ACCOUNTANCY
EUROPE.

WE REPRESENT
ACCOUNTANTS,
AUDITORS
& ADVISORS.

CLOSE TO 1 MILLION
PROFESSIONALS

26 EU
MEMBER STATES

51 INSTITUTES

35 COUNTRIES

Implementation of the 2014 EU Audit Directive and Regulation in 30 European countries

as of July 2020

This pdf has to be considered in full; slides cannot be seen in isolation.

This document is for general illustration purpose only. It includes information on the implementation of the Audit Directive 2014/56/EU and Regulation 537/2014 in 27 European Union (EU) Member States, Iceland, Norway and the United Kingdom (hereafter 'European countries'). The information was informally gathered from different sources up to July 2020 without any further verification. It may already be out of date and be subject to change. See our disclaimer.

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Main topics of the new EU audit rules

- Implementation status
- Definition of a Public Interest Entity
- Prohibition of non-audit services
- Mandatory audit firm rotation
- Public oversight and delegation of tasks to professional bodies

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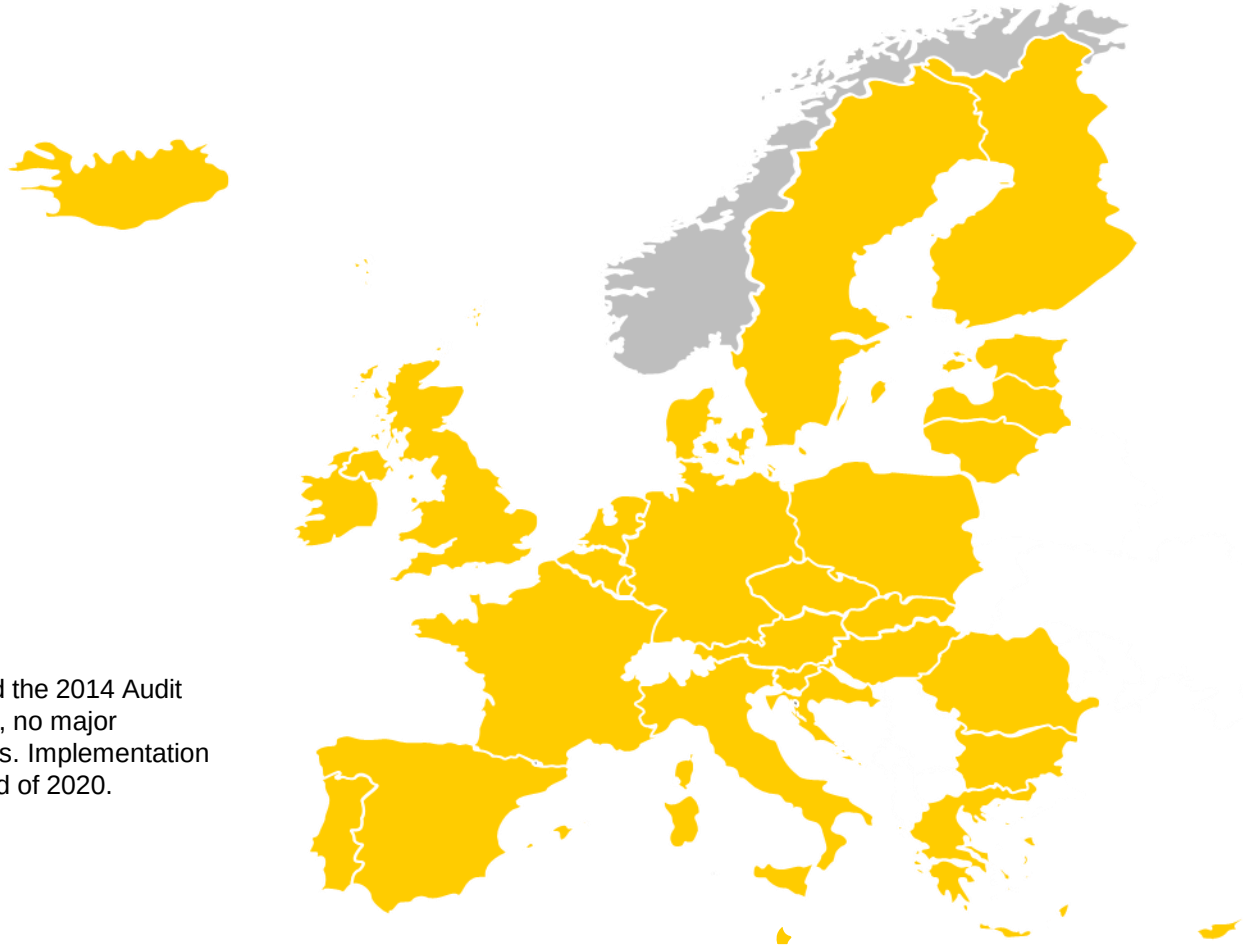
Implementation status

July 2020 Update

Implemented

Not implemented



Note: Norway has not yet fully implemented the 2014 Audit Reform but in view of the current proposals, no major changes are expected to the following slides. Implementation in Norway is expected to be finalised by end of 2020.

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Definition of a Public Interest Entity matters

- 2014 Audit Regulation applies only to audits of Public Interest Entities (PIEs), including the following:
  - Prohibition of non-audit services
  - Mandatory audit firm rotation
  - Public oversight and potential delegation of tasks related to PIE audits

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Definition of a Public Interest Entity in Europe

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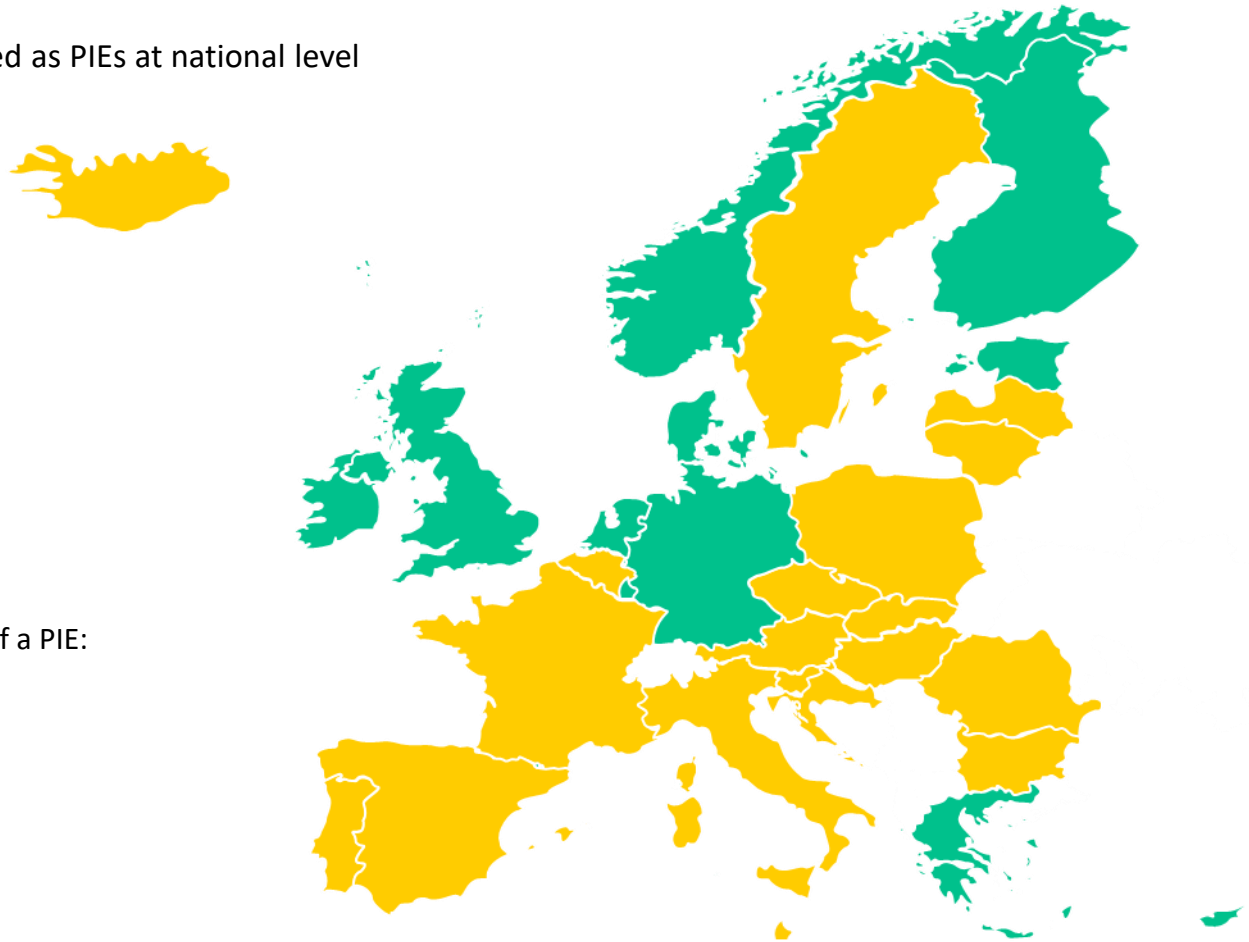
PIEs as per the EU definition*

