

BETTER REPORTING TO, AND FROM, THE AUDIT COMMITTEE

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OVERVIEW OF EU AUDIT REFORM

Main elements of audit reform:

- Coverage is beyond listed companies through PIE definition
- Mandatory rotation of statutory auditor and audit firms
- Limitation on auditor scope of services
- Selection of auditor by audit committee (AC)
- New reporting from auditor to audit committee

Directive requires EU member states to adopt enabling rules by 2016.

To date only a handful of member states have new audit regulations.

To the extent member states choose to 'gold plate' directive using certain options, implementation could add significant complexity.

OPTIONS AVAILABLE TO MEMBER STATES

When adopting national regulations pursuant to the Directive, member states can choose:

- A rotation period shorter than the 10 years
- Expand the Directive's definition of PIEs
- Expand the requirements for audit reports and content of reports to the AC
- Require election of audit committee chair at annual general meeting
- Expand the list of prohibited non-audit services, and lower the cap on non-audit services
- Designation of competent authority for purposes of evaluating ACs

KEY TAKEAWAYS FOR COMPANIES, BOARDS

- Monitor development of regulations in your member state; consider issuing comment letters if proposed regulations should be modified.
- Plan for compliance with multiple rule-sets in cross-border if applicable.
- Begin planning for compliance with the new requirements so that the business can support the audit committee in meeting its new responsibilities.
- Begin discussion of the make up of the audit committee to determine whether additional resources may be required.
- Use available guidance from law firms, accounting and consulting firms to prepare for the new regime.

THANK YOU

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