

## Summary Report

### MEETING OF THE AUDIT REGULATORY COMMITTEE

3 May 2007

Mr. Pierre Delsaux, Director in DG Internal Market and Services chaired the meeting in the morning. Mr. Jürgen Tiedje, Head of Unit F4-Auditing, chaired the meeting in the afternoon.

The following points were discussed:

#### **Agenda item I: Approval of the agenda of the meeting and approval of the minutes of the meeting of 31 January 2007**

The agenda and the minutes of the meeting of 31 January 2007 were adopted.

#### **Agenda item II: Co-operation with the United States**

The Commission informed the Member States on the next steps in preparing a roadmap with the US PCAOB. Mark Olson and Commissioner McCreevy published a press release early March in this regard. Chairman asked for Member States input in particular on (i) what would happen if the US wished to send inspectors or observers; (ii) how to organise assessment of equivalence (criteria and terms on our side); (iii) what are the standards that would apply in the inspection given that ISAs were not accepted for community use as yet; (iv) would monitored peer review be acceptable to the US (possible recommendation on quality assurance); and (v) data protection. The Member States were in general supportive that the Commission has taken the initiative.

#### **Agenda item III: Co-operation with third countries – next steps**

III.1. Commission presented to the Member States the preliminary results of the public consultation on third countries that was closed on 5 March 2007 (AuRC Working Paper No. 7/2007). Member States were invited to give their comments.

III.2. Commission explained the status of preparation of third-country preliminary assessments and presented report on preliminary assessment of third-country audit regulations (AuRC Working Paper No. 8/2007). The Commission also discussed selected methodology issues. Member States were invited to comment on the report.

#### **Member States' comments:**

- One Member State expressed its concerns about political sensitivity of transitional periods. It remarked that the January 2007 consultation paper was unfortunately too favourable for granting transitional periods. It supported that emphasis be put on the assessment of the scope of the oversight system and on its efficiency. On transitional period the Member State opined that it will be dangerous to extend it beyond 2008. It expressed further concerns as regards communication of the plans for transitional

measures to third countries. Independence rules should also be taken into account in equivalence assessment.

- Another Member State thanked the EGAOB and the Commission for preparing the technical framework. It emphasised that a quick publication of the results of the preliminary assessment is crucial for communication with the markets and third countries. As regards effectiveness assessments it should be realistic and emphasised practical difficulties in making such assessment.
- A Member State supported that any transition should not go beyond June 2008. It invited the Commission to present details of the roadmaps and transitional regimes.
- Another Member State emphasised that we need to in any case inform the markets on what will happen. We should take decisions as soon as possible. We should also be realistic and take equivalence decisions only when we are ready for it.

#### **Agenda item IV: Auditors liability – next steps**

The Commission presented the outcome of the public consultation on auditors' liability. All the responses which are not confidential will be published on the Commission website. A summary of the responses prepared by the Commission will also be published later on. When analysing the replies, the Commission has noticed that the majority of respondents are concerned by the lack of choice amongst audit firms.

The Commission considers that it is important to have a global approach on the issue of choice on the audit market. Therefore, the Commission will also analyse, in addition to the replies to the consultation, the results of the study on ownership rules applying to audit firms and their consequences for audit market concentration. The study was commissioned to the consultancy firm OXERA in November 2006 and the final results are expected for August 2007.

#### **Member States were invited to comment:**

- A Member State reminded that in their view the study on auditors' liability done by the external consultant was not providing enough elements to launch an initiative to limit auditors' liability in the EU. The Member State is currently analysing the problem at the national level. The problem of auditors' liability is a technical one, very complicated and it has to be treated at national level. Concerning the question of insurance, the insurers in the Member State consider that there is no link between auditors' liability and the problem of insurance.
- Another Member State supported the previous Member State's comments. Auditors' liability should be dealt with at national level. The Member State considers that the debate in the EU should not only be open to the OXERA study but also to the debate in the UK launched by the FRC. The problem is that the audit clients do not want to appoint other auditors than the Big four.
- Another Member State underlined that the liability systems differs across MS. Moreover not only the Big Four are concerned by a liability regimes reform but also other parts of the professions.