Additional entities designated as PIEs at national level



*2014 EU Audit Directive definition of a PIE:
- Listed entity
- Credit institution
- Insurance undertaking

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Definition of a PIE in Europe: our take

1. EU definition adopted in 11 countries
2. Extended national definition adopted in 19 countries
3. Overall:
   - Still a wide diversity of definitions across Europe
   - More harmonised and reduced definitions following the 2014 Audit Reform

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Non-audit services

Additional prohibitions

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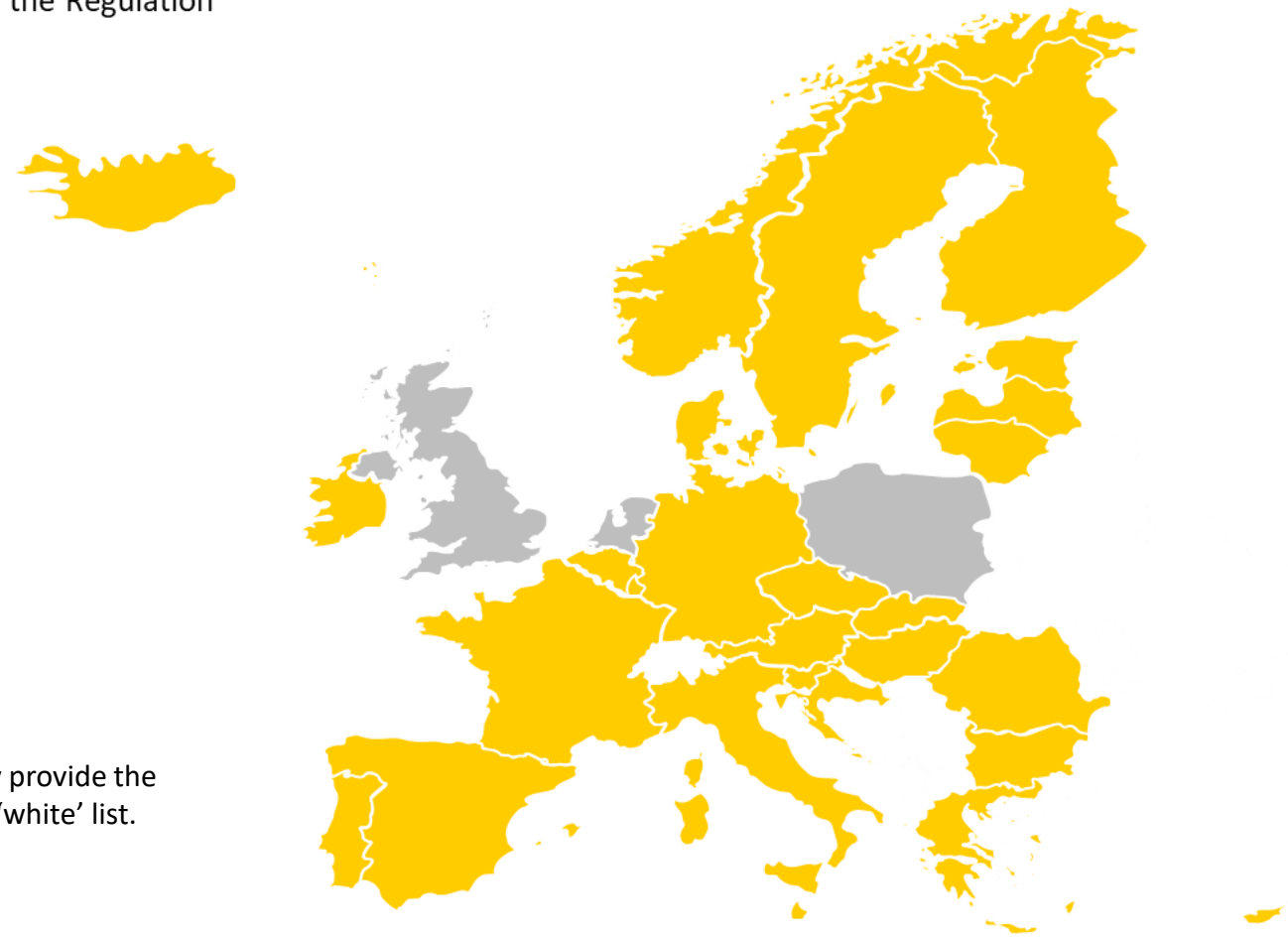
List of prohibitions as per the Regulation

'White' list approach*



* Auditors and audit firms can only provide the non-audit services included in the 'white' list.

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Non-audit services

Derogation (opt-out) of prohibition – Tax & valuation services

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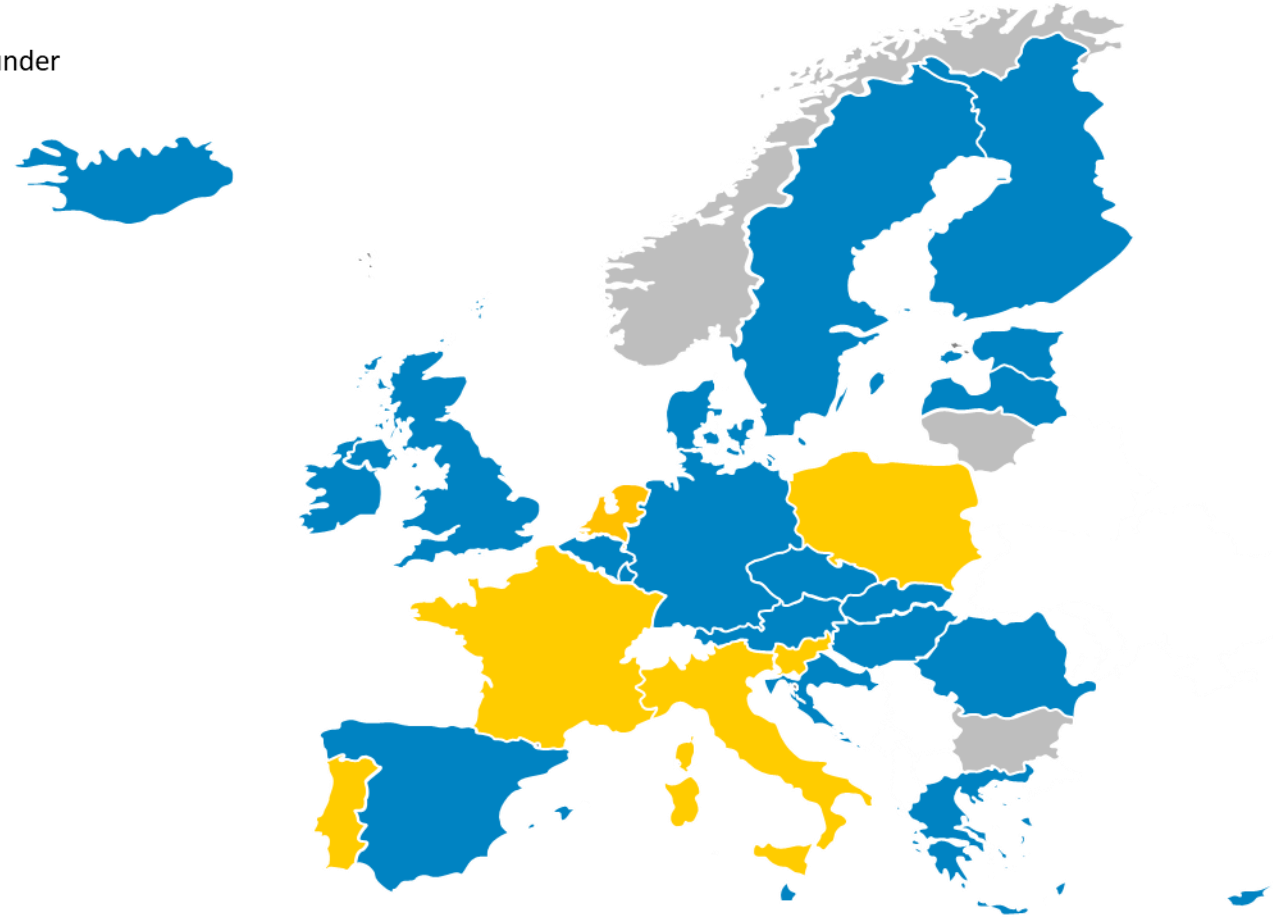
- No
- Certain tax services under the conditions of the Regulation
- Certain tax & valuation services under the conditions of the Regulation



