

Registration of Audit Firms in the EU

Current Status:

- The 8th Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents raises conditions to register audit firms as well as individual auditors. It requires that the majority of the capital and voting rights be held by individuals or firms of auditors who satisfy at least the conditions to be a statutory auditor, and that a majority of the members of the administrative or management body of a firm of auditors be individuals or firms of auditors who satisfy the same conditions.
- The internal market is one of the essential cornerstones of the European Union, and it is based on the idea of free movement of goods, persons, services and capital. The concept of the freedom to perform services is closely linked to the right of establishment.
- The European Commission recently launched a new strategy setting out what the EU needs to do over the next three years to derive maximum benefits from the internal market. Integrating services markets is a key objective, as 'the free movement of services has so far been more a legal concept than a practical reality'.
- FEE published a discussion paper on the free movement of audit firms. This paper addressed some of the following key issues:

- Is it necessary to require that the majority of capital/voting rights in firms be held by locally approved auditors?

FEE maintains that such rules are disproportionate to their objective, and that it would be appropriate to clarify the clauses of the 8th Directive in order to permit majority holdings in firms of auditors in one member state by statutory auditors approved in other member states.

- Should the majority of the members of the administration or management bodies be approved locally in the host member state?

FEE considered that this requirement is proportionate because technical decisions concerning the audit opinion are sometimes taken in the management bodies of the audit firm. The public interest requires that the professionals who take these decisions be in possession of the qualification of the host country.

- Is it possible to adopt a more restrictive requirement beyond that of a simple majority?

FEE believes that harmonisation should require that only a simple majority of capital/voting rights in firms of auditors must be in the hands of statutory auditors. FEE believes that any additional conditions concerning the remaining 49% should be agreed on a Europe-wide basis.

Furthermore, no restriction should exist concerning the legal form of the audit firm that could impair the possibility to open a subsidiary or a branch in another member state.

(continued overleaf)

Next Steps:

- In its Communication of 21 May 2003, the European Commission considers that the current provisions of the 8th Directive and their transposition into Member States law have not resulted in a level playing field and that this could effectively hinder the establishment of fully integrated EU audit firms.
- The Commission is of the view that market access for audit firms should be facilitated by minimizing ownership requirements within the limits of safeguarding auditor's independence. Ownership and management requirements will be reconsidered.
- FEE supports the European Commission's Communication which stated that it would favour the use of several legal forms for audit firms.

FEE Reference:**Discussion Paper on the Free Movement of Firms**

<http://www.fee.be/publications/main.htm>

European Reference:**Reinforcing the Statutory Audit in the European Union**

European Commission Communication of 21 May 2003

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents

8th Council Directive 84/253/EEC of 10 April 1984

http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm

FEE Contact:

Mr. Henri Olivier
FEE Secretary General
henri_olivier@fee.be

FEE Secretariat:

Fédération des Experts Comptables Européens
Rue de la Loi 83, B-1040 Bruxelles
tel: +32 2 285 40 85 - fax: +32 2 231 11 12 - web: www.fee.be

About FEE:

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 41 professional bodies from 29 countries. Between them, these bodies have a combined membership of 500,000 individuals.