Continuous Quality Assurance

Statutory Audit in Europe

April 1998

Preface

Credible financial information is an essential element for the proper functioning of any market economy. It plays an important role in the completion of the single market, and will be key to the successful integration of Europe's capital and financial markets following the introduction of the euro.

High quality financial statements depend, in first instance, on high quality accounting standards and legislation, which keep pace with the changing needs and expectations of those who rely on financial data. Good quality audit is also key. Ensuring quality audit requires the accountancy profession to have high criteria for education and experience; appropriate standards of audit methodology; consistent principles for ethical behaviour; a credible disciplinary process to deal with complaints and problems; and a systematic and satisfactory approach to securing audit quality. FEE and its member bodies are working to enforce and improve standards in all these areas and to consider how the profession across Europe should meet the challenge of convergence in country practice.

This paper focuses on one particular area - a survey of the processes by which audit quality is systematically reviewed and thus standards enhanced across Europe. To foster further developments, procedures have been put in place to enhance the exchange of ideas and practices between those responsible for overseeing quality assurance.

FEE trusts this paper will serve as the basis for a constructive dialogue with all those who have an interest in the quality of statutory audit in Europe, and as a demonstration of how the profession takes seriously its responsibilities to the public interest which it serves.

David Darbyshire President

April 1998

CONTENTS

Summary

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe, grouping together the 38 leading institutes in 26 countries, with a combined membership of over 400,000 individuals. Of these, some 45% are in public practice, providing a wide range of services to both the private and public sectors. The other 55% are engaged in a variety of positions in business, government and education.

This paper sets out the results of a study by FEE of the mechanisms for quality control of statutory audit in twenty countries: the Member States of the European Union, plus the Czech Republic, Norway, Romania, Slovenia and Switzerland. The study builds on substantial work undertaken over a long period by FEE and its predecessor bodies on the role, position and liability of the statutory auditor in Europe. It is also framed in the context of current work by the European Commission with respect to a single market for accountancy services, including statutory audit.

Most particularly, the study reflects the considerable work being done by professional bodies throughout Europe to develop systems to ensure quality in statutory audit. It provides information on those systems of quality control, to assist professional bodies which are contemplating the development of enhanced procedures.

Page

6 Statutory audit is fundamental to the public interest: it enhances the credibility of financial statements published by companies, and thus assists the decisions that are made on the basis of those financial statements. FEE is committed to ensuring the highest quality of statutory audit services. FEE believes that this can best be achieved through development of the self-regulatory mechanisms of Europe's professional bodies. In this way, the profession gives clear recognition to its responsibility to enforce standards of statutory audit, in the public interest.

7 FEE believes that there should be quality assurance for statutory audit across Europe. However, the individual mechanisms for review are based in, and depend on, quite different national systems of audit regulation and of law and corporate governance which surround statutory audit in the Member States of the European Union and neighbouring countries. These differences must be respected.

8 At the same time, it is important that developments in the techniques of audit quality assurance in Europe respect developments internationally.

9 Personnel within audit firms must have appropriate standards of technical knowledge and professional behaviour. Day-to-day quality of the audit process is secured by internal control within each engagement, most notably by appropriate direction of staff assigned, supervision of their work and consultation on difficult issues. Review of auditors' work within firms is also an important control, as are suitable standards of client selectivity. Such principles of internal control at both engagement and firm level are set out in International Standard on Auditing (ISA) 220 "Quality Control for Audit Work"

10 Almost all the countries in our survey have national standards setting out procedures for internal control which correspond with those in ISA 220. These processes of day-to-day control of the standards of work of the audit team and of the audit firm are the critical fundamentals of ensuring quality in statutory audit, just as processes of internal control are the essential foundation of good quality in the corporate business world.

11 Separate and additional systems of external quality control have been or are being implemented in most of the countries in Europe surveyed by FEE. With very limited exceptions these are self regulatory systems, effected by the professional institutes. The purpose of such external control is to assess the effectiveness of procedures relating to internal quality control in place at both firm and engagement level. External review also has an important educational value.

12 Some of the external quality control systems in place in Europe depend on full-time staff employed by the professional bodies - "monitoring systems". A majority, however, relies on reviews being carried out by authorised and experienced practitioners, on a part-time basis, organised and supervised by full-time staff in the review organisation - "peer review

The benefit of using secondees in this way is that auditors working in practice bring with them current knowledge and experience of the latest techniques of business management and related audit processes.

14 In most countries there is a system to gather data about the audit firms and their client base. In those countries where external quality control is long- established, the information thus obtained is used as a basis of organising external monitoring or peer review.

15 In some systems, the determination of which auditor, audit firms or audit engagements will be subject to review in any year is influenced by the identification of specific "risk factors" in the data which is gathered. Alternatively, processes of random or systematic selection are employed. Over-riding both approaches is, however, a general requirement that all should be susceptible to review within a set period, and that significant problems found will occasion a second review after a short interval.

16 There is generally a strict division between external quality control systems and the disciplinary functions of the relevant professional bodies. Disciplinary functions respond to complaints against auditors and carry out their own specific investigations. In contrast, the external quality control process is designed to provide systematic monitoring of quality. There is, however, an increasing trend of referrals to the quality control function from disciplinary bodies and from external organisations, where a complaint may be indicative of a more general problem of poor internal control of audits.

18 With very limited exceptions, the external quality functions require an "on-site visit" to the offices of the audit firm. The size of teams employed on any particular visit, and the length of time taken, depend on the extent and nature of the audit practice being reviewed - from 1 to 4 man days for a very small firm and up to some 40 man-days for the national practice of a large international network.

18 In the majority of cases, the site visit concentrates on examining and evaluating the firm's own internal quality control procedures. This evaluation then determines the extent to which individual engagements are subject to review. In this way, the process parallels modern audit techniques: detailed substantive audit work on transactions or balances may be reduced where the auditor assesses the corporate internal control environment as strong. In contrast, where the control environment is not strong, more individual engagements (and the work of a spread of individual auditors) will be reviewed.

19 Each system of external control uses work programmes and standard documentation which address the aspects of internal systems and engagement quality to be considered. Systems which involve on-site visits check not only the procedures to ensure the proper application of auditing standards, but also compliance with ethical rules (and in particular independence) and whether the financial statements for those engagements reviewed conform with required law and accounting standards.

19 In all cases, the review team is required to document its work, and to bring conclusions and recommendations together in a report. In several countries, this work is subject to independent review within the external quality control function, before reports are made available to higher authorities.

20 The reviewers should have a depth of experience and should receive relevant training. Their objectivity must be assured, in particular where reviewers are drawn from practice on a part-time basis. Confidentiality of client information in the firm being reviewed is generally assured by the reviewers being bound by the same rules of secrecy as they are in professional life in practice.

22 It is important that the results of an external quality control review are properly communicated; the review team first discusses its draft conclusions with the audit firm. This not only avoids misunderstandings arising, it also enables the audit firm to understand the recommendations made, and to agree actions to rectify any problems.

23 Reports are then submitted to the oversight authority of the external quality control function; in most cases, a preliminary grading (i.e. satisfactory or unsatisfactory) is also applied. It is the responsibility of the oversight body to determine what action should then be taken (for example, the imposition of a second review or other sanctions). Equally, it is important that the report incorporating the oversight authority's conclusions is finalised as quickly as possible and given to the audit firm concerned.

24 Sanctions imposed on the audit firm in the case of a less than satisfactory result vary from a requirement to take corrective action on deficiencies found (with an additional follow-up review to ensure that this has been done) to a referral to the disciplinary process for independent consideration. Persistently poor review results may lead to fine or, in extreme cases, will lead to withdrawal of the licence to audit.

25 The existence of strong systems of internal quality control within both audit engagements and audit firms is the foundation of good quality in statutory audit. External quality control procedures demonstrate the profession's commitment to the public interest, to ensure that that audit quality is continually enhanced by the sharing of best practice, the encouragement of improving standards and the sanction of poor performance. A process of public reporting from the external quality control function is thus an increasing feature of such systems, providing a summary of the review work undertaken in the year, and the results of that process.

Introduction

Traditions of audit quality

The objective of an audit, according to the definition adopted by the international Federation of Accountants (IFAC), is to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. Within the European Union (EU), most enterprises are subject to national laws on financial reporting which implement the EU accounting directives, the objective of which is to ensure that the financial statements present a true and fair view.

The auditor's opinion enhances the credibility of the financial statements. The greater reliance which can be placed on financial statements as a consequence of their having been audited assists the decisions made on the basis of these financial statements. These may include decisions for the provision of finance (by equity or debt), for credit (by customers or suppliers), for employment (by workers) and for taxation or subsidy (by government). The audit, therefore, is an important element in the functioning of any market economy, such as those in the European Union.

Market forces provide the individual with considerable incentives to carry out audits with competence, integrity, independence and objectivity, in order that his audit practice should develop and prosper. There is real economic pressure on the individual auditor to maintain quality standards in his own work and in that of those assisting him. The mutual dependence of auditors acting together within an audit firm similarly leads to the imposition of quality standards and quality review within firms. These processes of "internal quality control" are the foundation and the fundamentals of audit quality assurance.

Historically, the formation of national institutes and the imposition of agreed levels of education, integrity and quality of work, resulted from the need of individual auditors and audit firms to demonstrate some proof of their acceptance of acknowledged professional standards. The consequent requirement for members of those national professions to reinforce the demonstrability of those standards gave rise to the imposition of investigative and disciplinary procedures. More recently, the desire to enhance demonstrable standards has led many national institutes towards the development of mechanisms for "external quality control"

The purpose of external quality control is to assess the effectiveness of procedures of internal control in place at both firm and engagement level and to encourage the improvement of standards. It may comprise review of the work of the auditor or audit firm by personnel employed by the national institute "monitoring" Alternatively the review may be effected by other auditors or audit firms not connected with the firm, nominated and supervised by full-time staff of the national institute - "peer review". Whatever the mechanism, the selfregulatory development of quality control procedures represents a real and positive drive from the profession to demonstrate continuous quality improvement in the audit process. In this way, the profession gives clear recognition to its responsibility to enforce standards in the public interest.

The statutory audit in Europe

In keeping with European regulatory and legislative tradition, many aspects of the preparation and audit of enterprises' financial statements have in recent years become the subject of legal requirements. In all EU Member States, a common framework exists for imposing a mandatory or statutory audit obligation (the accounting directives) and for governing the approval of statutory auditors (the 8th Company Law Directive).

The existence of the common framework at EU level is a consequence of the recognition given to the Community-wide nature of the interests affected by corporate financial reporting. Completion of the single market implies the ability to trade and invest throughout the EU without unnecessary impediments and barriers. To the extent that such trading and investment decisions are made on the basis of audited financial statements, there is a clear Community interest in enhancing the reliance that can be placed on such financial statements, irrespective of the Member State of the preparer, user or auditor.