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Non-audit services

Allowed non-audit services cap

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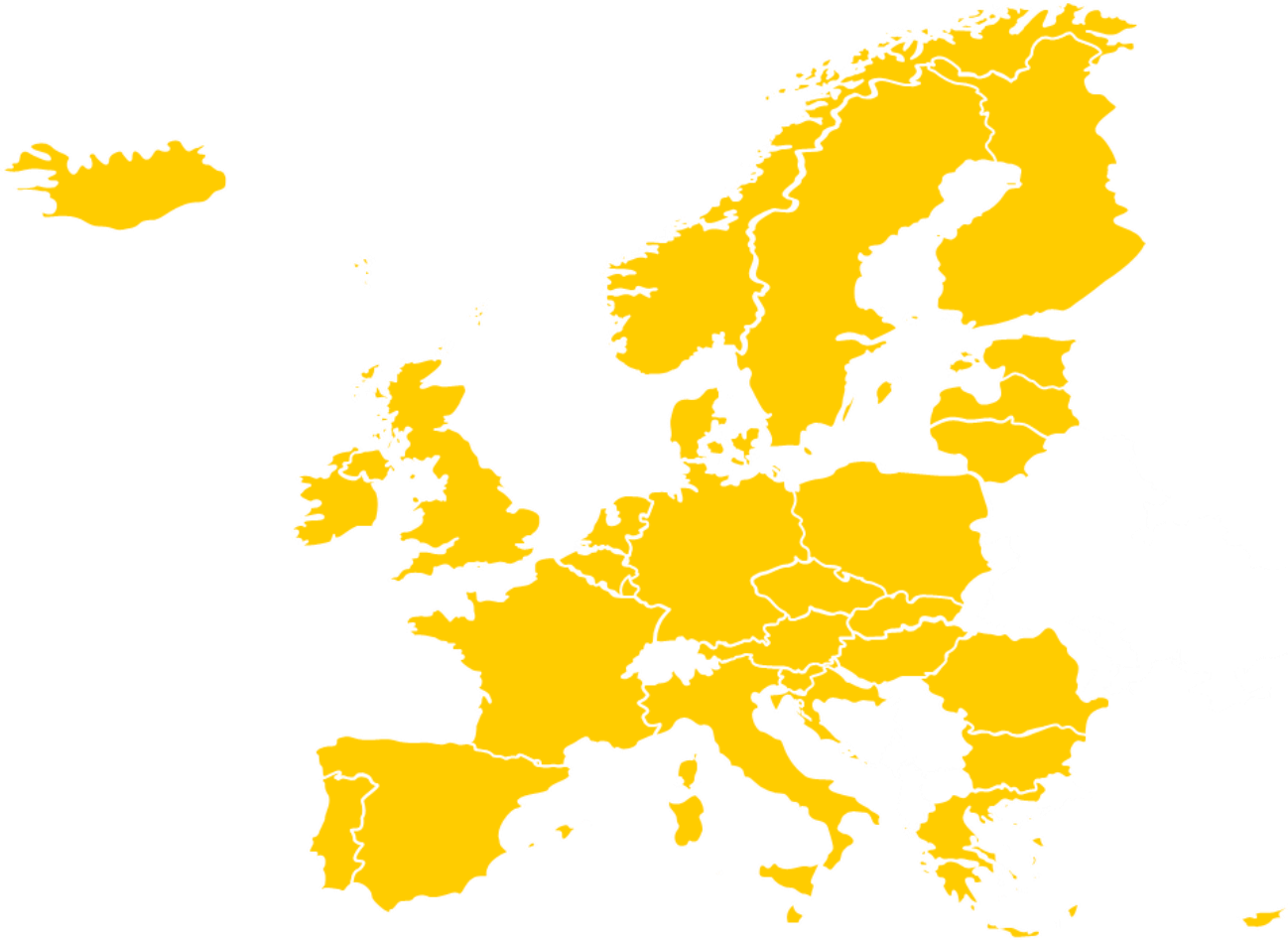
70% cap



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Non-audit services (NAS): our take

1. Clear trend to **stick to the list of prohibitions** included in the Regulation

2. **Large majority** of European countries opted for a **derogation of the prohibition of certain tax and valuation services** within the following conditions of the Regulation:

   - Impact on the audited financial statements is immaterial or none
   - Evaluation of this impact on the financial statements is documented in the additional report to the audit committee
   - Principles of independence, as included in the Directive, are applied by the statutory auditor

3. All 30 European countries opted for the NAS cap of 70% as per the Regulation

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Mandatory audit firm rotation

Initial duration of engagement

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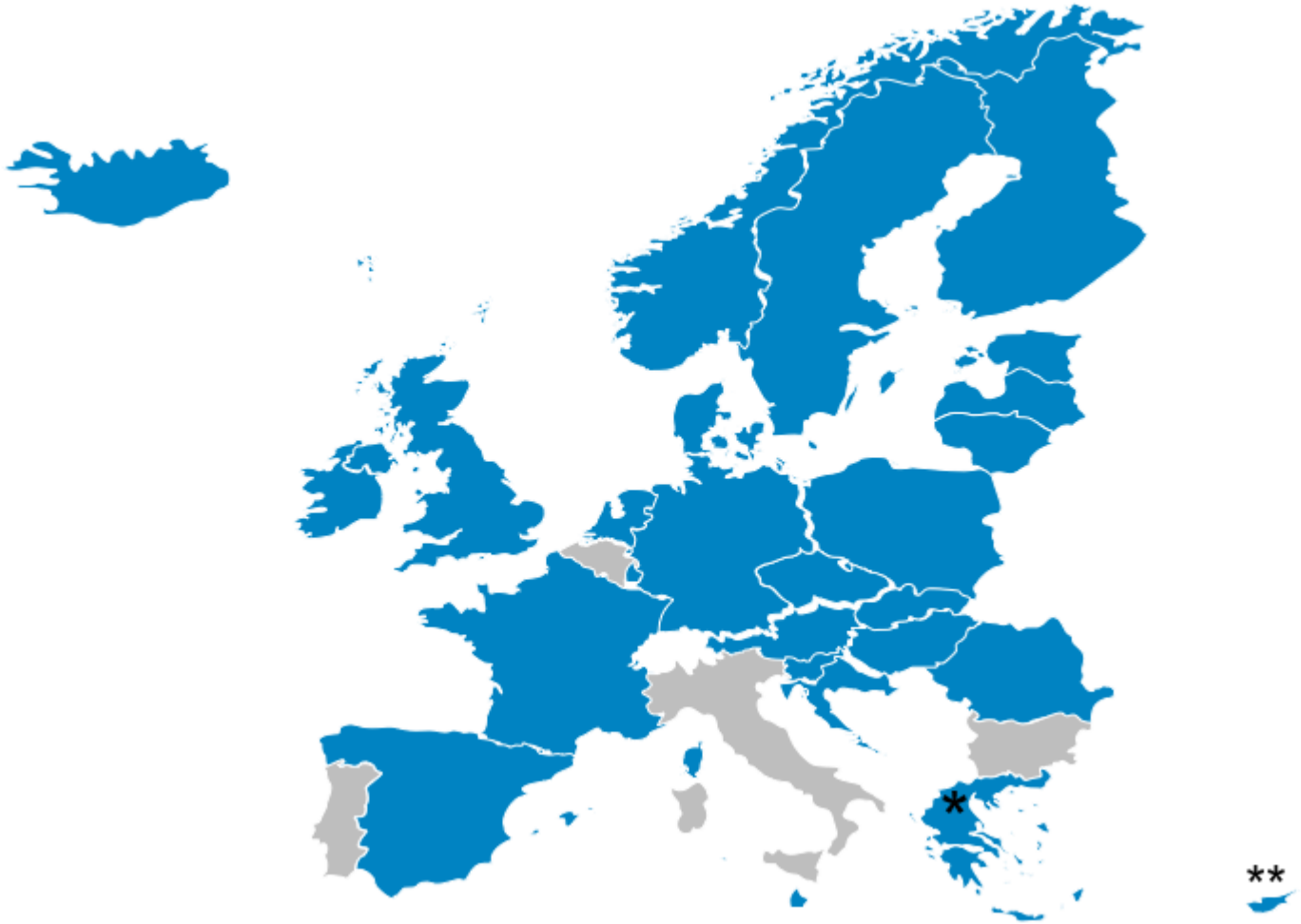
7-9 Years

10 Years



* 5 years for SIFIs
** 9 years for banks

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Mandatory audit firm rotation

