Speech Text Dr. h.c. Volker Röhricht,
Chairman of the Auditor Oversight Commission / Germany,
at the FEE Conference on Audit Regulation on 12 October 2006 in Brussels

Good Morning Ladies and Gentlemen,

Please allow me first to thank the European Federation of Accountants for organising this conference and inviting me to join this panel. I think the impressive list of speakers and participants shows, how important the issue of public oversight is, as well as the huge interest herein. Events like this are a great opportunity for public discussions on topics like equivalence of public oversight systems, mutual recognition and cooperation not only on a European but global level.

So, I am very honoured to start with a short presentation of the principles of public oversight from a European perspective, in general, and how this was addressed in Germany. And I will do my very best to be as short as possible, but also as comprehensive as required.

Public oversight on the audit profession is a core issue in today's audit environment. In 2002, the USA set the ball rolling by the Sarbanes Oxley Act. And I am very happy to see my colleagues from the US Public Company Accounting Oversight Board participating in today's conference. Where the Sarbanes Oxley Act can be considered as the cradle for the PCAOB, the European Directive on Statutory Audits published on 9 June 2006 will be considered as the cradle for 25 public oversight systems throughout the European Union.

As you will certainly know, Article 32 of that Directive describes the basic, or rather core principles of public oversight.

First principle: All statutory auditors and audit firms shall be subject to public oversight. This follows the idea that all statutory audits are of similar public interest.

Second principle: The public oversight system shall be governed by a majority of knowledgeable non-practitioners.

This follows the idea that enhanced public credibility needs independence from the audit profession.

Third principle: The public oversight system shall have ultimate responsibility for the oversight of approval and registration, adoption of standards on ethics, internal quality control and audits, as well as continuing education, quality assurance and investigative and disciplinary systems. All these issues can be considered as core criteria for improving and maintaining the audit quality. To summarise: The oversight shall be ultimately responsible for the whole “life cycle” of an auditor.

Fifth principle: The public oversight system shall be transparent. This means also, it is accountable to the public and should especially publish annual work programmes and activity reports.

Sixth and last principle: Adequate funding is required, secure and free from any undue influence by the audit profession. Here, a guarantee for adequate resources and independence.

Following the global discussion on public oversight and the recent developments in other countries, one could say, that these principles can be agreed worldwide as core principles. However, their implementation may vary from country to country based on traditions and legal specifics. The Directive therefore describes principles rather than a rigid system. Nevertheless, over the next two years of transformation we will see how common structures will be established and equivalent systems will operate throughout the European Union. The regular exchange between audit regulators on a bilateral and multilateral level will certainly contribute to this. Here I would like to mention the European Group of Auditor Oversight Bodies (EGAOB) established by the European Commission. This group serves as a very helpful platform also in terms of finding common structures, procedures and – last not least – convergence.

Let me close this presentation with a short description of how the basic principles have been addressed in Germany.

This is especially an example on how the provisions of the Directive can be incorporated into an existing oversight regime.

Anticipating the EU requirements, the Auditor Oversight Act became effective on 1 January 2005. The Act modified the entire oversight system for the German audit profession. Among others, the Act aimed at establishing a system that would be “competitive” on both a European and a global level.

The Act created the Auditor Oversight Commission (or AOC), a body independent from the audit profession and governed solely by non-professionals. The AOC now has the ultimate power of decision and therefore the ultimate responsibility for public oversight starting with examination, licensing, registration, over disciplinary oversight, quality assurance to standard setting; as you can see, the full scope as required by the Directive. Here, the German Chamber of Public Accountants, formerly responsible solely, has stepped back in the operational basis for the AOC.

It is noteworthy, however, that the former system already contained various public interest components and that these are maintained. The developments in Germany have therefore more resemblance to a process of evolution, conserving what has proved as beneficial in the past and adding to it certain new elements.

The Chamber of Public Accountants (or the Chamber) was established already in 1961 as a corporation under public law and, as such, forms part of state administration – even so governed by professionals. Though, its work did not give rise for complaints, all parties bearing responsibility jointly came to the conclusion that – what a modernised system needed – was a stronger – a more clearly visible public interest element.

As a result, the Chamber was integrated into the new public oversight system led by the AOC in so far as it took over the function of a body that assists the AOC in the execution of its oversight responsibilities.

How does this work in detail?

According to the Public Accountant Act, the oversight of the AOC covers all operational remits of the Chamber in relation to statutory auditors and firms. These are the remits described before.

Here, the law has shifted oversight-related duties and responsibilities from the Chamber by reassigning them to the AOC. All measures taken are now subject to review and overruling by the AOC. The AOC can also direct the Chamber in the handling of such matters.

The role of the AOC is not limited to a high-level monitoring function. Rather, its mandate is to operate and administer the auditor oversight system using its ultimate power of decisions. In order to perform this function the Chamber and its staff of approximately 120 highly qualified individuals are at the disposal of the AOC. In addition, it maintains an independent secretary for internal operations.

Members of the AOC must be independent. They must not be active professionals for at least 5 years. They are supposed to be or have been active in the fields of accounting, finance, economy, academics or jurisdiction. At present the AOC has nine honorary members, appointed by the Federal Ministry of Economics. The maximum number is ten.

In terms of transparency, the AOC publishes an annual work programme and activity report. The first work programme was published in May 2005, the first annual report in April 2006.

The AOC is funded from the budget of the Chamber subject to approval by the Federal Ministry of Economics. The Chamber itself is funded from annual mandatory fees levied from all registered auditors and firms. Fees are allocated according to objective criteria. Also, the allocation of fees is subject to approval by the Ministry. This procedure shall guarantee that neither the Chamber – and especially – nor auditor or firm has any undue influence on the funding.

The German system may be seen as only one example how to adopt the core principles of the EU Directive. But again, the Directive allows for a variety of systems. However, adherence to the core principles should lead ultimately to equivalent systems – and more important – to mutual reliance in each others operations.

Thank you for your attention.

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