not only those who hold audit practising certificates, hence it covers such areas as:

- Signing any report or certificate on accounts where relevance is likely to be placed on such a report:
- Doing anything that may lead a third party to believe that accounts have been prepared and approved by a warrant holder.

The QAOC will cover its costs through the collection of fees from warrant holders.

The reviewers

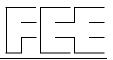
The QAOC has appointed three agents who will report to it to carry out the quality assurance inspections.

The directive requires that reviewers shall be persons of integrity and have the necessary experience, expertise and qualifications. The reviewers are required to adopt a Code of Conduct for the performance of their duties. The reviewers are currently receiving training from a similar institution within the EU and are required to maintain appropriate levels of continuing professional development.

The review reporting process

The quality assurance directive requires that a report containing the main conclusions of the quality assurance process for each individual firm is prepared. The QAOC will only make the report available to the firm, the Accountancy Board or to any other institution as required by law.

The QAOC can, having considered the report, determine that restrictions and/or conditions can be imposed. In this case, the Accountancy Board would be advised by the QAOC considerations. In such circumstances restrictions can be imposed without referral to the Disciplinary Board. If the Accountancy Board issues an order for the imposition of restrictions and/or conditions, the warrant



holder (or firm) may make within 14 days oral or written representations to the Accountancy Board. The Board may then withdraw, vary or retain the order. If a firm fails to comply with such an order the Accountancy Board acting on the advise of the QAOC refer the matter to the Disciplinary Committee. The QAOC has the power to impose regulatory penalties for agreed breaches.

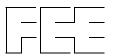
The quality assurance directive requires that the process be conducted in a transparent manner hence an annual report (presumably to the government and public) on the overall quality assurance process is to be made.

A structured appeals process has yet to be developed.

Investigation of Complaints and Sanctions

The draft quality assurance directive does not include provisions allowing for the filing of complaints by third parties.

The Accountancy Board may refer matters to the Disciplinary Committee where a penalty imposed by the QAOC has not been complied with or where the Accountancy Board believes that any warrant or practising certificate should be suspended or revoked or any registration of a partnership should be suspended or cancelled.



Appendix I.19 - The Netherlands

General

Statutory audits are the exclusive territory of registered accountants, members of the "Royal Netherlands Institute of Registered Accountants" (NIVRA) and of accredited "accountants-administratieconsulenten", members of the "Nederlandse Orde van Accountants-Administratieconsulenten" (NOvAA). NIVRA (and also NOvAA) is a public authority instituted by law (law on the Registered Accountant) which has the obligation to keep a register of all qualified registered accountants and to issue by-laws and other regulations to maintain the profession at the highest levels of professionalism, ethics and independence.

Public Oversight

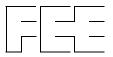
The statutory audit function is as of 1 October 2006 subject to public oversight. The public oversight law "Wet toezicht accountantsorganisaties" (Wta) has been accepted in parliament and became effective from 1 October 2006. This memorandum will describe the public oversight situation from that date.

The Wta delegates the supervision on audit firms performing statutory audits to the "Authority Financial Markets" (AFM), an independent autonomous administrative authority ("zelfstandig bestuursorgaan") which reports directly to the Ministry of Finance. AFM was already established for supervising the operation of the financial markets (savings and loans, security trading and investment, insurance and banking brokerage). Under Wta, audit firms have to apply for a license to perform statutory audits or statutory audits including PIEs. AFM will issue these licenses and maintain a register for all audit firms performing statutory audits and the external auditors. AFM expects that it will need one year from the effective date of Wta to have all audit firms applying for a concession examined and approved.

AFM will focus its oversight on the audit firms performing audits of Public Interest Entities (PIEs). The inspection of these audit firms can be performed directly by the inspectors of the AFM. For audit firms performing non PIE statutory audits AFM is expected to work closely together with and delegate part of the review work to the "Quality Assurance Committees" (CTK) of NIVRA, (RvT) of NOvAA and SRA, a network of audit firms focusing on serving small and medium-sized entities. At present, and under the Wta, the Quality Assurance Committee ("CTK") performs reviews on the quality of all professional activities of registered accountants in the public profession, ranging from statutory audits to audit-related engagements.

Basis for the supervision is ISQC1, effective from June 2005. Under the Wta, NIVRA will remain responsible for standard setting in all areas of the auditing profession, including standards for ethics, independence, continuous education and audit practices.

For its oversight task of the statutory audits (granting concession and periodic reviews) AFM will charge their costs directly to the audit firms. The Quality Assurance Committee of NIVRA will also be funded by the audit firms that are subject to its quality review through the annual subscription or contributions to the Institute.



Quality Assurance Review Organisation

The review process

As indicated above AFM will be responsible for the supervision of all statutory audits and audit firms conducting statutory audits, but intends to concentrate on PIEs and audit firms auditing PIEs. AFM has indicated that it intends to delegate the quality reviews of the other statutory audits (other than PIEs) to the inspections of NIVRA (CTK) and NOvAA. Discussions are held at present as to how the co-operation should be structured and in which way information should be shared in order to eliminate duplication of supervision, and hence the related cost, to the maximum extent possible. AFM has indicated that it will apply a risk-based approach, and that it will concentrate its oversight activities on specific themes which may vary from year to year. Further details are not yet available.

Currently, audit firms are selected for the quality assurance reviews by CTK on a periodical basis, depending on the type of assurance engagements: firms with PIE clients are selected once every two years, firms with statutory audit clients other than PIEs are selected once every four years, other firms once every six years. If the overall conclusion on the quality control system in place is unsatisfactory, the audit firm will be selected for a follow-up review one to two years after the initial review. The review teams use standard questionnaires for the review of the quality control systems in place and for the review of selected files. File selection covers all activities of the audit firm (or discipline and function), and includes a number of files already reviewed in the internal quality review program to establish the quality thereof. Total coverage is approximately six to eight percent of the annual chargeable hours of the firm reviewed.

The quality assurance reviews take place at the offices of the audit firm. Each of the offices of a multi-office audit firm is reviewed on a periodical basis.

The reviewers

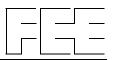
The public oversight by AFM will be executed by its own employees, mostly qualified registered accountants with previous experience in public accounting.

The quality assurance reviews organised by CTK qualify as a "monitored peer review" system: the reviews are performed by experienced practitioners at partner or senior manager level in mixed teams, independent from the audit firm under review. Reviewers receive annual training, and are only selected if they have hands-on experience with quality assurance reviews, e.g. as a reviewer in the internal quality assurance reviews of their own office. CTK maintains a list of qualified reviewers, which is regularly reviewed and updated.

The review reporting process

AFM is expected to report solely on breaches of the Wta, and not on the overall quality of the audit firm under review. It is not clear yet how AFM will report on the results of their supervision.

Currently, the CTK reviewers prepare a report with an overall conclusion on the quality control system in place at the audit firm under review. This report is agreed on factual accuracy with the audit firm, and subsequently presented to CTK for their review. CTK issues the formal conclusion (satisfactory, satisfactory with recommendation, unsatisfactory) after consideration of all facts, circumstances and questionnaires, files reviewed and documentation exchanged with the firm under review.



Annually, CTK prepares its overall report covering the summarised results of all reviews performed in that year, ensuring anonymity of the firms reviewed. This report is presented to the board of NIVRA, which use it as a basis for its own external annual report on quality assurance.

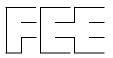
Investigation of Complaints and Sanctions

Disciplinary actions against registered accountants are dealt with by the Disciplinary Board, "Raad van Tucht", which is independent from NIVRA. An appeal against a disciplinary action imposed by the Disciplinary Board can be lodged with the independent Board of Appeal for Businesses, "College van Beroep voor het Bedrijfsleven" (CBB).

Complaints against auditors or audit firms can be lodged by clients, third parties, public authorities (including AFM) and NIVRA with the Disciplinary Board (Raad van Tucht). Sanctions range from oral or written warnings to ending NIVRA membership. Sanctions may be published in (local) papers, but do not include financial penalties.

At the moment an amendment to the law on disciplinary actions against auditors ("WTRA") is being discussed in Parliament. It is expected that only complaints in respect of statutory audits will be heard by a new body, the "Accountantskamer", part of the court of justice in Zwolle. All other complaints will have to be addressed by another body, still to be established.

If AFM during its periodic reviews establishes that the audit firm has breached the law (Wta), it can impose financial penalties up to EUR 900,000, and it can lodge a claim with the Disciplinary Board.



Appendix I.20 - Norway

General

The statutory audit function in Norway is exclusively carried out by "statsautorisert revisor" (state authorised public accountants) and "registrert revisor" (registered public accountants), according to the Act relating to auditing and auditors (1999). Statutory audits must be performed either by a sole practitioner or an audit firm. The approval and registration procedure, and the disciplinary system, are not in the hands of the audit profession.

Public Oversight

Statutory auditors and audit firms are subject to public oversight by "Kredittilsynet", the financial services authority of Norway. The oversight role of Kredittilsynet relating to auditors and audit firms includes two main tasks:

- Public oversight of the audit profession, with some assistance of "Den Norske Revisorforening" (The Norwegian Institute of Public Accountants, DnR) regarding quality assurance of DnR members; and
- Ensuring compliance with the rules of professional standards relating to audit and ethics, and especially, to ensure the independence and objectivity of statutory auditors and audit firms.

Quality Assurance Review Organisation

The review process

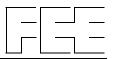
Accordingly, under the public oversight from Kredittilsynet, DnR is responsible for carrying out quality reviews of statutory auditors who are member of DnR. Non-members of DnR are subject to quality control by Kredittilsynet. The review of DnR members is based on a co-operation agreement between Kredittilsynet and DnR. The quality assurance system is performed through "monitored peer reviews". Permanent staff of DnR is responsible for selecting auditors subject to review, recruitment and qualification of reviewers including their independence, the review process, the review methodology, dispatching of reviewers, harmonisation and consistency of the work issued by reviewers. The review methodology issued is the same, although the structure and content of questionnaires may vary according to the size of the audit file. Statutory auditors are controlled every fifth year.

All reviews include a visit to the relevant auditor's office, an assessment of the internal quality control system of the audit firm, and individual files are also tested. Adequacy of resources and appropriateness of fees are considered.

Kredittilsynet also perform risk-based monitoring of all auditors. The monitoring can for instance be based on articles in the news, reports from tax authorities and special topics.

The reviewers

Only qualified practitioners with senior experience may be responsible for the reviews. Quality control reviews are predetermined by DnR. The quality assurance methodology is approved by Kredittilsynet. According to the co-operation agreement, the quality assurance review carried out by DnR is subject to public oversight from Kredittilsynet. Staff from Kredittilsynet perform their monitoring.



The review reporting process

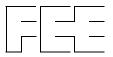
The overall results of the DnR quality controls are submitted to Kredittilsynet. The annual report of Kredittilsynet includes a brief analysis of the findings and conclusions on the activity of the quality assurance system. This report is publicly available.

Investigation of Complaints and Sanctions

Complaints against auditors can be submitted by third parties (e.g. audit clients, trustees in bankruptcy, etc), including public authorities (e.g. tax authorities and police), and the board of DnR. Complaints must be submitted to Kredittilsynet.

Kredittilsynet has the authority to impose sanctions as a consequence to the inadequate execution of a statutory audit. Sanctions include the possibility of withdrawal of the approval as a state authorised or registered public accountant, and suspension. The sanctions may be appealed to the Ministry of Finance.

Sanctions are publicly available upon request.



Appendix I.21 - Poland

General

The Institute of Polish Auditors (" $Krajowa\ Izba\ Bieglych\ Rewidentów-KIBR$ ") is responsible for keeping the register of qualified auditors. Only registered auditors employed by an audit firm are permitted to perform statutory audits.

Audit firms can be organised as a corporation or a sole practice.

Audit firms have the exclusivity to provide auditing services. Accounting and tax services, consulting on accounting systems, economic and financial expertises, training in the area of accounting, conducting liquidations and bankruptcy proceedings can be provided by audit firms but are not exclusively reserved for the audit profession.

The activities of KIBR are supervised by the Ministry of Finance. Among others, the Ministry of Finance has the competence to proceed against resolutions of KIBR in court. KIBR appoints the members of the examination committee following the agreement with the Ministry of Finance.

Public oversight

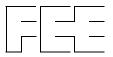
Currently there does not exist a public oversight body within the meaning of the Statutory Audit Directive. The existing oversight body is placed within the Institute of Polish Auditors (KIBR). The National Assembly of Polish Auditors appoints the members. The National Supervisory Committee oversees whether the statutory auditors and audit firms follow national professional standards and best professional practices with due care. The Committee is composed of five practitioners. The activities of the Committee are funded by the Institute of Polish Auditors.

Quality Assurance Review Organisation

The review process

The Polish quality assurance system is a monitored "peer review" system. Supervision over inspections and inspectors are provided by members of the National Supervisory Committee and through appreciation of inspectors work provided by the National Supervisory Committee. The National Supervisory Committee selects the entities to be inspected on a periodic basis (every year). The selection methodology is - as for the basis - random. In cases where the National Supervisory Committee is informed about inappropriate professional conduct of statutory auditors and audit firms, a purpose-focused selection is possible.

The reviews are mainly focused on whether the auditors, when auditing financial statements, follow the national professional standards. Furthermore, the quality review comprises the assessment of the effectiveness of the audit firms' internal quality control system. The Committee supervises the reviews and prepares internal procedures including the package of documents (work papers) for the reviewers.



The reviewers

Qualified auditors are responsible for the reviews. The inspectors are selected and appointed by the National Supervisory Committee from among current audit practitioners. Inspectors are required to complete a training before they start to perform their activities. While providing inspection activities, inspectors complete periodic trainings (minimum once a year). The Committee organises the training sessions on quality assurance systems twice per year.

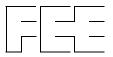
Before starting inspection activities, the independence of the inspector is determined (independence declarations and control procedures). An inspector shall neither be a member of KIBR bodies nor work for the KIBR regional branch of which he is a member.

The review reporting process

The results of each review are presented in a final report. The final report issued by the reviewer is available to the statutory auditor or audit firm and to the Committee. The firm reviewed has the possibility to present its remarks and answers to the issues raised in that report. The Committee makes a decision within 30 days of the completion of the inspection. The decision may result in the conclusion that no further supervisory procedures are necessary (inspections without significant failures), or initiate proceedings in front of other KIBR bodies (disciplinary proceedings and removing from the register).

Investigation of Complaints and Sanctions

Complaints of third parties can be submitted to the Council of the National Chamber of Polish Auditors that transmits it to the Committee. An investigation may then be launched with a specific focus on the subject of complaint. Only the bodies of the Institute can process the investigation. No external parties take part in the investigation. The Disciplinary Court, a part of the Institute, can impose sanctions. Sanctions range from reprimands, temporary removal of license to exclusion of membership. The sanctions can be imposed only on individual auditors.



Appendix I.22 - Portugal

General

The *Auditors Professional Institute*, the "Ordem dos Revisores Oficiais de Contas" (OROC) is, in accordance with the Portuguese Law, a Public Corporate Body endowed with administrative, financial and asset-owning autonomy, and is responsible for representing and grouping its members as well as overseeing all aspects pertaining to the statutory auditing profession (Decree-Law 487/99, of 16 November 1999).

The OROC has, among others, the following responsibilities:

- Registration of statutory auditors and statutory auditing firms;
- Perform the exams of access to the profession and ensure continuous education of its members;
- Prescription of the principles and standards of the code of professional ethics and conduct and expound the standards and technical procedures of the profession, taking into consideration international standards;
- Exercise disciplinary jurisdiction over all its members; and
- Perform quality control reviews of its members (quality assurance).

Public Oversight

In Portugal, the oversight of the audit profession is done by the OROC, covering all statutory auditors and audit firms. The *Portuguese Regulator of Securities Market*, the "Comissão do Mercado dos Valores Mobiliários" (CMVM) exercises public oversight on statutory auditors who carried out work for listed companies.

The OROC is represented by its President and by the Executive Board members (The president and the Executive Board members as well as the Disciplinary Body are appointed through elections involving all statutory auditors, they have a three-year mandate and are all practitioners).

Funding is 100 percent from members of the OROC who pay a monthly fee and pay for the specific services received from the OROC namely training and education.

The changes required to adjust the present oversight of the profession into a public oversight have not yet been made, through the Portuguese Government has created a transition group formed by members of the Minister of Finance, OROC, Bank of Portugal, Portuguese Institute of Insurance and the Securities Exchange Regulator that expects to issue a full project of legislation regarding the correct transition of the Directive in the first half of 2007.

Quality Assurance Review Organisation

The review process

The OROC carries out a system of quality control that covers all statutory auditors. This system of quality control is supervised by the Executive Board of the OROC through a Committee comprised of five members, the "Comissão de Controlo de Qualidade" (CCQ). There is a standard approved by the OROC general assembly that contains the principles and the general rules to follow in the quality control process. The CCQ has the responsibility to ensure the proper application of this standard namely in respect of the periodicity of the inspections, the guidelines for the inspections, the persons



to perform the quality inspections and to start any disciplinary processes as a result of quality inspections (disciplinary processes once started are sent to the Disciplinary Council for analysis and for the application of sanctions).

The frequency of quality control inspections is at least every three years for statutory auditors that carry out work for listed companies and at least every five years for the remaining statutory auditors.

Each quality control inspection includes a horizontal control and a vertical control. Both of these controls are performed following standard questionnaires approved by the CCQ:

- The horizontal control covers how the profession is carried out, technical and human resources available, compliance with the code of ethics and professional conduct and system of internal quality control etc;
- The vertical control is performed over specific engagements selected (in general) by the CCQ and covers the organisation of working papers, the documentation of the audit procedures performed in the different phases of the audit (planning, execution in different areas, subsequent events, supervision and quality control, conclusions and reporting).

All public interest engagements, including audit opinions on financial statements, on mergers and splits, on contributions in kind, etc may be subject to quality control inspections.

The reviewers

The CCQ selects every year, based on experience, from the members of OROC the statutory auditors to perform the quality control inspections and allocates to each of them the reviews they should perform. The system is similar to a "monitored peer review" system controlled by the CCQ.

The review reporting process

The results of quality controls over statutory auditors registered with CMVM are communicated to CMVM, which may itself carry out some complementary quality controls.

If any material deficiency is detected, the CMVM alone may apply fines or, in extreme situations, may cancel the register of the statutory auditor with CMVM.

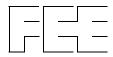
Every year there is a public event to select the statutory auditors (registered with CMVM or not) that will be subject to quality control inspection in that year. During this event a presentation of the global results of the preceding year's quality controls inspection is made. Government officials, regulators and journalists in general attend this public event.



Investigation of Complaints and Sanctions

Under the terms of Article 33 of Decree-Law n° 487/99, 16 November 1999, the Disciplinary Body of OROC has the responsibility:

- a) To judge, in the first instance, the disciplinary infractions committed by statutory auditors and trainee members;
- b) To express opinions on complaints initiated by companies and other entities to whom the statutory auditors render services, on matters relating to the performance of their work;
- c) To carry out the investigations either expressly stipulated in this enactment or those requested by the OROC other bodies;
- d) To propose to the management council the legislative or administrative measures necessary for overcoming loopholes or making pronouncements on matters within its terms of reference.



Appendix I.23 - Romania

General

The statutory audit function in Romania is carried out by professional members of the *Romanian Chamber of Auditors*, a body created by law which includes both sole practitioners and audit firms.

Public Oversight

At this stage, there is no public oversight system. The Chamber of Auditors is responsible for overseeing all aspects pertaining to the statutory audit profession. The Chamber is entitled to oversee all the work of the auditing profession, this includes a disciplinary function.

Quality Assurance Review Organisation

The review process

The quality assurance system is a "monitoring" system. Reviews are carried out exclusively by full-time staff of the professional body. All audit firms and individuals are required to complete an annual return which reflects the turnover of the assurance engagements. All reviews consist of a visit to the audit firm. Audit firms are subject to a review at least every three years. The review process includes a review of the internal control of the firm (significant efforts are under consideration in order to be fully compliant with ISQC1) and reviews of individual files. The selection of audit files is designed in order to give priority to listed and public interest entities.

The reviewers

The reviewers are competent professionals, working on a full-time basis and under the supervision of a specific department of the Chamber of Auditors. Their selection and training has been made in cooperation with other international accountancy organisations. The selection process includes an assessment of their independence and objectivity.

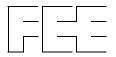
The review reporting process

A final report which includes conclusions of the review is provided to each reviewed firm. The content of the report can be discussed or appealed to by the reviewed firm. Depending on the conclusions of the review, a letter of recommendation for improvement can be sent to the reviewed entity, and subsequently the auditor is subject to a monitoring process for improvement.

An overall report of inspection is presented to the permanent committee of the Chamber of Auditors.

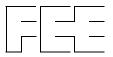
Investigation of Complaints and Sanctions

Complaints can be made by any third parties to the disciplinary department of the Chamber of Auditors that is required to investigate the complaint. In the case of deficiencies, or break of professional rules, the following sanctions may be applied:



- Warning;
- Blame;
- Withdrawal of the statutory audit licence.

Sanctions can be applied to all members of the Chamber, both audit firms and individual auditors. The sanctions are imposed by the Council of the Chamber of Auditors. In accordance with the importance, nature and circumstances of the sanctions, the Council may publish its decisions.



Appendix I.24 - Slovak Republic

General

The responsibility for the quality assurance lies with the *Quality Control Committee* (VKK), which forms part of the professional body of the *Slovak Chamber of Auditors* (SKAU) and it derives its authority from the SKAU statutes. The SKAU has applied the quality assurance system used in France.

Public Oversight

Slovakia is currently implementing a new law to deal with the requirements of the Statutory Audit Directive and this will require changes to the Accounting Act, the Act on Auditors and the direction of the SKAU. The new public oversight system will ultimately be responsible for standard setting as well as quality assurance enforcement and disciplinary measures and sanctions.

Quality Assurance Review Organisation

The review process

The responsibility for the quality assurance lies with the Quality Control Committee (VKK). The review process is a "monitored peer review" system. The review is carried out by authorised and experienced practitioners on a part-time basis.

The VKK reviewed all statutory auditors and audit firms in the years 2001 to 2006. The next phase will start using selection criteria set out in the new laws and directives that will be applied in 2007.