EU regulation has achieved some degree of harmonisation of Member States' regulatory regimes governing financial reporting and statutory auditing, and in some cases has led to significant reforms. It has not, however, led to uniformity in practice. Approaches to regulation which had developed in response to purely national considerations have thus remained primarily and distinctively national in character. a large extent this has been due to a desire not to disrupt properly functioning national systems which were embedded in specifically national traditions of corporate governance and in corporate and fiscal law. The risks and costs of change have had to be taken into account, as well as the possible benefits.

The process of external audit quality control is one example of where practices continue to differ in some respects from Member State to Member State. These divergencies relate not to the techniques of auditing, which are increasingly the subject of successful self-regulatory harmonisation efforts. Rather, they reflect the different professional structures within each Member State, structures which have been re-inforced as "national" by legislation implementing the European 8th Directive. They also derive from the different environments of corporate governance, company law and accounting standards, where convergence has so far been less significant than for auditing standards.

FEE believes that there should be quality assurance for statutory audit across Europe. However, the concepts of subsidiarity and proportionality must be respected. Uniformity should not, of itself, be the objective, and due regard should be paid to the positive features of Member States' existing systems, for example of audit quality assurance, developed in the context of national systems of audit regulation and of law and corporate governance. Regard must also be given to the resource available at national level to run those systems.

Where possible, and in accordance with the stated policy of European Commission, progress should be on the basis of mutual recognition, with further harmonisation only as necessary. The successes achieved through self-regulation of the accountancy profession in each country must be respected and encouraged.

The international perspective

It is also important to recognise the realities of the global economy. Systems of credible financial reporting are fundamental to the decisions of investors, financiers, trading partners and employees. Those decisions are today made as much in an international context as they are in terms of business relationships between EU Member States. This impact is most obvious in respect of companies seeking finance, or trading outside Europe; however the realities of economic interdependence mean that few companies in Europe are immune to the impact of globalisation.

Europe's accountancy profession, including those who audit company financial statements, is already focused on the international implications of its work. Each member body of FEE is also a member of IFAC, contributes to its work and commits itself to implementing its International Standards on Auditing and Ethical Code at national level. Encouragement of these moves towards global standards is clearly helping to improve audit quality and to avoid divergence between Europe and the rest of the world. In this context this study seeks, where appropriate, to benchmark European audit quality control processes against those in other major world economics.

Reflecting the same principles as the European Commission's new accounting strategy, announced in November 1995, European's auditing profession is determined to play its part in improving international comparability in audit quality. FEE recognises its role to support access by European companies to non-EU trade and finance by demonstrating that mechanisms for European audit quality reflect those demanded by the global markets.

Effective access to the international markets is, of course, as much in the interests of the providers of statutory audit services as it is of users. Auditors in Europe cannot allow their standards to be called into question by regulators elsewhere. The globalisation of the techniques of audit quality should be recognised. Developments in each European country should be in line, wherever possible, with developments at a world-wide level.

Internal quality control in audit

The principles of internal control

Fundamental to the effectiveness of any system is a need for quality control to be embedded in the process. This is most readily seen in product manufacturing systems and is also reflected in the management of corporate financial systems, through on-line approval and monitoring processes.

The concepts of internal quality control are equally well understood in audit and are summarised, internationally, in the IFAC International Standard on Auditing (ISA)220 " Quality Control for Audit Work" This standard describes the attributes of a good process of quality control internal to the work of an audit team (i.e. the control, by the auditor, of the quality of work of those assisting him). It also discusses the nature of internal control policies which are appropriate within an audit firm.

Substantial illustrative examples of quality control procedures are presented in an appendix to the international standard, to enable audit firms to formulate their own objectives and policies according to the size, nature and geographical disposition of the practice. Over-riding this necessary flexibility in system design is, however, the principle that quality control policies to be adopted in the firm will ordinarily incorporate procedures to ensure that:

- personnel in the firm adhere to the principles of independence, integrity, objectivity confidentiality and professional behaviour ("professional requirements");

- the firm is staffed by personnel who have attained and maintained the technical standards and professional competence required to enable them to fulfil their responsibilities with due care ("skills and competence");

- audit work is assigned to personnel who have the degree of technical training and proficiency required in the circumstances ("assignment");

- there is sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality ("delegation");

- whenever necessary, consultation within or outside the firm occurs with those who have appropriate expertise ("consultation");

- an evaluation of prospective clients and a review, on an ongoing basis, of existing clients is conducted. In making a decision to accept or retain a client, the firm's independence and ability to service the client properly and the integrity of the client's management are considered ("acceptance and retention of clients"); and

- the continued adequacy and operational effectiveness of quality control policies and procedures are monitored ("monitoring").

Key to the requirements of ISA 220 is that "quality control policies and procedures should be communicated to personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented".

Internal control in European statutory audit

FEE's study indicates that in almost all the countries surveyed, the professional bodies have issued national standards which require compliance with the principles enshrined in ISA 220. The exception is the work of the Collegio Sindacale in Italy, whose particular responsibilities may not make ISA 220 appropriate.

It should be emphasised that these professional standards relating to internal quality control represent a broadly-based minimum; in practice, many audit firms refine their systems to provide even greater rigour in control.

Within the business environment, it is now widely recognised that the processes of internal audit are critical to good corporate governance. Indeed, as the European Commission indicates in its Green Paper on "The Role, the Position and the Liability of the Statutory Auditor in the European Union", published in July 1996:

"Companies without a strong internal audit finction will be unable to provide an Audit Committee with sufficient information to fulfil its responsibilities. ... assessment of the effectiveness of company's management information systems and systems of internal control should be undertaken on a continuous basis"

In the same way, implementation of the requirements of ISA 220 within national professional standards provides the critical foundation of quality assurance in the statutory audit function in Europe.

External quality control - an overview

Separate from and additional to these processes of internal control within each audit engagement and each audit firm, many national institutes have developed systems of external quality control, or are in process of doing so. For the convenience of the clarity of this paper, such systems are labelled "external"; however it should be emphasised that almost all the review systems applicable to European statutory audit are organised by - and internal to - the profession. The same is true of equivalent systems in major international economics.

Indeed, in the countries surveyed by FEE, supervisory quality control systems completely external to the audit profession arise only in: Italy (the control by CONSOB the stock exchange regulator, of the 24 auditing firms which audit the financial statements of listed companies); Sweden (external monitoring by the Supervisory Board of Public Accountants, parallel to the peer review being implemented by the two Swedish professional bodies); and Norway (the control by Kredittilsynet the banking, insurance and securities commission which is the auditor licensing and supervisory body under the Ministry of Finance additional to the quality control procedures of the two institutes).

In Portugal, CMVM (the Stock Exchange regulator) also has the power to monitor audit firms with listed company clients. However, in practice it is the professional institute, the CROC, which carries out the quality control of listed company engagements, and then communicates the results of its work to CMVM.

In the context of this paper, FEE did not enquire into systems operated by prudential supervisors in respect of those auditors and audit firms which audit banks, insurance companies, securities dealers and investment funds.

The objectives of external review

A recent academic study on audit monitoring suggests that professional bodies have three motives for implementing systems of external quality control review of their members'work:

- to ensure auditors meet their obligation to society to provide work of the highest quality

- to fulfil the need to sustain public confidence in the profession by demonstrating a concern for maintaining high standards of professional work; and

- to avoid the adverse consequences of sub-standard work and loss of public confidence.

The second and third of these objectives are clearly primarily matters of concern to those within the accountancy profession who exercise the role of statutory audit. The profession is also highly aware of its responsibilities to meet the first objective, as are national governments; there is thus, in most existing systems of external quality control of audit work, useful interaction between the profession and relevant national governmental bodies.

FEE believes that a fourth, and important, objective should be added to the above:

- to encourage, educate and assist members and member audit firms in achieving the highest standards of professional work, consistently throughout the profession.

External review by a professional body reinforces high standards of internal quality both within individual audit engagements and, organisationally, within firms of auditors. Quality must be built in at every level of the audit process. Most notably, the process of external review has an important educational aspect. As one institute emphasised in its response: "at each part of the monitoring function, we make practical recommendations, where appropriate, on auditing procedures and suggest ways in which professional conduct could be improved"

The systems of external review

For each of the countries in this study, a summary of the current national regulatory systems for statutory audit is given in Appendix A. Appendix D provides a glossary of abbreviations.

A majority of professional institutes already have established systems of external quality control, though these are each subtly different, reflecting national cultural and regulatory traditions as well as the impact of different accounting, legal and corporate governance systems. The issues of available resource are also pertinent to the design of the individual mechanisms.

A number of professional institutes report active moves towards implementing an external quality control system in respect of statutory audit, or extending an existing system. The implementation of peer review systems by the two institutes in each of Finland and Sweden and by FRR in Denmark is, for example, well advanced, as are moves towards such a system in Luxembourg. In Germany, the WPk and IDW are currently discussing the extension of WPK's existing monitoring function to include on-site reviews of the organisation of audit firms and engagements performed.

Intentions to develop external quality control review are also expressed by NOvAA in the Netherlands and the Joint Commission of Dottori Commercialisti and Ragionieri in Italy, although in the latter case, discussions are at an earlier stage.

A broad categorisation of the twenty established systems is in terms of those who conduct the review:

- Monitoring (i.e. by full-time staff employed by the review organisation): the four systems which together cover all practitioners in Ireland and the UK, the three systems operated in Spain, and the review of published financial statements in Germany.

- Peer review (i.e. by authorised and experienced practitioners, on a part-time basis, organised and supervised by full-time staff in the review organisation): Belgium, the regional and national systems in France, ASSIREVI in Italy, NIVRA in the Netherlands, the two institutes in Norway, Portugal, Romania and Slovenia. The system operated by FSR in Denmark is also peer review, but operates "firm on firm", rather than by the selection of individual practitioners to perform the work.

- In the Czech Republic full-time staff and part-time nominees together review files.

Each of these arrangements has its merits. The particular advantage of using seconded practitioners, supervised and overseen by permanent staff, derives from their current knowledge and experience of the latest techniques of audit and business processes.

As a comparison with practice internationally, the Australian system is operated by full-time staff, but also relies on practitioners seconded on a part-time basis, supervised by the institute.

The Canadian systems, operated within each province, are similar. In contrast, in the USA the more usual practice, particularly for reviews of larger firms, is for "firm on firm" peer review (subject to the constraint that "mutual review" is not permitted). There is, however, in the USA also the facility for the firm to elect to be reviewed not by another firm, but by a team of independent qualified reviewers who may perform this function full-time or may be engaged on a part-time basis by the supervisory body.

