Press release

Reforming EU audit services to restore investors' confidence

Committees Committee on Legal Affairs
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A draft agreement with the Council of Ministers on legislation to open up the EU audit services market beyond the dominant "Big Four" firms and remedy auditing weaknesses revealed by the financial crisis was endorsed by Parliament on Thursday. The draft also aims to improve audit quality and transparency and to prevent conflicts of interest.

The role of auditors has been called into question due to the financial crisis. The “audit reform package” consists of a regulation and a directive.

Better quality auditing

The legislation requires auditors in the EU to publish audit reports according to international auditing standards. For auditors of public-interest entities (PIEs), such as banks, insurance companies and listed companies, the text requires audit firms to provide shareholders and investors with a detailed understanding of what the auditor did and an overall assurance of the accuracy of the company's accounts.

Opening up the EU audit market to competition and improving transparency

As one in a series of measures to open up the market and improve transparency, the approved text prohibits "Big 4-only" contractual clauses requiring that the audit be done by one of these firms.

PIEs will be required to issue a call for tenders when selecting a new auditor. To ensure that relations between the auditor and the audited company do not become too cosy, MEPs agreed on a “mandatory rotation” rule whereby an auditor may inspect a company's books for up to 10 years, which may be increased by 10 additional years if new tenders are issued, and by up to 14 additional years in the case of joint audits, i.e. when a firm is being audited by more than one audit firm.

The Commission had proposed mandatory rotation after 6 years, but a majority judged that this would be a costly and unwelcome intervention in the audit market.

Independence of non-auditing services

To preclude conflicts of interest and threats to independence, EU audit firms will be required to abide by rules mirroring those in effect internationally. EU audit firms will moreover be prohibited from providing several non-audit services to their clients, including tax advisory services that directly affect the company's financial statements or services linked to the client’s investment strategy.

Next steps

The deal will also have to be approved by the Council of Ministers. Most of its provisions are to take effect within 2 years of the package’s entry into force, but the restriction on fee income from non-auditing services is to take effect within 3 years.

Procedure: *Co-decision, first reading agreement*

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