Audit Public Oversight: A European View

Hans van Damme, FEE President

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Standing for trust and integrity

Federating member bodies

- 43 professional institutes of accountants
- 32 European countries, including all 27 EU
Why is Public Oversight on the Agenda?

- The discussion on public oversight is not new (1985 OECD Report; 2000 EC Recommendation; 2004 IOSCO Principles)
- Public Interest
  - Can a self-regulated private body alone be in charge of public interest responsibilities such as approving standards on financial reporting or audit?
- Credibility and Trust
  - How can the audit profession demonstrate that the appropriate structures are in place to prevent accidents?
  - Can a self regulated body be a credible and effective disciplinary body without any public involvement?
Why is it on the agenda in Romania?

- Findings of the ROSC Report
  - “the practical implementation of an oversight body of the external audit function remains outstanding”
  - “The Public Oversight System described in the new audit Law is comprehensive but its practical implementation will be challenging”
What is Public Oversight?

- An organisation or system to supervise or oversee the application of government regulations and/or professional standards by a profession
- It is separate from government or others (e.g. securities regulators) and its role is to oversee, not to control
- “…. regulators may be a proxy for representation of the public interest, but … public oversight should take into account also the potential role of other stakeholders…” (EC Communication, 21 May 2003)
- No single supervisor or stakeholder has a sufficiently broad scope to adequately reflect these diverse interests…” (EC Communication, 21 May 2003)
Profession and Public Interest

- A proper balance must be found between:
  - self-regulation by professionals who are best placed to properly understand the technicalities of accounting and auditing, and
  - government regulation, which intends to arbitrate imbalances in the market place and achieve wider social and economic objectives

- Two aspects must be distinguished and kept separate:
  - Standard setting
  - Enforcement of standards
EU Statutory Audit Directive

- All Statutory auditors are covered, not only auditors that audit financial statements of companies whose securities are publicly traded
- The system might introduce variations between public interest entities audits and others
EU Statutory Audit Directive

- The system of public oversight must be governed by non-practitioners
  - Non-practitioners must be knowledgeable in areas relevant to audit
  - A minority of practitioners is accepted (and essential for FEE)
  - Persons involved must be selected under an independent and transparent nomination procedure
- Funding must be adequate and free from undue influence of auditors (and others as well for FEE)
- The system of public oversight must be transparent
EU Statutory Audit Directive

- The Directive refers to “The system of public oversight”
- The system of public oversight must have the ultimate responsibility for the oversight of:
  - Approval and registration of statutory auditors and audit firms, and
  - Adoption of standards on ethics, internal quality control of audit firms and auditing, and
  - Continuing education, quality assurance and
  - Investigative and disciplinary systems
EU Statutory Audit Directive

Meaning of ultimate responsibility

- Broad delegation to the profession remains possible: example – Article 3 competent authorities may be professional association provided they are subject to public oversight

- Ultimately the oversight system must have the possibility to
  - Take the responsibility or formally endorse it
  - Block or reverse the decision
EC Recommendation on Quality Assurance (QA)

- Guidance for implementing independent external quality assurance systems for statutory auditors and audit firms conducting an audit of public interest entities (PIEs)
  - POB independent from the profession assumes ultimate responsibility for the external quality assurance system
  - No detailed guidance for external quality assurance systems for statutory auditors and audit firms auditing entities other than PIEs
- Issued 6 May 2008
- Member States inform EC about actions taken by 6 May 2009.
EC Recommendation on QA

- Inspections are either:
  - executed by the POB, or
  - by the POB together with another appropriate body, or
  - delegated to another appropriate body with accountability to the POB for at least inspection methodologies, inspection reports and assignment of inspectors, or
  - performed through on-site reviews by experts who are fully accountable to the POB, alternated with an on-site review by inspectors at least every six years.

- Funding for quality assurance systems should be independent from the profession, be sufficient and mandatory.
EC Recommendation on QA

- The POB is responsible for communicating the outcome of inspections:
  - Inspection findings, conclusions and recommendations are properly communicated to and discussed with the inspected auditor or audit firm
    - The inspected auditor or audit firm has 12 months to follow-up on the recommendations
    - In case of inappropriate follow-up, the POB publicly discloses major deficiencies in internal quality control systems
    - Timely and appropriate public disclosure of any final disciplinary actions taken or penalties imposed, identifying the auditor or audit firm and describing the major deficiencies concerned
    - Timely amendment of significantly misleading transparency reports
  - Annual report including the overall results of the quality assurance system
FEE’s Conclusions (1)

- Robust Public Oversight in the public interest is necessary
- Variety of ways of providing oversight
- Best organised at Member State level
- EU co-ordination of national systems supported
FEE’s Conclusions (2)

- FEE agrees on significant involvement of non practitioners
  - Supports independent and transparent nomination procedures
- Believe oversight bodies need significant auditing expertise
  - Auditors not in a majority for oversight functions, but
  - Better insight to working environment of profession
  - Importance of practical solutions to improve quality
- Not dominated by any single stakeholder – a range of stakeholders is desirable