Tender extension

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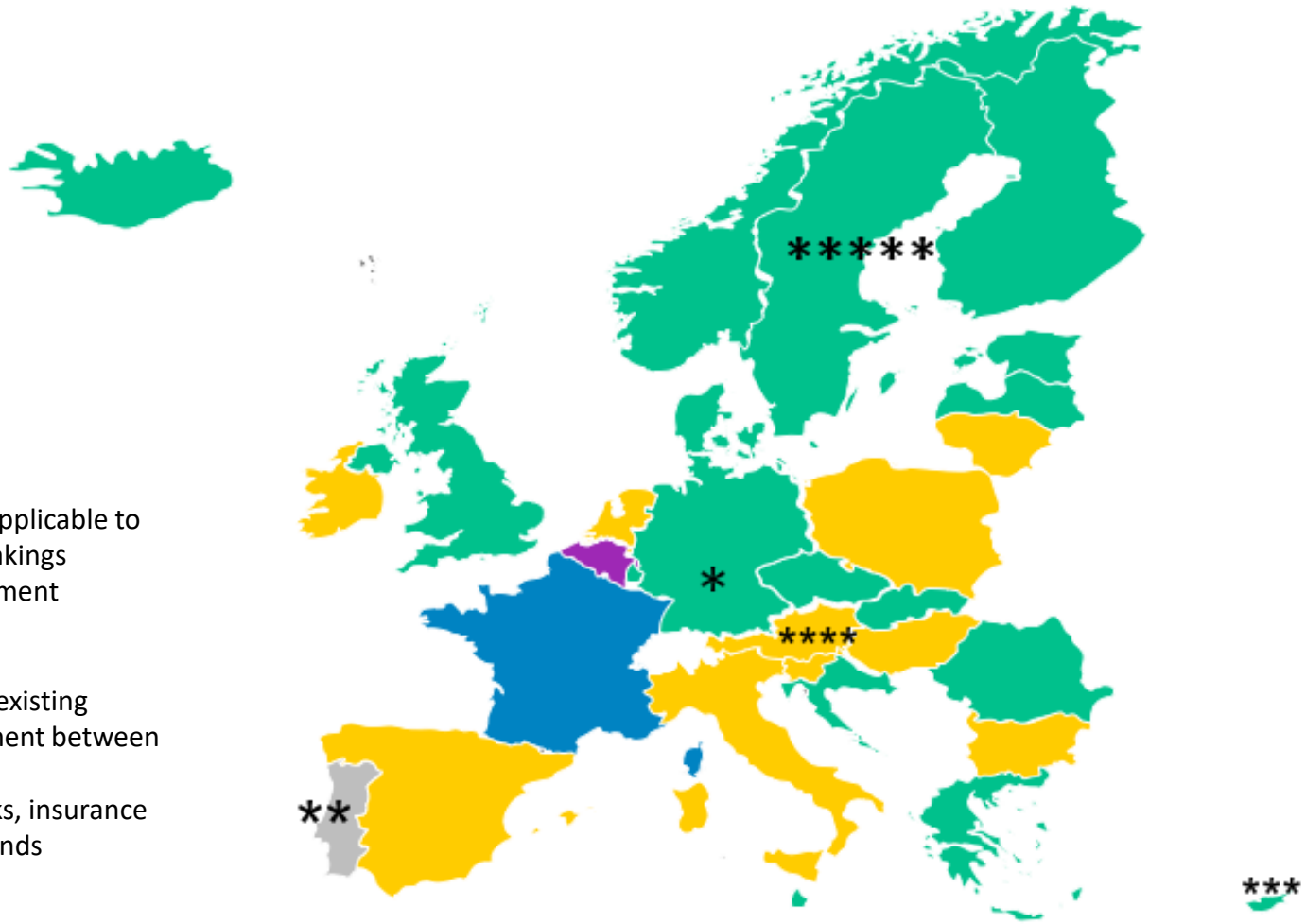
- No extension
- 1-2 Years
- 6 Years
- 9 Years
- 10 Years



*Extension of duration not applicable to banks and insurance undertakings
** Initial duration of engagement extendable up to 10 years
*** No extension for banks
**** 10 years extension for existing engagements (first appointment between 2003 and 2014)
***** No extension for banks, insurance undertakings and pension funds

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Mandatory audit firm rotation

Allowed joint audit extension

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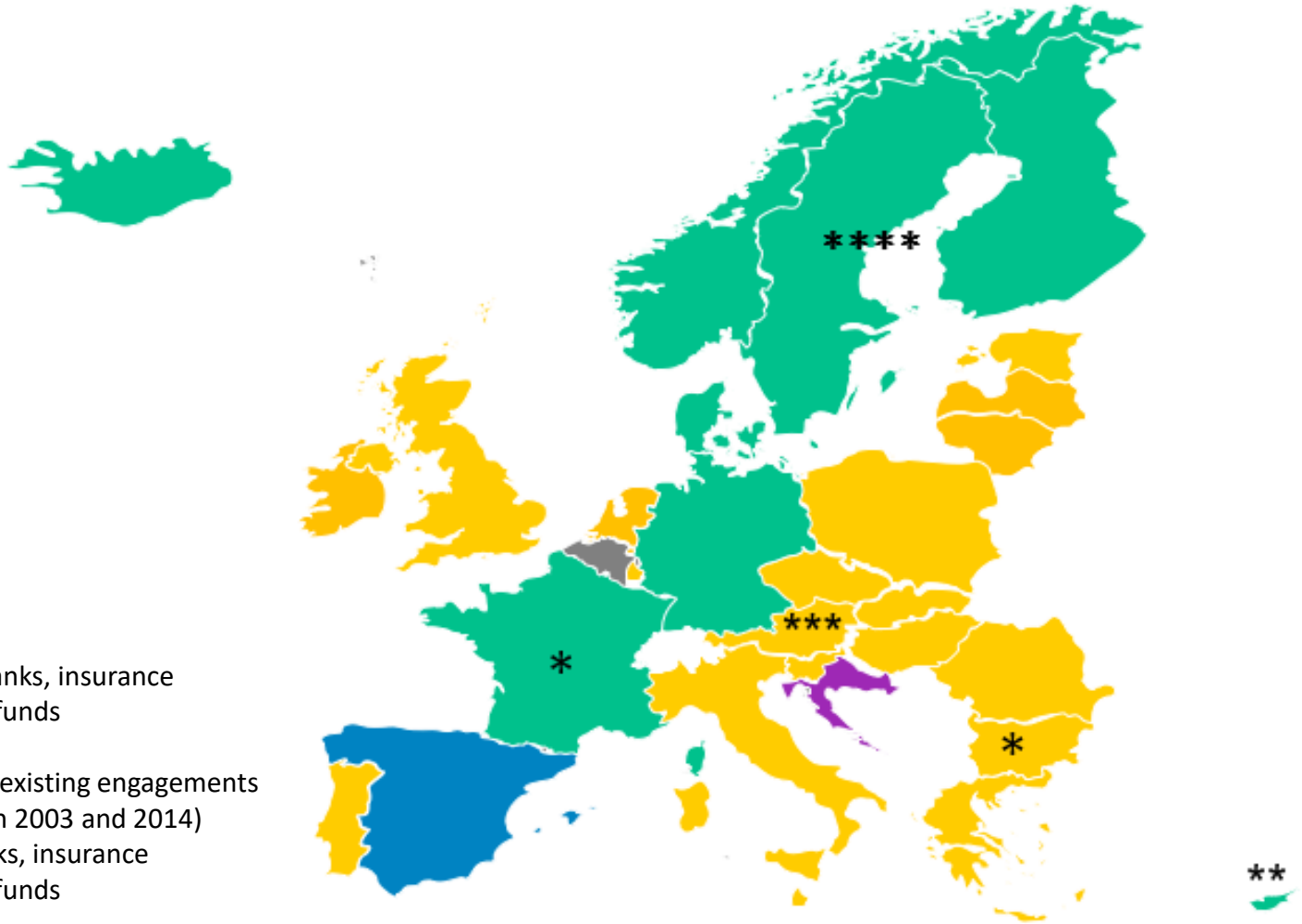
- No extension
- 4 Years
- 10 Years
- 14 Years
- 15 Years



* Mandatory joint audit
For Bulgaria it is only for banks, insurance undertakings and pension funds
** No extension for banks
*** 14 years extension for existing engagements (first appointment between 2003 and 2014)
**** No extension for banks, insurance undertakings and pension funds

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Mandatory audit firm rotation: our take

1. **Consistency** in setting the initial duration of engagement period at **10 years**

2. **Damageable divergences** on the duration and the use of the option to allow extensions of the initial duration

   - **Tender:** 20 European countries with 4 different periods

   - **Joint audit:** 11 European countries with 4 different periods

3. Overview: **15 different mandatory audit firm rotation regimes** across 30 European countries

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Public oversight

Delegation of tasks for audits of PIEs*

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* Includes also partial delegation. The graph presents information on 27 EU Member States, Iceland, Norway and the United Kingdom.