The focus of the review (i.e. practitioner or audit firm) also varies internationally. In the USA and Australia, the focus is on the national firm; in contrast, Canadian procedures concentrate on the level of each practice office (not least because the organisation of the review system is by province) .

For the European countries surveyed by FEE, the systems also differ as regards the focus of the review:

- The French system at national level and the Portuguese system (as currently operated) focus on the individual listed company engagement thus considering, at the same time, the joint auditors of the company under review. The German system focuses on auditors and audit firms identified from errors found in reviewing published financial statements.

- Review procedures on focus on the level of the national audit firm (Including selected individuals and/or engagements) in Belgium, the Czech Republic, FSR in Denmark, the four systems in Ireland and the UK, ASSIREVI in Italy, NIVRA in the Netherlands, Romania, Slovenia and the three systems in Spain.

- The French regional system and the two Norwegian institute systems focus on the individual auditor, rather than the firm.

It is on these twenty systems that the following sections of the report concentrate, examining the ways in which external quality control procedures are managed in the countries surveyed, in order to provide useful ideas for those charged with the development of quality control procedures across the globe.

It should be emphasised that external quality control can never substitute for controls exercised internally to the engagement and the firm, just as external audit should not be seen as substituting for processes of internal control and internal audit in the corporate sector. The purpose of periodic external quality control of statutory audit is, essentially, to assess whether internal controls are in place and operate effectively at the levels of both the engagement and the firm, and to encourage the improvement of standards.

External quality control -organising the review

Data collection

Most external quality control systems have their basis in a process of gathering data; the principle of using an annual return, which applies to both individuals and firms, is widespread within Europe.

In a few cases the obligation is imposed under legislation; in other cases it results from the desire of Institutes to set up a system to find out about their members' activities. Even where no formal external quality control system has yet been established, most institutes indicate that they do correlate such data. Only in a minority of countries, those which have recently set up an external quality control on the basis of random selection, the Institutes do not use this procedure. Auditors and audit firms are only required to provide information when they are subject to monitoring.

There are broad similarities in the basic information demanded by the annual return in a number of countries, although differences do arise in the different quality control regimes. The purpose of the return, however, remains the same: to identify the essential characteristics of the activity of auditors in order to gain a better understanding of the type of work they do and, in some cases, to put together a statistical profile.

For example, in the United Kingdom and Ireland, the professional bodies ask their members initially for standing data about the structure of their firm: address of the principal office, other offices, details of the organisation of the firm, the number of employees, and links with other firms or other entitles. In addition, the annual returns demand information which can be varied from year to year, such as details of the scope of activities, details of ownership and control of the firm, analysis of fee income between audit work and other activities, analysis of personnel within each office, information on ethical requirements, and details of the firm's internal quality review procedures with regard to audit work.

Likewise, in Belgium, Spain, France and Portugal, individual members must provide information about not only the structure but also the activity of their firm. In Spain, individuals and firms provide ICAC (the regulator) with information relating to the number of registered Offices, turnover by hours worked, number of employees and the number of appointments. Each audit firm in Portugal must submit its financial statements, a list of its clients stating balance sheet totals and turnover for each company audited and the number of appointments. In France, each auditor must submit for each appointment, a separate document the "déclaration d'activité" - which summarises significant data: fees, opinion given and the incidence of potential disclosures to the State Prosecutor.

In those larger countries where external quality control systems are long established, the information gathered by the institutes in this way is used to establish a database of fundamental information about firms, as the basis for organising external monitoring or peer review.

The selection of auditors for review

In established systems of external quality control, the determination of which auditor will be subject to control in any year is either:

- by random or systematic selection; or

- by use of the annual return, i.e. the data is used to identify "risk factors" (such as listed clients or major changes in fee base) as the initial means of selection; for example the Joint Monitoring Unit (JMU), which operates in the UK and Ireland, considers factors such as:

- significant changes in the profile of the firm's audit clients and their distribution amongst principals and staff;

- audit appointments which are the subject of specific regulation (e.g., listed companies, banks, life companies);

- the incidence and nature of sub-contractor arrangements; material changes in the level of audit fees from one year to the next; and deficiencies noted in review of the annual return.

In France, at regional level, and within the four year period envisaged in regulations, account is taken of obvious anomalies discovered during a "desktop" review of analyses of the Déclarations d'activité". In Belgium, the Commission de Surveillance uses the information which auditors are required to submit to the Institute, amongst other public sources of information, to direct its enquiries. In Romania, the auditor and the audit firms are selected on the basis of the information gathered when granting the professional licence.

The alternative approach, a strict application of random or systematic selection within a predetermined period is, for example, applied in the Czech Republic, Denmark, France (at national level), Germany, Ireland, the voluntary system for audit firms in Italy, the Netherlands, Norway, Portugal, Slovenia and Spain. Finland and Sweden have proposed that in the implementation of an external quality control system, and in part to gain acceptance of the process, they will leave their members free to choose the date of the review over the cycle of five years. The quality control by the Swedish government authority has historically been based on incoming complaints or notifications and by random selection, but since 1997 includes a systematic selection over a five year period.

Over-riding both approaches is a general requirement that reviews be effected on a cyclical basis i.e. all should be susceptible to review within a set period. A number of institutes note that differential focus is applied depending on such factors as the size of the firm, the type of audit clients (and in particular the incidence of public companies), specialist industries and variations in fee base.

In France, the frequency is every four years at regional level and every six years at national level for listed companies. ASSIREVI in Italy reviews auditors of listed companies in alternate years. The frequency in Slovenia is once every three years, but the supervisory organ can impose additional visits. Denmark envisages reviews being carried out every three to four years and in the Netherlands the frequency is once every four years. Belgium, Ireland, Norway, Romania and

Spain carry out, or aim to carry out, reviews at least every five years. The system in the Czech Republic is to operate over six years, with additional inspections imposed upon complaints. In Portugal, all audit engagements of listed companies are to be reviewed every three years and, with respect to the quality control of individual auditors, the periodicity of reviews will aim at covering all auditors within three years.

In the UK and Ireland, the JMU (given its focus on the assessment of risk factors from the annual return) believes that it is indeed necessary to aim to review all members but doing so within a given period is not necessarily a primary objective. The objective is rather to identify and deal with certain situations which are perceived as carrying risks or to take into account the public interest. Thus firms which audit a number of listed companies are reviewed every 3 years, with an annual interim update visit. Those with fewer listed clients are reviewed every 5 years. The UK ACCA visits the firms of all its members who are undertaking audit at least once every 5 years and believes that it is the certainty of monitoring that is an effective means of improving standards. Having completed the first 5 year cycle, ACCA now has a database that enables risk to be assessed in the prioritising of visits.

At the international level, external quality control visits are required: every three years in the USA; every four years or so in Canada (depending on the particular province); and every five years in Australia and New Zealand.

All the professional bodies believe that the systems which they have put into place are a necessary compromise between limited resources and the frequency necessary to assess the working standards of auditors. It should be emphasised, however, that in practically all cases, identification of a serious deficiency in a control visit will lead to a second review after a short interval.

Referrals to the review process

There has generally been a strict division between external quality control systems and the disciplinary functions of the relevant professional bodies. The disciplinary bodies respond to complaints against auditors and tend to have their own investigative procedures to deal with these, rather than referring cases to the external quality control function. This separation results from two principal factors: on the one hand, in certain countries, the disciplinary organ is independent of the profession and is under public control. On the other hand, the separation results from the fact that the professional bodies stress the pursuit of quality and the educational aims of systematic external quality control. To take on investigations from the disciplinary functions can be seen to be in conflict with these objectives.

This division exists, for example, in the Netherlands where the disciplinary organ cannot submit a case to the institute's practice review board. A division also exists in the Czech Republic, but there are reciprocal links between the supervisory and the disciplinary functions.

In contrast, in Portugal it is possible for the disciplinary body to ask for an external quality review to assist in preparing a file for prosecution. In Germany, the monitoring function and the disciplinary function are closely linked, as the WPK is responsible for each of these supervisory functions. The same is true in the UK and Ireland, where the Institutes' disciplinary functions can pass cases to the functions responsible for systematic quality control.

The facility for organisations outside the professional bodies to refer issues for review is available in several countries. In France, for example, the Commission des Operations de Bourse (the stock exchange regulator) can refer a case to the professional institute, but this type of intervention is rare. In Spain, the profession's regulatory body, based on its own initiative or on third party complaints, can carry out a technical control of an audit engagement by its own personnel. It can also request the intervention of the institutes' external quality control functions. In the UK, there are instances of the Department of Trade and Industry and the Personal Investment Authority referring matters of concern to each of the professional bodies for review.

Whilst the number of instances of referral from the disciplinary functions or external organisations thus remains small, it may grow. The trend is perhaps best explained by the comment from the Joint Monitoring Unit in the UK and Ireland: when cases are referred from the disciplinary organ (87 in 1996), the external quality control function then focuses on the general conduct of audit work by the auditor or audit firm rather than on specific investigation of the particular complaint. It should also be noted that the practice of external organisations referring cases seems to apply in those Member States where an external quality control system has been in operation for some time. It could be that, in time, this will become more widespread.

Referral from the external quality control function to the disciplinary function is, of course, more widespread, and is considered later in this paper.

External quality control - the review process

The review visit

Almost all the established external quality control functions require an "on-site visit to the offices of the auditor or audit firm. In France, for example, even though the review carried out regionally is primarily a "desktop" review using files of documents received from the audit client and those drawn up by the auditor, a site visit is also normal. At national level an on-site visit is compulsory. In the UK and Ireland, a review of annual returns may be carried out as a preliminary to an on-site visit, or to determine whether a firm does not need to be visited because it does not have any active audit clients. However, the main basis of the review is an on-site visit.

In Germany, reviews are systematically performed off-site; however, if on enquiry the written representations of the auditor are not sufficient, the auditor will be requested to attend a hearing at the offices of the WPK. In this connection, the WPK can require the auditor to present his working papers, if this does not conflict with the German confidentiality rules.

Respondents note that the average duration of a site visit will vary depending on the number of individuals permitted to sign audit reports, the number of offices, the range of different types of appointments and particular risks identified at the first "desktop review" stage. For example, a visit to the UK practice of a large international network will require approximately 40 mandays and will involve a team of inspectors (presupposing a strong internal control environment). Also in the UK, the ACCA notes that the typical length of a visit is one or two days for sole practitioners and small firms consisting of two or three partners. This statistic for the review of a very small firm was also quoted by review bodies in Belgium, the Czech Republic, Denmark, France, Ireland, the Netherlands, Romania, Slovenia, and Spain; the length of visit will of course increase in proportion to the complexity of the auditor's work.