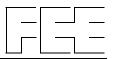
Registered auditors are generally reviewed once every six years under the current SKAU rules. In the near future the period between reviews will be changed. Auditors of listed companies or other important clients will be selected for review more often under the new laws.

All reviews involve a visit to the relevant auditor's office. Additionally the auditor can bring certain requested documentation to the SKAU office for review. The quality review requires the minimum of two individual audit engagement files to be reviewed. The quantity and quality of resources spent and the appropriateness of the audit fees charged are reviewed as well.

The review is focused on the assessment of the internal procedures for quality control in the audit firm, and also on the assessment of compliance with applicable auditing standards and independence requirements of audit engagements.

Currently there is no differentiation in the review methodology, the review cycle and the selection of audit firms for review on the basis of listed, public interest or other entities being audited. In 2006 the first round of new quality control reviews will be finished and there will be new rules for selection criteria. In this first round of review the VKK undertook quality control reviews at all registered units.

Standard documentation (box ticking with notes) is used in the reviews. The review work is reviewed by the presidium of SKAU.



The reviewers

The reviewers:

- Are qualified licensed auditors with minimum five years experience and actively working in the audit profession;
- Are trained by lecturers from France;
- Are required to personally assure their objectivity and independence.

Confidentiality of client information is governed by law.

The new public oversight body will in future approve reviewers.

The review reporting process

The auditor or audit firm is permitted to discuss and provide answers to the preliminary findings and provide their comments on the findings in the report. Reviewers advise the auditor on ways to improve their procedures in future.

The report is issued to auditors after the review visit. Certain reports must be referred to the disciplinary committee of SKAU in situations where there is ongoing non-compliance with standards.

The overall report, including the results of the quality assurance system, is published annually at the general meeting of auditors.

In future, all reports will be issued to the public oversight body.

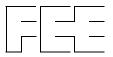
Investigation of Complaints and Sanctions

A disciplinary commission of the Chamber of Auditors assesses the results of investigations of complaints and findings of the supervisory board. This commission itself is regulated by the Law of Auditors and the Slovak Chamber of Auditors, by statute and by disciplinary order. The disciplinary commission meets when needed, but at least once a year.

The auditor, audit firm, assistant auditor or chairman of the supervisory board may file an appeal against the decision of the disciplinary committee to impose the disciplinary action within 15 days from the date of such a decision.

The appeal is determined upon by the presidium, which shall examine the decision and either hold or rescind it. If the presidium rescinds the decision appealed against, the matter shall be referred back to the disciplinary committee for a new procedure. Legal opinions of the presidium shall be binding upon the disciplinary committee.

The appeal decision is final and may not be appealed against.



Appendix I.25 - Slovenia

General

The statutory audit function in Slovenia is governed by the *Auditing Council at the Slovenian Institute* of *Auditors* on the basis of the Auditing Act.

Public Oversight

The function of public oversight in Slovenia is by law performed by the Auditing Council at the Slovenian Institute of Auditors since 2001. The Auditing Council has nine members, five licensed certified auditors, the director of the Institute and three representatives of the interested public who are appointed by the Minister for Finance, two of them on proposal of the Economic Chamber of Slovenia. The Auditing Council:

- Decides on the issue and withdrawal of licences for auditing activities and tasks of certified auditors and auditors;
- Supervises the auditing activities;
- Adopts the rules of the auditing profession which do not include auditing standards because the ISAs are mandatory in Slovenia;
- Lays down the criteria for obtaining the certificate of professional competence to perform the tasks of a certified auditor and auditor;
- Performs other professional tasks related to the development of the auditing profession.

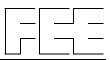
The expected changes to be in accordance with the Statutory Audit Directive are mainly in the structure of the public oversight system.

Quality Assurance Review Organisation

The review process

The quality assurance system in Slovenia is a "monitoring" system. The monitoring function is the responsibility of the Auditing Council on the basis of the Auditing Act. The external quality control of the statutory auditors and audit firms is performed by the Slovenian Institute of Auditors. The review is focused on both the assessment of the internal procedures for quality control in the audit firm as well as on the quality assurance review of audit engagements. Checking the quality assurance review of audit engagements (at least one audit file per engagement partner) also contributes to assess the internal procedures for quality control in the audit firm.

Regarding firms auditing listed entities, there are no differences in the review methodology but there are differences in the review cycle. The firms auditing listed companies and engagement partners of these firms are ordinary subject to the external quality control on a three-year cycle; the other audit firms and their engagement partners are subject to the external quality control on a five-year cycle.



As part of the external quality control, the audit firms are legally obliged to prepare annual returns for the Slovenian Institute of Auditors. They have to report about:

- Any change in data entered into the court register;
- The shareholders' meetings and all resolutions adopted therein;
- The change of the holders of shares of the audit firm as well as of the acquisition and/or change of the qualified stock (ten percent);
- The investments on the basis of which the audit firm has directly or indirectly acquired a qualified stock (ten percent) in another legal person, as well as of any further investment in that legal person;
- The auditing contracts concluded for a particular financial year;
- The other information required by the Institute (like insurance coverage etc.).

External quality control is funded by the supervision fee, paid by the audit firms and defined in the Institute's rates, published in the Official Gazette of the Republic of Slovenia.

The reviewers

The reviews are performed by the experts employed by the Institute, four certified auditors with appropriate education and practical experience, and one lawyer taking care of the proper legal procedure.

The review reporting process

The reviewers are obliged to write a report in accordance with the General Administrative Procedure Act and submit it (together with the remarks of the person under review) to the Auditing Council. The report has standard titles and subtitles (no box ticking) and has to be issued within eight days after the review of the audit firm has been completed.

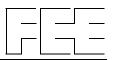
The members of the Auditing Council has the final decision power to adopt eventual sanctions in the case of poor quality audit work.

The overall results of the quality assurance system are published in the annual report of the Institute (in the Institute's review "Revizor" ("Auditor" in English) and on the Institute's web site). This annual report is also presented to the National Assembly of the Republic of Slovenia.

Investigation of Complaints and Sanctions

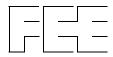
Complaints can be made to the Auditing Council. If the complaint is supported by appropriate evidence, the Auditing Council requests the Slovenian Institute of Auditors to undertake a review of the case in question.

The statutory auditor or audit firm receives the review report within eight days after the completion of the review. The statutory auditor or audit firm is obliged to send remarks (if any) regarding the report within 15 days following its receipt. Both the report and the remarks are presented to the Auditing Council, whom decides on the degree of the possible violations of the auditing rules. In the case of lesser violations the certified auditor or audit firm is given recommendations by the Auditing Council. In the case of serious violations the Auditing Council issues the written decision to initiate the public warning procedure or the licence withdrawing procedure, respectively. In the written decision the Auditing Council has to set a time limit of no less than 15 days and not exceeding 30 days, calculated from the date of receipt of the decision, within which the person under review may make a statement



concerning the grounds for the initiation of the procedure. After receiving such a statement supported with appropriate evidence, the Auditing Council has to decide within 30 days about the issue of the public warning or withdrawal of the licence. A judicial appeal procedure may be instituted against the Institute's decisions.

The data about the final results (when the appeal procedure is not possible any more or is completed) is publicly available.



Appendix I.26 - Spain

General

The quality assurance system was established in 1988 and 1990 by the Auditing Law and its by laws where the responsibility for the quality system (named technical control) is assigned to the "*Instituto de Contabilidad y Auditoría de Cuentas*" (ICAC), a regulatory body under the Ministry of Economy. Its employees are civil servants.

The responsibility for the quality assurance reviews is also assigned to the "Instituto de Censores Jurados de Cuentas" (ICJCE or Institute) as well as to the two other professional corporations.

In 2001 the ICJCE updated the standard on quality assurance to include the EC Recommendation on Quality Assurance of 2000.

Public Oversight

There is no other independent public oversight body, the Auditing Law referred to above assigned the responsibility for audit activities to ICAC.

The functions of the ICAC as set out in the law include supervision of the regulatory (including monitoring) functions of the professional accountancy bodies and the promotion of high professional standards in the auditing and accounting profession. In order to fulfil those functions, ICAC was provided with a number of specific powers including co-operating with other interested parties in the development of auditing and accounting standards and standards relating to the independence of auditors. ICAC has the authority to intervene in the disciplinary processes.

ICAC is not an audit standard setting body. The audit standards applicable in Spain are agreed by the three professional corporations and finally approved and issued by ICAC.

ICAC is funded by the government. The quality control program is funded by the profession via a levy imposed on each audit report issued by an individual auditor or audit firm.

The reviews carried out by ICJCE in its internal program are entirely funded by ICJCE.

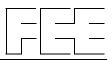
Quality Assurance Review Organisation

The review process

Following an agreement signed between ICAC and ICJCE, the Institute has in addition to its internal quality reviews, carried out reviews of audit firms, individual practitioners, audit work papers, audit reports, etc. Similar agreements have been signed by the ICAC with the other two professional corporations.

The quality assurance process is carried out by staff directly employed by the relevant professional body but reporting to the ICAC as the monitoring function is the responsibility of the ICAC.

The quality assurance process involves the submission of detailed returns and periodic visits to the firms' office/offices.



The program includes a review (not in depth) of the internal quality assurance system established by the audit firm or individual practitioner, and an in depth review of audit files including the adherence to standards and the audit procedures performed to support the audit opinion.

The selection of audit firms and individual auditors to be reviewed as well as the audit engagements and reports to be reviewed is performed by the ICAC (for the reviews within the agreement) and by the ICJCE (for its own reviews) with emphasis on audits of entities of public interest.

The visit cycle is variable for audits of entities of public interest. The cycle for low-risk firms can be ten years. However the cycle can be shortened depending on the weaknesses identified at an inspection visit requiring a follow-up visit.

The reviewers

Reviewers employed by the professional bodies are qualified accountants with at least ten years of audit experience. Reviewers cannot themselves be registered auditors.

A program for training and extensive continuing professional development is being developed.

They are selected for specific assignments based on relevant experience and having determined that there are no threats to their independence or other conflicts of interest.

The reporting process

A report is produced on the visit which includes the conclusions of the reviewer. Reviewers are given an opportunity to comment on any reports.

At the end of the review a report is issued by the reviewer indicating the actual findings and including the request for comments and agreement or disagreement of the auditor or audit firm reviewed on the contents of the report.

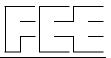
If the result is a serious breach of the audit standards, the reviewer report together with the evidence, is examined by the Ethics Committee of the ICJCE. In the case the conclusions are supported by the Committee, the information is duly reported to the ICAC to establish the appropriate sanctions.

The ICAC is required by law to prepare an annual report with the results of the review.

Investigation of Complaints and Sanctions

Complaints against auditors can be made by third parties, public authorities and other committees within the professional bodies. Complaints are investigated either by the professional bodies and, if necessary, referred to the Disciplinary Committee or by the ICAC.

The ICAC has a further range of powers including financial penalties (fines) and withdrawal of membership from the register of authorised auditors.



Appendix I.27 - Sweden¹⁴

General

The statutory audit function in Sweden is carried out by auditors or registered public accounting firms. Both individual auditors and audit firms are registered and certified by a public oversight authority (POA), the "Supervisory Board of Public Accountants", (Revisorsnämnden). The POA is an independent public authority under the Ministry of Justice with a majority of non-practitioners.

Public Oversight

The statutory audit function is placed under supervision of the POA which is responsible for the oversight of the profession. The responsibilities of the POA are:

- Supervision of the members of the profession;
- Examination of applicants to the profession; and
- Ensuring that the development of professional ethics and professional audit standards is satisfactory and adequate.

The POA co-operates with the "Quality Assurance Board", (Kvalitetsnämnd), of the professional auditors' institute (FAR SRS) in supervising their members. The quality of the reviews arranged by the institutes is annually verified on a test basis by the Public Oversight Authority.

Quality Assurance Review Organisation

The review process

Under the supervision of the POA, the auditors' institute carries out the reviews of statutory auditors and audit firms who are members of the institutes. The reviews performed by the institute are based on a co-operation agreement with the POA. The Quality Assurance Board of the Institute is responsible for selecting audit firms for review, recruitment and training of reviewers, ensuring the independence of the reviewers, the review process, the review methodology, dispatching of reviewers and harmonisation and consistency of the work issued by reviewers. Auditing firms are selected for review every five years, primarily on a cyclical basis. All reviews include a visit to a sample of the audit firm's offices, an assessment of the internal quality control system of the firm and the review of individual engagements. The quality assurance system is a "monitored peer review" system.

Reviews of auditors that are not members of the Institutes are organised by the POA with methods similar to the Institute's and at present by engaging reviewers from the Institute. The POA also investigates auditors and firms based on notifications from other parties and investigation schemes initiated by the POA. These investigations are performed by staff employed by the POA.

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As per 1 July 2006, auditors in Sweden were members in two separate institutes, FAR and SRS. The institutes merged on 1 September 2006 to one institute named FAR SRS.



The reviewers

Only qualified auditors with senior experience and special training in the quality assurance system may conduct the reviews.

The review reporting process

The reviewers issue a report to the reviewed firm and to the Quality Assurance Board.

The Quality Assurance Board decides based on the reviews whether the auditor or audit firm shall be approved or not. In cases where the Quality Assurance Board has noted quality problems in the work of an individual auditor or in an audit firm, the Quality Assurance Board will not approve the auditor or the audit firm. In cases of less severe problems the Quality Assurance Board will decide on a new review within one year. If the problem is severe, the Quality Assurance Board will report the auditor or audit firm to "Kvalitetskontrollstyrelsen" (Quality Control Board - QCB), a co-opted private body with a non-practitioner majority.

"Kvalitetskontrollstyrelsen" will try the matters reported by the Institutes and decide whether to report the matter to the POA or not for disciplinary sanctions.

The overall results of the Quality Assurance system are submitted by the Quality Assurance Board to the POA which annually publishes a report of overall findings.

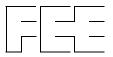
Investigation of Complaints and Sanctions

Complaints against auditors can be made by third parties, public authorities and others to the POA.

"Kvalitetskontrollstyrelsen" shall, as described above, report auditors or audit firms with severe quality problems identified in the quality reviews to the POA.

Sanctions in the form of reminder, warning or cancellation of the certification are given by the POA. Sanctions are published by the POA.

Members who do not comply with the quality assurance obligations may be dismissed as members by the Institute.



Appendix I.28 - Switzerland

General

The statutory audit function in Switzerland is carried out by members of the "Treuhand Kammer" or "Chambre Fiduciaire" which may include both sole practitioners and corporate bodies.

Public Oversight

The system of public oversight will be established in 2007 for all auditors of listed companies, following the federal law on approval and oversight of auditors of 16 December 2005, the "Loi fédérale sur l'agrément et la surveillance des réviseurs". The government is responsible for the nomination process. Most of the members of the public oversight board will be non-practitioners. The scope of activity is extensive, i.e., licensing of auditors, approving of standards, discipline, quality assurance, education, sanctions and so on. All statutory auditors, whether they audit listed or unlisted companies, will be required to register with the public oversight body.

The public oversight system is ultimately responsible for standard setting and endorsement of standards as well as for quality assurance enforcement and disciplinary measures and sanctions, however it can delegate for instance standard setting.

Its funding is independent of the audit profession. The transparency of its work is fully guaranteed by law.

Quality Assurance Review Organisation

The review process

The public oversight body will be fully responsible for the review or monitoring function. The public oversight body will have the full authorisation to decide on how the quality control is performed and whether both the internal procedures for quality control in the audit firm and individual audit engagements will be assessed. The public oversight body has no restrictions of any kind on information collection. This includes a regular update of information by the audit firms which is foreseen yearly, also called annual return.

The review cycle is expected to be three years for all reviews. The monitoring is funded by the public oversight body.

The reviewers

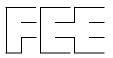
The expected system is "monitoring" or a review by full-time staff employees of the system of public oversight. The public oversight body will be responsible for their appointment.

The review reporting process

The management of the reviewed audit firm will receive a written report including the results of the quality control. The public oversight body can decide on the other aspects of the review reporting process.

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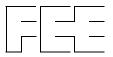
A yearly report for the public by the public oversight body is foreseen by law.



Investigation of Complaints and Sanctions

Complaints can be made by anyone. The process is to be decided by the public oversight body.

Sanctions can be imposed on both individual auditors and audit firms. Sanctions are imposed by the public oversight body.



Appendix I.29 - United Kingdom

General

The statutory audit function is carried out in the UK by 'registered auditors'. They may be sole practitioners, partnerships or corporate bodies. Registration is by a 'Recognised Supervisory Body' (RSB) and the main professional accountancy bodies have this status.

Public Oversight

There is a comprehensive public oversight system under the Financial Reporting Council (FRC). Constituent parts of the FRC are responsible for the development of auditing standards (i.e. ISAs) and ethical standards for auditors.

There is a disciplinary function within the FRC which looks at any case in which it is considered that there is a major public interest. These cases (only one in 2005) may be referred to it by an RSB or may be 'called in' by the FRC Board responsible for the disciplinary scheme.

The public oversight part oversees all the work of the professional accountancy bodies, not just their activities as RSBs. It in turn has an Audit Inspection Unit (AIU) that undertakes the review of public interest audit engagements (listed companies and others).

Quality Assurance Review Organisation

The review process

Reviews are carried out either by the RSBs, or as noted above, the AIU of the public oversight body. The latter only reviews the audits of public interest entities.

The larger firms (those who do the majority of public interest audits) receive a monitoring visit every year. Other auditors of public interest entities receive a visit every third year. All other auditors are on a six-year visit cycle.

All firms complete an annual return which varies in size depending on the RSB. All reviews consist of a visit to the firm, a review of the internal control system of the firm and reviews of individual files. The system is "monitoring", not a monitored peer review system.

The reviewers

The reviewers are all qualified accountants with audit experience employed by the RSBs or the AIU.

The review reporting process

A report or other form of feedback is provided to each firm after the visit. The firm is able to comment on this. If any action is suggested by the reviewer, a formal report is written for a committee of the RSB. This is also seen by the firm. The firm can apply for a review of any decision made by the Committee.

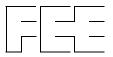
Overall summaries are published of the results.



Investigation of Complaints and Sanctions

Complaints can be made by third parties, to the RSBs. If the complaint raises matters of public interest then it is referred to the disciplinary arm of the public oversight body.

The RSBs distinguish between regulatory action which is designed to improve the quality of audit work in the firm, and disciplinary action which provides sanctions against breaks of professional rules. Both types of sanction can include withdrawal of approval to audit. Withdrawal of approval and disciplinary sanctions are published, including the name of the firm.



APPENDIX II - SUMMARY OF RESPONSES

Appendix II.1 Public Oversight

Question 1: Is there, or will there soon be a public oversight system in your country? If yes, please provide a description of it including:

- Its nomination process for members and its composition (practitioners/nonpractitioners)
- Its scope of activities (quality assurance, standard setting, approval of auditors, discipline, education and others for listed, public interest or other
- Its funding (how, by whom, how many hours of resources)
- The transparency of its work

| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | | | |
|----------------------------------|--------------------------------------|--|--|--|
| Austria ¹⁵ | Yes | | | |
| Belgium | Yes | | | |
| Bulgaria ¹⁶ | No | | | |
| Cyprus ¹⁷ | No | | | |
| Czech Republic ¹⁸ | No | | | |
| Denmark | Yes | | | |
| Estonia | No | | | |
| Finland | Yes | | | |
| France | Yes | | | |
| Germany | Yes | | | |
| Greece | Yes | | | |
| Hungary ¹⁹ | No | | | |
| Ireland | Yes | | | |
| Italy | Yes | | | |
| Latvia | No | | | |
| Lithuania | No | | | |
| Luxembourg | No | | | |
| Malta | Yes | | | |
| Netherlands ²⁰ | Yes | | | |
| Norway | Yes | | | |
| Poland | No | | | |
| Portugal | No | | | |
| Romania | No | | | |
| Slovak Republic ²¹ | No | | | |

Although an oversight body has been implemented since 2005, no quality audits performed yet.

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The establishment of an oversight body to monitor the quality of audit services is in process of preparation.

A public oversight system will be introduced in response to the requirements of the Statutory Audit Directive (within 2 years allowed by the Directive).

A public oversight system will be implemented during the next two years as requested by the Statutory Audit Directive.

A public oversight system will be implemented on 1 January 2007.

A public oversight system will be implemented based on the law "Supervision Accountants and Auditors Organizations" that is effective 1 October 2006.

The Code of oversight on compliance with IFRS and auditing services will be applied in 2006 after publication of the Statutory Audit Directive.



| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | | | | |
|---------------------------|--|--|--|--|--|
| Slovenia ²² | No | | | | |
| Spain | An oversight body has been established but includes, apart from the government-appointed president with voting rights, government regulatory bodies, professional bodies and other stakeholders who are members with advisory but not decision powers. | | | | |
| Sweden | Yes | | | | |
| Switzerland ²³ | No | | | | |
| United Kingdom | Yes | | | | |

| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|----------|--|--|--|--|--|
| Austria | Yes | Two bodies: Practitioners (nominated by profession) and non-practitioners (nominated by Ministry of Industry). | Quality assurance and discipline. Withdrawal of approval. | Ministry of industry. | Yes annual report of the oversight board. |
| Belgium | Yes | The institute of registered auditors (IRE) supervised by two bodies independent from profession. | IRE: supervision of auditors Two bodies have shared activities, one body specialises on independence. | 3 institutions: • IRE; • Institute of accountants and tax consult; and • Institute of chartered accountant and tax experts. | Yes 2 bodies publish annual report. |
| Bulgaria | Steps have been taken. | Practitioners (1/3) and non-practitioners (2/3). | Still to be determined. | Still to be determined. | Still to be determined. |
| Cyprus | Steps have been taken. | Practitioners and non-practitioners. | Monitoring Work of institute (quality assurance, standard setting, | Public | Yes, report. |

The legal procedure to change the structure of the public oversight is expected to be completed in the middle of 2008.

