



Federation of European Accountants
Fédération des Experts comptables Européens

Commissioner Michel Barnier
**European Commissioner for Internal
Market and Services**

European Commission

Sent via email:

Michel.Barnier@ec.europa.eu

21 February 2014

Ref: AUD/AKI/HBL/NRO

Dear Commissioner,

Re: FEE's involvement in the implementation of the new Audit Reform Directive and Regulation

FEE¹ was pleased to note the compromise reached on audit reform. The European accountancy profession will be committed to implement the resulting requirements and to ensure that audit quality is maintained at a high standard.

We are writing ahead of the important steps in relation to the upcoming finalisation and implementation phases of the new Audit Reform Directive and Regulation. These steps are instrumental to ensure that member states implement them meaningfully into their national legislation. FEE would like to offer its help to the European Commission (EC) with this important task.

Clarifications will be needed to help member states implement the legislation in a consistent way

A number of questions arise when one starts to reflect on the practical implementation of the legislative texts of the new Audit Directive and Regulation. The answers to these questions may significantly impact the application of the new requirements in practice.

¹ FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 48 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU member states.

FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and large accountancy firms, businesses of all sizes, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

Although our detailed analysis of these texts is continuing, FEE would like to flag some issues that will need clarification to enhance consistency in application. We would like to work with you and all involved parties over the coming months to develop the best possible technical and practical solutions. This is especially important for Public Interest Entities (PIEs) as most of these operate across borders.

More specifically, some of the clarifications needed are as follows:

- *Clarification on timing*: what about the timing of the issuance of the documents, the translation, the publication in the official journal of the EU? What will be the different transitional periods applicable? What about the phased application of certain provisions?

- *Clarification on the application of article 9 of the regulation on 'audit fees'*: how does the calculation of the 70% over 3 years work? The provision governing the cap of 70% is open to multiple interpretations and should be explained further.

- *Clarification on the application of article 10 of the regulation on 'prohibition of the provision of non-audit services'*: what is the meaning of certain terms used like 'any part in the management or decision-making'? We can also observe discrepancies between some language used in the recital and in the article, for instance with regard to the provision of due diligence services. There is a general demand for clarification as the provisions of the regulation must be unequivocal: practitioners should be left in no doubt about the definition or scope of prohibited non-audit services.

- *Clarification on some options, including the ones in article 33 of the regulation on the duration of the audit engagement*: what about cross border impacts of such measures? What if a group of companies based in one Member State has PIE subsidiaries in other Member States that have different rotation rules? Audit quality may suffer from inconsistencies in the implementation or divergent interpretations of such measures. The period set for mandatory audit firm rotation should also be compatible with the internal audit partner rotation, which is currently taking place every seven years in the EU.

- *Clarification on the ISA² adoption mechanism*: according to the published text, the ISA adoption does not seem to be as straightforward as it could have been. Who is going to advise the EC for the delegated acts? It seems that the newly created Committee of European Auditing Oversight Bodies (CEAOB) would have a role in the 'examination' of the ISAs in view of adoption. How would this work in practice? It is important that this does not result in carve-ins and carve-outs at the detriment of the internal market and an international level playing field. FEE has long promoted and continues to support a full European adoption of ISAs that is instrumental to sustain audit quality.

² ISA stands for International Standards of Auditing. More information at: <http://www.ifac.org/auditing-assurance/about-iaasb>

FEE is committed to engage with its Member Bodies and other stakeholders

As there are genuine matters that need further clarification, but also many options in the legislative texts, FEE will make available fact sheets that include: a summary of the main points the texts include; tables detailing the options available; and further analyses on how these options could or should be tackled to come to the best possible application throughout the European Union.

These future publications will tackle the following areas:

- Auditor communication in the EU;
- Independence and the provision of non-audit services in the EU;
- The appointment of auditors in the EU;
- The adoption of ISAs in the EU; and
- Supervision of the audit profession in the EU.

Our aim is to enhance consistency and to align application and implementation, to the extent possible, throughout the European Union, as well as to inform stakeholders with regard to the pros and cons of options and/or differences in interpretation.

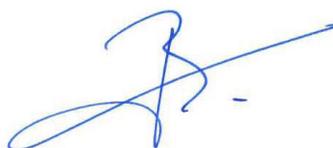
FEE is looking forward to working with all relevant stakeholders, including the EU Institutions and primarily the Commission, Member State Representatives, different national legislators, competent authorities and other regulators as they will be the primary drivers in the implementation in Member States. Collaboration with other concerned parties like business and the investor community is also important.

We are at your disposal to meet and discuss in more detail on how we believe this can be done in the public interest.

Yours faithfully,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive

CC:
Chair of the EP JURI Committee
EU Member State Representatives