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Approval/ Registration of auditors

Delegation of tasks for audits of PIEs

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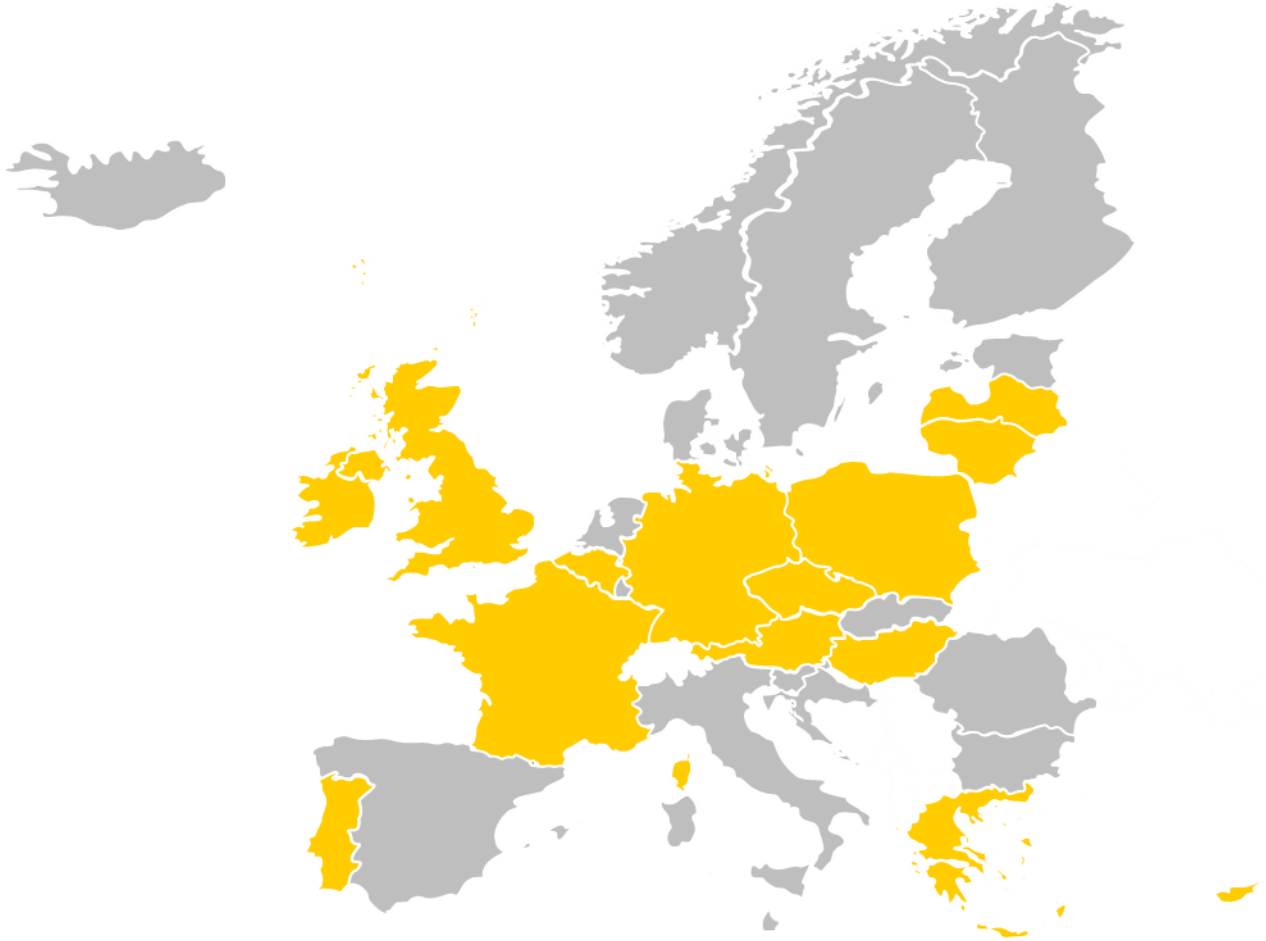
Delegated/ Partially delegated to a professional body

Not delegated



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Standards

Delegation of tasks for audits of PIEs

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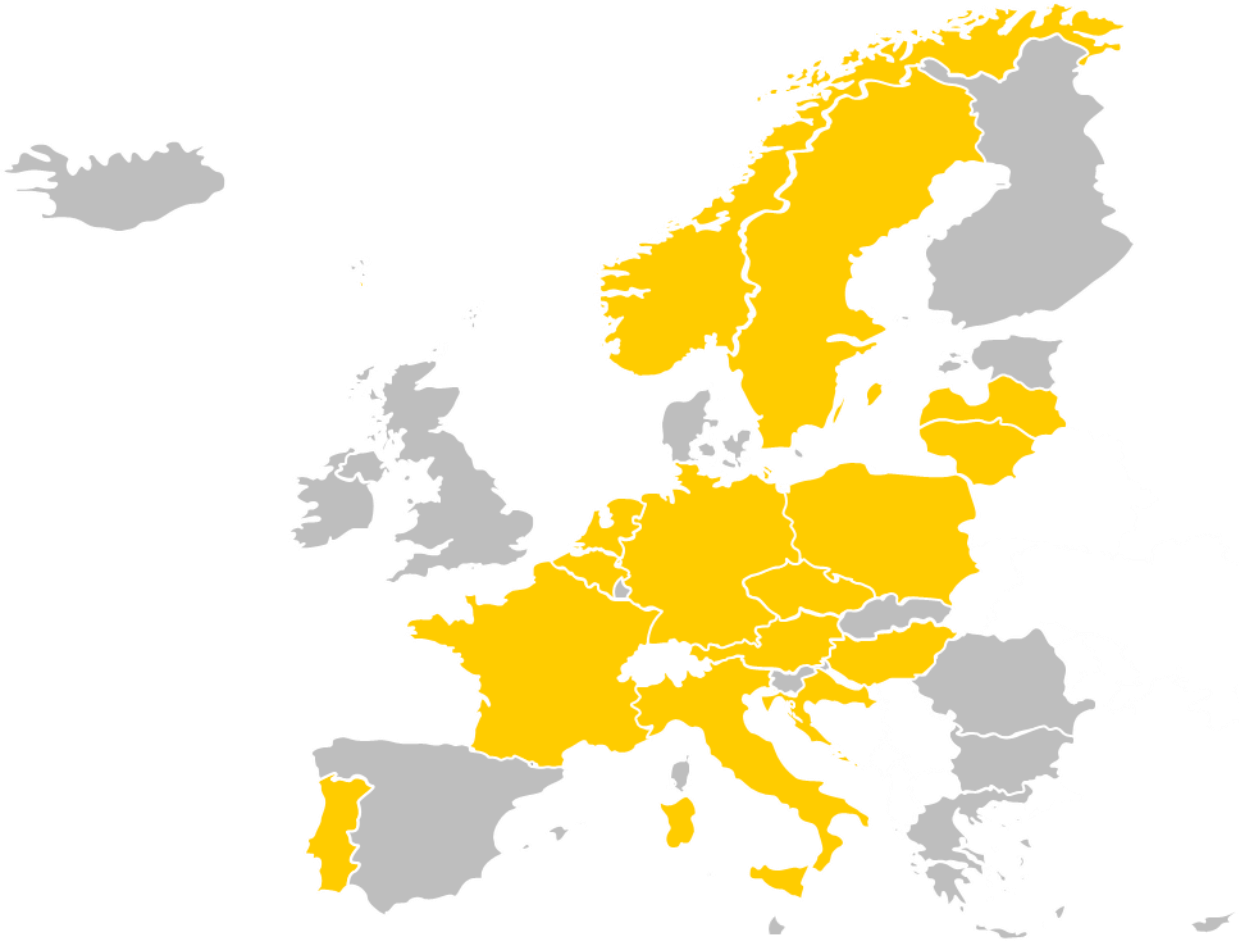