The system of public oversight will be established in 2007.



| Country | PUBLIC OVERSIGHT BODY IS ESTABLISHED | Membership | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|-------------------|--|---|--|---|----------------------------------|
| | | | approval, discipline, education). | | |
| Czech Republic | Structure of the public oversight system is under discussion. | Currently proposed: 1 practitioner and 4 non-practitioners. | Quality assurance, standard setting, approval and registration, discipline, education. | Not yet determined. | Details not yet known. |
| Denmark | Yes | Practitioner and non-practitioner appointed by Danish Commerce and Companies Agency. | Monitoring limited to quality assurance, including discipline. | Public. | Yes, annual report. |
| Estonia | No discussions so far. | Currently: State supervision exercised by Minister of Finance. | Currently: Monitoring observance of law, adherence to the statutes of the Board of Auditors. | No detail given. | No detail given. |
| Finland | Yes | Two levels: practitioner and non-practitioner elected by the council of the central chamber of commerce and the council of state. | Approval, discipline, inspection, standard setting shared with profession, quality assurance, shared monitoring | Shared: public and annual fees from profession. | Yes, annual report. |
| France Germany | Yes | Nomination of members (practitioners and non-practitioners) by a decree issued by the Minister of justice. Auditor | Monitoring shared with profession, quality assurance, registration and discipline. Approval | Public. Public auditors | Yes, annual report. Yes, annual |



| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|---------|--|--|--|---|---------------------------------------|
| | | oversight commission incl. Only non- practitioners appointed by the Federal Ministry of Economics. | German chamber of public accountants (WPK) examination/qua lification, registration/appr oval, quality assurance, discipline and adoption of professional rules. | and firms. | report. |
| Greece | Yes | ELTE (Greek accounting and auditing oversight board) is a Public entity supervised by the Minister of Economy and Finance. SPE (quality assurance board) is an aggregate body under ELTE. Both bodies include 7 non-practitioners. | ELTE: Recommendatio ns, quality assurance, supervision of SOEL, introduction of professional code of ethics. SPE: quality assurance review, discipline, compliance to auditing standards, independence and code of ethics. | ELTE funded by a 1% audit fee contribution and eventually state budget. | Not determined yet. |
| Hungary | Steps have been taken. | 7 members (maximum 3 practitioners) nominated by the Minister of Finance. | Monitoring, approval and resignation, ethics and discipline, quality assurance, independence, etc. | Ensured by Minister of Finance. | New Law from 1 January 2007. |
| Ireland | Yes | Board of Directors to consist of not | To supervise how the accountancy | 40% state 60% audit profession. | Annual work program to be approved by |



| Country | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|-----------|---|---|---|-------------------------|---|
| | | more than 15 Directors (including the Chief Executive) of which no more than 5 may be members of a prescribed accountancy body. | bodies monitor and regulate their members, to promote adherence to high professional standards, to monitor the accounts of certain classes of companies, to act as advisor to the Minister. | | Minister of Enterprise, Trade and Employment. |
| Italy | Yes | Two levels: one general for all auditors and audit firms (CRCC) and one additional dedicated to PIEs (Consob). CCRC incl. minority of practitioners. Consob: non-practitioners appointed by government. | Monitoring and supervision, approval and registration, sanctions; Quality assurance by Consob on activities, independence and internal control of audit firms and client files. | Both public. | Consob: annual report. CCRC: no report. |
| Latvia | No discussions yet, currently supervision by Ministry of Finance. | No detail given. | No detail given. | No detail given. | No detail given. |
| Lithuania | No discussions yet. | Currently: Chamber of auditors. | Currently: Monitoring and supervision, quality assurance, discipline, compliance. | Currently: Audit firms. | Currently: Annual report to Ministry of finance. |



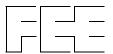
| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|-------------|--|---|---|---|---|
| Luxembourg | No discussions yet. | Currently: Responsibility of Ministry of Justice to monitor the profession and IRE. | Currently: Setting standards, code of ethics, quality assurance. | Currently: Funded by the IRE. | No detail given. |
| Malta | Yes | Accountancy board: majority of practitioners. | Monitoring quality assurance shared with professional approval and discipline. | Public quality assurance by the profession. | Annual work programme and achieving report in progress. |
| Netherlands | From 1 October 2006. | Public oversight. | AFM will concentrate on statutory audits of audit firms auditing PIEs. For other audit firms performing statutory audits, AFM has or will enter into conversations with NIVRA, NOvAA and SRA to review their quality inspections. | Costs are charged to audit firms. AFM will charge the costs of oversight to the audit firms as determined by law. | Details not known yet. |
| Norway | Yes | 5 non- practitioners appointed by the King. | Supervision of approval, quality assurance, approval, registration, investigations and sanctions. | All entities subject to the oversight body. | Annual report. All decisions of sanctions are publicly available. |
| Poland | No discussions yet. | Currently: Oversight body (Committee) is the institute of | Currently: Review of compliance of national | Currently: The Institute funds the activity of the Committee. | Currently: No obligation for public reporting on its |



| COUNTRY | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|--------------------|--|---|---|---|---|
| | | Polish auditors incl. practitioners. | professional standards. | | activity. |
| Portugal | Steps have been taken. | Currently: OROC (auditors professional institute) is covering the oversight of the audit profession (non- independent). | Currently: Registration, access to profession, standard setting, discipline, quality assurance. | Currently: Funding is 100% from members of OROC. | Currently: The Executive Board prepares a plan of activities subject to the approval of the General Assembly composed by all statutory auditors. At the end of each year the Executive Board presents to the General Assembly for approval their report of the activities performed in each area. |
| Romania | No discussions yet. | No detail given. | No detail given. | No detail given. | No detail given. |
| Slovak Republic | Steps have been taken. | Practitioners and non-practitioners nominated by the minister of Finance. | Compliance IAS, IFRS and quality of work. | Funded by the State and public entities. | |
| Slovenia | Steps have been taken. | Not applicable. | Ultimate responsibility for: | Not applicable. | The publication of work programmes and periodical reports. |



| Country | PUBLIC OVERSIGHT BODY IS ESTABLISHED | MEMBERSHIP | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|-------------|--|---|---|--|------------------------------|
| | | | Continuous education, quality assurance, investigative and disciplinary systems. | | |
| Spain | Oversight body including, apart from the government -appointed president with voting rights, government regulatory bodies, professional bodies and other stakeholders who are members with advisory but not decision powers. | Minority of non- voting professionals and government regulatory bodies appointed by Government. | Monitoring control of the audit activity, including discipline. | Annual general budget and quality assurance funded by auditors and firms. | |
| Sweden | Yes | Two bodies minority of practitioners. QCB appointed by auditor organisation and POA appointed by government. | QCB: quality assurance POA: Supervision over QCB, approval, discipline, registration. | QCB Funded by members POA by auditors. | Decisions of POA are public. |
| Switzerland | Steps have been taken for auditors of listed | Minority of practitioners. | Licensing, endorsement of standards, discipline, | Independent from profession. | Guaranteed by law. |



| Country | PUBLIC OVERSIGHT BODY IS ESTABLISHED | Membership | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY |
|-------------------|--|---|---|---|----------------------------------|
| | companies. | | quality assurance, education, sanctions, etc, for auditors of listed companies. | | |
| United Kingdom | Yes | FRC incl. a minority of practitioners appointed by the Secretary of State for Trade and Industry. | ASB: accounting standards APB: auditing standards POB: oversight of bodies AIU: audit inspections FRRP: reviews published accounts of companies AIDB: discipline. | Government, business community and accounting profession. | Yes public annual report of FRC. |

Questions 2: Is the public oversight system ultimately responsible for standard setting and endorsement of standards as well as for quality assurance enforcement and disciplinary measures and sanctions?

| COUNTRY | ULTIMATE RESPONSIBILITY | STANDARD SETTING AND ENDORSEMENT | QUALITY ASSURANCE ENFORCEMENT | DISCIPLINARY MEASURES AND SANCTIONS |
|---------------------------------|----------------------------|--|-------------------------------------|-------------------------------------|
| Austria | No | No | No | No |
| Belgium | No | No however consultation necessary for endorsement. | No | No |
| Bulgaria | Yes | Yes | Yes | Yes |
| Cyprus | No | No | No | No |
| Czech Republic ²⁴ | Yes | Yes | Yes | Yes |

²⁴ Expected, once a public oversight body has been established.

| COUNTRY | ULTIMATE RESPONSIBILITY | STANDARD SETTING AND ENDORSEMENT | QUALITY ASSURANCE ENFORCEMENT | DISCIPLINARY MEASURES AND SANCTIONS |
|-----------------|----------------------------|--|-------------------------------|-------------------------------------|
| Denmark | Partially. | Yes | Yes | Yes |
| Estonia | No | No | No | No |
| Finland | Partially. | No | Yes | Yes |
| France | Partially. | No | Yes | Yes |
| Germany | Partially. | No | Yes | Yes |
| Greece | Yes | Yes | Yes | Yes |
| Hungary | Partially. | No | Yes | Yes |
| Ireland | Yes | Yes | Yes | Yes |
| Italy | Yes | Yes (Consob). No (CCRC). | Yes (Consob). No (CCRC). | Yes |
| Latvia | No | No | No | No |
| Lithuania | No | No | No | No |
| Luxembourg | No | No | No | No |
| Malta | Partially. | No | Yes | Yes |
| Netherlands | Partially. | No | Yes | Partially |
| Norway | Yes | Yes | Yes | Yes |
| Poland | No | No | No | No |
| Portugal | No | No | No | No |
| Romania | No | No | No | No |
| Slovak Republic | Yes | Yes | Yes | Yes |
| Slovenia | Will be responsible. | Direct use of ISAs. | Will be responsible. | Will be responsible. |
| Spain | Yes | Yes | Yes | Yes |
| Sweden | Yes | Yes | Yes | Yes |
| Switzerland | Yes | Yes | Yes | Yes |
| United Kingdom | Yes | Yes | Yes | Yes |

Question 3: To what extent will the implementation of the Statutory Audit Directive change your public oversight system?

- Related to its nomination process for members and its composition
- Related to its scope of activities
- Related to its funding
- Related to the transparency of its work

| Country | Expected Change | Nomination Process | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY OF ITS WORK |
|----------|--------------------|-----------------------|------------------------|----------------------|-----------------------------|
| Austria | None. | None. | None. | None. | None. |
| Belgium | Uncertain. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. |
| Bulgaria | Limited. | Ongoing | Changes | Changes | Ongoing |

| Country | EXPECTED CHANGE | Nomination Process | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY OF ITS WORK |
|-------------------|-------------------------------------|--|---|--|-----------------------------|
| | | discussions. | expected. | expected. | discussions. |
| Cyprus | None. | None. | None. | None. | None. |
| Czech Republic | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Denmark | Limited. | None. | Limited. | None. | None. |
| Estonia | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Finland | Limited. | The Ministry of Trade and Industry will appoint the chairman, the vice-chairman and three members. | Changes concerning quality assurance. | Limited. | Ongoing discussions. |
| France | None. | None. | None. | None. | None. |
| Germany | Limited. | None. | Third-country's auditors. | None. | None. |
| Greece | Important. | Appointment to be re-examined. | Supervision of admittance. | Partially. Ongoing discussions. | Publication to be imposed. |
| Hungary | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Ireland | Limited. | None. | Give legal status to ISA and provide regulation of third-country auditors. | None. | None. |
| Italy | Limited (Consob). Important (CCRC). | None. | Impact for auditors not under control of Consob. | None. | Important. |
| Latvia | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Lithuania | Uncertain. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. |
| Luxembourg | Important. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. | Ongoing discussions. |
| Malta | Limited. | Limited, nomination of non- practitioners. | None. | Limited, collection of regulatory fees from warrant | None. |



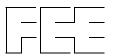
| COUNTRY | EXPECTED CHANGE | Nomination Process | SCOPE OF ACTIVITIES | Funding | TRANSPARENCY OF ITS WORK |
|--------------------|--------------------|--|---|-------------------------------------|-------------------------------|
| | | | | holders. | |
| Netherlands | Important. | Appointments to the Board of AFM by Ministry of Finance. | Public oversight will concentrate on PIEs. | None. | Details yet to be determined. |
| Norway | None. | None. | None. | None. | None. |
| Poland | Important. | Important changes. | Important changes. | Unknown, ongoing discussions. | Important changes. |
| Portugal | Important. | Imposition of non-practitioners. | Rules on rotation statutory audit partner on listed companies, scope of non-audit services. | Currently funded by the profession. | Annual report of OROC. |
| Romania | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Slovak Republic | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Slovenia | Important. | Important changes. | Important changes. | Important changes. | Important changes. |
| Spain | Limited. | important changes in its composition. | None. | None. | None. |
| Sweden | None. | None. | None. | None. | None. |
| United Kingdom | Limited. | None. | Third-country's auditors. | None. | None. |

Appendix II.2 Quality Assurance Arrangements

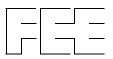
Appendix II.2.1 Background Statistics

Question 4: Number of "registered auditors" (please specify whether audit firms or statutory auditors, as relevant to the review process)

| COUNTRY | NUMBER OF STATUTORY AUDITORS | | | |
|-----------------|--|--|--|--|
| Austria | No detail given. | | | |
| D -1-2 | 968, registered with the IRE-IBR (Institut des Reviseurs d'Entreprises – Instituut | | | |
| Belgium | der Bedrijfsrevisoren). | | | |
| Bulgaria | 570, registered with the ICPA. | | | |
| Cyprus | 450 statutory auditors. | | | |
| Czech Republic | 1.280 statutory auditors. | | | |
| D 1- | 4.700, approximately 2.200 licensed as state authorised public accountants and | | | |
| Denmark | 2.500 as registered public accountants. | | | |
| Estonia | 376 natural person auditors (only individuals undergo quality assurance). | | | |
| Finland | 1.480, 697 KHT auditors and 783 HTM auditors. | | | |
| France | 14.140, natural persons registered as statutory auditors. | | | |
| C | 12.993 approved "Wirtschaftsprüfer" registered in the Professional Register, | | | |
| Germany | whether they provide statutory audits or not. | | | |
| Greece | 510 certified Public Accountants - Auditors | | | |
| Hungary | 3.700 active statutory auditors. | | | |
| | 1.400, 1.050 registered with ICAI and 350 registered with ICPAI, a registered | | | |
| Ireland | auditor is the audit firm, who could be a sole practitioner. | | | |
| Italy | 140.000 statutory auditors registered with the Ministry of Justice | | | |
| Latvia | 150 certified auditors. | | | |
| Lithuania | 403 statutory auditors. | | | |
| Luxembourg | 320 registered auditors. | | | |
| _ | 690 professionals holding a Certified Public Accountant Warrant with a Practising | | | |
| Malta | Certificate in Auditing. | | | |
| NY 41 1 1 | 4.300 registered statutory auditors, expected to decrease significantly after 1 | | | |
| Netherlands | October 2006 upon registration with AFM. | | | |
| N | 1.580, 1.550 auditors members of DnR, subject to quality assurance and 30 | | | |
| Norway | auditors, non-members of DnR subject to quality assurance by Kredittilsynet. | | | |
| D 1 1 | 3.804 registered auditors holding the licence of chartered auditor and being | | | |
| Poland | practitioners subject to quality assurance. | | | |
| Portugal | 963 registered auditors | | | |
| Romania | 1.536 individual auditors. | | | |
| Slovak Republic | 818 licensed auditors. | | | |
| Slovenia | 184 certified auditors. | | | |
| G | 5.286 individual auditors, 4.632 in public practice and 654 working for another | | | |
| Spain | auditor. | | | |
| Sweden | 4.300 registered auditors. | | | |
| Switzerland | 4.000 statutory auditors. | | | |
| | 15.543, 11.304 with ICAEW, 3.387 with ACCA and 852 with ICAS. A registered | | | |
| United Kingdom | auditor is the audit firm, statutory auditors who are individually responsible for | | | |
| Č | audit work and who can sign audit reports. | | | |



| COUNTRY | Number of Audit Firms | | | | |
|-----------------|---|--|--|--|--|
| Austria | No detail given. | | | | |
| D-1-3 | 416 registered with the IRE-IBR (Institut des Reviseurs d'Entreprises – Instituut der | | | | |
| Belgium | Bedrijfsrevisoren). | | | | |
| Bulgaria | 86 registered with the ICPA. | | | | |
| Cyprus | 250 audit firms. | | | | |
| Czech Republic | 337 audit firms. | | | | |
| Denmark | 1.250, approximately 450 firms of state authorised public accountants and 800 firms of registered public accountants. | | | | |
| Estonia | 63 legal person auditors. | | | | |
| Finland | 55, 30 KHT audit firms and 25 HTM audit firms. | | | | |
| France | 3.601 firms of statutory auditors. | | | | |
| Germany | 2.339 approved "Wirtschaftsprüfungsgesellschaften" registered in the Professional | | | | |
| Germany | Register, whether they provide statutory audits or not. | | | | |
| Greece | 20 audit firms. | | | | |
| Hungary | 2.000 registered audit firms. | | | | |
| Ireland | 1.400, 1.050 registered with ICAI and 350 registered with ICPAI, a registered auditor is the audit firms, who could be a sole practitioner. | | | | |
| - 1 | 21 audit firms registered with Consob (listed audits only). Approximately 300 audit | | | | |
| Italy | firms registered with CCRC. | | | | |
| Latvia | 129 registered audit firms. | | | | |
| Lithuania | 211 registered audit firms. | | | | |
| Luxembourg | 116 audit firms. | | | | |
| Malta | 36 audit firms. | | | | |
| Netherlands | 900 registered audit firms. | | | | |
| Norway | 569 registered audit firms. | | | | |
| Poland | 1.936 audit companies. | | | | |
| Portugal | 161 audit firms. | | | | |
| Romania | 516 audit firms. | | | | |
| Slovak Republic | 194 audit firms. | | | | |
| Slovenia | 47 audit firms. | | | | |
| Spain | 1.155 audit firms. | | | | |
| Sweden | 90 registered audit firms. | | | | |
| Switzerland | 900 audit firms. | | | | |
| United Kingdom | 8.145 audit firms, 5.055 ICAEW firms, 2.745 ACCA firms and 345 ICAS firms. | | | | |



Question 5: Estimated number of companies on which a statutory audit report is given (please indicate legal limits on the audit requirement relevant to this statistic)

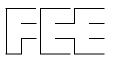
LIMITED LIABILITY COMPANIES EXEMPT FROM STATUTORY AUDIT IF FOR TWO CONSECUTIVE YEARS, TWO OF THE THREE LIMITS ARE NOT EXCEEDED (IN € MILLION AT 1/07/06)²⁵:

| | IVI | • | | | |
|-----------------|------------------------|-------------------|------------------------|--|--|
| COUNTRY | BALANCE SHEET TOTAL | NET TURNOVER | Number of Employees | NUMBER OF STATUTORY AUDITS (ESTIMATED) | |
| Austria | 3.65 | 7.3 | 50 | No detail given. | |
| Belgium | 3.65 | 7.3 | 50 | 18.300 | |
| Bulgaria | 0.5 | 1.0 | 50 | 9.000 | |
| Cyprus | 3.4 | 7.0 | 50 | 50.000 | |
| Czech Republic | 1.35 | 2.7 | 50 | No statistics available. | |
| Denmark | 0.2 | 0.4 | 12 | 75.000 | |
| Estonia | 0.32 | 0.64 | 10 | No statistics available. | |
| Finland | 0 | 0 | 0 | 370.000 | |
| Finiand | 0.1 ²⁶ | 0.2^{26} | 3^{26} | 3/0.000 | |
| France | 1.55 | 3.1 | 50 | 200.000 | |
| Germany | 4.015 | 8.03 | 50 | No statistics available. | |
| Greece | 1.5 | 3 | 50 | 8.000 | |
| TT | Not applicable. | Not applicable. | Not applicable. | 50,000 | |
| Hungary | • | Net income: 0.2 | • • | 50.000 | |
| Ireland | 1.905 | 1.5 | 50 | 140.000 | |
| Italy | 3.125 | 6.25 | 50 | No statistics available. | |
| Latria | 0.14 | 0.28 | 25 | 8.000 | |
| Latvia | 0.355^{27} | 0.711^{27} | 25 | 8.000 | |
| Lithuania | 1.45 | 2.9 | 50 | 2.500 | |
| Luxembourg | 3.125 | 6.25 | 50 | No statistics available. | |
| Malta | 0.046 | 0.092 | 2 | 19.000 | |
| Netherlands | 3.65 | 7.3 | 50 | 9.000 | |
| | Not applicable. | Not applicable. | Not applicable. | 207.000 | |
| Norway | ** | Net income: 0.625 | ** | 207.000 | |
| Poland | 2.5 | 5 | 50 | 21.100 | |
| Portugal | 1.5 | 3 | 50 | 21.000 | |
| Romania | 3.65 | 7.3 | 50 | No statistics available. | |
| Slovak Republic | 0.5 | 1 | 20 | 30.000 | |

Please refer to Question 5 in Section 5.1 on page 30 for further explanations related to audit thresholds in Europe.

According to the government bill amending the Auditing Act.

²⁷ From 1 January 2007.



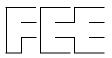
LIMITED LIABILITY COMPANIES EXEMPT FROM STATUTORY AUDIT IF FOR TWO CONSECUTIVE YEARS, TWO OF THE THREE LIMITS ARE NOT EXCEEDED (IN $\$ MILLION AT 1/07/06)²⁵:

| COUNTRY | BALANCE SHEET TOTAL | NET TURNOVER | Number of Employees | NUMBER OF STATUTORY AUDITS (ESTIMATED) |
|----------------|------------------------|--------------|------------------------|--|
| Slovenia | 3.65 | 7.3 | 50 | 2.000 |
| Spain | 2.374 | 4.748 | 50 | 29.000 |
| Sweden | 0 | 0 | 0 | 280.000 |
| Switzerland | 0 | 0 | 0 | 170.000 |
| | 6.7 ²⁸ | 13.3^{28} | 50^{28} | 170.000 |
| United Kingdom | 4.1 | 8.2 | 50 | 179.000 |

Question 6: Estimated number of listed companies audited

| COUNTRY | Number of Listed Companies (estimated) | | |
|-----------------|---|--|--|
| Austria | 80 | | |
| Belgium | 150 | | |
| Bulgaria | 340 | | |
| Cyprus | 130 | | |
| Czech Republic | 100 | | |
| Denmark | 190 | | |
| Estonia | 20 | | |
| Finland | 140 | | |
| France | 790 | | |
| Germany | 1.250 | | |
| Greece | 340 | | |
| Hungary | 50 | | |
| Ireland | 1.100 | | |
| Italy | 300 (all subsidiaries are subject to full audit). | | |
| Latvia | 40 | | |
| Lithuania | 40 | | |
| Luxembourg | 50 | | |
| Malta | 14 | | |
| Netherlands | 200 | | |
| Norway | 220 | | |
| Poland | 260 | | |
| Portugal | 70 | | |
| Romania | 64 | | |
| Slovak Republic | 320 | | |
| Slovenia | 140 | | |
| Spain | 500 | | |
| Sweden | 500 | | |
| Switzerland | 360 | | |
| United Kingdom | 1.350 | | |

²⁸ From 1 January 2007.



