

New recommendations to strengthen confidence in statutory audit

Many countries are setting up systems for independent supervision of company auditing. To ensure high and consistent quality, the Commission has drawn up recommendations for Member States. A Recommendation has been issued by the Commission on “external quality assurance for statutory auditors and audit firms auditing public interest entities”.

It sets out to provide guidance to Member States on how best to establish independent and effective systems of inspections in line with the EU's Directive on Statutory Audit (2006/43/EC).

The Recommendation gives more responsibility to the public oversight bodies, strengthens the independence of inspection teams and enhances transparency on the results of inspections of in-

dividual audit firms. In order to enhance the quality of audits within the EU, the European Commission finds that independent oversight bodies should play an active role in the inspections of audit firms. Professional associations should no longer take the lead in organising inspections.

The Recommendation is limited to inspections of the statutory auditors or audit firms which audit what are termed ‘public interest entities’ - effectively the large private sector companies.

The main provisions are:

- An active role for the public oversight authorities in inspections. Professional associations can still assist the public oversight

authorities, but should be subject to important safeguards, including accountability to the public oversight authority.

- Member States are invited to clarify that practitioners from audit firms (peers) should no longer have a leading role in inspections system and inspections teams and should only be needed in exceptional cases.
- Transparency on the outcome of the inspections should be enhanced in to improve accountability of the inspection system towards investors, companies and other stakeholders.

Major deficiencies in internal controls of audit firms should be disclosed if an audit firm does not address appropriately the recommendations for improving the audit quality.

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http://ec.europa.eu/internal_market/auditing/quality/index_en.htm

Progress continues with accounting convergence

A report has been drawn up by the Commission on how third countries are progressing in the process of converging their national accounting system towards the EU's preferred IFRS system (International Financial Reporting Standards). It also looks at progress being made towards the elimination of reconciliation requirements that apply to Community issuers listed in these countries.

The report notes that the Japanese GAAP (Generally Accepted Accounting Principles) and the United States GAAP both meet the criteria of equivalence to IFRS. Chinese GAAP will continue to be accepted, but since it moved to IFRS for the first time in 2007, more information on its implementation is needed.

The Paper also concludes that an exemption until 2011 should be granted to Canada and South Korea in view of their ongoing efforts to move to IFRS in the near future. Within the coming weeks the Commission is expected to present legislative proposals to this effect.

In the report the Commission recalls the move by the United States Securities Exchange Commission in 2007 to waive the requirement for IFRS-based financial statements to be reconciled to US GAAP. The Commission is continuing with its objective of seeking removal of this reconciliation requirement for all European issuers using IFRS as adopted by the EU.

It also intends to continue its efforts to resolve the issue of the 'carve-out' of IAS 39. In this context the Paper calls on the IASB to play a full role.

The Commission report also highlights the countries which are already successfully applying IFRS. These include, for instance, Australia, Hong Kong, New Zealand, Singapore and South Africa.

In addition, Israel has made IFRS mandatory for all listed companies except for banks and dual listed companies as from January 2008. In such cases the report calls for an explicit and unreserved statement of such a compliance with IFRS to be included in the audited financial statements.

In the coming years the Commission Services will continue to monitor the situation and assess ongoing efforts by third countries in moving to IFRS.

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http://ec.europa.eu/internal_market/accounting/news/index_en.htm