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Education

Delegation of tasks for audits of PIEs

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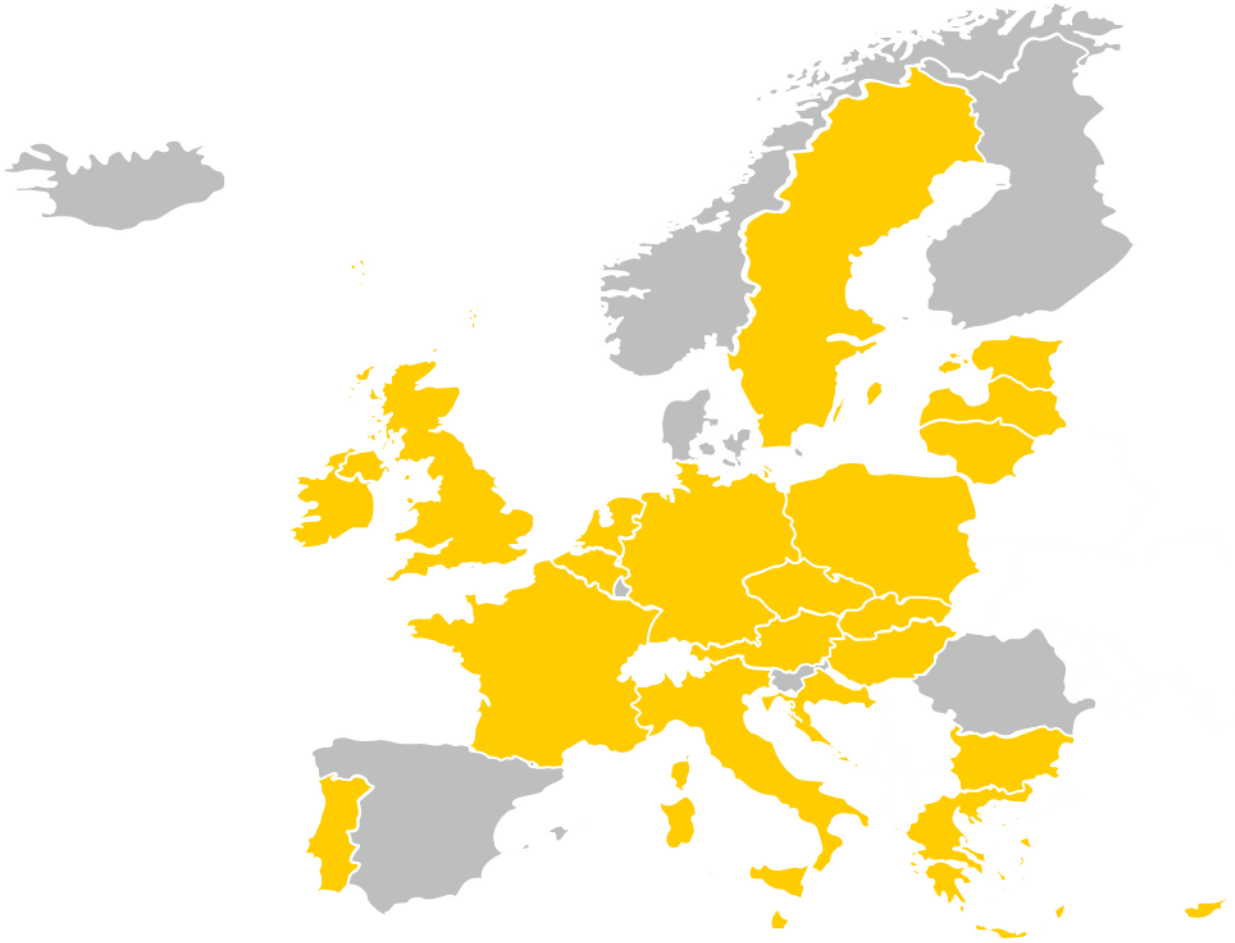

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Public oversight

Delegation of tasks for audits of non-PIEs*

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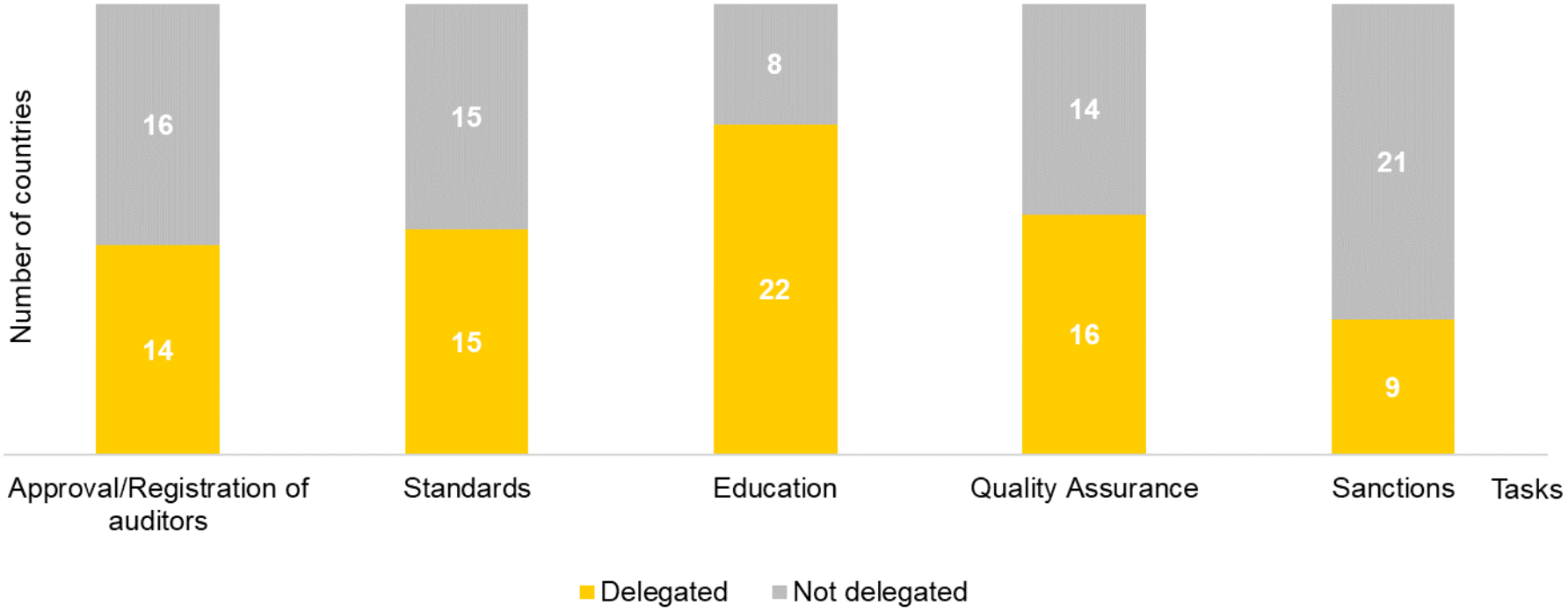

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Approval/ Registration of auditors

Delegation of tasks for audits of non-PIEs

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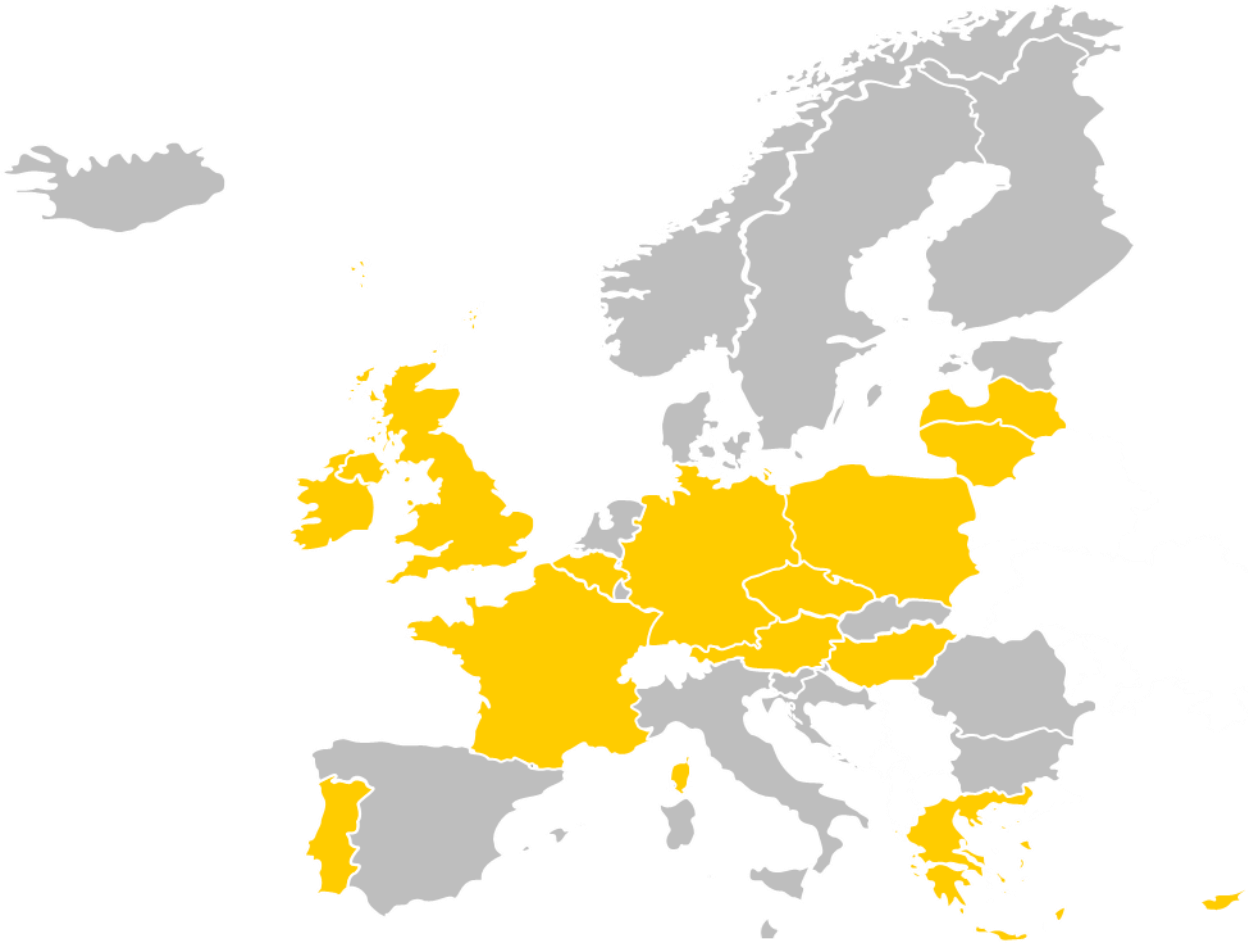