Appendix II.2.2 The Review Methodology

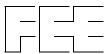
Please describe your quality assurance system, e.g. it is monitored peer review²⁹ **Question 7:** or monitoring³⁰?

| COUNTRY | MONITORING | MONITORED PEER REVIEW | |
|-------------------|------------|--------------------------|---|
| Austria | | Yes | |
| Belgium | | Yes | |
| Bulgaria | | Yes | Peer reviewers under supervision of professional institute. |
| Cyprus | Yes | | Monitoring with the assistance of ACCA (UK). |
| Czech Republic | Yes | Yes | Mainly monitoring: the monitoring/review is conducted by the office of the Chamber of Auditors (a full-time staff member) and the Supervisory Commission (a statutory auditor). |
| Denmark | | Yes | Following the Danish Auditors' Act, one quality assurance system exists as part of the public oversight, i.e. the Supervisory Authority on Auditing (SAA). The SAA is a monitored peer review system covering all auditing and assurance assignments. |
| Estonia | Yes | Yes | Mixed teams of Management Board of Auditors members and peer reviewer. |
| Finland | | Yes | |
| France | | Yes | The "Haut Conseil" is responsible for the review function. This it delegates to the CNCC (the Institute) who employ full- time inspectors to provide the service. Hence this is a monitoring system. The CNCC has a further agreement with the AMF, the Securities Regulator, which is responsible for the supervision of statutory auditors of listed companies. The results are submitted to the "Haut Conseil". |
| Germany | | Yes | Peer reviewers monitored by the WPK and under the supervision of the Public Oversight Body. |
| Greece | | Yes | |
| Hungary | | Yes | Peer reviewers monitored by the professional institute. They will be under the supervision of the public oversight body when the new law is enacted. |
| Ireland | Yes | | Monitoring by full-time staff employed by the professional institutes. |
| Italy | Yes | | Only audit firms (21), registered with the Consob and performing audits of PIEs, are subject to a review/monitoring by Consob. |
| Latvia | | Yes | Peer reviewers under supervision by professional institute. |

Review by authorised and experienced practitioners on a part-time basis, organised and supervised by fulltime staff of the review organisation or by professional institutes under the supervision of a public oversight

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Review by full-time staff employed by the review organisation.



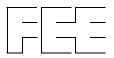
| Country | Monitoring | MONITORED PEER REVIEW | |
|---------------------------|--|----------------------------------|--|
| Lithuania | | Yes | Peer reviewers under supervision by professional institute. |
| Luxembourg | | Yes | |
| Malta | Yes | | |
| Netherlands | Yes, from 1 Octob er 2006. | Yes, up to 1 October 2006. | The AFM (the new public oversight body) is effective from 1 October 2006. It assumes responsibility for monitoring the quality assurance system of audit firms auditing PIEs from the professional institutes. |
| Norway | Yes | Yes | Mixed system: monitoring by Kredittilsynet for non-members of DnR and by DnR for its members. |
| Poland | | Yes | Peer reviewers under supervision by professional institute. |
| Portugal | | Yes | Peer reviewers under supervision by CMVM for listed audits and by professional institute for other audits. |
| Romania | Yes | | Monitoring by full-time staff members of the professional institute. |
| Slovak Republic | | Yes | Peer reviewers under supervision by professional institute. |
| Slovenia | Yes | | |
| Spain | Yes | Yes | Quality assurance is the responsibility of the ICAC, a government body established by the Ministry of Economy and staffed by civil servants. The monitoring visits are carried out by the ICJCE (the Institute) and the reports submitted to the ICAC. |
| Sweden | | Yes | |
| Switzerland ³¹ | Yes (due) | | The public oversight body due 2007 will be responsible for the quality assurance system including monitoring. |
| United Kingdom | Yes | | Monitoring by full-time staff of the AIU for PIE audits and by full-time staff of the professional institutes for other audits. |

Switzerland has no quality assurance system at present, the responses included above and subsequently relate to the system to be introduced in 2007.

Question 8: To what extent is the review focused on:

- The assessment of the internal procedures for quality control in the audit firm?
- The quality assurance review (including but not limited to the assessment of compliance with applicable auditing standards and independence requirements) of audit engagements?
- How are these different reviews balanced?

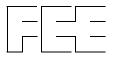
| Country | Internal Quality Control | FILE REVIEWS | INTERNAL QUALITY CONTROL BASED ON RISK ASSESSMENT | REQUIRED FILE REVIEWS |
|----------------|---|------------------|---|---|
| Austria | Yes | Yes | Yes | |
| Belgium | Yes | Yes | Yes | No but if negative file reviews following the risk assessment then all engagement partners must have one file reviewed. |
| Bulgaria | Yes | Yes | Yes | |
| Cyprus | Yes | Yes | Yes | |
| Czech Republic | Minimal. | Yes | No | Not specified. |
| Denmark | Yes | Yes | Yes | |
| Estonia | No. As the review is on persons not firms, internal quality control not assessed. | Yes | Not applicable. | |
| Finland | Yes | Yes | No | |
| France | Yes | Yes | Yes | To cover 10% of audit fees. |
| Germany | Yes | Yes | Yes | 1 file per engagement partner. |
| Greece | Not defined yet. | Not defined yet. | Not defined yet. | The review will focus on compliance with auditing standards and independence requirements. |
| Hungary | Yes | Yes | Not applicable. | Minimum number of files required. |
| Ireland | Yes | Yes | Yes | |
| Italy | | | | |
| Latvia | Yes | Yes | No | |
| Lithuania | No | Yes | No | 3 files required. |
| Luxembourg | Yes | Yes | No | |



| Country | Internal Quality Control | FILE REVIEWS | INTERNAL QUALITY CONTROL BASED ON RISK ASSESSMENT | REQUIRED FILE REVIEWS |
|-----------------|---|--|---|--------------------------------|
| Malta | Yes | Yes | Yes | |
| Netherlands | | rrent position in the I nes responsibility of | | |
| Norway | Yes | Yes | Yes | |
| Poland | Yes | Yes | No | |
| Portugal | Yes | Yes | Yes | |
| Romania | Yes | Yes | No | |
| Slovak Republic | Yes | Yes | Yes | 2 files. |
| Slovenia | Yes | Yes | Yes | 1 file per engagement partner. |
| Spain | Yes | Yes | No | |
| Sweden | Yes | Yes | No | |
| Switzerland | Will be decided by the new public oversight body. | | | |
| United Kingdom | Yes | Yes | Yes | |

Question 9: Do you apply any system to your members who perform non-audit services that reviews either the services provided or the manner in which those services are provided? If yes, please explain.

| COUNTRY | QUALITY ASSURANCE ON NON-AUDIT SERVICES | |
|----------------|--|--|
| Austria | No | |
| Belgium | No | |
| Bulgaria | No, but does apply to audit-related services provided by auditors. | |
| Cyprus | Yes, from 1 July 2006. | |
| Czech Republic | No | |
| Denmark | Yes, the statutory quality assurance programme covers auditing opinion assignments and assurance services mentioned in the Danish Auditors' Act. | |
| Estonia | Yes, quality reviews applied to all professional activities of every auditor. | |
| Finland | No | |
| France | No, but does apply to audit-related services provided by auditors. | |
| Germany | The quality assurance system includes assurance services, which are not audit services, where the professional seal is used. | |
| Greece | No detail given. | |
| Hungary | No | |
| Ireland | Yes, Quality or Practice Reviews on all services to the public by ICAI or ICPAI members. | |
| Italy | No | |
| Latvia | No | |
| Lithuania | No | |
| Luxembourg | No, but does apply to audit-related services including money laundering procedures. | |
| Malta | Yes (due). | |
| Netherlands | Yes, by the Institute. Can also be part of the AFM monitoring system. | |



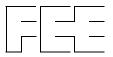
| COUNTRY | QUALITY ASSURANCE ON NON-AUDIT SERVICES |
|-----------------|---|
| Norway | No |
| Poland | No |
| Portugal | No, but does apply to audit-related services provided by auditors and to money laundering procedures. |
| Romania | No, but can include compilation reports. |
| Slovak Republic | No |
| Slovenia | No |
| Spain | No |
| Sweden | No |
| Switzerland | No detail given. |
| United Kingdom | Yes, Practice Assurance considers non-regulated work of members in practice. |

Question 10: Which body is responsible for the review or monitoring function? (name and details of the organising body; relationship to the professional institutes; relationship to government; relationship to the market regulator etc)

- From where does this body derive its authority and responsibility (for example the law, the professional body's own statutes or other)?

| COUNTRY | RESPONSIBLE BODY | AUTHORITY ³² |
|----------|--|---------------------------------------|
| Austria | Oversight Board | Regulations. |
| | (Qualitätskontrollbehörde). | |
| Belgium | Professional institute. | Law and Regulations. |
| Bulgaria | Professional institute. | Law and Regulations. |
| Cyprus | Professional institute. | Regulations. |
| Czech | Professional institute. | Law and Regulations. |
| Republic | | |
| Denmark | Public oversight body (SAA) for | Law. |
| | statutory audits. The Institute has a non- | |
| | statutory quality assurance programme | |
| | which focuses on other professional | |
| | services performed by the members of | |
| | FSR. | |
| Estonia | Professional institute. | Law and Regulations. |
| Finland | Professional institute. According to the | Regulations. Law (according to the |
| | government bill amending the Auditing | government bill amending the Auditing |
| | Act the Auditing Board of the Central | Act). |
| | Chamber of Commerce will be | |
| | responsible for the review function. | |
| France | Government. The "Haut Conseil" is | Law. |
| | responsible for supervising statutory | |
| | auditors but has delegated the carrying | |
| | out of monitoring to the CNCC (the | |
| | Institute) | |
| Germany | WPK. | Law. |
| Greece | Government – Quality Assurance Board | Law. |
| | (SPE). | |
| Hungary | Professional institute. | Law and Regulations. |

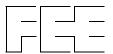
Regulations refers to the rules and regulations of the professional Institute.



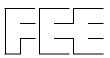
| COUNTRY | RESPONSIBLE BODY | AUTHORITY ³² |
|-------------|---|-------------------------|
| Ireland | Professional institute. | Law and Regulations. |
| Italy | Consob for registrants only. | Law and Regulations. |
| Latvia | Professional institute. | Law and Regulations. |
| Lithuania | Professional institute. | Law and Regulations. |
| Luxembourg | Professional institute. | Regulations. |
| Malta | Government. | Law. |
| Netherlands | Currently, professional institute. From 1 October 2006 the AFM is the public oversight body. | Law and Regulations. |
| Norway | Professional institute, government in relation to auditors not members of the DnR. | Law and Regulations. |
| Poland | Professional institute. | Law. |
| Portugal | Professional institute. | Regulations. |
| Romania | Professional institute. | Regulations. |
| Slovak | Professional institute. | Regulations. |
| Republic | | |
| Slovenia | Professional institute. | Law. |
| Spain | Government. The Institute carries out the monitoring function for the ICAC (the government supervisory body), all reports are submitted to the ICAC for action and sanctions. | Law. |
| Sweden | Professional institute. By the public oversight body for auditors who are not members of the Institute. | Law. |
| Switzerland | Public oversight body due in 2007. | Law. |
| United | AIU for significant public interest | Law and Regulations. |
| Kingdom | entities, Institutes for all others. | |

Question 11: Is there differentiation in review methodology, the periodicity of the review cycle and the selection of the review target on the basis of listed, public interest (PIEs) or other entity? If so, please explain.

| Country | DIFFERENTIATION IN REVIEW METHODOLOGY | DIFFERENTIATION IN PERIODICITY OF REVIEW CYCLE (SEE ALSO QUESTION 15) | DIFFERENTIATION IN SELECTION OF REVIEW TARGET |
|-------------------|---|--|---|
| Austria | No | Yes | No |
| Belgium | No | No except for a first quality assurance review within 3 years after admittance to the member list. | No |
| Bulgaria | No | No | No |
| Cyprus | No | No | No |
| Czech Republic | No | No | No |
| Denmark | No | No | No |



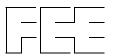
| Country | DIFFERENTIATION IN REVIEW METHODOLOGY | DIFFERENTIATION IN PERIODICITY OF REVIEW CYCLE (SEE ALSO QUESTION 15) | DIFFERENTIATION IN SELECTION OF REVIEW TARGET |
|--------------------|--|---|---|
| Estonia | No | No | No |
| Finland | No | Yes, according to the government bill amending the Auditing Act the review cycle will be 3 vs. 6 years. | No |
| France | No, except for structure and content of questionnaires. | Yes | No |
| Germany | No | No | No |
| Greece | No | Yes, yearly review of random sample of at least 10% of listed entities and 1% of audited unlisted entities. | Yes, yearly review of random sample of at least 10% of listed entities and 1% of audited unlisted entities. |
| Hungary | No | Yes | Yes, selection focuses on public interest entities and modified audit reports. |
| Ireland | No | Yes | No |
| Italy | Yes, the other entities are not subject to the review cycle. | No | No |
| Latvia | No | No | No |
| Lithuania | No | Yes | Review target selected after 3 years if earlier visit was negative. |
| Luxembourg | No | No | No |
| Malta | Not expected | Yes | Not expected. |
| Netherlands | No | Yes, risk-based. | Yes, risk-based. |
| Norway | No | No | No |
| Poland | No | No | No |
| Portugal | No | Yes | No |
| Romania | No | No | Yes, priority to review of files of listed and PIE engagements of auditors under review. |
| Slovak Republic | No | Yes | No |
| Slovenia | No | Yes | No |
| Spain | No | Yes | Yes, more emphasis on review of files of PIE audits. |
| Sweden | No | No | No |
| Switzerland | No | No | No |
| United Kingdom | No | Yes | No |



Question 12: How and by whom is the review or monitoring funded?

How many estimated man-hours are spent on the conduct of quality assurance reviews on an annual basis?

| COUNTRY | HOW IS REVIEW OR MONITORING FUNDED | | | | |
|--------------------|---|--|--|--|--|
| Austria | Directly by the reviewee to the reviewer. | | | | |
| Belgium | By levy on auditors through professional institute. | | | | |
| Bulgaria | Fee to institute remitted to the peer reviewer. | | | | |
| Cyprus | By levy on auditors through professional institute. | | | | |
| Czech Republic | By levy on auditors through professional institute. | | | | |
| Denmark | Directly by the reviewee to the reviewer. | | | | |
| Estonia | By levy on all members of professional institute. | | | | |
| Finland | By levy on auditors through professional institute. | | | | |
| France | By levy on all members of professional institute, some additional costs for listed entities are directly met by the reviewed audit firm. | | | | |
| Germany | Directly by the reviewee and by levy on auditors through WPK. | | | | |
| Greece | Directly to the reviewee to the reviewer. | | | | |
| Hungary | By levy on auditors through professional institute (all auditors whether practising or not). | | | | |
| Ireland | By levy on auditors through professional institute. | | | | |
| Italy | Public funds and indirectly through the fee paid by audit firms and listed companies to Consob. | | | | |
| Latvia | Levy on all members of professional institute. | | | | |
| Lithuania | Annual levy charged plus an additional direct amount for each review is collected by the Institute and paid to the reviewer. | | | | |
| Luxembourg | Directly by the reviewee to the reviewer. | | | | |
| Malta | Levy on all warrant holders. | | | | |
| Netherlands | Currently, directly by the reviewee to the professional institute. The AFM will issue an annual levy on audit firms performing statutory audits. | | | | |
| | By levy on auditors through professional institute for members of DnR. | | | | |
| Norway | Kredittilsynet is funded by the entities subject to public oversight which includes registered auditors and public interest companies. | | | | |
| Poland | By levy on auditors through professional institute. | | | | |
| Portugal | By levy on auditors through professional institute. | | | | |
| Romania | By levy on all members of professional institute. | | | | |
| Slovak Republic | By levy on all members of the professional institute. | | | | |
| Slovenia | By levy on audit firms through professional institute. | | | | |
| Spain | By levy on every audit report issued, collected by ICAC. | | | | |
| Sweden | Paid to the reviewer when the Institute is arranging the review. Paid to the Public Oversight Body (POA), when the POA is arranging the review of an audit firm and auditor which are not members of the Institute. | | | | |
| Switzerland | By a charge for reviews and an annual fee for registered audit firms. | | | | |
| United | For firms monitored by the AIU a direct levy is charged on the firm, via the Institute | | | | |
| Kingdom | that registers the firm. Otherwise by levy on auditors through professional institute. | | | | |
| Miguoiii | that registers the firm. Otherwise by levy on auditors through professional institute. | | | | |



Question 13: To what extent will the implementation of the Statutory Audit Directive change your review methodology?

| COUNTRY | EXTENT OF CHANGES | | | | |
|-----------------|--|--|--|--|--|
| Austria | None. | | | | |
| Belgium | Visit cycles and auditing standard setting. | | | | |
| Bulgaria | Investigation, penalties and their disclosure. | | | | |
| Cyprus | None. | | | | |
| Czech Republic | Yet to be determined. | | | | |
| Denmark | Visit cycles. | | | | |
| Estonia | Yet to be determined. | | | | |
| Finland | The amendment of the Auditing Act is proposed to come into force from 1 January 2007 and will amend the visit cycles. | | | | |
| France | Visit cycles for full reviews of each audit firm. | | | | |
| Germany | Visit cycles. | | | | |
| Greece | Yet to be determined. | | | | |
| Hungary | No others identified than public oversight body to be established. | | | | |
| Ireland | Visit cycle. | | | | |
| Italy | Quality assurance systems for the general level of assurance run by the Ministry of Justice on all auditors and audit firms, and for audits of non-listed companies. | | | | |
| Latvia | Any changes which may be imposed by the public oversight board to be established. | | | | |
| Lithuania | Yet to be determined. | | | | |
| Luxembourg | Yet to be determined, including visit cycles. | | | | |
| Malta | Visit cycles. | | | | |
| Netherlands | The review methodology will change because the AFM will use its own procedures and reviewers. | | | | |
| Norway | None. | | | | |
| Poland | Yet to be determined. | | | | |
| Portugal | None. | | | | |
| Romania | Yet to be determined. | | | | |
| Slovak Republic | Yet to be determined. | | | | |
| Slovenia | Major changes are not expected. | | | | |
| Spain | None. | | | | |
| Sweden | Visit cycles. | | | | |
| United Kingdom | The visit cycle for firms without listed company clients etc had been reduced to 6 | | | | |

Appendix II.2.3 The Review Selection

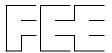
Question 14: What is the basis for review selection (statutory auditors, audit firms or audit engagements) and how are they selected for review?

| COUNTRY | WHAT IS THE BASIS FOR THE REVIEW SELECTION? | HOW ARE THEY (AUDITORS/AUDIT FIRMS/AUDIT ENGAGEMENTS) SELECTED FOR REVIEW (WITHIN THE CYCLE)? RANDOM, RISK, REGULAR OR OTHER BASIS? | | |
|---------------------------|--|---|--|--|
| Austria Auditors. | | Regularly. The cycles (3/6 years) are determined by certificate rules for performing statutory audits. | | |
| Belgium | Auditors and audit firms. | Regularly. | | |
| Bulgaria | Auditors and audit firms. | Risk-based. | | |
| Cyprus | Audit firms. | Regularly. | | |
| Czech Republic | Auditors and audit firms. | Randomly with some bias towards larger audit firms. | | |
| Denmark | Audit firms. | Randomly. | | |
| Estonia | Auditors. | Risk-based and randomly. | | |
| Finland | Auditors. | Regularly. | | |
| France | Auditors and firms. | Regularly. | | |
| Germany | Auditors and firms. | Regularly. | | |
| Greece Audit engagements. | | Listed entities randomly over 10 years or after request from public oversight board (ELTE Board) or others. | | |
| Hungary | Auditors. | Regularly. | | |
| Ireland | Audit firms. | ICPAI: Regularly. ICAI: Risk-based. | | |
| Italy | Audit firms (Consob). | Detailed information is not available. | | |
| Latvia | Audit offices (individual and corporate). | Randomly. | | |
| Lithuania | Audit firms. | Randomly (but with an interval of no more than 3/5 years). | | |
| Luxemburg | Auditors. | Regularly. | | |
| Malta | Auditors and audit firms. | Information is not available (it is in the QAOC's absolute discretion to | | |
| Netherlands | Audit firms (Offices are selected for multi-office firms). | determine). Regularly, but a risk-based approach will be adopted from 2007 onwards | | |
| Norway | Statutory auditors. | Randomly. | | |
| Poland | Audit firms. | Randomly. | | |
| Portugal | Auditors and firms. | Regularly. | | |
| Romania | Auditors. | Risk-based (based on volume of activity and irregularities observed). | | |
| Slovak Republic | Auditors and firms. | Regularly. | | |
| Slovenia | Audit firms. | Regularly in combination with risk. | | |
| Spain | The institute: Auditors and audit firms. ICAC: The basis is not known. | The institute: Randomly. ICAC: The selection method is not known. | | |

| Country | WHAT IS THE BASIS FOR THE REVIEW SELECTION? | HOW ARE THEY (AUDITORS/AUDIT FIRMS/AUDIT ENGAGEMENTS) SELECTED FOR REVIEW (WITHIN THE CYCLE)? RANDOM, RISK, REGULAR OR OTHER BASIS? | | |
|----------------|--|---|--|--|
| Sweden | Audit firms. | Randomly. | | |
| Switzerland | To be decided by the Public Oversight Board. Starts 2007. | To be decided by the public oversight body. | | |
| United Kingdom | Audit firms (for public interest entities, the audit engagement is also base for selection). | Firms are generally selected on a random basis within their visit cycle. However, risk factors are also taken into account for visit selection and when selecting audit engagements for review. | | |

Question 15: How often is any particular registered statutory auditor, audit firm or audit engagement reviewed? Is this determined based on a risk analysis, or is the periodicity of the reviews cyclical? Please explain

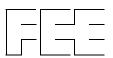
| | PERIODICITY OF REVIEW VISIT CYCLE (IN YEARS) | | | | | |
|-------------------|---|---|---|---|--|--|
| | AUDIT OF | AUDIT OF | AUDIT OF | | | |
| COUNTRY | LISTED ENTITY | OTHER PIES | OTHER ENTITY | | | |
| Austria | 3 | 3 | 6 | | | |
| Belgium | 5 | 5 | 5 | A quality assurance review will be performed within 3 years after admittance to the members list of the profession. | | |
| Bulgaria | 4 | 4 | 4 | | | |
| Cyprus | 6 | 6 | 6 | | | |
| Czech Republic | 6 | 6 | 6 | Each auditor should be reviewed every 6 years. | | |
| Denmark | 4 | 4 | 4 | | | |
| Estonia | 10 | 10 | 10 | After the implementation of the Statutory Audit Directive, this will become 3 years for all PIEs and 6 years for other audits. | | |
| Finland | 5 | 5 | 5 | The review cycles will be changed according to the government bill amending the Auditing Act into 3 years for audit of listed companies and 6 years for audits of other entities. | | |
| France | 1-6 | 6 | 6 | | | |
| Germany | 3 | 3 | 3 | New legislation will change the review cycle of other entities to six years. | | |
| Greece | Approxi mately 2 and as requeste d. | Approxi mately 4 and as requeste d. | Approxi mately 4 and as requeste d. | Statistically, it could be 1.7 years for audit firms of listed companies and 4 years for audit firms of non-listed companies. | | |
| Hungary | 3 | 3 | 6 | | | |



| | PERIODICITY OF REVIEW VISIT CYCLE (IN YEARS) | | | | | |
|---------------------|--|------------------------|---|---|--|--|
| | AUDIT | AUDIT | AUDIT | | | |
| Cornenz | OF | OF | OF | | | |
| COUNTRY | LISTED | OTHER | OTHER | | | |
| | ENTITY | PIES | ENTITY | | | |
| Ireland | ICAI: 2- 3 ICPAI: 5 | ICAI: 5 ICPAI: 5 | ICAI: maximu m 10 ICPAI: 5 | The ICAI operates a risk-based system with all firms submitting a detailed Annual Return for assessment. The maximum visit cycle will change to conform to the new Directive. | | |
| Italy ³³ | Consob: | Consob: | Commis sione Centrale : on a complai nt basis. | | | |
| Latvia | 5 | 5 | 5 | | | |
| Lithuania | 3 | 3 | 5 | | | |
| Luxembourg | 5 | 5 | 5 | | | |
| Malta | 2-3 | 2-3 | 3-4 | | | |
| Netherlands | 2 | 2 | 4-6 | This is the current Institute regime however under AFM this may change. | | |
| Norway | 5 | 5 | 5 | | | |
| Poland | 3 | 3 | 3 | | | |
| Portugal | 3 | 5 | 5 | | | |
| Romania | 3 | 3 | 3 | | | |
| Slovak Republic | 3 | 3 | 6 | | | |
| Slovenia | 3 | 5 | 5 | | | |
| Spain | 3 | 3 | 6 | Although for low-risk firms the cycle can extend to 10 years. | | |
| Sweden | 5 | 5 | 5 | | | |
| Switzerland | 3 | 3 | 3 | This will be decided by the public oversight body but this has been indicated as the intention. | | |
| United Kingdom | 1 (largest firms)-3 (other firms) | 3 | 6 | | | |

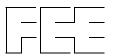
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 $^{^{\}rm 33}$ $\,$ See Appendix I.14 - Italy on page 105 for further clarification.



