Procedure file

Basic information

COD - Ordinary legislative procedure (ex-codecision procedure) Directive	2004/0065(COD)	Procedure completed
Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC) Amended by 2006/0285(COD) See also 2008/2247(INI) Amended by 2011/0308(COD) Amended by 2011/0389(COD) Amended by 2020/0268(COD) Amended by 2021/0104(COD) Subject 3.45.03 Financial management of undertakings, business loans, accounting		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	JURI Legal Affairs	PPE-DE DOORN Bert	14/09/2004
	Committee for opinion	Rapporteur for opinion	Appointed
	ECON Economic and Monetary Affairs (Associated committee)	ALDE KLINZ Wolf	13/09/2004
	EMPL Employment and Social Affairs	The committee decided not to give an opinion.	
	ITRE Industry, Research and Energy	PPE-DE RÜBIG Paul	07/10/2004
	IMCO Internal Market and Consumer Protection	PSE WHITEHEAD Phillip	30/11/2004
	LIBE Civil Liberties, Justice and Home Affairs	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meeting	Date
	Agriculture and Fisheries	2724	25/04/2006
	Economic and Financial Affairs ECOFIN	2682	11/10/2005
European Commission	Commission DG	Commissioner	
	Financial Stability, Financial Services and Capital Markets Union		

Key events

16/03/2004	Legislative proposal published	COM(2004)0177	Summary

15/09/2004	Committee referral announced in Parliament, 1st reading		
13/01/2005	Referral to associated committees announced in Parliament		
21/06/2005	Vote in committee, 1st reading		Summary
01/07/2005	Committee report tabled for plenary, 1st reading	A6-0224/2005	
26/09/2005	Debate in Parliament		
28/09/2005	Results of vote in Parliament		
28/09/2005	Decision by Parliament, 1st reading	T6-0353/2005	Summary
25/04/2006	Act adopted by Council after Parliament's 1st reading		
17/05/2006	Final act signed		
17/05/2006	End of procedure in Parliament		
09/06/2006	Final act published in Official Journal		

Technical information

Procedure reference	2004/0065(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Directive
	Amended by 2006/0285(COD) See also 2008/2247(INI) Amended by 2011/0308(COD) Amended by 2011/0389(COD) Amended by 2020/0268(COD) Amended by 2021/0104(COD)
Legal basis	EC Treaty (after Amsterdam) EC 044-p2
Stage reached in procedure	Procedure completed
Committee dossier	JURI/6/22491

Documentation gateway

Legislative proposal		COM(2004)0177	16/03/2004	EC	Summary
Economic and Social Committee: opinion, report		CES1648/2004 OJ C 157 28.06.2005, p. 0115-0119	15/12/2004	ESC	
Committee opinion	ECON	PE353.287	15/03/2005	EP	
Committee opinion	ITRE	PE349.806	17/03/2005	EP	
Committee opinion	IMCO	PE353.614	18/03/2005	EP	
Amendments tabled in committee		PE357.947	01/06/2005	EP	

Committee report tabled for plenary, 1st reading/single reading		A6-0224/2005	01/07/2005	EP	
Text adopted by Parliament, 1st reading/single reading		T6-0353/2005 OJ C 227 21.09.2006, p. 0086-0432 E	28/09/2005	EP	Summary
Commission response to text adopted in plenary		SP(2005)4139	20/10/2005	EC	
Draft final act		03667/5/2005	17/05/2006	CSL	
Follow-up document		SWD(2012)0017	13/02/2012	EC	Summary

Additional information

European Commission	EUR-Lex

Final act

Directive 2006/43
OJ L 157 09.06.2006, p. 0087-0107 Summary

Final legislative act with provisions for delegated acts

Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC)