In the majority of cases, the primary focus of the site visit is an assessment of the effectiveness of the firm's internal quality control systems. The determination of the extent of selection and examination of individual engagements will depend on that assessment. This is the case in Belgium, the Czech Republic, Ireland, Romania, Slovenia, Spain, Sweden, Denmark, the Netherlands and the UK. The Norwegian system, though targeted at individuals, includes a review of internal control procedures in the first control visit each year to any particular firm.

The methods used to select which audit files are subsequently examined broadly depend on factors such as: whether companies are public or private; the size of the company; audit time taken; whether the audit report is qualified; and audits in particular areas (e.g. financial services). Data is requested for this purpose. For example, although extensive information is already provided in UK annual returns, additional information is requested at the beginning of the control visit, including an analysis of a firm's audit engagements, allocated between the responsible individuals. Careful review and analysis of the data provided enables the inspector to decide which engagements and which individuals to review.

In contrast, in France and Portugal, there is no specific determination of a process for examining the internal control system. Engagement reviews form the basis of the work, although it is clear that inspectors cannot avoid taking account of how audit work is reviewed and managed within the firm.

In France, the selection of engagements differs at regional and national level. Regionally, the number of files to be reviewed for each auditor depends on the number of appointments held by that member: up to 5 appointments, 1 or 2 files; and more than 5 appointments, at least

2 files. The choice of files falls 1/3 to the member under review and 2/3 to the inspector. Equally, account is taken of the "déclarations d'activité" examined beforehand and of the focus decided on each year by the Commission and by the Regional Councils. The main criterion is that a percentage of the members' work is covered (calculated at 5% of total hours).

At national level in France, apart from a specific (and rare) request from the stock exchange regulator or a particular risk identified in an industry sector or on an audit, file selection is carried out by rotation which takes into account the results of earlier reviews. It should also be noted that for audits of companies admitted onto the second market, a systematic review takes place within two years of their introduction.

For both levels of review in France, where it is judged that the standard of the audit is not adequate, the files are subject to a second review within one or two years .

Aspects of the work examined

Each system of external quality control which operates through site visits has work programmes which address the aspects of internal systems and engagement quality to be considered. All assess systems to monitor compliance with auditing standards and consider whether the auditors comply with relevant ethical standards (including independence).

At engagement level, the reviewers also consider the relevant accounting and regulatory standards in the financial statements and, with the exception of France, the other legal requirements concerning audited companies. Similarly, assessments are made of the level of qualification, knowledge and training of personnel.

In Germany, the monitoring procedures at the WPK concentrate solely on those aspects of the work which are apparent from mistakes in the financial statements and/or the respective auditor's reports.

It should be noted that for those systems which base their organisation of external quality control on a review of risk factors apparent in annual returns (i.e. the UK, Ireland, Belgium and France), the inspectors also cheek that proper data has been provided.

Review documentation

In all cases, the reviewers are required to bring their conclusions and findings together into a report, which will generally include recommendations (see page 22). The reviewers must also document their work using checklists, questionnaires and aide-memoires. In the Czech Republic, Denmark, France, Ireland, the Netherlands and the UK, the documentation is subject to independent review within the external quality control function, before reports are made available to the higher authorities.

In almost all systems, only the reviewers and the review bodies have access to the review documentation. The exceptions are in France and Portugal, where documents prepared during the reviews of audit engagements of listed companies are accessible to the respective stock exchange regulator, once the reporting process is complete.

Practices differ with respect to the time period for which this documentation is retained following central review, from 2 months in Belgium to 5 years in Denmark and Spain, and 10 years in the Czech Republic.

External quality control - the review team

Quality in the review teams

Those who conduct the external quality reviews are either employed full-time by the review body (Germany, Ireland, the UK and Spain) or are "volunteers" from the profession nominated and controlled by the review body (the other countries). In the Czech Republic, the reviews are led by practising professionals, but also involve personnel from the oversight body. For any particular assignment, the teams of reviewers are small, generally 1 or 2 people with sufficient experience to work autonomously. They are generally at partner level in their firms or, in the monitoring systems, are sufficiently experienced to carry out reviews alone or with very little supervision.

In all countries, reviews are conducted by, qualified auditors. In most cases, additional requirements are laid down to ensure that the reviewers have the necessary depth of professional experience to carry out the reviews. Thus, for example in Belgium, reviewers must have been registered on the list of statutory auditors for more than 7 years; in the Netherlands, reviewers are partners and exceptionally have one reviewer at senior manager level involved in the team; in Norway, the nominated professionals each have at least ten years experience in public practice.

The need for specialist input to the process depends to a large extent on the aim of the quality control system. Where the quality control system emphasises the checking of internal procedures and organisation of the firms, there is logically less need for the input of industry specialists, whilst other countries where the quality control is directed towards specific engagements usually appoint the reviewers according to their specific knowledge or experience.

Thus, in France for the quality control carried out at national level on the audits of listed companies, the reviewers are chosen according to their specific competence (banks, insurance). In contrast, Denmark and the Netherlands state that since the quality reviews are primarily based on the firms' internal control systems and not on engagements, specialist input is less relevant. In the UK and Ireland, although the systems are mainly directed towards the internal procedures and organisation of audit firms, inspectors have their own particular interests and specialities that can be called upon as required. However, all countries are realistically flexible on this issue and whilst some may not yet use the input of specialists, they could easily envisage using some if they felt the need.

In the majority of the countries surveyed, the reviewers receive relevant training, generally for a short period ranging from 1 day to 2 days. In the UK and Ireland, the inspectors undergo an induction process before they are allowed to visit alone and their progress is regularly monitored. The training of the reviewers generally aims at explaining the procedures and methodology of the review and the application of professional standards. All reviewers are also required to comply with their respective professional body's continuing professional education or development guidelines.

Ethical considerations

All countries stressed the need to ensure the objectivity of the reviewers, by respecting the same rules of professional conduct and ethics to which reviewers are (or would be) subject in their professional life in practice.

Furthermore, in order to deal with the specific risk which can occur from mechanisms where practising auditors review other practising auditors, countries have specifically put in place rules by which reciprocal reviews of audit firms are forbidden. Thus in Denmark the reviewers are not allowed to review each other's firms mutually. Similarly in Belgium, reciprocal peer review is not allowed nor is reciprocal review between partners in the same firm or review by a former partner. It is the same in Italy.

In the Netherlands, when putting together the review teams, the Practice Review Board also takes into consideration aspects that might influence the objectivity of the reviewers adversely (e.g. the region in which reviewers and reviewees operate). In the UK and Ireland, the professional staff of the monitoring units are required to provide annual confirmation of objectivity. In the Czech Republic the independence of the review team members, who are employees of the Chamber office, is assured by their status; the objectivity of the other members of the review teams is checked as they are elected at the Chamber's Assembly.

The confidentiality of client information is ensured by the fact that the reviewers are bound by the same rules of professional secrecy when conducting their reviews as they are in their professional life in practice. This is true for quality control systems which involve volunteers on a part-time basis as well as for monitoring systems. In the Netherlands and Slovenia, the reviewers have to sign a specific declaration of confidentiality. Minor exceptions exist: in Denmark, for example, the audit firm has the possibility to decide that confidential client information should not be included in the review.

External quality control - **the reporting process**

Preparation of reports

it is important that the results of an external quality control review are properly communicated. The procedure is similar for all systems: findings from a visit made to the auditor's office are discussed with the firm under review and a report is sent to the relevant professional body. The body considers the report and determines what action, if any, is to be taken. The auditor or audit firm under review is informed of the body's decision.

In keeping with the educational aims of the external quality control systems of most countries, it is common for the preliminary findings of reviews to be discussed and agreed with the auditor or audit firm. It is also usual, as part of the review process, for firms to be given help and guidance on improving their performance. The discussion process also enables auditors to clarify, and respond to, any problems that have arisen. For example, the Irish system of practice review allows for firms to discuss the preliminary findings with the reviewer and see the draft report before the final report is submitted to the Practice Review Committee for consideration.

A feature common to most systems is that the reviewer's report, once submitted to the institute, is initially considered by the relevant oversight committee without the reviewer, or the firm under review. being present. The professional bodies do, however, normally accept written representations from the firm under review and can also ask the reviewer to clarify or justify points in the report. If an audit firm in Denmark disagrees strongly with the findings of the reviewer, a second review may be ordered by the Quality Committee. However, wherever possible the reviewer is encouraged to get the agreement of the firm to the report.

Consideration of reports

Within the institutes, the reports are generally only available to the Committee which is primarily responsible for the oversight of the quality control review process (and disciplinary committees as appropriate, if serious problems are revealed). Indeed. it is often only contentious or critical reports which are considered by the review oversight committee within each professional body. In Belgium and France (at regional level) reports are passed to the Councils of the institutes because it is the Council which makes the final decision on the report. Reports on auditors in France will also be passed to the local review committee and the President of the auditor's Regional Institute.

The system at national level in France is different. For reviews of audit files of listed companies, the meeting of the Comité d'Examen National d' Activité of the professional institute (CENA) to consider a report is attended by the reviewer, the audit firm and technical advisers. The President of the audit firm's Regional Institute also has the right to attend the meeting. The audit firm will already have been told by the reviewer what is to go into the report and will have had an opportunity to make written comments. The agreed findings are then passed to the stock exchange regulator, the Commission des Opérations de Bourse (COB), again in the presence of the audit firm, the reviewer and a member of CENA. The COB issues its own written opinion on the files; the COB may subsequently contact the audit firm or the directors of the company concerned.

Both the UK and Irish monitoring systems (other than ICPAI) rate reviews from "A" to "D", with an "A" report being the optimum. Both "A" and "B" reports are considered satisfactory, although a "B" report indicates that a firm can improve its performance. "C" reports are less than satisfactory and require improvements to be made. "D" reports indicate fundamental problems and are referred to the relevant committee for regulatory action. Standard reports in the Netherlands and in Slovenia are categorised as: satisfactory; satisfactory but improvements are recommended; or unsatisfactory. In France, although no formal rating system is used, there is a standard wording for recommendations based on the seriousness of the findings.

In Norway, the result of the review can be either that no further action is required, that improvements should be made (in which case the firm must prepare an action plan and the institute may require a follow-up visit to be made) or that there are material deficiencies and the case should be passed to the Disciplinary Board. Referral to the Disciplinary Board also occurs where a firm has failed to produce an appropriate action plan when requested, to demonstrate how deficiencies will be corrected.

The Commission de Surveillance in Belgium, the Chamber of Auditors in the Czech Republic and the WPK in Germany do not issue a formal rating on their enquiries. After committee consideration, the file may be closed or it may be passed to the Council of the institute for further investigation and possibly disciplinary action. Once the matter is closed, the member is informed by letter.