#### **Agenda item V: International Standards on Auditing**

The Chairman invited the delegates to send their comments on the "majority rule" for the IAASB, the IESBA governance and on the PIOB performance no later than next week in writing. The Chairman also informed the delegates that a discussion on the PIOB will be one of the points of the next AuRC meeting. By that time it is expected that the second annual report of the PIOB had been published and made available to the AuRC members.

The discussion focused on three different subjects:

**Acceptance of the new "majority rule".**

The Commission presented the point. The Chairman added that a similar rule has not been agreed in accounting and that therefore it has to be seen, in any case, as a positive development. Later he informed that inside IOSCO the new wording was accepted by all European delegations except for one. He also reminded the group that the current composition of the IAASB already complies with the "majority rule".

- Three Member States reserved its opinion and wanted to know whether the current proposal is already acceptable by other parties such as all IOSCO members
- Another Member State also reserved its opinion. It wanted to know more about the intricacies of the negotiations leading to this text.
- Two further Member States considered the text very vague and difficult to interpret.

**Possible extension of the governance rules to IESBA.**

The Commission introduced the subject. The Chairman added that as the USA and Japan has already accepted to become observers of IESBA, the Commission was not in a position to reject a similar invitation.

- One Member State indicated that they have problems with the possibility raised in the document that international rules on independence may be used as a benchmark when evaluating third country auditors.

**General evaluation of the PIOB.**

The Chairman invited the delegations to express their opinions on the PIOB performance.

- One Member State wanted to know what has been the value added of the PIOB on the "on-track" procedure.
- The Chairman indicated that for the time being they have not been involved on this matter.
- Another Member State suggested that in view of the expected released in the near future of the second PIOB annual report we might have a thorough discussion on this body.

**Agenda item VI: Possible update of the 2000 Recommendation on Quality Assurance**

The Commission services presented first ideas on a possible update of the 2000 Commission Recommendation on quality assurance. All countries, except one Member State, supported updating the 2000 Recommendation.

- One Member State underlined that the 8th Directive was recently adopted and accordingly Member States should discuss the matter first before proposing any new measures.
- Two other Member States suggested keeping the scope of the Recommendation rather broad than limiting it to public interest entities (PIEs).
- One Member State suggested that the PIEs should be seen as the minimum scope of the Recommendation.
- Three Member States and provisionally another Member State supported the idea that higher status should be given to the delegated inspection system where reviews are performed by practitioners.
- In this respect a Member State suggested dealing with safeguards on the delegated inspection system.
- One Member State stressed the need for flexibility of the Recommendation regarding delegated inspection systems.
- An Observer indicated that establishment of inspection system would not be possible due to short inspection cycle (3 years). A mixed approach of inspection and delegated inspection system is considered by that Observer.
- A Member State made a comment that it would be too difficult to have a pure inspection system.
  
- Five Member States had serious doubts in relation to the availability of individual inspection reports to the audit committees. Main arguments:
  - the scope of the individual inspection report might be too broad compared to the responsibilities of audit committees as established by the Directive;
  - possible issues of data protection;
  - audit firms to be concerned;
  - potential problems regarding the relationship between an audit firm and an inspector.

On the other specific points of the paper, the following comments were expressed:

- regarding the funding of the quality assurance system, a Member State considered it difficult to exclude the profession from the funding;
- with respect to co-operation regarding inspections of the group audits, one Member State was wondering whether the possible relationship between inspections and investigation should be established; another Member State was concerned that the section on co-operation in respect to group audits does not deal with third countries.
- A Member State was opposed to the proposition that investigations should be conducted by a public oversight system without any delegation to the professional bodies and proposed that the public oversight system should be allowed to delegate some activities within the investigation process to the professional bodies when it finds it appropriate;

### **Agenda item VII: International Forum of Independent Audit Regulators (IFIAR)**

The Chairman gave an update on the last developments in the IFIAR, in particular changes to the presidency and governance that have been discussed during the Tokyo meeting.

### **Agenda item VIII: AOB**

- Next meeting of the AuRC is planned for 17 July 2007.
- Transposition workshops organised by the Commission: the Chairman invited the Member States to actively participate and send their questions to the Commission.
- The Chairman informed the Member States about the possible World Bank/Switzerland's financial assistance for setting up of public oversight in the new Member States.