

Summary report

MEETING OF THE AUDIT REGULATORY COMMITTEE

29 January 2009

Mr. Jürgen Tiedje, Head of Unit F4-Auditing, chaired the meeting.

The following items were discussed:

I. Adoption of the draft agenda and approval of draft minutes of the meeting of 15 December 2008

The agenda was adopted. The minutes of the meeting of 15 December were approved.

II. Situation in the United States – PCAOB

The Commission services presented a draft comment letter regarding the PCAOB's call for public comments on its proposal to postpone first inspections of non-US audit firms planned in 2008 and 2009. The Commission services stressed it was key for EU public oversight bodies to comment on this issue. Member States were invited to comment.

All Member States supported the draft letter to the PCAOB.

III. Proposal for a Commission decision implementing Article 47 of the Directive 2007/43/EC

The Chairman presented a draft Commission decision on the adequacy of the competent authorities from certain third countries pursuant to Article 47 of the Statutory Audit Directive which will be adopted through the old comitology procedure. The objective of the proposal is to build co-operation towards mutual reliance between the public oversight systems of the Member States and those of the Canada, Japan and the United States of America.

Member States were invited to provide initial comments.

Member States' comments:

- Six Member States asked to consider the new political context after the recent statement of SEC Chair Schapiro who stated during US senate hearings in January that she does not support the PCAOB renouncing on inspections outside the US.
- Two Member States requested clarification on the expiration date - 31 December 2010 - and enquired if the bilateral agreements concluded by MS in the context of this decision would have to expire at the same date. Commission services confirmed that bilateral arrangements would need to expire by that date.
- Two Member States supported the draft decision as it gives Member States the possibility to negotiate with the PCAOB.
- Three Member States supported limited adequacy for the PCAOB (option 2) instead of the draft decision's full adequacy for the PCAOB during a limited period (option 3).

- One Member State expressed concerns on how a future negative reassessment of the competent authorities declared adequate in this draft decision would be received if no changes intervene with respect to those competent authorities. It indicated the risk of Member States concluding a variety of agreements resulting in no harmonization with respect to the policy of transferring audit working papers to the PCAOB.
- Two Member States suggested that option 3 should apply only to investigations, while option 2 should apply with regard to inspections.

IV. Transposition of the Directive 2006/43/EC – further issues

The Commission services invited Member States that have not yet completed the transposition of the Directive to inform about the progress of the transposition process.

Member States' comments:

- One Member State informed it considers it has fully transposed the Statutory Audit Directive. It considers Article 47 as not mandatory for Member States to transpose.
- Five Member States will have full transposition end of March 2009.
- Two Member States will have full transposition end of June 2009.
- One Member State informs that full transposition is expected by April/May 2009.
- Another Member State awaits adoption of the 3 last Articles which need to be transposed.
- One Member State plans full transposition is expected by July 2009.

The Commission services informed Member States that the European Parliament (in the upcoming Doorn report) will call upon the Commission to check the content of the transposition in Member States. To this purpose, full transposition tables from Member States would be of utmost importance to respond to the European Parliament.

V. Recent incidents and impact on the implementation of the Directive

The Commission services inform Member States on the recent scandals of Madoff in the US and Satyam in India and to which extent the implementation of the Statutory Audit Directive is relevant if similar events would occur in a Member State. The Commission services stress the importance of having a functioning public oversight system and the risks for Member States should a similar scandal occur in their jurisdiction before they would have set up such a public oversight. The Chair asked Member States whether it can be avoided that small registered practitioners wrongfully inform oversight systems that they are not carrying out any audits.

Comments by Member States:

- One Member State points out that the financial instruments of less than 50.000 euro fall outside the scope of the public oversight.
- Six Member States update the Commission on how they consider their national legislation has additional guarantees compared to the US and India.
- One Member State considers the oversight of audits of feeder funds (hedge funds), especially when domiciled offshore, as an important issue.
- One Member State calls for responsible regulators to inform each other. It also asks to accelerate a harmonisation of auditing standards.

VI. Presentation of the draft proposal for the funding of the PIOB (the Public Interest Oversight Board)

The Commission services informed MS on the Commission proposal for a financing decision adopted on 23rd January 2009.

VII. International Standards on Auditing

1. Translation of ISAs

The Commission services informed MS of the positive and proactive outcome of the meeting of national translators of ISAs of 21 January 2009. MS were reminded of the importance of anticipating the need for high quality ISA translations in view of their possible adoption.

2. Potential difficulties

Commission services discussed with MS potential difficulties raised by the contents of the ISAs issued in the context of the Clarity Project.

- a) On developing a common approach at EU level regarding the way audit firms organise their internal quality checks based on ISQC 1.
- Three Member States do not support a common EU approach regarding the way audit firms organise their internal quality checks based on ISQC 1 as they fear this would bring an increased workload for Small Practices.
 - Seven Member States may support an EU wide approach on this issue.

The chair reminded that the profession and international standard setters generally contend that there would be no overload even with an adoption of ISQC1.

- b) Whether future discussions should cover going concern issues or should this be left to Member States:
- 11 Member States support leaving this issue to Member States.
- c) Regarding the acceptability of management responsibilities under ISA580:
- 10 Member States have no general objections to the construction of clarified ISA 580.
 - One Member State had reservations to formalising an audit report to avoid it becoming a box ticking exercise.
- d) Regarding including the above subjects in the forthcoming public consultation on ISAs.

The chair invited the members to provide written comments on ISA 580 as deemed appropriate.

The chair identifies three upcoming issues: application material, ISQC 1 related to small practitioners and the possibility for MS to carve out parts of the ISAs under Article 26 (3).

VIII. Other Business

The Commission services inform Member States on the ongoing public consultation on ownership structures.

Next meeting is scheduled on 20 February 2009.

PARTICIPANTS' LIST

Austria

Ministry of Justice

Belgium

Ministry of Economics

Bulgaria

Not present

Cyprus

Permanent Representatino

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Permanent Representation

Finland

Ministry of Employment and Economy

France

Ministère de la Justice

Germany

Federal Ministry of Economics and Technology

Greece

Ministry of Finance

Hungary

Ministry of Finance

Ireland

Department of Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

Latvia

Not present

Lithuania

Ministry of Finance

Luxembourg

Ministère de la Justice

CSSF

Malta

Accountancy Board

Netherlands

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

Romania

Not present

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

Accounting and Auditing Institute (Instituto de Contabilidad y Auditoría de Cuentas) (ICAC)

Sweden

Ministry of Justice

United Kingdom

Department for Business, Enterprise and Regulatory Reform

CESR

Norway

Ministry of Finance

Commission

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