The time taken to issue the final report varies widely across Europe. It ranges from one week in Portugal, Denmark and Ireland ICPAI and two weeks in Spain, up to several months in I` France where as explained previously there is a process of formal exchange of views to complete. In France, reviews undertaken regionally can extend up to eight months and reviews of listed company audit files extend between six to nine months. In some respects, this delay "from start to finish" in the process reflects the nature and extent of the professional body's own internal quality control systems which ensure that all firms are treated equally, plus the body's individual administrative processes.

Detailed reports incorporating the oversight committee's conclusions are normally made available to the audit firm. Exceptions are in the UK, Ireland and Italy. In the case of visits conducted by the JMU and IMU in the UK and Ireland, detailed final reports are only sent to the audit firms with listed clients or where the review is rated "D". (ACCA and AAPA in the UK send reports to every firm following a monitoring visit). The contents of reports rated "A" to "C" will have been discussed fully with the firm before the report is issued. Similarly in Italy, final reports are only sent to the firms when they contain reservations. In only a few instances are individual review reports made available externally - to the French, Italian and Portuguese stock exchange regulators respectively, as concerns listed companies.

In all countries, each report on an audit firm is considered on its merits. There is no system which requires reports to be referred automatically to the professional body's disciplinary organ. However, a referral will always be made where it is considered that the deficiencies identified within an audit firm are sufficiently serious. Referrals are almost always made where a followup review shows that a firm has failed to implement the required improvements to correct serious deficiencies.

The process of sanctions

The complaints investigation and disciplinary functions operated in European accountancy bodies are not, of themselves, part of the process of external quality control. However, sanctions (normally imposed through the disciplinary organs in each institute) can be an important conclusion to the quality control process. They are, however, normally used only as a last resort either because of serious breaches of standards by firms or where attempts to improve a firm's performance have failed.

The sanctions on auditors for poor performance can generally be imposed at two levels - firstly, in terms of an auditor's registration under national legislation implementing the 8th Directive and secondly, as a member of the professional body. In the later case, this would be handled under that body's disciplinary code and is therefore outside the scope of this paper. Depending on the degree of delegated regulation in the country concerned, sanctions on audit activities might be imposed by a government agency (for example, by ICAC in Spain). In Germany, the quality review and disciplinary functions are both handled directly by WPK.

The emphasis of the sanctions imposed by professional bodies in regard to audit external quality control activities is to encourage the auditor to improve his performance, thus raising the standard of work generally. Commonly, auditors are required to confirm to their professional body that they have, or will, implement the recommendations for improvements which form part of the report on their firm. Where the recommended improvements are extensive, often the professional body will require the firm to undergo a second review to ensure that the improvements have been made. The Practice Review Board of NIVRA in the Netherlands, for example, sets firms a deadline for implementing changes after which a follow-up visit will take place. A requirement to undergo further training is also a typical sanction.

The sanction available in France for audits of listed companies is to require a further review to be carried out, normally after two years (or one year, by exception). This will be used where the review indicates that insufficient audit work had been carried out and the audit opinion was not supported by the evidence, or where the financial statements do not conform to accounting standards, with an inappropriate audit opinion. In addition, the stock exchange regulator, on reviewing the file, may note its objection to the auditor continuing with the audit. The Regional Council may be asked to take disciplinary action against the auditor. Disciplinary sanctions can also be imposed by an independent body attached to the Ministry of justice.

Although initially the sanctions imposed will stress the importance of the firm raising the standard of its audit work, more stringent sanctions can and will be imposed. The type of sanctions range from public warnings to suspension from the institute. In the Czech Republic, Ireland (ICPAI), Portugal and the UK (ICAEW), the professional bodies have the right to fine firms in breach of regulations, and there is often accompanying publicity. Withdrawal of audit registration is, of course, the ultimate sanction.

Public reporting

A number of professional bodies produce reports on their external quality control activities, either for internal use or for general publication. These reports cover the work undertaken by the bodies and the results of the review process.

The institute in France publishes an annual report for general distribution and NIVRA in the Netherlands publishes a report in its Journal annually. Internal annual reports are produced for the FSR in Denmark; distribution in Portugal is to the stock exchange regulator and to all statutory auditors. An annual report is also produced in Norway to the NSRI` Board and the members of NSRF The Czech Republic publishes regular reports in the Chamber's own magazine "Auditor" In Germany, an annual report on the monitoring function is made available to members of the WPK and to the public in a supplement to the WPK magazine Wirtschaftsprüferkammermittellungen.

Annual reports to government agencies are produced in Ireland, Portugal, Slovenia and the UK. The Slovenian institute, for example, reports to the Parliament on the results of its quality review procedures once a year in connection with its overall reporting requirement. In the UK, reports are laid in the House of Commons library, made available publicly and used as educational tools. Details of the UK reports, which highlight many of the common problems found during monitoring visits, are also brought to the attention of all statutory auditors.

The UK professional bodies are currently discussing the formation of an independent Review Board. This will demonstrate the way in which the accountancy bodies take account of the public interest, by open oversight of the existing monitoring systems.

Overview of national regulations

AUSTRIA

Only a professional with the title of Wirtschaftsprüfer is entitled to perform any statutory audit, a Buchprüfer may not audit a public company. The auditing profession is regulated by the Law Regulating the Profession of Wirtschafts-treuhänder (WTBO) All Wirtschaftsprüfer and Buchprüfer are compulsorily members of the Kammer der Wirtschaftstreuhänder, which supervises the professional activity of auditors and audit firms. Wirischaftsprüfer are, in addition, voluntarily organised in the Institut Österreichischer Wirtschaftsprüfer.

The Kammer der Wirschaftstreuhänder has the power to enforce disciplinary procedures based on strict regulations for all members. It also, through its sub-body Fachsenat für Handelsrecht und Revision", issues guidance on accounting issues and auditing standards. One standard addresses specifically the way to ensure the internal quality of audits (Richtlinie zur Gewährleistung der Prüfungsqualität des Fachsenats für Handelsrecht und Revision vom 14.3.1990).

The major quality control effort is thus concentrated on procedures internal to the firms. However, the Institut notes that 62 of the 89 Austrian listed companies are audited by a Big Six audit firm and, for these firms, internal monitoring takes place as a form of external control, based on the international firm's requirements. There are currently no requirements or plans for external monitoring or peer review by the regulator or professional body.

BELGIUM

In Belgium, statutory audits must be carried out by Réviseurs d'Entreprises (Bedrijfsrevisoren). All statutory auditors are members of the Institut des Réviseurs d'Entreprises, and the profession is under the jurisdiction of the Minister of Economic Affairs. The Minister is assisted by the Higher Council for Audit and Accountancy, whose main function is to give advice or recommendations to the Institut. The Higher Council also has the right to request, via the Commission de Surveillance of the Instilut, specified external monitoring reviews of its members.

The Institut des Réviseurs d'Entreprises takes considerable pride in the peer review procedures it has adopted to deal with potential disciplinary reviews and, more notably, with systematic external quality control of the Belgian statutory audit profession.

The peer review function is supervised by the Commission de Surveillance contrôle confratenel, which can call upon over 100 nominated professionals appointed by the Council of the Institut, to perform the reviews. These nominated professionals must have at least 7 years experience in statutory audit to perform the peer review., the Council also checks that they fulfil all conditions to carry out the task, and ensures objectivity with respect to the firm reviewed. All nominated professionals receive training at the Institut before they perform a review, reciprocal peer reviews and peer reviews between present or former partners of the same firm are not permitted.

The appointed statutory auditor issues a report, which he first discusses with the auditor under review and then forwards to the Chairman of the Commission de Surveillance. The overall conclusions of the external quality control are reported to the Council of the Institut, for discussion as to any necessary action.

CZECH REPUBLIC

Statutory auditors, whether individuals or firms, are registered with the Chamber of Auditors in the Czech Republic ("the Chamber"), in accordance with the 1992 and 1996 Laws on Auditors and the related Guideline for Supervision of the Activity of Auditors issued by the Chamber in 1995. The Chamber is a self-regulating professional association.

Under the Auditors Law, it is the Chamber's duty to supervise auditors' activities. This is performed by the Chamber's elected body, the Supervisory Commission, and by the Chamber's Department of Auditors Work Supervision. These bodies can initiate inspections of audit work and launch investigations based on complaints received.

Each half year, the Supervisory Commission prepares and approves a series of "planned spot inspections",. investigations as a result of complaints are made in addition. Such external quality control monitoring is conducted in each case by a member of the Commission (a professional in practice) plus employees from the Department of Auditors Work Supervision.

DENMARK

Statutory audit is performed by: Statsautoriserede Revisorer (State Authorised Public Accountants) who are organised in the Foreningen at Statsautoriserede Revisorer (FSR), and Registrerede Revisorer (Registered Accountants) who are organised in the Foreningen at Registrerede Revisorer (FRR). The majority of the audit market is accounted for by State Authorised Public Accountants. In order to practise, the statutory auditor must be licensed or registered with the Danish Commerce and Companies Agency, an agency of the Ministry of Business and Industry.

In 1994 FSR introduced arrangements for external quality control of its members in accordance with Danish Auditing Standard 4 ("Quality control in professional accountancy firms") Both firms and individual practitioners may be subject to review visits which are carried out by other accounting firms - i.e. peer review. Mutual review is not allowed. The work is supervised by FSR's Quality Control Committee which derives its authority from the Institute's statutes and Rules on Quality Control.

FRR has introduced external quality control from January 1998. The mechanisms will be very close to those existing in FSR and will be primarily directed towards firms. Reviewers will receive specific training to be accredited by the Institute. The work will be supervised by FRR's Quality Control Committee.

FINLAND

The two types of statutory auditors in Finland are the KHT-auditor (authorised by the Central Chamber of Commerce) and the HTM-auditor (approved by a local Chamber of Commerce). HTM-auditors may only audit large or listed entities if working in association with a KHT-auditor. Each has its own professional association, the KHT-yhdistys and HTM-yhdistys, respectively. All KHT and HTM auditors are registered with the Ministry of Trade and Industry, and within that supervised by the State Auditing Board. In addition, auditors are regulated and their competence is evaluated by the Auditing Board of the Central Chamber of Commerce and the Auditing Boards of the local Chambers of Commerce, respectively.

KHT-yhdistys has, from 1 January 1998, introduced a peer review system for a test period of two years. The review is directed to both audit firms and individuals. The Auditing Board of the Central Chamber of Commerce has agreed that it is the duty of the professional institute to organise external review of audit quality.

HTM-yhdistys is also introducing a system of external quality control. This system will focus more on the educational aspects of quality control.

FRANCE

The statutory audit function is carried out by "Commissaires aux Comptes". The statutory auditor profession in France has its legal organisation, the "Compagnie Nationale des Commissaires aux Comptes" (CNCC), which is the professional body of statutory auditors and has relational links with the Garde des Sceaux (Ministry of Justice). The registration procedure and the Disciplinary Committee are under the responsibility of the Ministry of Justice.