PURPOSE: To improve the EU's statutory audit of annual accounts and consolidated accounts. PROPOSED ACT: Directive of the European Parliament and of the Council. CONTENT: This Commission proposal is being presented to the European Parliament and the Council in the wake of recent US and EU auditing scandals. The Commission insists that the proposal is not a knee-jerk reaction to these scandals. Rather, it is being proposed, in line with years of thinking on this matter. It seeks to broaden the scope of existing EU legislation: by clarifying the duties of statutory auditors; by clarifying their independence and ethics; by introducing a requirement of external quality assurance; by ensuring robust public oversight over the audit profession; and by improving co-operation between oversight bodies and the EU. The proposal also provides a basis for effective and balanced international regulatory co-operation with oversight bodies of third countries - crucial given the global nature of capital markets. It also maintains the basic conditions on education and training already present in existing Directives. At the same time, however, the scope of EU legislation is broadened by introducing new requirements concerning the manner in which an audit should be carried out and the structures needed to ensure audit quality as well as guaranteeing trust in the audit function. The main elements being introduced by the proposed Directive can be summarised as follows: - "Statutory auditor" and "audit firm" are separately defined. - Statutory audit is defined as the audit of annual or consolidated accounts of entities covered by EU Directives. - Public interest entities (all listed companies whose securities are admitted to trading on a regulated market, all banks and insurance undertakings etc) will become subject to more stringent independence requirement. Their auditors will be obliged to publish an annual transparency report. - There will be a removal of restriction on ownership and management. The majority ownership of an audit firm can only be held by statutory auditors or audit firms approved in any Member States. - Aptitude tests will need to be taken for the approval of statutory auditors from other Member States to take account of specific legislation. - Statutory auditors and audit firms will need to be registered electronically. - Statutory auditors and audit firms will be subject to robust professional ethics adopted by the "International Federation of Accountants (IFAC). - Rules on confidentiality and professional secrecy will not be allowed to stand in the way of financial reporting enforcement or the exchange of information between Member State's authorities. - The statutory auditor or audit firm must be independent of the audited entity and must in no way be involved in management decisions of the audited entity. - An auditor will be obliged to refuse any non-audit engagement which might compromise his/her independence - An auditor's fee can not be based on any form of contingency and the fee can not be influenced by the provision of additional services to the audited entity. - All statutory audits prescribed by EU law should be carried out in accordance with International Standards on Auditing (ISA). - The standards must be of a high quality and contribute to the annual accounts and the consolidated accounts showing a true and fair view. - Member States may only impose additional audit procedures if these follow from specific requirements relating to the scope of the statutory audit. - The Commission may adopt a common standard audit report for annual or consolidated accounts which have been prepared in accordance with adopted international accounting standards. - All statutory auditors or audit firms will be subject to a system of quality assurance based on the "Quality Assurance for the Statutory Auditor in the EU". - Member States will be obliged to organise systems of investigation and effective and dissuasive sanctions including the withdrawal of statutory auditors or audit firm approval. - Principles on public oversight will introduced to ensure sufficient public integrity and independence. For public entities, the oversight of auditors will be carried out exclusively by non-practitioners, who should, nevertheless, be sufficiently knowledgeable about accounting and auditing. - Member States will recognise each other's oversight and regulatory systems. - New procedures will be introduced regarding the appointment of a statutory auditor or audit firm to ensure their independence from those who prepare financial statements within the audited entity. - A statutory auditor or audit firm can only be dismissed if there is a significant reason why they are enable to finalise the audit. - Statutory auditors or audit firms will be obliged to provide the public with detailed reports when conducting work relating to public interest entities. The audit firm will provide a governance statement, a description of the Internal Quality Control System and a statement on the effectiveness of its functioning by the administrative or management body. - An audit committee will be given a crucial role in guarding auditor independence. - The audit review cycles will be shortened to three years. - Stricter requirements will be introduced for public oversight by excluding any practitioner from the governance of public oversight systems. - Auditors and/or audit firms from third countries that issue audit reports on securities traded in the EU, will need to be registered in the EU and be subject to Member States systems of oversight, quality assurance and investigations and

sanctions. - Exemption from registration ethic is allowed provided the third country audit firm is subject to an equivalent system of oversight OR if there is a reciprocal treatment of Member States by the third country. - A new audit regulatory committee composed of representatives of Member States and chaired by a representative of the Commission is introduced. The Committee will assist the Commission in establishing the implementing measures under thecomitology procedures. - Audited companies will be required to disclose feeds paid to the statutory auditory or audit firm broken down by fees for audit services, other assurance services, tax services and other non-audited services. BUDGET: Budget line: A0-7031, ABB 12.010211.01.03 "Expenditure on meetings of Committees " (Compulsory Committees). Total Annual Cost: EUR 46 800.?

Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC)

The committee adopted the report by Bert DOORN (EPP-ED, NL) amending the proposal under the 1st reading of the codecision procedure. The report sought to clarify a number of provisions, in particular on audit committees and on the independence and liability of auditors. Following a series of trialogue meetings, a number of amendments also aimed to approximate Parliament's position to that of the Council with a view to reaching agreement at 1st reading. The main amendments were as follows:

- statutory audit committee: MEPs were opposed to an EU-level requirement to set up statutory audit committees for public interest entities and instead wanted to leave it to the legislation of the Member States to determine the manner in which firms are to regulate and supervise their own internal reporting. The Member States could allow a number of exemptions from the obligation to have an audit committee and would also be given discretion to maintain national bodies similar to an audit committee;

- independent auditors: the committee amended the text of the proposal with the aim of clarifying the requirements for the auditor's independence from the entity being audited, including membership-based auditing entities. On the rotation of auditors, the committee stipulated that the key audit partners should rotate from the audit engagement within a maximum period of seven years rather than five years as laid down in the Commission proposal;

- limitation of liability: the committee proposed a new Article 30a providing that the Commission should report by the end of 2006 on "the impact of the current national liability rules for carrying out statutory audits on the European capital markets and on the insurance conditions for statutory auditors and audit firms, including an analysis of the limitations of financial liability". In the light of that report, the Commission should submit recommendations to the Member States if it considers it appropriate.

Lastly, the committee introduced a new Article 52a making it clear that this directive is a minimum harmonisation directive and that the Member States requiring the statutory audit can impose more stringent requirements unless otherwise indicated in the text.

Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC)

The European Parliament adopted the resolution drafted by Bert DOORN (EPP-ED, NL) making several amendments to the Commission?s proposal. (Please see the summary of 21/06/2005.) The principal points are as follows:

-Commission proposals for all publicly-listed companies to have a separate audit committee to supervise financial reporting procedures were deleted. The amendments give Member States the possibility to determine themselves the way in which firms are to supervise their internal auditing reporting. The Member States could allow a number of exemptions from the obligation to have an audit committee and would also be given discretion to maintain national bodies similar to an audit committee;

-theDirective aims at high level -though not full - harmonisation of statutory audit requirements. The Member State requiring the statutory audit can impose more stringent requirements, unless otherwise indicated in the text of the Directive.

-Parliament has expanded on the matter of an auditor?s independence: examples of threats to the independence of a statutory auditor or audit firm are a direct or indirect financial interest in the audited entity and the provision of additional non-audit services. Also, the level of fees received from one audited entity and/or the structure of the fees can threaten the independence of a statutory auditor or audit firm. Types of safeguards to be applied to mitigate or eliminate these threats include prohibitions, restrictions, other policies and procedures and disclosure. Statutory auditors and audit firms should refuse to undertake any additional non-audit service that compromises their independence. The Commission may, as minimum standards, adopt implementing measures on independence. In order to determine the independence of auditors, the concept of a "network" in which auditors operate needs to be clear. In this regard, various circumstances have to be taken into account such as instances where a structure could be defined as a network because it is aimed at profit or cost sharing. The criteria for demonstrating that there is a network should be judged and weighed on the basis of all factual circumstances available, such as whether there are common usual clients;

-Parliament has amended many of the definitions in the text and inserted new ones, such as "Non-practitioner? and "Key audit partner(s)";

-amendments were also made to the obligation for a public interest company to change auditors every five years and audit firm every seven. The legislation now requires rotation every seven years, only for key audit partner/statutory auditor, and not for the audit firms themselves. Member States must ensure that the key audit partner(s) responsible for carrying out the statutory audit shall rotate from the audit engagement within a maximum period of seven years after the date of appointment and shall be allowed to participate in the audit of the audited entity again after a minimum period of two years.