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Standards

Delegation of tasks for audits of non-PIEs

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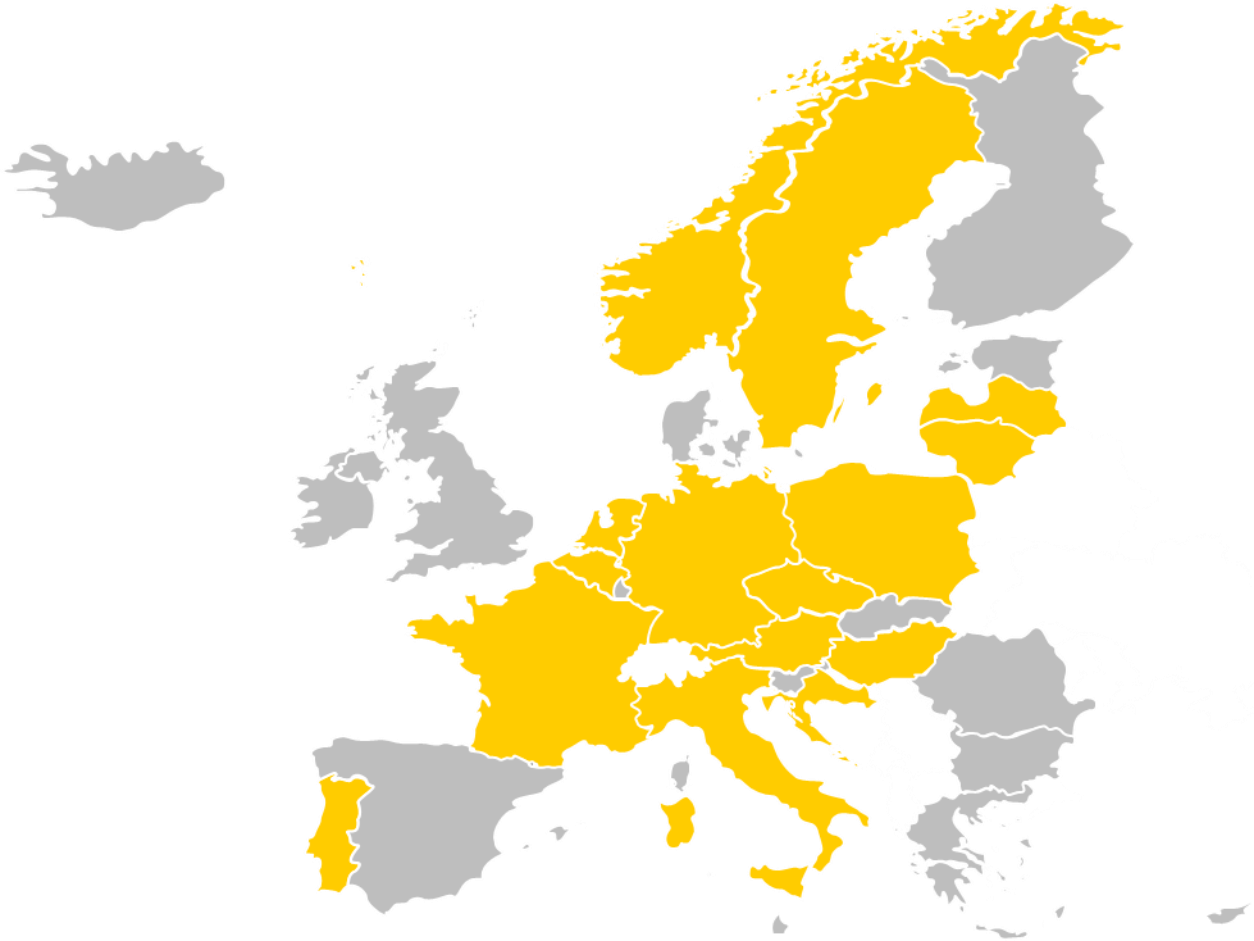

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Education

Delegation of tasks for audits of non-PIEs

July 2020 Update

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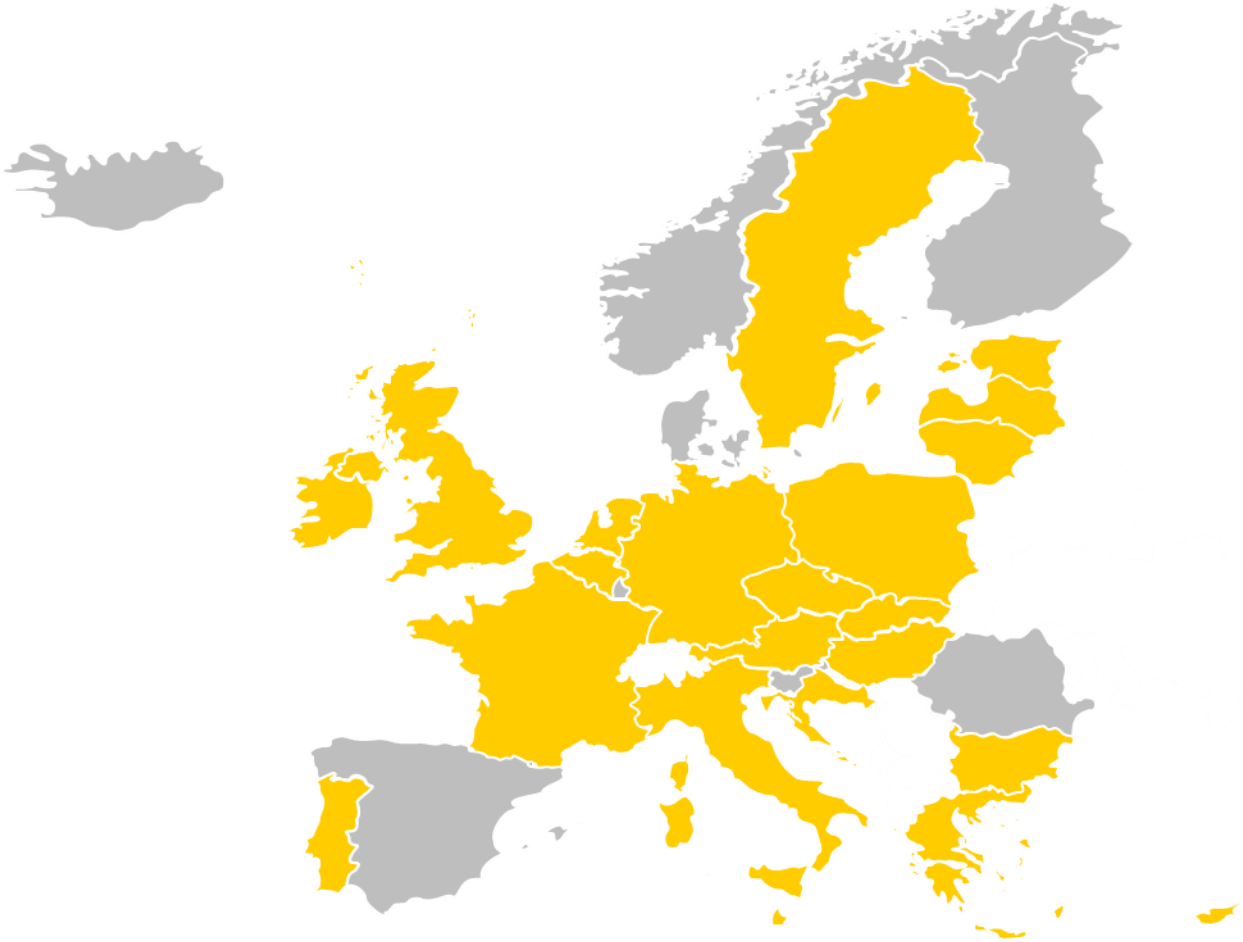