Geographically, each statutory auditor or firm of statutory auditors is registered with a regional institute - "Compagnie Régionale des Commissaires aux Comptes" (CRCC). The CNCC co-ordinates the activities of all the CRCCs.

The Regional Councils are responsible for a well-developed peer review system for statutory auditors registered with the CRCC. The Regional Council selects statutory auditors to carry out the quality control; they are called "contrôleurs article 66" following the section of company law which regulates the statutory audit profession. Each Regional Council appoints a member of the Board of the CRCC to supervise the control function at regional level. Reviews are directed towards individual statutory auditors who are registered personally on the list of the Regional Council, although attention is also paid to the organisation of the audit firm in which they practise.

Resulting from an agreement between the stock exchange regulator (COB) and the CNCC, at national level, a separate external quality control function is directed at listed companies, and thus concerns all statutory auditors of the listed company under review. The process is also one of peer review, supervised by the "Comité National d'Examen d'Activité" (CENA) of the National Council of the CNCC. The "Ordre des Experts-Comptables" (OEC) has also implemented a system of external quality control to monitor the other regulated activities in France (compilation and review of financial statements, contractual audit).

The statutory auditors who perform the reviews must have 10 years experience in the statutory audit of listed companies. Permanent staff of the CNCC are in charge of planning the reviews and reviewing the conclusions. Reports are then discussed during a meeting at the CNCC between the statutory auditor under review, the statutory auditors who performed the review, the CENA and the CNCC staff. The CENA reports to both the CNCC and to the COB, therefore combining an internal and external reporting. Furthermore, each year, a summary of the remarks and conclusions of the activity of the CENA is published.

GERMANY

The German auditing profession comprises Wirtschaftsprüfer and vereidigte Buchprüfer, although the latter are not allowed to audit puUic or large companies. Both types of professionals must be members of the public law chamber, the Wirtschaftsprüferkammer (WPK). The WPK is the supervisory body of the auditing profession in Germany and is supervised itself by the Federal Ministry of Economics. In addition, Wirtschaftsprüfer are voluntary members of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW), an independent, nonprofit organisation under private law (without governmental supervision). The IDW provides auditing standards and guidance on accounting issues.

The professional bodies have issued a joint statement "Quality Control in the Audit Firm", which focuses on internal quality control. The policies and procedures to be implemented in accordance with this statement cover all services rendered by the professionals (auditing, tax, other consulting services). According to the bye-laws of the IDW, members are obliged to observe this statement. Additionally the WPK has issued a professional law, which comprises the duties of all Wirtschaftsprüfer and vereidigte Buchprüfer in connection with statutory audits.

The WPK has the legal responsibility to supervise the professional duties of its members. This supervision is mainly performed through systematical review of published financial statements and auditors' reports. Full time employed personnel of the WPK carry out about 14,000 reviews of financial statements and auditors' reports per year to identify any breach of legal requirements.

Most of the deviations from accounting and auditing regulations detected by the WPK result in enquiries to the responsible auditor, who is obliged to provide the WPK with the requested information. The review of the answers given by the auditors enables the WPK to decide what further evidence is required in order to assess whether the audit engagement was conducted in accordance with generally accepted auditing principles and whether the organisation of the audit firm is appropriate in the circumstances,

The auditors have the duty to appear personally at the WPK in connection with matters regarding supervision and complaints, if summoned for a hearing. Upon request, they are additionally obliged to submit their working papers, unless this would result in an infringement of the auditor's duty of professional confidentiality. In the case that a violation of professional duties is assessed by the WPK, the WPK may apply disciplinary cautions or has - in severe cases - to refer the matter to the public prosecutor. The WPK prepares a yearly report on the results of its monitoring procedures.

In addition to this monitoring system, the WPK and IDW are currently discussing the implementation of a quality review system, to provide a supervision of its members by direct (on-site) review of the organisation of the audit firms and the performance of selected audit engagements. However, questions regarding the stringent German confidentiality rules have yet to be resolved.

GREECE

The Greek Institute of Certified Auditors - "Soma Orkoton Elegton" (SOE) is the official body of the auditing profession. SOE is governed by a seven-member Supervisory Council, which is elected from the general assembly of certified auditors. In effect this Supervisory Council has authority to regulate the profession within the framework of the law, and to monitor the activities of the registered members. It specifies professional and ethical standards, and has the power to strike members from the Register. SOE has recently undergone a major reorganisation, and is now currently addressing matters of standards and regulation for the future. The requirements concerning quality control have yet to be finalised.

IRELAND

A Registered Auditor may be a sole practitioner, an individually registered principal in a partnership or company, or a partnership, but must be a member of a recognised body of accountants. The five professional bodies recognised by the Department of Trade, Enterprise and Employment (under the authority of the Companies Act 1990) are: the Institute of Chartered Accountants in Ireland (ICAI); the Institute of Certified Public Accountants in Ireland (CPAI); the Institute of Chartered Accountants in England and Wales (ICAEW); the Institute of Chartered Accountants of Scotland (ICAS); and the Association of Chartered Certified Accountants (ACCA).

As in the United Kingdom, Registered Auditors are regulated by their professional bodies, each of which must have a system for investigating and enforcing compliance with its rules, including the conduct of company audit work. The professional bodies control registration of statutory auditors and monitor compliance with the Audit Regulations. They have wide-ranging powers to take disciplinary action and in extremis to withdraw the auditor's registration.

The ICAI grants audit registration to firms that conduct audits in either the Republic of Ireland or in the three jurisdictions within the Republic of Ireland, Northern Ireland and Great Britain. Accordingly, it has two different review regimes based on the type of audit registration held by the firm. For those firms registered to perform audits in all three jurisdictions, the full monitoring system as described for the UK is applicable, regardless of whether the firm is located in the Republic of Ireland or in the UK. At the time the Companies Act 1990 came into force in the Republic of Ireland, Government decided that the system of practice review by the ICAI for all its member firms would be acceptable and that it was not necessary to introduce a statutory monitoring requirement. All firms registered as auditors by ICAI, regardless of location, are subject to practice review. In addition, all those firms holding audit registration for all three jurisdictions are subject to an additional monitoring requirement, imposed by statute.

External quality control procedures are, in all cases, via monitoring by full-time employees. Systematic monitoring of ICAI members' work is delivered by way of `practice review" - conducted by the Irish Monitoring Unit (IMU), and review reports are considered by the ICAI Practice Review Committee. The IMU maintains close links with the UK's JMU. The Practice Review Department of the ICIPAI also carries out its own "in-house" monitoring.

ITALY

There are two types of audit activity in Italy, involving different professional bodies:

Board of Statutory Auditors ("Collegio Sindacale")

The Board of Statutory Auditors, composed of individual registered auditors, is an independent supervisory body established by law for companies subject to the audit regulations of the EU 4th Directive. The auditors' work focuses on supervision of company administration and the activities of the directors.

The procedures to be performed are set out in law and, for the national professional bodies' members, are in accordance with the "Principles of professional behaviour of the board of auditors". The professional accounting bodies are the Consiglio Nazionale dei Dottori Commercialisti and Consign Nazionale dei Ragionieri. The Register of Auditors comprising members of these two bodies is regulated by the Ministry of Justice.

There are currently no requirements for these statutory auditors to be subject to independent external quality review, either by the professional bodies or by other auditors. The possibility of the Ministry of Justice delegating quality control supervision to the professional bodies is still under discussion,- the Joint Commission (of Dottori Commercialisti and Ragionieri) for Auditing Principles is currently preparing a document on quality control of auditing.

Regulated Auditing Firms

Listed companies must be audited by regulated auditing firms registered with the stock exchange regulator, CONSOB, which has responsibility under the law for supervising the technical competence, organisation and objectivity of such audit firms (of which there are 24). This process is additional to the statutory audit requirement described above. CONSOB maintains overall supervision in relation to quality control and can request information from firms or perform investigations.

Separately, the private trade association of the 14 largest audit firms, ASSIREVI, operates its own self-regulatory system of peer review quality control. Visits are made to each firm every two years', reviews are conducted by other professionals selected by the ASSIREVI Council.

LUXEMBOURG

In Luxembourg, statutory auditors qualified in accordance with the requirements of the 8th Directive are "Réviseurs d'Entreprises" (RE); all are members of the "Institut des Réviseurs d'Entreprises" (IRE). The Minister of Justice is responsible for all questions regarding admission to the profession of statutory auditor, for the acquisition of the title and its withdrawal.

In 1995, the Institut established a Commission to implement a system of external quality control. In 1997, the Commission carried out a "horizontal quality control review" for all IRE members. This consisted of distributing a questionnaire to all IRE members inviting them to carry out a self-assessment of their internal quality control procedures as included in ISA 220: professional requirements., skills and competence., staff assignment and delegation, assignment monitoring; consultation., and acceptance and retention of clients.

The completed questionnaires were analysed by the Commission, whose representatives visited each IRE member to discuss his particular situation and to assess whether the internal quality control procedures in place are sufficient to meet the particular business requirements of the member. As a follow-up to this first step, the Council of IRE has decided to implement a system of peer review.

THE NETHERLANDS

There are two categories of auditors within the Dutch accountancy profession: the Registeraccountant (RA) and the Accountant-Administratieconsu lent (AA). Both are regulated by law, and each has its institute, the "Koninklijk Nederlands Instituut van Registeraccountants" (Royal NIVRA) for RAs and the "Nederlandse Orde van Accountants-Administratieconsulenten " (NOvAA) for AAs Since 1993, AAs who have met additional education requirements may perform statutory audits.

Identical rules on professional conduct for the two professional bodies came into force in 1995. The independent disciplinary procedure is exercised in the first instance by the Disciplinary Boards. In addition, an appeal may be brought before the Regulatory Industrial Organisation Appeals Court.

There was no requirement for any external quality control reviews until 1997, when NIVRA set up a Practice Review Board charged with safeguarding the quality of the services provided by the RAs. Its peer review system came into force in January 1997. The Practice Review Board appoints the reviewers who are partners or senior managers in audit firms. Any aspects that might adversely influence their objectivity are taken into consideration before appointment. The review is primarily directed towards audit firms, i.e. the firm's internal quality control systems are subject to the review.

After the review, the appointed RAs issue a report with their opinion and recommendations (it applicable), this is forwarded to the Practice Review Board. Reports are discussed in the Board meetings. When a follow-up review shows that serious deficiencies revealed by a previous review have not been corrected, the Practice Review Board informs the Board of NIVRA with the advice to lodge the case with the Disciplinary Board.

NOvAA is also planning to develop a system of external quality control.