Question 16: What information (e.g. contained in an annual return) must be provided by audit firms and individual auditors, irrespective of whether they receive a review visit? How frequently (e.g. annually) must this information be provided?

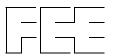
| Country | WHAT INFORMATION MUST BE PROVIDED, IRRESPECTIVE OF WHETHER THEY RECEIVE A REVIEW VISIT? | How often? | |
|----------------|---|-------------------|--|
| Austria | Annual transparency report, no detailed information given, except that it shall contain the date of the last Quality Review. | Annually. | |
| Belgium | An annual declaration including information about "accepted mandates" and the fees related to those mandates. | Annually. | |
| Bulgaria | Information for each audit engagement regarding financials and type of audit opinion. | Annually. | |
| Cyprus | Information of professional Indemnity Insurance and Continuing Professional Development. | Annually. | |
| Czech Republic | Detailed information about fees, submissions, insurance contract, auditors employed, audit assistants etc. | Annually. | |
| Denmark | A register set up by the Danish Commerce and Companies Agency. No detailed information of what the register contains is given. | As changes occur. | |
| Estonia | An Activity report is required by law and is filed every third year in connection with the application to retain the professional qualification. Out of these report a Management Board makes a risk-based selection of auditors for quality control. | Every third year. | |
| Finland | Detailed information of the assignments per individual auditor including man-hours, training, last quality review, the firms quality control system. | Annually. | |
| France | Detailed information of hours and fees on audit assignments, nature of the audit opinion etc. | Annually. | |
| Germany | Information only required in connection with the quality assurance reviews. | N/A | |
| Greece | None to ELTE (detailed information on hours and fees must be provided annually to SOEL). | N/A | |
| Hungary | Detailed information of fees, employed auditors, clients of public interest. | Annually. | |
| Ireland | Detailed information of quality assurance review, auditing systems, fees, clients etc. | Annually. | |
| Italy | Consob requires information from audit firms performing audits of PIEs, including personnel, quality assurance systems and services provided. | Annually. | |
| Latvia | Detailed information about the number of clients by type, statistics on audit reports, fulfilment of CPD requirements, assistants, revenue from statutory audit, other professional activities, etc. | Annually. | |
| Lithuania | Detailed information about activities to the Chamber of auditors. | Annually. | |
| Luxemburg | Detailed information of clients, staff etc. | Annually. | |



| | WHAT INFORMATION MUST BE PROVIDED, | | |
|-----------------|--|--------------------|--|
| COUNTRY | IRRESPECTIVE OF WHETHER THEY RECEIVE A | How often? | |
| | REVIEW VISIT? | | |
| Malta | Detailed information of training, employees, indemnity insurance etc. | Annually. | |
| Netherlands | Detailed information of employees, offices, fees, partner remuneration, pending disciplinary and civil and criminal law suits, status of implementation of ISQC 1, number of PIEs and other statutory audits, etc. | Annually. | |
| Norway | All auditors are presenting information regarding audit and business activities to the Public Oversight Authority "Kredittilsynet". | Every second year. | |
| Poland | Detailed information of clients, type of audit reports, audit turnover. | Annually. | |
| Portugal | Detailed information of clients with their financial key figures, appointments/resignations as auditor etc. | Annually. | |
| Romania | Detailed information of clients and insurance liability. | Annually. | |
| Slovak Republic | Detailed information of employed auditors, training etc. | Annually. | |
| Slovenia | Detailed information of owners of audit firm, changes in | | |
| Spain | Detailed information of audit hours and fees, employees | | |
| Sweden | No other information than what is needed for keeping the member register updated on an as-need-basis. | N/A | |
| Switzerland | Information not available. | N/A | |
| United Kingdom | Detailed information of quality assurance review, audit fees and clients. | Annually. | |

Question 17: To what extent will the implementation of the Statutory Audit Directive change your review selection?

| Country | TO WHAT EXTENT WILL THE IMPLEMENTATION OF THE STATUTORY AUDIT DIRECTIVE CHANGE YOUR REVIEW SELECTION? | | | | |
|----------------|---|--|--|--|--|
| Austria | None. | | | | |
| Belgium | It is the intention to implement a 3-year cyclical review system for auditors of PIEs and a 6-year cyclical review for all non-PIE auditors. | | | | |
| Bulgaria | Yes; the periodicity will change to 6 years with priority to material engagements. | | | | |
| Cyprus | No change other than that auditors of PIEs must be reviewed every 3 years has been identified yet. | | | | |
| Czech Republic | Under discussion. | | | | |
| Denmark | No change has been identified yet. | | | | |
| Estonia | The Estonian quality assurance system will be changed to selection on a 3/6 year cyclical basis. Probably, audit firm based reviews will also be implemented. | | | | |
| Finland | The review cycles will be changed. | | | | |
| France | No change has been identified yet. | | | | |
| Germany | No change has been identified yet. | | | | |
| Greece | Making sure that reviews are conducted every 3 and 6 years. | | | | |
| Hungary | No change has been identified yet. | | | | |
| Ireland | Yes; ICAI will only have to amend periodicity of visits. | | | | |
| Italy | Limited for Consob. Important for CCRC. | | | | |



| COUNTRY | TO WHAT EXTENT WILL THE IMPLEMENTATION OF THE STATUTORY AUDIT DIRECTIVE CHANGE YOUR REVIEW SELECTION? | | | | |
|--|---|--|--|--|--|
| Latvia | No change has been identified yet. | | | | |
| Lithuania | No change has been identified yet. | | | | |
| Luxemburg | No change has been identified yet. | | | | |
| Malta | It is the intention to implement a 2 to 3-year cyclical review system for auditors of PIEs and 3 to 4-year cycle for auditors of other entities. | | | | |
| Netherlands | None anticipated although a risk-based approach will be introduced. | | | | |
| Norway | Auditors performing audits of public interest entities will be reviewed more frequently. | | | | |
| Poland | No change has been identified yet. | | | | |
| Portugal | None anticipated. | | | | |
| Romania | No change has been identified yet. | | | | |
| Slovak Republic | New laws will change the basis for selection and the periodicity of reviews including more frequent reviews for auditors of public interest entities. | | | | |
| Slovenia Change in the review cycle for auditors of public interest entities (other listed) is expected. | | | | | |
| Spain | No change has been identified yet. | | | | |
| Sweden | No change has been identified yet. | | | | |
| United Kingdom | None. | | | | |

Appendix II.2.4 The Review Process

Question 18: Do all reviews involve a visit to the relevant auditor's offices? Please explain if this is not the case.

| COUNTRY | RESPONSE | | | | | |
|-----------------|---|--|--|--|--|--|
| Austria | Yes | | | | | |
| Belgium | Yes | | | | | |
| Bulgaria | Yes | | | | | |
| Cyprus | Yes | | | | | |
| Czech Republic | Yes | | | | | |
| Denmark | Yes | | | | | |
| Estonia | Yes | | | | | |
| Finland | Yes | | | | | |
| France | Yes | | | | | |
| Germany | Yes | | | | | |
| Greece | No detail provided. | | | | | |
| Hungary | Yes | | | | | |
| Ireland | Yes | | | | | |
| Italy | Yes | | | | | |
| Latvia | Yes | | | | | |
| Lithuania | Yes | | | | | |
| Luxembourg | Yes | | | | | |
| Malta | No, Although most reviews involve a visit to the auditor's premises, it is considered possible for reviews to be carried out without physically visiting the relevant auditor's offices, for example by requesting files to be sent to the reviewer to review off-site. | | | | | |
| Netherlands | Yes | | | | | |
| Norway | Yes | | | | | |
| Poland | Yes | | | | | |
| Portugal | Yes | | | | | |
| Romania | Yes | | | | | |
| Slovak Republic | Yes | | | | | |
| Slovenia | Yes | | | | | |
| Spain | Yes | | | | | |
| Sweden | Yes | | | | | |
| Switzerland | To be decided. | | | | | |
| United Kingdom | Yes | | | | | |

Question 19: For the assessment of the internal quality control system:

- Does the quality review comprise an assessment of the design, implementation and effectiveness of the audit firms' internal quality control system?
- To what extent provide audit firms access to the outcome of its internal quality control process?
- What is the basis against which the internal quality control system is judged, ISOC1 or other?
- Following ISQC1, does the review process consider whether the internal quality control system of the audit firm includes policies and procedures for acceptance and continuance of client relationships and specific engagements?
- Following ISQC1, does the review process consider whether the internal quality control system of the audit firm itself perform an annual review of its own compliance?
- Does the quality review methodology prescribe the extent of compliance testing?

| COUNTRY | ASSESSMENT | ACCESS TO OUTCOME | BASIS | ACCEPTANCE | SELF- REVIEW | PRESCRIBED TESTING |
|---------------------|------------------|---|----------------------------|------------------|------------------|---------------------------------|
| Austria | Yes | Discretion. | ISQC 1 | Yes | No | No |
| Belgium | Yes | Yes | ISQC 1 | Yes | Yes | Yes |
| Bulgaria | Yes | Yes | ISQC 1 | Yes | No | No |
| Cyprus | Yes | Yes | ISQC 1 | Yes | Yes | No |
| Czech Republic | Yes | Limited. | ISQC 1 | Yes | Yes | Yes |
| Denmark | Yes | Yes | ISQC 1 | Yes | Yes | Yes |
| Estonia | The internal of | The internal quality control system is currently not the direct subject for review. | | | | |
| Finland | Yes | Yes | ISQC 1 ³⁴ | Yes | Yes | No |
| France | Yes | May vary according to audit firm policies. | ISQC 1 | Yes | Yes | Yes |
| Germany | Yes | Yes | ISQC 1 | Yes | Yes | No |
| Greece | Not defined yet. | Not defined yet. | Not defined yet. | Not defined yet. | Not defined yet. | Not defined yet. |
| Hungary | Yes | No | Other. | No | No | No |
| Ireland | Yes | Yes | ISQC 1 | Yes | Yes | No |
| Italy ³⁵ | Yes | Yes | No informati on available. | Yes. | Yes | No information available. |

³⁴ From 2007.

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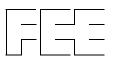
³⁵ See Appendix I.14 - Italy on page 105 for further clarification.



| COUNTRY | ASSESSMENT | ACCESS TO OUTCOME | BASIS | ACCEPTANCE | SELF- REVIEW | PRESCRIBED TESTING |
|--------------------|----------------|-------------------------|--|-------------------|---------------------------------|-----------------------|
| Latvia | Yes | No | Partly, full ISQC 1 from 2007. | Yes | No | No |
| Lithuania | Yes | Yes | Other, ISQC1 Yes not yet No impleme nted. | | No | No |
| Luxembourg | Yes | Yes | ISQC 1 | Yes | Yes | No |
| Malta | | This n | | ot yet been addre | ssed. | |
| Netherlands | Yes | Yes | Up to 1 October 2006: ISQC 1. From 1 October 2006: Wta. | Yes | Yes | Yes ³⁶ |
| Norway | Yes | No detail provided. | ISQC 1 | Yes | Yes | No detail provided. |
| Poland | Yes | No detail provided. | ISQC 1 | Yes | No | No detail provided. |
| Portugal | Yes | No detail provided. | ISQC 1 | Yes | Yes | No |
| Romania | Yes | No detail provided. | ISQC 1 | Yes | Yes | No |
| Slovak Republic | Yes | No detail provided. | ISQC 1 | Yes | Yes | Yes |
| Slovenia | Yes | Yes | ISQC 1 | Yes | Yes | Yes |
| Spain | Yes | Yes | ISQC 1 | Yes | Yes, for large audit firms only | No |
| Sweden | Yes | Yes | ISQC 1 | Yes | Yes | Yes |
| Switzerland | To be decided. | To be decided. | To be decided. | To be decided. | To be decided. | To be decided. |
| United Kingdom | Yes | Yes | ISQC 1 | Yes | Yes | No |

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³⁶ Up to 1 October 2006.



Question 20: For the testing of individual audit files, is there a prescription on the number of individual audit engagement files that need to be tested for the quality review? Is the quantity and quality of resources spent reviewed? Is the appropriateness³⁷ of the audit fees charged reviewed?

| COUNTRY | No of files | QUANTITY/QUALITY OF | APPROPRIATENESS OF FEE | |
|--------------------|--|---------------------------|-------------------------------------|--|
| COCIVIRI | 110 01 11225 | RESOURCES | | |
| Austria | No | Yes | To be decided. | |
| Belgium | No | Yes | Yes | |
| Bulgaria | No | Yes | No | |
| Cyprus | No | Yes | Yes | |
| Czech Republic | No | Yes | Yes | |
| Denmark | Yes | Yes | No | |
| Estonia | No | Yes | Yes | |
| Finland | Yes | Yes | No | |
| France | Yes | Yes | Yes | |
| Germany | No | Yes | Yes | |
| Greece | Not defined yet. | No detail provided. | No detail provided. | |
| Hungary | Yes | Yes | No | |
| Ireland | No | Yes | Yes | |
| Italy | No information available. | No information available. | No information available. | |
| Latvia | Yes | Yes | No | |
| Lithuania | Yes | No | Yes | |
| Luxembourg | No | Yes | Yes | |
| Malta | This matter has not yet been addressed. | | essed. | |
| Netherlands | Yes up to 1 October 2006. | Yes | No in 2006 but yes from 2007. | |
| Norway | No | Yes | No | |
| Poland | Yes | Yes | Yes | |
| Portugal | Yes | Yes | Yes | |
| Romania | No | Yes | No | |
| Slovak Republic | No | Yes | Yes | |
| Slovenia | Minimum one file per engagement partner. | Yes | Yes | |
| Spain | No | Yes | No detail provided. | |
| Sweden | No | Yes | No | |
| Switzerland | No detail provided. | No detail provided. | No detail provided. | |
| United Kingdom | No | Yes | This is implied in the review work. | |

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As referred to in Section B. Specific Circumstances, 8. audit and non-audit fees of the European Commission Recommendation of 16 May 2002 on Statutory Auditors' Independence in the EU: A Set of Fundamental Principles.

Question 21: How does the testing of audit files address:

- Assessment of the quality of the evidence?
- Compliance with auditing standards?
- Ethical principles including testing the proper application of requirements on auditor independence based on the review of internal quality control procedures of the audit firm and/or of individual audit engagements?
- Assessment of the auditor's judgments for example regarding whether;
 - The company's accounting policies are appropriate and legal and regulatory standards are applied appropriately
 - Management's estimates are reasonable;
 - The auditor has obtained sufficient appropriate evidence?
- Assessment, whether the audit report has the appropriate format, and type of opinion, made a correct reference to the financial reporting framework and did not fail to mention non-compliance with statutory requirements?

| COUNTRY | ALL AREAS COVERED? | |
|-----------------|--|--|
| Austria | All covered. | |
| Belgium | All covered. | |
| Bulgaria | Some areas covered, for instance the appropriateness for the audit report and the evidence obtained. | |
| Cyprus | All covered. | |
| Czech Republic | All substantially covered. | |
| Denmark | All covered. | |
| Estonia | All covered. | |
| Finland | All covered. | |
| France | All covered. | |
| Germany | All covered. | |
| Greece | Not defined yet. | |
| Hungary | All areas covered, except for ethical matters. | |
| Ireland | All covered. | |
| Italy | No information available. | |
| Latvia | All covered. | |
| Lithuania | All covered. | |
| Luxembourg | All covered. | |
| Malta | All covered. | |
| Netherlands | All covered. | |
| Norway | All covered. | |
| Poland | All covered. | |
| Portugal | All covered. | |
| Romania | All covered. | |
| Slovak Republic | All covered. | |
| Slovenia | All covered. | |
| Spain | All covered. | |
| Sweden | All covered. | |
| Switzerland | To be decided. | |
| United Kingdom | All covered. | |

Question 22: Are national auditing standards:

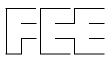
- Closely related to International Standards on Auditing (ISAs) (e.g. by translation or limited transformation³⁸)? If so, please also answer Questions 23 and 33 below.
- Not closely related to ISAs, but nevertheless rely more on application of principles than on compliance with procedures? If so, please also answer Questions 23 and 33 below.
- Not closely related to ISAs and compliance with audit objectives relies primarily on compliance with specified procedures? If so, please answer Question 24 below.

| G | CLOSELY RELATED TO | NOT RELATED BUT | NOT RELATED, BASED ON PROCEDURES | |
|-------------------|--------------------|---------------------|-------------------------------------|--|
| COUNTRY | ISAs | BASED ON PRINCIPLES | | |
| Austria | No | Yes | No | |
| Belgium | Yes | No | No | |
| Bulgaria | Yes | No | No | |
| Cyprus | Yes | No | No | |
| Czech Republic | Yes | No | No | |
| Denmark | Yes | No | No | |
| Estonia | No | Yes | No | |
| Finland | Yes | No | No | |
| France | Yes | No | No | |
| Germany | Yes | No | No | |
| Greece | No | Yes | No | |
| Hungary | Yes | No | No | |
| Ireland | Yes | No | No | |
| Italy | Yes ³⁹ | No | No | |
| Latvia | Yes | No | No | |
| Lithuania | No | Yes | No | |
| Luxembourg | Yes | No | No | |
| Malta | Yes | No | No | |
| Netherlands | Yes | No | No | |
| Norway | Yes | No | No | |
| Poland | No | Yes | No | |
| Portugal | No | Yes | No | |
| Romania | Yes | No | No | |
| Slovak Republic | Yes | No | No | |
| Slovenia | Yes | No | No | |
| Spain | Yes | No | No | |
| Sweden | Yes | No | No | |
| Switzerland | Yes | No | No | |
| United Kingdom | Yes | No | No | |

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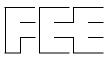
Transformation is the process whereby ISAs are translated and adapted for local (legal) circumstances with certain additions and carve-outs.

See Appendix I.14 - Italy, "General" on page 105 for further details.



Question 23: If your answer to Question 22 was the first or second option, have reviewers experienced any difficulties in interpreting the auditing standards to determine whether the audit work complies with the standards?

| COUNTRY | DIFFICULTIES ENCOUNTERED | | | | |
|-------------------|--------------------------|--|--|--|--|
| Austria | Too soon to comment. | | | | |
| Belgium | None. | | | | |
| Bulgaria | None. | | | | |
| Cyprus | None. | | | | |
| Czech Republic | None. | | | | |
| Denmark | Too soon to comment. | | | | |
| Estonia | Some difficulties. | | | | |
| Finland | None. | | | | |
| France | None. | | | | |
| Germany | None. | | | | |
| Greece | Not applicable. | | | | |
| Hungary | Some difficulties. | | | | |
| Ireland | None. | | | | |
| Italy | None | | | | |
| Latvia | None. | | | | |
| Lithuania | None. | | | | |
| Luxembourg | None. | | | | |
| Malta | None. | | | | |
| Netherlands | None. | | | | |
| Norway | None. | | | | |
| Poland | None. | | | | |
| Portugal | None. | | | | |
| Romania | No detail provided. | | | | |
| Slovak Republic | Too soon to comment. | | | | |
| Slovenia | None. | | | | |
| Spain | None. | | | | |
| Sweden | None. | | | | |
| Switzerland | To be decided. | | | | |
| United Kingdom | None. | | | | |



Question 24: If your answer to Question 22 was the third option, have reviewers experienced any difficulties in determining whether the required procedures have been appropriately supplemented by additional audit steps to achieve the underlying objectives of the standards?