-In cases of self review or self interest, where appropriate to safeguard the statutory auditor´s or audit firm's independence, it should be for the Member State rather than the statutory auditor or the audit firm to decide whether the statutory auditor or audit firm should resign or abstain from an audit engagement with regard to its audit clients. However, this should not lead to a situation where Member States have a general duty to prevent statutory auditors or audit firms from providing non-audit services to their audit clients. For the purposes of determining whether it is appropriate, in cases of self interest or self review, that a statutory auditor or audit firm should not carry out statutory audits, so as to

safeguard the statutory auditor's or audit firm's independence, the factors to be taken into account should include the question whether or not the audited public interest entity has issued transferable securities admitted to trading on a regulated market.

-with regard to public oversight, the system of public oversight must be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit. Member States may however allow a minority of practitioners to be involved in the governance of the public oversight system. These non-practitioners may be specialists who have never been linked with the audit profession or former practitioners who have left the profession.

-on the issue of auditors? liability, the Commission shall before the end of 2006 present a report on the impact of the current national liability rules for carrying out statutory audits on the European capital markets and on the insurance conditions for statutory auditors and audit firms, including an objective analysis of the limitations of financial liability.

-with regard to the adoption of technical implementing rules by committee procedure, upon expiry of a two-year period following the adoption of the Directive and on 1 April 2008 at the latest, the application of its provisions requiring the adoption of technical rules, amendments and decisions shall be suspended. Acting on a proposal from the Commission, the European Parliament and the Council may renew the provisions concerned in accordance with the codecision procedure and to that end they must review them prior to the expiry of the period above.

Lastly, the date of transposition has been put back to 24 months of entry into force of the Directive, rather than 1 January 2006.

Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC)

PURPOSE: to modernise EU provisions on the control of statutory audits of annual accounts and consolidated accounts.

LEGISLATIVE ACT: Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

CONTENT: the Council adopted a Directive updating and introducing additional EU rules on the audit of company accounts aimed at reinforcing the reliability of company financial statements through the establishment of minimum requirements for statutory audit of annual accounts and consolidated accounts. The Council accepted all Parliamentary amendments tabled at first reading.

The Directive broadens the scope of application of existing EU legislation (Directive 84/253/EEC) by specifying the duties of statutory auditors, their independence and ethics, introducing requirements for external quality assurance, with a view to ensuring better public oversight of the audit profession and improving co-operation between oversight bodies in the EU. At the same time it amends Directive 78/660/EEC and 83/349/EEC on accounting.

The new measures are intended to help improve quality audits within the EU and hence underpin confidence in the functioning of EU capital markets. They will also provide a basis for co-operation with oversight bodies of third countries to take account of globally interconnected capital markets.

ENTRY INTO FORCE: 29 June 2006.

TRANSPOSITION: 29 June 2008.

Company law: statutory audit of annual and consolidated accounts (amend. Directives 78/660/EEC and 83/349/EEC, repeal. Directive 84/253/EEC)

The Commission presents a Staff Working Document on the transposition of Directive 2006/43/EC on statutory audits in the Member States and on European cooperation on auditor oversight. It recalls that in a resolution of 10 March 2009 on the implementation of the Directive, the European Parliament called on the Commission to evaluate the transposition measures for the Directive. The European Parliaments resolution recalled that the aims of the Directive should be to further enhance harmonisation of the audit market, minimise exemptions in order to avoid fragmentation of the market and improve market stability and address problems of level playing-field between market participants. In addition, in order to tackle the issues related to the economic and financial crisis, the resolution stated that minimum harmonisation is no longer adequate to tackle the issues that appear in the audit market.

The Commission services have evaluated the national legislations transposing the Directive 2006/43/EC in Member States and present the results of that evaluation.