NORWAY

In Norway, there are two categories of statutory auditors, both licensed by the Kredittilsynet (the banking, insurance and securities commission) which is also the supervisory body for auditors under the Ministry of Finance. Accordingly, there are two separate institutes for statutory auditors: Norges Statsautoriserte Revisorers Forening (NSRF), for State Authorised Public Accountants and Norges Registrerte Revisorers Forening (NRRF) for Registered Accountants. Members of NRRF may only perform statutory audits of SMEs All statutory auditors (firms and individuals) are registered with the regulator (Kredittilsynet), which performs its own quality control of the two categories of statutory auditors, mainly as a reaction to complaints, but also controls of a general nature.

In 1991, the \ISRF decided to introduce an external quality control system, with the objective of monitoring the performance of statutory audits of its members. The current system is directed towards the individual auditor who is a member of the NSRF and, since 1993, is compulsory for all NSRF members. All members acting as statutory auditors are subject to peer review over a period of 5 years, by one of 20 nominated auditors, each with at least 10 years experience in public practice. After the 5th year, in 1998, the system will be evaluated and possible changes in the external control procedure may be decided.

NRRF has also had a system of external quality control in place since 1993. 11 functions on the basis of volunteers work. As in the case of NSRF the current system is directed towards the individual auditor who is member of the NRRE The review covers the procedures of the firms; however, as in the case of NSRF, sanctions are ultimately directed towards individual members. In 1993, out of a total of 535 registered members who were responsible for audits, 124 were reviewed, which gives a cycle of 5 years to review ail members. The reviews were performed by 12 reviewers.

PORTUGAL

In Portugal, the statutory audit function is carried out by "Revisores Oficias de Contas" (ROC). Statutory auditors are members of the "Câmara dos Revisores Oficiais de Contas" (CROC), which is the professional body in charge of the supervision of the audit profession. It is also responsible for all questions regarding admission to the profession, discipline, auditing standards, quality control and the code of ethics.

In 1993, the Chamber established a Commission to implement a system of external quality control, the "Comissão do Controlo de Qualidade" (CCQ). The peer review system came into force in 1994 and was at first primarily directed towards the audit firms registered with the stock exchange regulator, "Comissão do Mercado de Valores Mobiliarios" (CMVM). With the objective of monitoring the performance of all statutory audits, the external quality control system has subsequently been expanded to all members of the CROC.

The reviews to be carried out in 1998 will cover 15% of the total registered auditors and will be done by one of 30 reviewers, who must have more than 5 years experience in statutory audits.

After the review, a report is issued by the appointed reviewer and submitted to the CCQ which informs the Board of the CROC to take the appropriate actions, if any. Copies of the reports issued on listed companies are also addressed to the stock exchange regulator (CMVM).

ROMANIA

Statutory auditors are members of the Body of Expert and Licensed Accountants in Romania - CECCAR. Audit is compulsory under law for all limited liability, joint stock and state-owned companies.

In 1996, a decision was made by the National Conference of CECCAR to set up an external quality control system to monitor individual auditors and firms. The authority for monitoring comes from the 1994 Law on the Organisation and Functioning of CECCAR. In relation to statutory audits of public and state-owned companies, CECCAR co-operates with the Ministry of Finance.

Each statutory auditor is the subject of peer review once every five years,- this is performed by national auditors and local auditors operating in each of the 41 branches of CECCAR.

SLOVENIA

Licensed certified auditors are compulsorily members of the Slovenian Institute of Auditors, which was founded by the private Association of Accountants, Treasurers and Auditors. However, following the Slovenian Audit Act (1993), the institute is now an autonomous and independent organisation. The audit committee of the Slovenian Institute of Auditors is responsible for external quality control of the profession which started in late 1996. Peer review visits cover both individual auditors and firms. A project under PHARE funding covers, inter alia, the quality review system in Slovenia. Guidelines for operating of audit firms' have been prepared by the Institute in cooperation with the British ACCA. In 1995 the Audit Committee issued the "Charter for the monitoring of audit firms and auditors".

SPAIN

Statutory auditors are members of one of three professional bodies which act independently of each other:

• Instituto de Auditores-Censores Jurados de Cuentas de España ("IACJCE")

• Registro de Economistas Auditores ("REA")

• Registro General de Auditores ("REGA")

In 1988 the law regulating the auditing profession created the Instituto de Contabilidad y Auditoria de Cuentas " (ICAC) which is an autonomous organisation linked with the "Ministerio de Economia y Hacienda" (Ministry of Finance).

ICAC acts as the regulator of all auditing and accounting practices in Spain. It is in charge of the maintenance of the "Registro Oficial de Auditores de Cuentas" (ROAC), the official register of auditors, and has overall disciplinary power and responsibility over the statutory audit profession.

Under the 1988 Auditing Law, although the ICAC is responsible for performing official technical controls of audits, the professional bodies referred above have been delegated the responsibility to perform external quality control over the professional activities of their members. The ICAC is responsible for sanctioning.

IACJCE carries out a monitoring function using three full-time employed staff. The review is directed towards individual auditors and audit firms. After the review, a report with the findings and recommendations is issued. If the review shows significant deficiencies, the report is forwarded to the Ethics Committee of the IACJCE.

The monitoring functions of REA and REGA are, in principle, similar to that of IACJCE. They use respectively two full-time and two part-time employed staff.

SWEDEN In Sweden, the statutory audit profession consists of two bodies of professional accountants:

- "Auktoriserade Revisorer" (AR), authorised public accountants, a profession with full statutory audit rights. Most ARs are members of Föreningen Auktoriserade Revisorer (FAR).

- "Godkända Revisorer" (GR), approved public accountants, who cannot perform the statutory audit of public and other large companies. Most GRs are members of the Svenska Revisorsamfundet (SRS).

Both qualifications are issued by Revisorsnämnden, the Supervisory Board of Public Accountants. Revisorsnämnden regulates the profession by issuing regulations and by disciplinary actions. It can reprimand auditors and, in severe cases, withdraw the qualification. In addition, SRS has its own Disciplinary Committee which can investigate alleged professional inadequacies and decide on sanctions, such as reprimand or expulsion.

Auditing standards ("good auditing practice") - as well as ethical rules - are developed, codified and published by FAR. Revisorsnämnden to a large extent relies on the standards of FAR, but has preferential rights of interpretation in cases of disagreement. The decisions of the Board can be appealed to administrative courts. In some recent litigation cases courts of justice also have based their decisions on FAR auditing standards. External quality control is carried out by each Institute and by the legal body, Revisorsnämnden.

In February 1997, FAR decided in its general assembly to impose an external quality control system and to establish a new body, the Quality Board, elected by the members which will be in charge of the system and answer directly to the assembly. Presently the Quality Board is implementing the peer review process, which will rely on qualified auditors who have been members of FAR for at least ten years. The review will be primarily directed to audit firms. If, following a second review by the Quality Board, the member under review has not significantly corrected the criticised points, the case will be handed over to the Council of FAR, which can expel a member who breaches his statutory duties. However, this does not mean that the qualification as an authorised public accountant ceases; that action and decision has to be taken by Revisorsnämnden.

Since 1994 SRS on a voluntary basis has conducted peer reviews directed towards individual auditors. SIRS is expected to take a decision at its general meeting in June 1998 to implement a mandatory external quality control system for all members. The system will be similar to the peer review system implemented by FAR, except that it will be directed primarily to the individual auditor and local offices and not primarily to the audit firm as in the FAR system. On a linear basis through the period, all members of SRS will be subject to the external quality control every five years.

Revisorsnämnden, the governmental authority, set up by law, consists of a chairman and 8 members, all appointed by government. Two of the members are public accountants nominated respectively for FAR and SRS. The quality control by Revisorsnämnclen has historically been based on incoming complaints or notifications and by random selection. At the beginning of 1997 - in compliance with the Auditor's Act - Revisorsnämnden in addition started to implement a systematic external quality control in the form of monitoring, which is primarily directed towards the individual auditor. The selection is systematic over a five year period based on a variety of risk factors. The staff of Revisorsnämnden are responsible for carrying out the reviews. Sanctions, if any, are imposed by the Revisorsnämnden itself.

SWITZERLAND

In Switzerland, statutory auditors of companies meeting certain size criteria must have particular qualifications. In practice, this means that in most cases they are members of the "Treuhand-Kammer/Chambre-Fiduciaire" (Swiss Institute). The Swiss Institute has not introduced a formal external quality control function and there are no plans to do so in the foreseeable future. It does, however, operate a process which requires that a detailed questionnaire on clients, staffing, fees, education, insurance etc is submitted every five years and is formally assessed in the context of Institute membership.

UNITED KINGDOM

A Registered Auditor may be a sole practitioner, an individually registered principal in a partnership or company, an incorporated body or a partnership. The statutory requirement for appointment as company auditor is membership of a recognised supervisory body (RSB). The five RSBs recognised by the Department of Trade & Industry (under authority of the Companies Act 1989) are: the Institute of Chartered Accountants in England and Wales (ICAIEW); the Institute of Chartered Accountants in Ireland (ICAI); the Institute of Chartered Accountants of Scotland (ICAS); the Association of Chartered Certified Accountants (ACCA), and the Association of Authorised Public Accountants (AAPA).

Auditors are regulated by their RSBs, each of which must have a system for monitoring, investigating and enforcing compliance with its rules, including the conduct of company audit work. The RSBs control registration of statutory auditors and monitor their compliance with the Audit Regulations. They have wide-ranging powers to take disciplinary action and in extremis to withdraw the auditor's registration.

The ICAEW, ICAS and ICAI have each delegated responsibility for audit regulation to an Audit Registration Committee composed of institute members and non-members. Monitoring functions are delegated by the three institutes to the Joint Monitoring Unit (JMU), a separate limited company owned by the institutes and which employs its own staff. Monitoring is therefore conducted by an independent agency - not by peer review. The JMU reports on its monitoring work to the appropriate institute's Audit Registration Committee which makes regulatory decisions regarding a firm's continuing registration.

ACCA's Monitoring Unit regulates practitioners undertaking three regulated activities: audit, investment business and insolvency. Monitoring services are provided not only for members of ACCA but also AAPA and solicitors undertaking insolvency work. The Monitoring Unit reports to an Authorisation Committee, which includes lay members, and which makes regulatory decisions regarding individuals' and firms' continuing registration.

In practice the monitoring is carried out in much the same way in all the UK RSBs. All registered auditors have to complete annual returns and submit them to their respective monitoring body. The returns address compliance with the RSB's rules and are checked by the monitoring bodies. In addition to this, the monitoring bodies make regular visits to all registered auditors.