No countries took the third option.

Question 25: To what extent will the implementation of the Statutory Audit Directive change your review process?

| COUNTRY | EXTENT | | | | |
|-----------------|--|--|--|--|--|
| Austria | No impact. | | | | |
| Belgium | Effect of ISAs. | | | | |
| Bulgaria | Some impact. | | | | |
| Cyprus | No impact. | | | | |
| Czech Republic | Too soon to comment. | | | | |
| Denmark | Too soon to comment. | | | | |
| Estonia | Effect of ISAs. | | | | |
| Finland | Too soon to comment. | | | | |
| France | Effect of ISAs. | | | | |
| Germany | No impact. | | | | |
| Greece | Not applicable. The review process has not yet been defined. | | | | |
| Hungary | Too soon to comment. | | | | |
| Ireland | No impact. | | | | |
| Italy | A significant impact on the review system is likely. The impact on the current | | | | |
| Italy | review process adopted by Consob is likely to be limited. | | | | |
| Latvia | Some impact. | | | | |
| Lithuania | Too soon to comment. | | | | |
| Luxembourg | Some impact. | | | | |
| Malta | No impact. | | | | |
| Netherlands | The review process can be changed as a result of the implementation of Wta as at 1 | | | | |
| remenanus | October 2006. | | | | |
| Norway | No impact. | | | | |
| Poland | Some impact. | | | | |
| Portugal | No impact. | | | | |
| Romania | Too soon to comment. | | | | |
| Slovak Republic | Some impact. | | | | |
| Slovenia | No major impact. | | | | |
| Spain | No impact. | | | | |
| Sweden | Too soon to comment. | | | | |
| United | No impact | | | | |
| Kingdom | No impact. | | | | |

Appendix II.2.5 The Reviewers and the Reporting Process

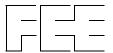
Question 26: The reviewers

- Who are the people responsible for the review? Qualified auditors, inspectors or administrators within the professional institute etc.)
- What training do they receive or how is their competence maintained?
- How is their objectivity/independence assured?
- How is confidentiality of client information ensured?

| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|----------|--|-------------------|---|----------------------|---|--|
| Austria | Registered auditors | Yes | Yes | Yes | Required by law and subject to supervision of oversight body. | Required by law and subject to supervision of oversight body. |
| Belgium | Registered auditors | No | Yes | Yes. | Reviewer is chosen by the reviewee from a list of 3 auditors imposed by the Board of the Institute. Mutual quality reviews are not allowed as well as quality reviews amongst (ex) partners or (ex) associates / trainees. | Required by law. The review files are destroyed and a summary note is filed without any mention of the audit client, once the conclusions are finalised. |
| Bulgaria | Registered auditors (excluding audit firms) | Yes | Yes | Yes | By signing an independence declaration. By Rules and Procedures issued by the Institute (RPQCAS). Approval, on an annual basis, the | Confidentiality Declaration. Obligation by RPQCAS. |



| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|-------------------|--|-------------------|---|----------------------|--|---|
| | | | | | composition of the reviewers by the Audit Services Quality Assurance Board (ASQAB). | |
| Cyprus | Qualified auditors | Yes | Yes | Yes | By signing an independence declaration. | Confidentiality is specifically referred to in the audit monitoring agreement. |
| Czech Republic | Qualified auditors and trained staff. | Yes, informed. | Member of the Superviso ry Commissi on is always an experienc ed auditor. | Yes | The review is performed by two reviewers independent of each other. One being full-time staff employed by the Chamber of Auditors, one being member of Supervisory Commission. | Review reports are filed separately by the Chamber of Auditors with limited access to them. |
| Denmark | Qualified auditors | Yes | Yes | Yes | By signing a standard form the reviewer confirms that he fulfils the independence requirements. | Required by law. |
| Estonia | Qualified auditors | Yes | Yes | No detail given. | Both reviewers and reviewed auditors have to assess their independence. | Required by law. |
| Finland | Qualified auditors | Yes | Yes | Yes | Reviewers have to certify their independence in relation to the reviewed auditor and the reviewed audit | By secrecy clauses to be signed by the reviewers and by law. |



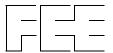
| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|---------|-----------------------|-------------------|---|----------------------|--|---|
| France | Qualified auditors | Yes | Yes | Yes | engagements. The Institute (CNCC) is solely responsible for the attribution of the review assignments. However the auditor or the auditing firm subject to a review has the right to refuse a selected reviewer. By signing a document related to a commitment regarding their independence. | By law. The review files are destroyed and a summary note is filed without any mention of the audit client, once the conclusions are finalised. |
| Germany | Registered auditors | Yes | Yes | Yes | By law. The Reviewer shall not perform a quality review, if there are any capital, financial or personal relationships with the auditor or audit firm under review. Mutual quality assurance engagements are prohibited. The auditor or audit firm to be reviewed is | Confidential treatment of client information is guaranteed since all parties involved in the quality assurance system are legally obliged to confidentiality. |



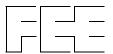
| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|---------|---------------------|------------------------|---|------------------------|---|---|
| | | | | | required to submit up to three proposals of reviewers to the Commission on Quality Assurance. The proposals have to be supplemented by a declaration of independence by each of the proposed reviewer. The Commission on Quality Assurance can refuse one or all reviewers proposed, indicating the reasons thereto (Veto). | |
| Greece | Qualified auditors | Not defined yet. | Not defined yet. | Not defined yet. | By random selection of reviewers. | Reviewers are obliged not to disclose any client's information to their knowledge. |
| Hungary | Qualified auditors. | Yes | Yes | Yes | By independence rules. Subsequently one reviewer cannot visit the same auditor. | Selected engagements are coded and only summarised data (without client names) are forwarded for further processing. Review working papers are destroyed. |



| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|---------|--|-------------------|---|----------------------------|---|---|
| | | | | | | Confidentiality declarations are also signed. |
| Ireland | Staff employed by the professional body (qualified accountants but not registered as auditors) | Yes | Yes | Yes | The reviewers are selected by the professional body for specific assignments based on the relevant experience and having considered any possible threats to the reviewers independence. Annual independence declarations. Reviewers are not involved in visits where they have had a previous connection with a firm. | All staff and Committee members are bound to strict confidentiality of client information. Client names are not identified in reports. |
| Italy | Staff employed by Consob. | Yes | Reviewer s have usually previous experienc e in auditing. | Yes | Internal procedures of Consob not available. | Reviewers are public officers, bound by professional secrecy. |
| Latvia | Certified auditors | Yes | Yes | Annual - workshop s. | The team of reviewers consists of 2 people. The assignments to reviewers are approved by the Quality | By law. |



| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|--|--|--|---|----------------------|---|--|
| | | | | | Committee. | |
| Lithuania | Certified auditors | No | Yes | Yes | The Audit Quality Control Committee (AQCC) is solely responsible for the attribution of the review assignments. The Reviewer has to refuse to carry out the review and notify AQCC thereof in cases of conflict of interests or if independence may be compromised. | Members of AQCC and reviewers are subject to confidentiality rules approved by AQCC. |
| Luxembour | Registered auditors | Yes | Yes | Yes | Reviewers are requistandard engagement reviewee which co- objectivity, independentiality clauses | ent letter with the mprises ndence and |
| Malta | Full-time staff employed by the review organisation (agents) | Currently receiving training from a similar institution in the EU. | Yes | Envisaged | Agents shall adopt a code of conduct which shall include provisions aimed at ensuring that there are no conflicts of interest between the reviewers (agents) and the firms being reviewed. | By law. |
| Netherlands (currently, will not | Qualified auditors | Yes | Yes | Yes | Reviewers are selected and assigned by | Reviewers sign a statement of confidentiality. |



| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|---|--|-------------------|---|----------------------|---|---|
| change significantly after 1 October 2006). | | | | | NIVRA's Quality Assurance Committee. | |
| Norway | Qualified auditors | Yes | Yes | Yes | By random selection of auditors. The auditor subject to review is reviewed by an auditor from another part of Norway. Independence confirmation. | By use of specific control numbers instead of names, and strict access control. |
| Poland | Qualified auditors | Yes | Yes | Yes | Objectivity, independence declusive organisation. | ey are assured by s which they sign. arations and |
| Portugal | Registered auditors. | Yes | Yes | Yes | By law. | By law. |
| Romania | full-time staff employed by the professional organisation | Yes | No detail given. | Yes | Reviewers must not be related in any way to the practice reviewed. | By internal regulation of the reviewer organisation. |
| Slovak Republic | Qualified auditors | Yes | Yes | Yes | Objectivity/indep endence is assured personally. | By law. |
| Slovenia | Qualified auditors employed at the Institute. | Yes. | Yes | Yes | Reviewers are selected by the Institute and are supposed to be | By law |



| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|-------------------|--|----------------------|---|----------------------|---|---|
| | | | | | independent. | |
| Spain | Mainly qualified auditors, ICAC uses inspectors. | No | Yes | Yes | Through meetings with the Quality Assurance director. | By law |
| Sweden | Qualified auditors | Yes | Yes | Yes | Reviewer fills out a specific form with their independence analysis and a conclusion whether they can accept the review assignment or not. The professional organisations are collecting these forms to ensure that independence is observed in each review. | The documentation from the reviews shall be kept in a secure place without access for other persons. |
| Switzerland | By full-time staff employees (envisaged). | Not yet determine d. | Not yet determine d. | Not yet determine d. | Not yet determined. | Not yet determined. |
| United Kingdom | Staff employed by the relevant professional body or the Audit Inspection Unit. | Yes | Yes | Yes | The reviewers are selected for specific assignments by trying to match the background of the reviewer to the situation of the firm to be reviewed. | Review teams must observe professional requirements for confidentiality. Names of clients not included on the reports that are sent to committees for review. |

| Country | REVIEWERS | INITIAL TRAINING? | EXPERIENCE IN STATUTORY AUDIT AND FINANCIAL REPORTING REQUIRED? | CONTINUOUS TRAINING? | MEASURES TO ASSURE OBJECTIVITY/INDEPENDENCE | MEASURES TO ENSURE CONFIDENTIALITY |
|---------|-----------|-------------------|---|----------------------|--|---------------------------------------|
| | | | | | assigned to visit firms that they may have previously worked for. Reviewer rotation after 3 years. | |

Question 26: The reviewers

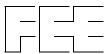
- What documentation is prepared by the reviewers?
- Is there standard documentation for completion (box ticking) by the reviewer?
- To what extent is the review work reviewed? By whom?

| Country | DOCUMENTATION REQUIRED? | STANDARD DOCUMENTATION? | REVIEW OF THE WORK PERFORMED? BY WHOM? |
|---------|---|---|--|
| Austria | Yes. Workin g papers and a long form report | Yes, required for certain items which are to be included in the report. | Yes. By the working party for external quality control. The oversight board also has access to all information during and after a review. |
| Belgium | Yes. | Yes. Working Guides (Questionnaires) from the Institute, relating to the organisation of the audit firm and the profile of the reviewee, review of selected audit files and reviewee's internal quality control system, that must be completed by the reviewer. | Yes. The quality assurance review report is reviewed by staff of the Institute in relation to formal compliance with the Institute's standards relating to quality assurance. The Commission of Quality Assurance Control reviews the final reports. |

| COUNTRY | DOCUMENTATION REQUIRED? | STANDARD DOCUMENTATION? | REVIEW OF THE WORK PERFORMED? BY WHOM? |
|-------------------|-------------------------|--|--|
| | | Standard quality review report format | |
| Bulgaria | Yes. | Yes. Questionnaires and reference schedules for the selection of engagements. | Yes. Review of the reviewer's work is carried out by the ASQAB. The Board approves and accepts the report and notifies the reviewer and the auditor under review within one week following the approval of the reports. |
| Cyprus | Yes. | Yes. Working papers are maintained, checklists must be completed. | Yes. Review by ACCA officials in the UK. |
| Czech Republic | Yes. | Yes. Standard checklist are used for the review. | Yes. The work is fully reviewed by the Supervisory Commission. |
| Denmark | Yes. | No, but some standard lists are available. | The Auditor's Public Oversight Body has the power to review the working files. |
| Estonia | Yes. | Yes. There are standard forms which reviewers have to complete for each review. | Yes. Forms are reviewed by another reviewer and by the reviewed auditor. Forms are also reviewed by the management board of the institute. |
| Finland | Yes. | Yes. A standard work programme/check list for conducting a review is in use. | Yes. The review work is always reviewed by two members of the quality board before it is definitely confirmed by the quality board. |
| France | Yes. | Yes. Reviewers are responsible for completing the following documents: Responses to the various relevant questionnaires Their own working papers. | Yes. The review work is entirely reviewed by CNCC staff. It is also reviewed by the secretariat of the "Haut Conseil". |
| Germany | Yes. | No mandatory checklists or questionnaires. However, the Institute (IDW) has issued a Questionnaire/standard work program that accompanies the Standard on performing quality assurance engagements. Reviewers are encouraged to use the Questionnaire for the reviews. | Yes. After checking by staff of the Chamber of Auditors, the Commission on Quality Assurance evaluates the reviewer's report. During the evaluation process, the Commission on Quality Assurance is entitled to demand further information and documents from the reviewer and the reviewed practice. The members of the Auditors Oversight Commission are entitled to take part in a review and the meetings of the Commission on Quality Assurance. |

| Country | DOCUMENTATION REQUIRED? | STANDARD DOCUMENTATION? | REVIEW OF THE WORK PERFORMED? BY WHOM? |
|--|-------------------------|---|--|
| Greece | Not defined yet. | Not defined yet. | Not defined yet. |
| Hungary | Yes. | Yes. | Yes. Members of the Committee review the review process randomly. |
| Ireland | Yes. | Yes. Reviewers complete work programs and supporting documentation as appropriate. Whilst standard documentation is available it has been designed not to restrict the extent of the review. | Yes. Reports are reviewed by a senior reviewer of the Institute. Reports are also reviewed by the 'Registration Committee' (the Committee which sees and takes appropriate action on the completed reports of visits to firms) |
| Italy | Yes. | No. | Yes. The report is reviewed by the competent Consob disciplinary office. |
| Latvia | Yes. | Yes. Questionnaire. | The Quality committee reviews the questionnaires and approves the results thereof. |
| Lithuania | Yes. | Yes. | Yes. The review work is always reviewed by two members of the AQCC before it is definitely confirmed by the AQCC. |
| Luxembourg | Yes. | Yes. The national institute has prepared standard questionnaires and a peer review guide to help the peer reviewer in his quality control review. The reviewer will prepare a review report following a specific format provided by the Institute. | Yes. The report will be subject to examination by the Peer Review Committee Chairman under the supervision of the President of the Institute. |
| Malta | Yes. | The Directive requires the QAOC to draw up a report containing the main conclusions of the Quality Assurance process in respect of any particular firm. | Yes. Reports prepared by agents will be reviewed by the QAOC. |
| Netherlands (Currently, unknown from 1 October 2006). | Yes. | Yes, standard questionnaires are being used, with room for comments. | Yes. All reports and questionnaires are reviewed by team captains and finally by the Quality Assurance Committee itself that will submit the final conclusions to the firms. |
| Norway | Yes. | Yes. Reviewers fill in standard forms. Weaknesses/deficiencies are registered in a specific form where the auditors have to confirm the facts | Yes. The review work is reviewed by the quality assurance committee, reporting to the Board of the Institute. In disciplinary cases, the Board of the Institute has the final |

| COUNTRY | DOCUMENTATION REQUIRED? | STANDARD DOCUMENTATION? | REVIEW OF THE WORK PERFORMED? BY WHOM? |
|--------------------|-------------------------|---|--|
| | | and the issues raised by the reviewer. | decision prior to submission of the cases to Kredittilsynet. |
| Poland | Yes. | Yes. While the inspection is in process, the reviewer applies guidelines issued by the National Supervisory Committee (an inspection programme) which enable fulfilling control procedures. | Yes. By the National Supervisory Committee. |
| Portugal | Yes. | Yes. Reviewers have to prepare a quality control file that includes the guide for each statutory auditor reviewed and the guide for each engagement file inspected. A summary of conclusions and recommendations is also part of the documentation of the quality control review. | Yes. The file prepared by the reviewer is forwarded to the CCQ for review and preparation of the communications regarding the results of quality control inspection. |
| Romania | Yes. | Yes. Checklist, pre-printed (box ticking). | The review must be approved by the specialist department of the review organisation (institute). It is merely an approval, but not a review in itself. |
| Slovak Republic | Yes. | Yes questionnaires. | Yes. The review work is reviewed by the presidium of SKAU (Slovak Chamber of Auditors). |
| Slovenia | Yes. | Yes. There are standard titles and subtitles of the report (no box ticking). | Yes. By members of the Auditing Council. |
| Spain | Yes. | Yes questionnaires. | No. Nevertheless in the case of doubt, discussions with the general co-ordinator on quality assurance take place. |
| Sweden | Yes. | Yes. There is standard documentation with box ticking but the reviewers are encouraged to also make verbal comments. Formal report on the review. | Yes. The POA and QCB annually select a number of reviews and collect all documentation from the reviewers for detailed review. The feedback is presented to the auditors' organisation and thereafter presented to the reviewers. Some degree of review is also performed by the staff at the auditor organisations. |
| Switzerland | Not yet determined. | Not yet determined. | Not yet determined. |

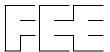


| Country | DOCUMENTATION REQUIRED? | STANDARD DOCUMENTATION? | REVIEW OF THE WORK PERFORMED? BY WHOM? |
|-------------------|-------------------------|--|--|
| United Kingdom | Yes. | Yes, but Standard documentation is kept to a minimum and is used more as an organisational tool to aid review completion and management. Work programmes are tailored to the circumstances of the review being undertaken, it is not a box-ticking process. | Yes. The work of reviewers is 'escalated' for further review before completion This initially involves an internal review of all work by a more senior staff member of the review team, and in some cases a review by someone who has not been involved in the review work. A sample of completed reviews is also reviewed independently of the monitoring unit. |

Question 27: The reporting process

- Is the auditor or audit firm permitted to discuss and answer the preliminary findings?
- To what extent is the auditor helped to correct any deficiencies? Is this done by the reviewers?

| COUNTRY | DISCUSSION OF PRELIMINARY FINDINGS? | HELP TO CORRECT DEFICIENCIES? |
|-------------------|---|---|
| Austria | Yes | Yes |
| Belgium | Yes. The reviewee has 15 days to read the report of the reviewer, to sign it and comment in writing on the findings. | Yes. Recommendations are made in the report of the reviewer and in the final letter of the Board of the Institute concluding on the quality assurance control. |
| Bulgaria | Yes. The reviewer discusses with the reviewed auditor the preliminary review results (final meeting). The reviewer prepares a draft "Review Results Report". Within one week this draft is discussed with the reviewed auditor. | Yes. During the review the reviewer does not only assess the audit practice, but also provides assistance in its improvement by drawing attention to the deficiencies in the practice and making recommendations as to their elimination. |
| Cyprus | Yes | The reviewer is not expected to assist in the correction of deficiencies. However, the reviewer is not hindered to give such an advice. |
| Czech Republic | Yes. Preliminary findings are discussed with the reviewed auditor/audit firm prior to the issue of the final review report. | Yes. Reviewers provide the auditor with the technical assistance in the area of audit methodology based on the results of the review. They also provide the auditor/audit firm with recommendations on improvement of the audit work. |



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|-----------|---|--|
| COUNTRY | FINDINGS? | HELP TO CORRECT DEFICIENCIES? |
| Denmark | Yes | Depends on the agreement made between the audit firm and the reviewer. |
| Estonia | Yes. Preliminary findings are discussed during the review. If disciplinary actions will be initiated all auditors have the right to present written comments and they are invited to the management board meeting to explain and answer questions. | Reviewers can give recommendations onsite, but this is not their duty. The management board is the body which considers whether there is a need to emphasise certain issues requiring specific training. |
| Finland | Yes. The reviewer always explains and discusses the findings of the quality review with the reviewed auditor or audit firm. The auditor or audit firm has the possibility to comment on the findings of the quality review directly to the reviewer or later to the quality board. | Yes. The reviewers provide guidance to correct deficiencies when needed. |
| France | Yes. The auditor/audit firm is permitted to discuss in writing and then orally in front of the "Chambre de Qualité" the preliminary findings. | No. Corrections of deficiencies are the sole responsibility of the statutory auditor or the auditing firm, the reviewers are prevented to do any work in this respect. |
| Germany | Yes. After completing his review procedures and before submitting the quality assurance review report to the Commission on Quality Assurance, the reviewer discusses his findings with the statutory auditor or with the management of the audit firm. If the review opinion is qualified or disclaimed, the statutory auditor or audit firm under review is entitled to comment in writing on the findings. | Yes. If the review opinion is qualified due to significant deficiencies identified in the internal quality control system, recommendations must be made by the reviewer as to how these deficiencies should be rectified. The Commission on Quality Assurance decides upon measures to eliminate deficiencies. |
| Greece | Not specified by law. | Not specified by law. |
| Hungary | Yes. The auditor reply can be included on the assessment sheet. | The reviewer is not expected to assist in the correction of deficiencies. However, the reviewer is not hindered to give relevant advice. |
| Ireland | Yes. All 'findings' made during the review process are discussed with the firm. | Yes. As a goal of the visit process is to continually improve audit quality the reviewers will offer constructive advice to firms. However regulatory action can be taken to ensure deficiencies are properly and adequately addressed/rectified by a firm. This can be done by the reviewers in certain specified circumstances however in serious cases regulatory action will be ordered by the Registration Committee. |
| Italy | Yes | No |
| Latvia | Yes. Audit firms/sole practitioners may discuss preliminary findings. | Yes. The reviewers provide the audit firm/ sole practitioner with recommendations. |
| Lithuania | The reviewed firm is introduced to the review report by the reviewer. The | Yes. During conversation the reviewer discusses the negotiable points, essential |

| | DISCUSSION OF PRELIMINARY | |
|--------------------|---|---|
| COUNTRY | FINDINGS? | HELP TO CORRECT DEFICIENCIES? |
| | reviewed firm must provide his written comments. After the review, the reviewer arranges a meeting in which the reviewed firm participates. | defects and weak points, gives suggestions and advice. |
| Luxembourg | Yes. The registered auditor being reviewed is required to discuss the findings with the peer reviewer. A specific section in the peer review report is dedicated to comments and observations of the registered auditor being reviewed on the quality control process and findings. | Yes. A specific section is also dedicated to recommendations made by the peer reviewer to the registered auditor being reviewed to help in implementing corrective measures. The peer review committee, its chairman and the Institute's president may, if necessary, provide recommendations to the registered auditor being reviewed. |
| Malta | Yes. The text of Directive allows an auditor or audit firm to make oral or written representations within 2 calendar weeks in reaction to an order issued by the Accountancy Board. | At its absolute discretion, the QAOC may also report back to the respective firm the results of the visit carried out. |
| Netherlands | Currently, yes. | Currently, yes. The report will contain recommendations or instructions for improvement. |
| Norway | Yes | Yes. The report will contain recommendation or instructions for improvement. |
| Poland | Yes. The reviewer has the obligation to present its draft report to the audit firm. The inspected audit firm may provide its comments, reservation or qualification or explanation to the inspection arrangements (submitted to the Committee) within 14 days from the date of receiving these results. | No. No help to correct any deficiencies is delivered by the reviewer during the review. The final review report indicates the errors identified. The Supervisory Commission may issue a letter to the auditor with recommendations for the future. |
| Portugal | Yes. The auditor or audit firm reviewed is permitted to discuss with the reviewer the preliminary findings and conclusions and is also required to comment on any issues identified by the reviewer during the inspection. | Yes. After receiving the quality control review file delivered by the reviewer, the Quality Control Commission, through the Executive Board, will issue a report containing a recommendation and findings statement to the auditor or audit firm reviewed. This will serve as help for the correction of deficiencies. |
| Romania | Yes | Yes. A letter is drafted with recommendations for future improvements. |
| Slovak Republic | Yes. The auditor or audit firm is permitted to discuss and answer the preliminary findings and write their comments to the findings in the report. | Yes. Reviewers will help the auditor to correct their procedures in future. |
| Slovenia | Yes. After the review, the findings are discussed with the auditor and the representative of the audit firm. | Yes. The auditor or audit firm is required to implement given recommendations to avoid the deficiencies in the future. In practice, recommendations are given partly by the reviewers and partly by the |

| COUNTRY | DISCUSSION OF PRELIMINARY FINDINGS? | HELP TO CORRECT DEFICIENCIES? |
|-------------------|---|--|
| | | Auditing Council. |
| Spain | Yes | Yes. Suggestions for improvement are given. |
| Sweden | Yes. The reviewed auditor/audit firm always receives a draft of the reviewer's report for comments before it is finalised. | Yes. The auditor gets suggestions how to improve deficiencies. These suggestions are also included in the report. Sometimes the reviewer can give more detailed instructions or suggest other ways of training |
| Switzerland | Not yet determined. | Not yet determined. |
| United Kingdom | Yes. All 'findings' made during the review process are discussed with the firm. In this way misunderstandings can be corrected and minor matters cleared. | Yes. Wherever possible, reviewers will offer constructive advice to firms. If necessary, regulatory action can be taken to ensure that deficiencies are properly and adequately addressed by a firm. |