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Quality assurance

Delegation of tasks for audits of non-PIEs

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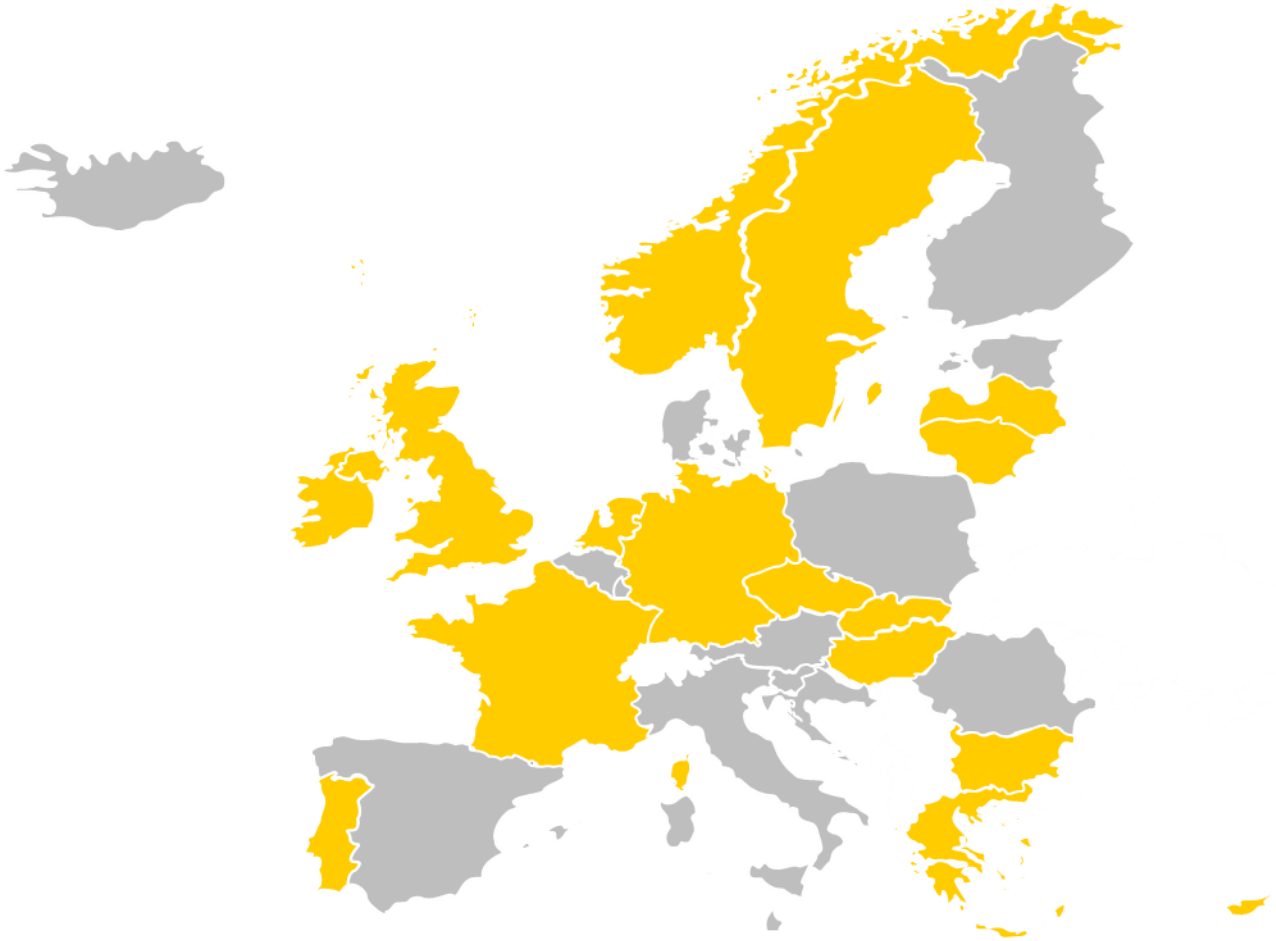
Delegated/ Partially delegated to a professional body

Not delegated



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Sanctions

Delegation of tasks for audits of non-PIEs

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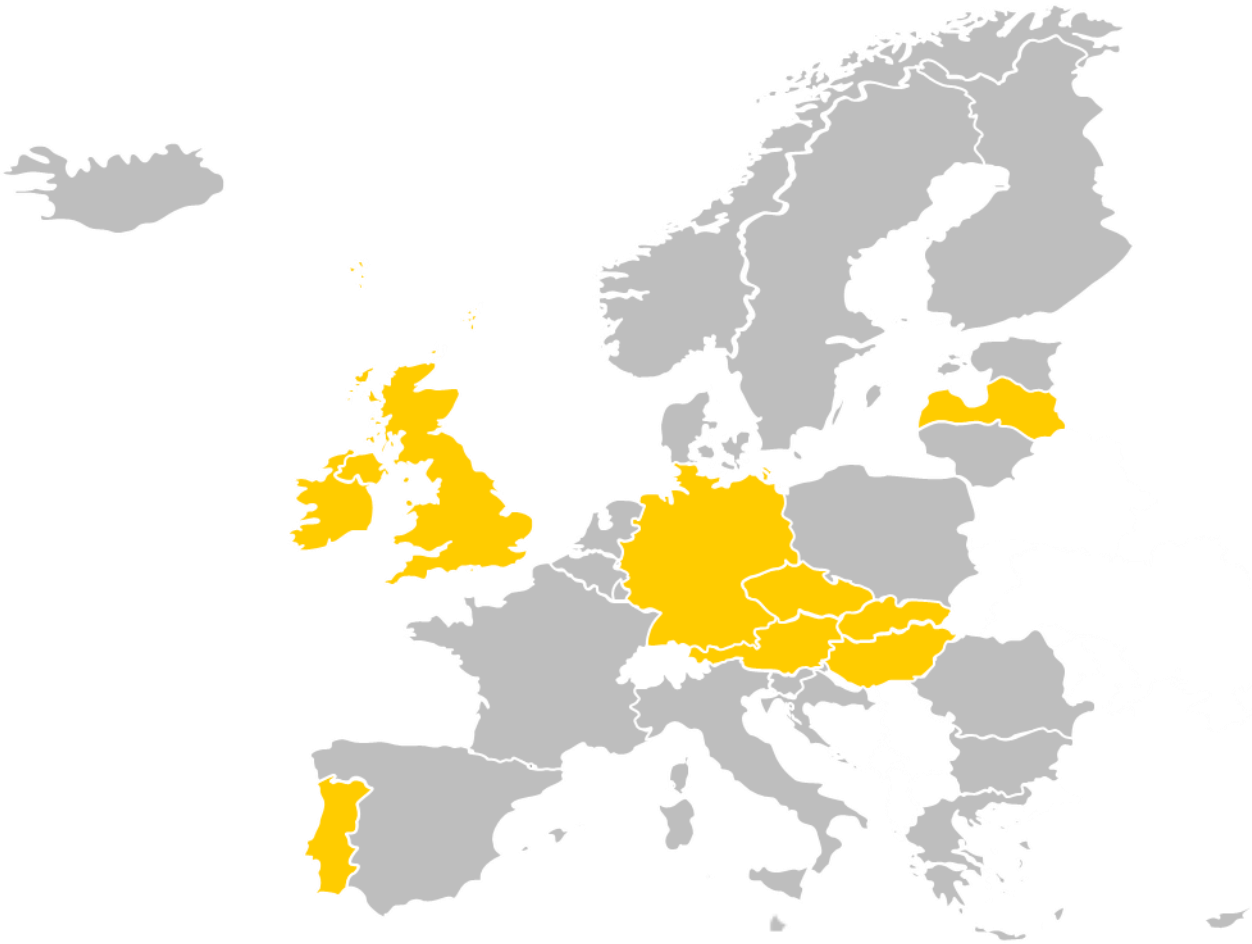
Delegated/ Partially delegated to a professional body

Not delegated



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Public oversight: our take

1. Many European countries rely on a certain degree of delegation of tasks to professional accountancy bodies
2. **Education**, related to PIEs and non-PIEs, has been delegated by the majority of countries
3. **Quality assurance**, related to non-PIEs, has been delegated by the majority of countries
4. **Approval/registration of auditors** and **Standards**, related to PIEs and non-PIEs, have been delegated by approximately half of the countries
5. **Professional accountancy bodies continue to play an important role** in the area of oversight, working together with national competent authorities to enhance audit quality

For details on delegation please see our survey *Organisation of the public oversight of the audit profession in 30 European countries*

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