The accountancy bodies in the UK are currently discussing the formation of an independent Review Board which will, inter alia, oversee the setting and enforcement of standards across the regulated areas (audit, investment business and insolvency). The Review Board will demonstrate the way in which the accountancy bodies take account of the public interest, by open oversight of the existing monitoring function.

Background population statistics

The following statistics, by country, provide an overview of the profession and its responsibilities. Unfortunately, they are not always presented on a comparable basis because the differing regulatory regimes for audit in Europe focus on different requirements (e.g. registration of individual auditors or registration of audit firms). Reference to the footnotes is therefore important.

Appendix B1 gives estimates of the total number of entities on which a statutory audit report is given; the figures include limited liability companies, stock corporations and cooperative associations as well as public sector companies, non-profit organisations and other entities. The number of locally listed companies (all of which have an audit requirement) is also included. As an indicator of the capacity of the national economies, the gross domestic product at market prices - as far as available - is given.

Appendix B2 shows the number of statutory auditors and audit firms. In several countries the auditing profession consists of two different groups of auditors. one which is fully licensed to carry out all statutory audits, and one with limited licence. In most cases the auditors with limited licence have only the right to carry out statutory audits for those companies which do not exceed certain size criteria.

To give an overview of the structure of the auditing profession**, Appendix B3** contains an analysis of audit firms by size criteria (i.e. the number of audit firms which employ 1, 2-5, 6-20 and more than 20 auditors), where this information is available. Audit firms are defined as legal entities authorised to perform the duties of statutory auditors irrespective of their legal form (corporations, limited liability companies etc.) as well as partnerships and other associations of auditors. In some (but not all) countries, audit firms are defined as including sole practitioners.

B 1

NUMBER OF ENTITIES WITH STATUTORY AUDIT REQUIREMENT

Country	Gross Domestic Product at Market Prices Billion ECU 1996	1995	Number of Entities with Statutory Audit Requirement	Number of Domestic Companies listed on the Stock Exchange
Austria	179,8		3.400	89
Belgium	208,5		16.000	152
Czech Republic		37,8	22.000	96
Denmark	137,3		90.000	270
Finland	97,7		18.800 (a)	111
France	1211,4		200.000	704
Germany	1854,4		45.000	681
Greece	96,8		4.000	230
Ireland	55,3		160.000	90
Italy	956,4		130.000	239
Luxembourg	13,8		2.000	282
Netherlands	309,3		30.000	364
Norway		114,7	165.000	195
Portugal	82,2		14.000	208
Romania		27,3	16.000	-
Slovenia		14,3	1.600	38
Spain	458,2		22.000	580
Sweden	197,1		300.000	250
Switzerland	229,7		160.000	200
United Kingdom	935,9		500.000	2300

(a) For Finland, this represents the number of entities required to be audited by a licensed (i.e. KHT or HIM) auditor.

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NUMBER OF REGISTERED AUDITORS

Country	Full licence auditors		Limited licence auditors		All auditors	
Individual Auditors		Audit Firms	Individual A-----	Audit Firms	Individual Auditors	Audit Firms
Austria	676	343	321	71	997	414
Belgium (a)	933	243			933	243
Czech Republic	1201	928			1201	928
Denmark (b)	2000	451			2000	451
Finland (a)	595	20	1114	27	1709	47
France (a)	13160	2478			13160	2478
Germany	8707	6168	4217	3360	12924	9528
Greece (a)	416	32			416	32
Ireland (c)	1870	1182			1870	1182
Italy - statutory (a)	70632	170			70632	170
Italy - listed		24				24
Luxembourg	270	79			270	79
Netherlands	5984	775			5984	775
Norway (a)	1647	234	2366	222	4013	456
Portugal (a)	766	135			766	135
Romania	9800	448			9800	448
Slovenia	133	41			133	41
Spain (d)	15347	5375			15347	5375
Sweden	2350	700	2200	800	4550	1500
Switzerland	2900	645			2900	645
United Kingdom	22123	12641			22123	12641

(a) Audit firms do not include sole practitioners.
(b) Excludes "registered public accountants" in Denmark who are not members of FSR.
(c) In Ireland, audit registration is accorded to firms rather than to individuals., the total number of firms

includes 539 audit firms authorized to perform statutory audits in the UK.

(d) The Spanish figures include 9683 individuals who in practice do not perform statutory audits.

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AUDIT FIRMS BY SIZE

Country	Total Number of Firms	Analysis of Audit Firms by the Number of Auditors within the Audit Firm: 1	2-5	6-20	> 20
Austria	414	ill	229	61	13
Belgium	243	151	72	14	6
Czech Republic	928	740	150	30	8
Denmark	451	312	98	29	12
Finland (a)	47	2	32	7	6
France	2478				
Germany	9528	8178	1214	114	22
Greece	32	12	9	10	1
Ireland	1182	849	319	8	6
Italy (b)	24	0	1	10	13
Luxembourg	79	45	20	8	6
Netherlands	775	539	185	37	14
Norway	456				7
Portugal	135	0	122	13	0
Romania	448	390	30	21	7
Slovenia	41	27	11	3	0
Spain	5375	5065	172	119	19
Sweden	1500	1000	400	85	15
Switzerland	645	140	460	30	15
United Kingdom	12641	8755	3562	277	47

(a) 3 KHT-firms and 4 HTM-firms, for which no information is available, are considered in the group of 2-5 auditors.

(b) Does not include firms of "Sindaci", but only registered audit firms on the CONSOB roll.

The costs of external quality control

It is difficult to gain an overall view of the costs of the audit quality control process, not least because so many of the systems make use of volunteer time - professionals from practice acting on a part-time basis. FEE has, however, endeavoured to draw some totals of costs from the institutes which currently organise external quality review systems in Europe.

The following statistics are from information from 16 systems, of which 11 are peer review systems and 5 are monitoring systems. Together, these 16 systems cover countries with an estimated:

- 50% of the total estimated GDP of the 20 countries surveyed,
- 65% of the number of audit mandates of the 20 countries surveyed;
- 70% of the number of listed company audits of the 20 countries surveyed, and
- 40% of the number of auditors of the 20 countries surveyed.

The population statistics on which the above percentages are based are set out in Appendix B. Because these percentages vary so widely, it is impossible to extrapolate the available cost statistics to an overall expense for Europe as a whole. 11 is, however, clear that the costs of external quality control procedures are significant.

For the 11 peer review systems considered in this appendix, 'volunteers` are estimated to spend approximately **60,000** hours per year. Evaluated at an average of, say 150 ECU, the total value of these hours is approximately 9 million ECU. Only some of the external quality control systems remunerate the professionals employed on a part-time basis, remuneration is generally at a very low rate. The total cash paid to the volunteers is some 3 million ECU. Thus a significant effective subsidy to the review process is provided by the nominated professionals working on a part-time basis.

Other cash costs of both monitoring and peer review systems considered in this appendix are an estimated 11 million ECU. This comprises the salaries of full time employees, travel and accommodation expenses, rental and overheads. Altogether, therefore, one may consider the annual costs of these 16 systems to be some 20 million ECU.

It is, of course, important to note that the costs of the auditors and audit firms being reviewed are equally not negligible. For the 16 systems considered in this section of this report, it is estimated that 140,000 hours of reviewer time are devoted to the work annually (i.e. the total of the part-time professionals and of those employed full-time in both the peer review and monitoring systems). Broadly, every hour of reviewer time is matched by at least one hour of reviewee time. The "loss of earnings" to the auditing profession of this non-chargeable time is, again, not insignificant.

Despite the burden of such costs, FEE member bodies which already have external quality control systems, or are developing them, are committed to the process. Europe's accountancy profession believes that these self-regulatory solutions represent the best way in which continuous quality improvement in statutory audit can be achieved. It is in this way that the public interest can best be served,

Glossary of abbreviations

AA	Accou nta nt-Ad m in istratiecons u lent	Netherlands
AAPA	Association of Authorised Public Accountants	UK
ACCA	Association of Chartered Certified Accountants	UK
AR	Auktoriserade Revisorer	Sweden
ASSIREVI	Associazione Italiana Revisori Contabili	Italy
CECCAR	Corpul Expertilor Contabili si Contabililor Autorizati din Romania	Romania
CENA	Comité d'Examen National d'Activité	France
CMVM	Comissão de Mercado de Valores Mobiliarios (stock exchange regulator)	Portugal
CNCC	Compagnie Nationale des Commissaires aux Comptes	France
COB	Commission des Operations de Bourse (stock exchange regulator)	France
CONSOB	Commissione Nazionale per le Società e la Borsa (stock exchange regulator)	Italy
CRCC	Compagnie Régionale des Commissaires aux Comptes	France
CROC	Câmera dos Revisores Oficiais de Contas	Portugal
DTI	Department of Trade and Industry	UK
EU	European Union	
ECU	European Currency Unit	
FAR	Föreningen Auktoriserade Revisorer	Sweden
FEE	Federation des Experts Comptables Européens	
FRR	Foreningen af Registrerede Revisorer	Denmark
FSR	Foreningen af Statsautoriserede Revisorer	Denmark
GR	Gockända Revisorer	Sweden
HTM	Auditor approved by a local Chamber of Commerce	Finland
IACJCE	Instituto de Auditores-Censores Jurados de Cuentas de España	Spain
ICAC	Instituto de Contabilidad y Auditoria de Cuentas	Spain
ICAEW	Institute of Chartered Accountants in England and Wales	UK
ICAI	Institute of Chartered Accountants in Ireland	Ireland
ICAS	Institute of Chartered Accountants of Scotland	UK
ICIPAI	Institute of Certified Public Accountants in Ireland	Ireland
IDW	Institut der Wirtschaftsionüfer in Deutschland e.V.	Germany
IFAC	International Federation of Accountants	
IMU	Irish Monitoring Unit	Ireland
IRE	Institut des Réviseurs d'Enterprises	Belgium Luxembourg

JMU	Joint Monitoring Unit of ICAEW, ICAS and ICAI	UK Ireland
KHT	Auditor authorised by the Central Chamber of Commerce	Finland
NIVRA	Koninklijk Nederlands Institut van Registeraccountants	Netherlands
NOvAA	Nederlandse Orde van Accou nta nts-Ad m in istratieconsu lenten	Netherlands
NRRF	Norges Registrerte Revisorers Forening	Norway
NSRF	Norges Statsautoriserte Revisorers Forening	Norway
RA	Registeraccountant	Netherlands
REA	Registro de Economistas Auditores	Spain
RE	Réviseurs d'Enterprises	Belgium Luxembourg
REGA	Registro Oficial de Auditores de Cuentas	Spain
SOE	Soma Orkoton Elegton	Greece
SRS	Svenska Revisorsamfundet	Sweden
WPK	Wirtschaftsprüferkammer	Germany
WTBO	Wirtschaftstreuhänder Berutsordnung	Austria