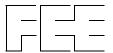
Question 28: Statutory auditor and audit firm review reporting:

- Is a report which contains the main conclusions of the quality assurance review issued?
- What is the turnover time between the visit and the issue of such report?
- To whom is such report made available?
- Must certain reports be referred to the competent body's disciplinary organ? If so, please indicate the circumstances in which this happens.

| Country | Is a report issued? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|----------|------------------------|------------------|--|---|
| Austria | Yes | No detail given. | Reviewed auditor, quality assurance bodies (Working Party for External Quality Control, Oversight Board). | No. However information to the competent body is to be given in certain cases by the quality assurance bodies. |
| Belgium | Yes | Up to 2 months | Reviewed auditor, Commission on Quality. Assurance and on request to the oversight bodies. | In specific cases. The Commission on quality assurance control may propose to open a disciplinary file in the case of a negative outcome of a quality assurance review. |
| Bulgaria | Yes | 1 week. | Reviewed auditor, Audit Services | In cases of violations found, |



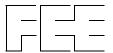
| COUNTRY | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|-------------------|------------------------|-------------------------------|---|---|
| | | | Quality Assurance Board. | the Board submits well-grounded proposals to be reviewed by the Disciplinary Board. The Disciplinary Board is informed in all cases when the auditor was given unsatisfactory assessment and this assessment has been approved by the Board and in all cases of non- provision of documents and hindering the review. |
| Cyprus | Yes | 3 to 6 months. | Reviewed auditor, General Manager of the Institute | - |
| Czech Republic | Yes | Approximately. 2 weeks. | Reviewed auditor, Supervisory Commission. | Yes, in certain cases, the report is referred to the Disciplinary Commission. Such cases include significant or frequent breaches of laws and standards. |
| Denmark | Yes | A few days | To the management of the audit firm and to the Auditor's Public Oversight Body. Furthermore, a copy is submitted to FSR's Quality Committee (if the audit firm is a member of FSR). | The Auditor's Public Oversight Body has the power to refer the report to the Disciplinary Committee, if the report contains information on errors or misbehaviours. |
| Estonia | Yes | Normally less than one month. | All reports go to the management board meeting which decides either quality control has been passed or there | Yes |



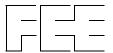
| COUNTRY | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|---------|---|-------------------------------|---|---|
| | | | is a need for disciplinary actions. | |
| Finland | Yes | 2 to 6 months. | To the Quality Board of the Institute, when the reviewed auditor is a member. Quality review reports are directly referred to the auditing board of the Central Chamber of Commerce when the reviewed auditor is not a member of the Institute. | When a member is excluded from membership due to deficiencies in the quality review, the Institute informs the Auditing Board of this decision. |
| France | Yes. A report is issued concerning the assessments and review of the design, implementation and effectiveness of the audit firms' internal quality control system. A separate report related to the assessment of each reviewed audit assignment is issued. | Between three and six months. | The report is made available to the reviewed entity, to the secretary general of the "Haut Conseil" and when appropriate to the securities regulator. | When appropriate, the President of CNCC or a president of CRCC (regional body of CNCC) may on the basis of elements or facts contained in a report, refer a report to the disciplinary body, the "Chambre de discipline". |
| Germany | Yes. Each review ends with a written long-form report including an opinion summarising the overall results of the review. | Without undue delay. | The report is to be sent to the reviewed auditor or audit firm and to the Commission on Quality Assurance for the possibility of overruling and to members of the oversight body for final approval. | Generally not. However, the Commission on Quality Assurance has to inform the Board of Management of the Chamber of Public Accountants (the disciplinary organ) about any facts justifying the |



| Country | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|---------|--|------------------|---|--|
| | | | | revocation of the appointment as a Wirtschaftsprüfer or the recognition as a Wirtschaftsprüfung sgesellschaft. Furthermore, the Commission on Quality Control itself can impose disciplinary measures. |
| Greece | Not defined yet | No detail given. | To the Ministry of Development and in certain cases to the Bank of Greece and to the Hellenic Capital Market Commission. | In the case of either SOEL or ELTE, decision is made on a certain engagement case. |
| Hungary | Yes | One day. | Reviewed auditor and the Quality Control Committee | Generally not. However, the Quality Assurance Committee can refer extraordinary cases to the Ethical Committee. |
| Ireland | For ICAI: Yes. All firms receive a written summary of the findings and conclusions at the end of the inspection. Firms are required to consider the summary findings and provide comments to the reviewer within 14 days of the visit. Upon receipt of the firms' comments a detailed report is prepared in all cases setting out the findings, the underlying causes and the required | Within 14 days | For ICAI: to the firm, the Registration Committee (those reports which include serious findings and where restrictions and conditions on a firms audit registration may be necessary and reports on firms auditing listed companies). For ICPAI: All reports are presented to the Registration Committee. If a firm disagrees with | For ICAI: If the firm is unhappy with the decision of the Registration Committee it can ask for the decision to be reviewed by a second committee (the Review Committee), this committee has all the powers of the Registration Committee. In certain circumstances the Registration Committee may determine that a report be sent to the Complaints Committee for |



| Country | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|------------|---|--|--|---|
| | remedial action. For ICPAI: Yes. A summary of the results sheet is presented to the firm at the conclusion of the visit. | | the decision of the Registration Committee, the decision can be referred to the Registration Appeals Committee. | possible disciplinary action. For ICPAI: In certain circumstances the Registration Committee may determine that a report be sent to the Complaints Committee for possible disciplinary action. |
| Italy | Yes | No detail given. | To the competent Consob disciplinary office. | To the competent Consob disciplinary office. |
| Latvia | Yes | Within 1to 4 weeks after the review. | To the reviewed auditor and Quality Committee of the LZRA. | If the review ends up with C rating (review can be rating as A, B and C), it is passed on to the Committee of Ethics. C rating is issued when significant breaches have been noted during the review. |
| Lithuania | Yes | Within five working days after the review. | Reviewed auditor, AQCC. | A disciplinary action may be brought against the auditor on the motion of AQCC for a violation of the Law on Audit, negative outcomes of quality review, breaches of professional rules or Auditors' Code of Professional Ethics. |
| Luxembourg | Yes | Within 3 weeks. | To the reviewed auditor. In cases of disagreement to the Peer Review Chairman who will investigate the issue | Yes. In cases of non-satisfactory outcomes, depending on the materiality of the findings at the |



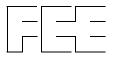
| Country | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|--------------------------|------------------------|----------------------------------|--|---|
| | | | and make recommendations to the parties involved, and if not solved, to the Peer Review Committee. The latter will make recommendations to the Institute's President who will take the final decision. | discretion of the Institute President upon recommendation of the Peer Review Committee. |
| Malta | Yes | No detail given. | To the reviewed auditor, the disciplinary committee, the Accountancy Board and to any other institution as may be required by law. | The Directive identifies a number of circumstances which, if identified, would necessitate QAOC to advise the Accountancy Board to impose restrictions and/or conditions on a firm's conduct or on a warrant or practicing certificate in auditing. |
| Netherlands (Currently). | Yes | Maximum 14 weeks after the visit | To the Board of the audit firm. | Yes, only when second re-reviews also show an insufficient result. |
| Norway | Yes | 2 months. | The report is only available to the quality assurance committee of the Institute and the relevant auditor. | Quality assurance reports concluding that the reviewed auditors approval should be withdrawn, will be considered by the Board of the Institute, and if decided, the report will be submitted to Kredittilsynet for further follow-up. |
| Poland | Yes | Up to 10 days. | The final report issued by the reviewer is available for the | When necessary the Committee addresses the specific reviews to |



| Country | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|--------------------|------------------------|----------------------------------|--|--|
| | | | audit firm and the Committee. | the Disciplinary Court. |
| Portugal | Yes | 15 days. | The reports are made available to the Quality Control Commission and the Executive Board of OROC. | The Commission (CCQ) communicates negative outcomes of quality reviews to the Executive Board of OROC and to the Disciplinary Committee. There are several disciplinary sanctions: from a remark to a removal. |
| Romania | Yes | Up to 30 days. | To the reviewed auditor and the review organisation's Council. | Following the degree of non-compliance of the organisation requirements for quality control, disciplinary measures are applied to the auditor. |
| Slovak Republic | Yes | 1 day. | The report is issued to the auditor immediately after the review visit. | Certain reports must be referred to the disciplinary committee of SKAU in the case no continuous compliance with standards. |
| Slovenia | Yes | Within 8 days. after the review. | Statutory auditor's review report is made available to the auditor and to the audit firm and the audit firm's review report is made available to the audit firm. | The Auditing Council is also deciding about the eventual disciplinary sanctions. |
| Spain | Yes. | Not more than a month | To the reviewed auditor and the ICAC. | When there are serious breaches of the auditing standards, the report |



| Country | IS A REPORT ISSUED? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|-------------------|---|--|---|--|
| | | | | is referred to the Ethics Committee for follow up and the ICAC. |
| Sweden | Yes. | Within a few days | To the reviewed and to the auditors organisations. | A report describing matters that are expected to lead to a so-called strong warning or withdrawal of the approval/authorisati on is handed over to the QCB by the organisation. If the QCB agrees, the report is handed over to the POA for disciplinary action. Also reports randomly selected by the POA for their review are handed over. |
| Switzerland | Not yet determined. | Not yet determined. | Not yet determined. | Not yet determined. |
| United Kingdom | Yes. All firms receive a note of the process of the visit and the matters raised on the visit. The amount of detail varies according to the size of the firm. These are discussed with the firm which is required to add their comments to those notes within a fixed timescale so hat the comments can be included in the report. In the case of a firm which audits listed companies, all visits by the Audit Inspection Unit, or | Within 21 days of completion of the visit. | After the report has been seen by the firm, the report (and the firm's comments on the report) is sent to the Audit Registration Committee. | It will be for the Audit Registration Committee to determine if a report should be referred for investigation for possible disciplinary action. Such referrals could include situations where there is concern about the integrity of the firm or its principals. |



| Country | Is a report issued? | TURNOVER TIME | TO WHOM IS THE REPORT MADE AVAILABLE? | REFERRING TO DISCIPLINARY ORGAN? IN WHICH CIRCUMSTANCES ? |
|---------|--|---------------|---------------------------------------|---|
| | where the reviewer has concerns about the continuing eligibility/competen ce of an audit firm, a detailed report is written for consideration by the Audit Registration Committee. | | | |

Question 29: Overall reporting:

To whom is the report including the overall results of the quality assurance system made available? What is the frequency of public/governmental reporting? What form does this take?

| COUNTRY | OVERALL REPORT? TO WHOM? | FREQUENCY | FORMAT |
|----------|---|-----------|---|
| Austria | Yes. Public report of the Oversight Board. | Annually. | Overall results. |
| Belgium | Yes. The results of the quality assurance review are subject to a publication in the annual report of the Institute. The Institute organises a quarterly meeting between the Commission on quality assurance and the Commission of Supervision in order for both Commissions to work in a homogenous manner and to have a global view on the situation. In addition, the Board of the Institute reports its quality assurance reviews to the High Council for economic professions. | Annually. | A list of most of the issues is published in the Institute's Annual Report. |
| Bulgaria | Yes. Report of the Audit Services Quality Assurance Board to the General Assembly of the ICPA. | Annually. | Overall results. |
| Cyprus | In Planning: a summary report for the year 2005 to the Ministry of Commerce, | Annually. | Overall results. |



| COUNTRY | OVERALL REPORT? TO WHOM? | FREQUENCY | FORMAT |
|-------------------|---|-----------|---|
| | Industry and Tourism. This will be done on a voluntary basis because there is no legal requirement for its issue at present. | | |
| Czech Republic | Yes. The overall results of the quality control activities are published in the report for the Annual Assembly of Auditors. | Annually. | Overall results. |
| Denmark | Yes. A report on the overall results is being published by the Auditor's Public Oversight Body. Likewise, an annual report on the overall results of the Institute based quality assurance reviews is published by FSR's Quality Committee. | Annually. | Overall results. |
| Estonia | Yes. The overall results of quality reviews are presented to the General Assembly of Estonian Board of Auditors. | Annually. | Overall results. |
| Finland | Yes. A report including the overall results of the quality assurance system is presented for the Auditing Board of the Central Chamber of Commerce. A shorter version of the report is also published yearly on the Internet site of the Institute. The Auditing Board of the Central Chamber of Commerce issues statistics, guidelines and a yearbook of all disciplinary cases annually. | Annually. | Overall results. The Auditing Board responds to the report by giving feedback. |
| France | Yes. The overall results of the quality assurance system are submitted to the Haut Conseil, which is entitled to issue each year, an analysis of the remarks and conclusions of the activity of the external quality assurance system. This report is published. | Annually. | Analysis of the remarks and conclusions of the activity of the external quality assurance system. |



| COUNTRY | OVERALL REPORT? TO WHOM? | FREQUENCY | FORMAT |
|-----------|---|-----------------------|--|
| Germany | Yes. Report of the Public Oversight Commission to the public including the Federal Ministry of Economics and published in the official journal of WPK and on AOC website. A Report on the overall results of the quality assurance system of the Commission on Quality Assurance is presented to the AOC, the WPK Advisory Board and WPK Board of Management and published in the official journal of WPK and on | Annually. | Oversight Commission Report: statements and recommendations on the adequacy and effectiveness of the system of quality assurance. Commission on Quality Assurance Report: overall results. |
| Greece | WPK website. Not specified by law. | Not specified by law. | Not specified by law. |
| Hungary | Yes. The Quality Control Committee prepares an annual summary which is publicly made available on the internet. | Annually. | Overall results. |
| Ireland | Yes. Each professional body is required to make an annual report to the Minister of Enterprise, Trade & Employment. | Annually. | Each professional body publishes its annual report on its website. |
| Italy | Yes. Consob issues an annual report. | Annually. | Main conclusions of the supervision of audit firms. |
| Latvia | Yes. The report on the overall results is made available to the members of the Association of the Certified Auditors of Latvia. Besides that, general statistics are intended to be published on the home page of the Association. | Annually. | Overall results, number of reviews, review results, main findings and recommendations to auditors and/or audit firms regarding audit quality. |
| Lithuania | Yes. The AQCC submits to the Ministry of Finance information about the performed quality reviews. The AQCC publishes on the website of the Chamber of Auditors the information mentioned above about the performed audit reviews of individual auditors or audit | Two times a year. | Number of reviews, review results, disciplinary penalties imposed, recommendations to auditors and/or audit firms regarding audit quality, compliance with the previous recommendations of AQCC and the penalties imposed. |

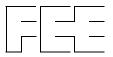
| COUNTRY | OVERALL REPORT? TO | FREQUENCY | FORMAT |
|----------------------------|---|---|---|
| COUNTRY | firms. The AQCC reports at the general meeting of members of the Chamber of Auditors on the activities of the AQCC. Also the AQCC gives a written notification of the adopted decision to the institutions which carry out supervision of entities of public interest and publishes them on the website of the Chamber of Auditors. | FREQUENCY | FORMAT |
| Luxembourg | Yes. Overall result of the quality control system is presented once a year to the general assembly. This report is also distributed to the Ministry of Justice, the two supervisory bodies, the Luxembourg Stock Exchange and other selected professional associations. | Annually. | Overall results. |
| Malta | Yes. Publication of annual work programs and activity reports. | Annually. | Annual work programs and activity reports. |
| Netherlands (Currently) | Yes. The Quality Assurance Committees issues a yearly report with the results and statistics on an anonymous basis of all reviews and major findings. | Annually. | Results and statistics on an anonymous basis of all reviews and major findings. |
| Norway | Yes. A detailed report from the quality assurance committee is submitted to the Board of the Institute. An overall report of the results from the quality assurance reviews must be submitted to Kredittilsynet. Kredittilsynet includes information from this report in its annual report to the public. This annual report is publicly available. | Annually. | Overall report of the results from quality assurance reviews. |
| Poland | The report on the overall results is made available to the members of the Chamber of Polish Auditors. | Not defined by law. When the term office ends (4 years). | Written overall results. However during the term of office the Committee presents the overall results at the regional meetings with auditors any time possible. |
| Portugal | Yes. The annual overall results of the quality control | Annually. | Overall results. |

| COUNTRY | OVERALL REPORT? TO WHOM? | FREQUENCY | FORMAT |
|--------------------|--|---------------------|---------------------|
| | reviews are described in a report of the CCQ. The annual report of the Executive Board of the OROC also includes a description of findings of the program of quality control reviews. This report is submitted and approved in the General Assembly of statutory auditors. For statutory auditors registered with CMVM their respective individual summary report is also submitted to CMVM. | | |
| Romania | Yes. An overall report of inspections is presented to the Permanent Committee of the professional body. | Twice a year. | Overall results. |
| Slovak Republic | Yes. The Report including the overall results of the quality assurance system is published annually on the General Meeting of auditors. Yes. The overall results of | Annually. | Overall results. |
| Slovenia | the quality assurance system are published in the annual report of the Institute and on the Institute's web site. This annual report is also presented to the government. | Annually. | Overall results. |
| Spain | No. | No detail given. | No detail given. |
| Sweden | Yes. The overall results of the quality assurance system organised by the auditors' organisation are compiled and handed over to the POA twice a year. | Twice a year. | Overall results. |
| Switzerland | Not yet determined. | Not yet determined. | Not yet determined. |
| United Kingdom | Yes. An annual report is made to the Department of Trade and Industry. This is also published on the Institute's website. In future this report will be provided to the Professional Oversight Board(POB). POB publishes an Annual Report on its statutory work, | Annually. | Overall results. |

| COUNTRY | OVERALL REPORT? TO WHOM? | FREQUENCY | FORMAT |
|---------|------------------------------|-----------|--------|
| | including oversight of audit | | |
| | inspection, to the Secretary | | |
| | of State for Trade & | | |
| | Industry. | | |
| | | | |
| | The Audit Inspection Unit | | |
| | also makes a public, annual | | |
| | report on its work. Specific | | |
| | firms are not identified. | | |

Question 30: To what extent will the implementation of the Statutory Audit Directive change your reviewers and your reporting process?

| | EXPECTED CHANGES OF THE | EXPECTED CHANGES OF THE | |
|-------------------|--|---|--|
| COUNTRY | REVIEWERS PROCESS | REPORTING PROCESS | |
| Austria | None. | REFORTING PROCESS | |
| Belgium | Currently under review. | | |
| Bulgaria | No detail given. | Change of the reporting process while the overall results of the quality assurance system are to be published annually. | |
| Cyprus | None. | | |
| Czech Republic | Not yet determined. | | |
| Denmark | It has not yet been decided whether any | changes will be necessary. | |
| Estonia | Yes. | | |
| Finland | Not defined in current discussions. | | |
| France | No change expected at this stage. | | |
| Germany | Currently under review. | | |
| Greece | Not applicable. Reporting process has a | not been specified yet. | |
| Hungary | Not yet identified. | | |
| Ireland | We do not believe any changes will be necessary. | | |
| Italy | At the moment, changes are not foreseen. | | |
| Latvia | No substantial changes expected. In particular, it is likely that due to lack of proper alternative resources reviewers will not experience changes. | | |
| Lithuania | Not defined in current discussions. | | |
| Luxembourg | Those matters have not been defined yet but they are currently being discussed. | | |
| Malta | No substantial changes are foreseen. | , | |
| Netherlands | No significant changes expected after the enactment of the WTA from 1 October 2006. | | |
| Norway | The present quality assurance system is considered to be in compliance with the Statutory Audit Directive. However, this question obviously needs to be discussed during the implementation process. | | |
| Poland | Not yet determined. | The transparency of the quality assurance results will be enhanced. | |
| Portugal | No major changes anticipated in the reviewers and reporting process. | | |
| Romania | Not defined in current discussions. | | |
| Slovak | The public oversight body will be | All reports will be issued to the public | |
| Republic | approving reviewers. | oversight body. | |
| Slovenia | No major changes expected. | | |



| COUNTRY | EXPECTED CHANGES OF THE REVIEWERS PROCESS | EXPECTED CHANGES OF THE REPORTING PROCESS |
|-------------------|--|---|
| Spain | No detail given. | Yes, it is hoped that a public report with overall results will be implemented. |
| Sweden | At present no required changes have been identified. However, consultation with the POA on this matter is necessary. | |
| United Kingdom | It is not believed that any changes will be needed. | |

Appendix II.2.6 Investigation of Complaints, Follow-up Process and Sanctions

Question 31: What is the due process in case of a complaint (from third parties, public authorities and others) and its subsequent investigation?

- Can complaints be made to the disciplinary organ of the professional body or any other competent organisation?
- Can such bodies request the review function to undertake specific reviews or visits to assist in the investigation of complaints?

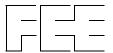
| COUNTRY | COMPLAINTS TO PROFESSIONAL BODY | USE QA ARRANGEMENTS TO INVESTIGATE COMPLAINTS |
|-------------------|---|---|
| Austria | Yes | No |
| Belgium | No, made to the Commission of Surveillance. | No |
| Bulgaria | Yes | Yes |
| Cyprus | Yes | Yes |
| Czech Republic | Yes | Yes |
| Denmark | Yes | No |
| Estonia | Yes | Yes |
| Finland | No, made to the Chamber of Commerce. | No detail given. |
| France | No, made to the "Chambre de discipline", a body not under the control of the profession. | No |
| Germany | Yes | No, but will change for auditors of public interest entities. |
| Greece | Yes, but can also be made to the Accounting and Oversight Board, a body not under the control of the profession. | Yes |
| Hungary | Yes | Yes |
| Ireland | Yes | Yes |
| Italy | No, made to Consob or the Commissione Centrale per i Revisori Contabili, body not under the control of the profession. | Yes |
| Latvia | Yes | Yes |
| Lithuania | Yes | Yes |
| Luxembourg | Yes | No |
| Malta | Does not seem to envisage that complaints will be received, but if they are, it will be to the Accountancy Board, not the profession. | No detail given. |
| Netherlands | Yes, to an independent disciplinary body. | No |
| Norway | No, to the Kredittilsynet (financial services regulator). | No |
| Poland | Yes | Yes |
| Portugal | Yes | Yes |
| Romania | Yes | Yes |

| COUNTRY | COMPLAINTS TO PROFESSIONAL BODY | USE QA ARRANGEMENTS TO INVESTIGATE COMPLAINTS |
|--------------------|--|---|
| Slovak Republic | Yes | Yes |
| Slovenia | Yes | Yes |
| Spain | Yes | Yes |
| Sweden | No, to the public oversight body. | Yes |
| Switzerland | No, to the public oversight body. | Still to be decided. |
| United Kingdom | Yes, but with possibility of referral to oversight body. | Yes |

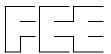
Question 32: What is the due process in case the quality assurance system noted a deficiency?

- How does your quality assurance system ensures that the statutory auditor or audit firm gets a fair hearing in case of disagreement?
- How do the appeal procedures work?

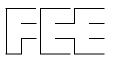
| COUNTRY | FAIR HEARING | APPEAL |
|----------------|---|---|
| Austria | There is a legal right to a fair hearing. The first initial decision is made by the working party for external quality control. | Can appeal to the oversight body |
| Belgium | Auditor has 15 days to respond to the report issued by the Board of the Institute. This report will in some cases be issued after a fair hearing of the auditor with the Commission on quality assurance. The Board of the Institute will if necessary propose an early quality assurance review to deal with a deficiency noted. | If the auditor does not agree with the Board's decision, his case can be transferred to the disciplinary committee and there is a right of appeal against its decision. |
| Bulgaria | Firm can comment on the report which will include a plan to remedy deficiencies. | In cases of disagreement the auditor can appear before the Audit Services quality assurance Board (i.e., the profession). |
| Cyprus | 1 st visit is treated as educational. There is a follow-up visit to determine progress. If no progress there is then a 3 rd visit. | If no progress after 3 rd visit, goes to disciplinary committee who may withdraw the licence, there is a right of appeal against this. |
| Czech Republic | Report is discussed with the reviewer. In the case of a significant deficiency, the matter is passed to the Disciplinary Commission. | Appeals are allowed against decisions of the Disciplinary Commission to the Appeal Commission which is part of the profession. |
| Denmark | Audit firm has 14 days to comment on report. | Final decision made by oversight body, no appeal noted. |
| Estonia | In the case of deficiencies, consideration is given to repeating the quality control in the next year to review progress. | Decisions of the disciplinary board can be appealed to the general assembly or the courts. |
| Finland | KHT auditors can comment on the report and the quality board then decides on possible actions. | No detail given. |



| COUNTRY | FAIR HEARING | APPEAL |
|------------|--|---|
| France | If a minor matter then the firm is asked to provide evidence that the problem has been resolved. If more serious then the firm is subject to a follow-up visit. Firm then has to appear before the "Chambre de qualité". | While there is a discussion with the "Chambre de qualité", there is no appeal against its decision. |
| Germany | Firm can comment on findings and is expected to put forward a plan of rectifying issues. This is used by the Commission on quality assurance to decide if any other sanction is needed. | Firstly, appeal to Commission on Quality Assurance. Secondly, appeal to courts. |
| Greece | Not specified in the law. | An appeal can be made to the Administrative Courts against any disciplinary sanction. |
| Hungary | Auditor can comment on the report. There are two possible adverse outcomes, improvements needed or fail. In each case the firm has to undertake additional training with a further review in a year's time. If the new review also has an adverse outcome then disciplinary procedures can be started. | Appeal can be made to the Board of the Chamber against any sanction. |
| Ireland | Firm sees report and can comment on proposed actions required, committee then makes a decision. A monetary penalty may be charged but only if the firm has agreed that it has committed a breach of the audit requirements. | Appeal procedure within the profession with a final appeal to the courts. |
| Italy | The proceedings of Consob and CCRC are on the basis of a fair hearing. | An appeal against decisions can be proposed to the administrative appeal court. |
| Latvia | The auditor has a chance to discuss the report with the reviewers on site and to provide his arguments to the quality control committee afterwards | In cases of disagreement, Quality Committee interviews firm and reviewer. If not resolved, the case goes to the Board of LZRA. |
| Lithuania | Firm sees reports and gives comments. The report gives suggestions for improvements. The Audit Quality Control Committee gives final decision. | Appeal procedure to the administrative tribunal. |
| Luxembourg | Firm sees reports and gives comments. The report will include an action plan for the firm to remedy any unsatisfactory findings. If there is a disagreement on the report, the matter goes to Peer Review Committee, and | Firm can send comments or appear at a meeting to explain the results of the quality assurance visit. This could lead to a revised decision. If the decision is of a disciplinary nature from the Disciplinary Council and is not |



| COUNTRY | FAIR HEARING | APPEAL | |
|-------------|---|--|--|
| | the Institute's president makes final | accepted, the firm can appeal to the courts. | |
| | decision. | | |
| | There are fixed outcomes (set in law) | | |
| | to a monitoring visit where there is a | | |
| | deficiency. If an order is made once | | |
| | firm because of this deficiency, the | | |
| | firm has 2 weeks to give comments. | | |
| | Order may then be varied. Firm is | | |
| Malta | given a reasonable period of time to | Ammaal muaaaduuna ta ha daysalamad | |
| Maita | comply with the order. Disciplinary | Appeal procedure to be developed. | |
| | action may be taken if the order is not | | |
| | complied with. | | |
| | A monetary penalty may be charged | | |
| | but only if the firm has agreed that it | | |
| | has committed a breach of the quality | | |
| | assurance directive. | | |
| | Currently, the audit firm can provide | No formal appeal possible as yet. An | |
| Netherlands | comments on review report. The | | |
| Netherrands | Board of the Dutch Institute makes a | appeal procedure will be introduced in 2007. | |
| | final decision. | | |
| | Reports with material | | |
| | weaknesses/deficiencies considered | | |
| | by quality assurance committee. The | | |
| | auditor receives notice of preliminary | Appeal procedure to the Ministry of Finance. | |
| | conclusion and can provide further | | |
| Norway | information. A new quality assurance | | |
| | committee meets and makes final | | |
| | decision. Institute then decides if | | |
| | report should be submitted to the | | |
| | Financial Supervisory Authority who | | |
| | makes its own decision. | | |
| | Firm can comment on the report. | | |
| Poland | Decision could be to refer the firm for | Appeal to the Appeal Court. | |
| | disciplinary action. | | |
| Portugal | There is a fair hearing. | Appeal procedure to the Executive Board | |
| | Č | of the Institute. | |
| Romania | Not really defined in current system, | Not really defined in current system, | |
| | changes under consideration. | changes under consideration. | |
| | Auditor sees report and can make | Appeal procedure is in respect of | |
| Slovak | comments. Ongoing non-compliance | disciplinary orders to the presidium of the | |
| Republic | with the standards must be referred to | Chamber of Auditors (the profession). On | |
| republic | the profession's disciplinary | certain grounds an appeal can be made to | |
| | committee. | the courts. | |
| | The auditor/firm sees the report and | | |
| | makes comments. For minor matters | | |
| | the auditor/firm is given | Appeal against Auditing Council desir | |
| Slovenia | recommendations for improvements. | Appeal against Auditing Council decision | |
| | For more serious matters the Auditing | is to courts if needed. | |
| | Council makes a preliminary decision | | |
| | on which the auditor/firm has to | | |
| | comment. The Auditing Council then | | |



| COUNTRY | FAIR HEARING | APPEAL |
|-------------------|--|---|
| | makes its final decision. | |
| Spain | Auditor sees report and makes comments. The Institute's Ethics Committee reviews serious cases but the regulatory body determines the sanctions. | Appeal procedure. |
| Sweden | Committee receives comments from auditor who can then make further comments on the committee's decision. Major problems are reported to the public oversight body. | When committee makes final decision there is no appeal. However, there is an appeal to the administrative court in respect of decisions by the public oversight body. |
| Switzerland | Nothing in place yet. | Nothing in place yet. |
| United Kingdom | Auditor sees report and can comment on proposed decision. Committee then makes a decision. A monetary penalty may be charged but only if the firm has agreed that it has committed a breach of the audit requirements. | Appeal procedure within the profession with a final appeal to the courts. |

Question 33: If your answer to Question 22 was the first or second option, has the competent body's disciplinary organ experienced any difficulty in justifying its decisions due to uncertainty over the requirements of the auditing standards?

| COUNTRY | ISAs | PRINCIPLES | DIFFICULTIES IN DISCIPLINARY ARM INTERPRETING ISAS? |
|-------------------|-------------------|------------|---|
| Austria | | Yes | No experience to date. |
| Belgium | | Yes | No experience to date. |
| Bulgaria | Yes | | No difficulties. |
| Cyprus | Yes | | No experience to date. |
| Czech Republic | Yes | | No difficulties. |
| Denmark | Yes | | No difficulties. |
| Estonia | | Yes | Some difficulty experienced. |
| Finland | Yes | | No difficulties. |
| France | Yes | | None known of. |
| Germany | Yes | | No difficulties. |
| Greece | | Yes | No experience to date. |
| Hungary | Yes | | Limited difficulty. |
| Ireland | Yes | | No difficulties. |
| Italy | Yes ⁴⁰ | | No difficulties. |
| Latvia | Yes | | No difficulties. |
| Lithuania | | Yes | No difficulties. |
| Luxembourg | Yes | | No difficulties. |
| Malta | Yes | | No experience to date. |
| Netherlands | Yes | | No difficulties. |
| Norway | Yes | | No detail given. |

 $^{^{\}rm 40}$ $\,$ See Appendix I.14 - Italy "General" on page 105 for further details.

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| COUNTRY | ISAs | PRINCIPLES | DIFFICULTIES IN DISCIPLINARY ARM INTERPRETING ISAS? |
|--------------------|------|------------|---|
| Poland | | Yes | No experience to date. |
| Portugal | | Yes | No difficulties. |
| Romania | Yes | | None so far, but considers may happen. |
| Slovak Republic | Yes | | No difficulties. |
| Slovenia | Yes | | No experience to date. |
| Spain | Yes | | No difficulties. |
| Sweden | Yes | | No experience to date. |
| Switzerland | Yes | | No detail given. |
| United Kingdom | Yes | | No difficulties. |

Question 34: What sanctions may be imposed for deficiencies noted (fines, temporary removal of license, disciplinary action, withdrawal of practicing certificate, exclusion of membership to professional institute etc)?

- Are sanctions imposed on individual auditors and/or audit firms?
- By whom are such sanctions imposed?
- What are the criteria to publish sanctions?

| COUNTRY | TYPE OF SANCTIONS | IMPOSED ON | | WHO IMPOSES | PUBLICITY |
|----------|---|------------|------|---|--|
| | | INDIVIDUAL | FIRM | | |
| Austria | Follow-up review, improvements within specified time. | Yes | Yes | Working party for external quality control. | No individual publicity. Anonymous annual summary. |
| Belgium | Early quality assurance review, restriction on acceptance on certain types of appointments, warning, reprimand, suspension, withdrawal. | Yes | Yes | External disciplinary committee (i.e., sanctions are disciplinary in nature). | All individual disciplinary actions published in Institute website and summary in annual report. |
| Bulgaria | Censure, fine, obligation to take specified corrective actions, suspension, withdrawal. | Yes | Yes | Disciplinary Board of the professional body. | Publicity is given if the member/firm is withdrawn. |
| Cyprus | Fine, reprimand, severe reprimand, conditions, | Yes | | Disciplinary Committee of the professional body. | Individual publicity may be given. |



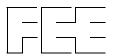
| COUNTRY | TYPE OF SANCTIONS | Impos | SED ON | WHO IMPOSES | PUBLICITY |
|-------------------|---|------------|--------|--|--|
| | SALVETTONS | INDIVIDUAL | FIRM | | |
| | suspension, withdrawal. | | | | |
| Czech Republic | Reprimand, public reprimand, penalty, temporary removal of licence, withdrawal. | Yes | Yes | Disciplinary Commission of the Institute. | Individual publicity is given, except for reprimand. |
| Denmark | Reprimand, a renewed quality review, submission to the Disciplinary Body. | Yes | Yes | Public Oversight Board and Disciplinary Body. | Descriptions of all cases published in annual reports. |
| Estonia | Warning, reprimand, fine, suspension, withdrawal. | Yes | | Management board of the professional body. | Only suspension and withdrawal are published. |
| Finland | Remark, warning, withdrawal. | Yes | | Auditing Board of the Central Chamber of Commerce. | Decisions are public, but not actively published, anonymous summary of each case published annually. |
| France | Warning, blame, suspension, withdrawal. | Yes | Yes | "Chambres regionales de discipline", not the profession. | Published anonymously. |
| Germany | Order to rectify deficiencies detected by the quality assurance. Fines, withdrawal. | Yes | Yes | Commission on quality assurance, oversight body. | Published anonymously. |
| Greece | Caution, reprimand, fine, suspension, exclusion. | Yes | Yes | Disciplinary Board of Accounting and Auditing Oversight Board | Not defined in the Law. |
| Hungary | Training, new review within one year, fine, withdrawal. | Yes | | Professional body. | Individual publicity is not given. Summary data available annually. |
| Ireland | Regulatory action: Requiring specific corrective action, | Yes | Yes | Professional body | Published in the case of loss of licence. All |



| COUNTRY | TYPE OF SANCTIONS | IMPOS | SED ON | WHO IMPOSES | PUBLICITY |
|------------|---|------------|--------|---|---|
| | SANCTIONS | INDIVIDUAL | FIRM | | |
| | setting restrictions on the nature of the audit work undertaken, requiring specific educational training and support, suspension, withdrawal, fine. Disciplinary action: Reprimand, severe reprimand, suspension, withdrawal, financial penalties. | | | | disciplinary orders are published. |
| Italy | Fines, prohibition to carry out any audit assignments (practitioners/firm), removal of audit licence. | Yes | Yes | Consob/CCRC. | Disciplinary decisions are published. |
| Latvia | Varies, warnings to withdrawal. | | Yes | Board of Association of Certified Auditors. | Annual summary, but decisions to withdraw are published. |
| Lithuania | A warning, reprimand, reprimand, reprimand with publication, a requirement to improve the qualification or withdrawal of the audit firm from the list of audit firms. | Yes | Yes | Audit Quality Control Committee, which is not the profession. | Decisions are published. |
| Luxembourg | Another peer review; a shorter interval to the next review, an action plan to address the weaknesses, a convocation with the registered auditor being reviewed. Disciplinary | Yes | | Disciplinary Council or the President of the Institute upon recommendation of the Peer Review Committee of the professional body. | Only decisions to suspend or withdraw licence are published. |



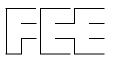
| Country | TYPE OF SANCTIONS | IMPOS | SED ON | WHO IMPOSES | PUBLICITY |
|--------------------|---|------------|--------|---|--|
| | | INDIVIDUAL | FIRM | | |
| | decisions include warning, reprimand, fine, suspension and withdrawal. | | | | |
| Malta | Restrictions, conditions, fines, suspension, withdrawal | Yes | Yes | Accountancy Board, the oversight body. | Annual summary. |
| Netherlands | Recommendations about the conduct of audit work, written warnings, reprimand, suspension and loss of membership. | Yes | Yes | A committee of the NIVRA will make recommendations about the conduct of audit work. Disciplinary sanctions are made by the Disciplinary Board which is independent of the profession. | Sanctions may be published in local papers at the disciplinary Board's discretion. |
| Norway | Enforcement fines, order to halt the performance of statutory audits, withdrawal, suspension. | Yes | Yes | The Financial Supervisory Authority. | All decisions imposing sanctions are publicly available. |
| Poland | Reprimand, suspension, withdrawal. | Yes | | Disciplinary Court of the professional body. | No detail given |
| Portugal | There are several disciplinary sanctions: from a remark to a removal. | Yes | Yes | Disciplinary Body of the professional body. | Described in general terms in annual report. |
| Romania | Warning, suspension, withdrawal. | Yes | Yes | Professional body. | Published depending on severity. |
| Slovak Republic | Reprimand, fine, suspension, withdrawal. | Yes | Yes | Professional body. | Still to be decided. |
| Slovenia | Action to correct deficiencies, withdrawal, public warning. | Yes | Yes | Professional body. | Outcomes are publicly available. |



| COUNTRY | TYPE OF SANCTIONS | IMPOSED ON | | WHO IMPOSES | PUBLICITY |
|-------------------|---|------------|------|--------------------------------------|--|
| | | INDIVIDUAL | FIRM | | |
| Spain | Range of powers, including financial penalties and withdrawal. | Yes | Yes | Regulatory body, not the profession. | All published in official bulletin. |
| Sweden | Reminder, warning, fine, withdrawal. | Yes | Yes | Public Oversight Authority. | Outcomes are publicly available. |
| Switzerland | No detail given. | Yes | Yes | Public Oversight body. | Still to be decided |
| United Kingdom | Regulatory action: Requiring specific corrective action, setting restrictions on the nature of the audit work undertaken, requiring specific educational training and support, suspension, withdrawal, fine. Disciplinary action: Reprimand, severe reprimand, suspension, withdrawal, financial penalties. | Yes | Yes | Professional body | Published in the case of regulatory withdrawal. All disciplinary orders are published. |

Question 35: Has your quality assurance body data available on the results of the sanctions imposed?

| COUNTRY | |
|----------|--|
| Austria | No experience so far. |
| Belgium | Yes |
| Bulgaria | Yes |
| Cyprus | Yes |
| Czech | Yes, and publicly available in the register of auditors maintained by the Chamber of |
| Republic | Auditors. |
| Denmark | Yes |
| Estonia | Not publicly. |
| Finland | Yes and publicly available on the website of the Central Chamber of Commerce |
| | website. |
| France | None available. |
| Germany | Yes |



| COUNTRY | |
|-------------|---|
| Greece | Not defined in the Law. |
| Hungary | Yes, summarised data is available in the annual report. |
| Ireland | Yes |
| Italy | Yes |
| Latvia | No sanctions imposed to date. |
| Lithuania | Yes, the Chamber of Auditors has register. |
| Luxembourg | Yes, in annual report. |
| Malta | Not available. |
| Netherlands | Yes, through the Dutch Institute. |
| Norway | Yes |
| Poland | Yes, in annual report. |
| Portugal | Yes, in annual report. |
| Romania | Yes, but not all published. |
| Slovak | Not available. |
| Republic | |
| Slovenia | Yes |
| Spain | Yes |
| Sweden | Yes and publicly available. |
| Switzerland | Not yet decided what to do. |
| United | Available but not collated. |
| Kingdom | |

Question 36: To what extent will the implementation of the Statutory Audit Directive change your sanctions?

| COUNTRY | EXTENT OF CHANGES |
|-------------|--|
| Austria | None. |
| Belgium | No Major changes expected. |
| Bulgaria | Need for changes not clear. |
| Cyprus | None. |
| Czech | To be decided. |
| Republic | |
| Denmark | Need for changes not clear. |
| Estonia | Will not change sanctions, but disclosure to public will change. |
| Finland | No major changes. |
| France | None. |
| Germany | No changes expected. |
| Greece | Will not change sanctions but disclosure of sanctions. |
| Hungary | No major changes expected. |
| Ireland | None. |
| Italy | None. |
| Latvia | No major changes. |
| Lithuania | Need for changes not clear. |
| Luxembourg | Need for changes not clear. |
| Malta | Will not change sanctions, but disclosure to public will change. |
| Netherlands | From 1 October 2006, AFM issues and withdraws licenses to audit firms to perform |
| | statutory audits. AFM can also impose penalties. Further changes in respect of |
| | sanctions on individual auditors are under review and discussion in Parliament. |



| COUNTRY | EXTENT OF CHANGES |
|-------------------|-----------------------------|
| Norway | None. |
| Poland | Need for changes not clear. |
| Portugal | No major changes. |
| Romania | Need for changes not clear. |
| Slovak | Need for changes not clear. |
| Republic | |
| Slovenia | No major changes. |
| Spain | No major changes. |
| Sweden | No major changes. |
| United Kingdom | None. |