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Directorate-General for Financial Stability, Financial Services and Capital Markets Union

INVESTMENT AND COMPANY REPORTING

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Additional Q&A - Implementation of the New Statutory Audit Framework

This document includes answers to new questions on the EU rules on statutory audit, which will become applicable as of 17 June 2016. The questions and answers below are in addition to, and should be read together with, the ones published on this website in [September 2014](#) and [February 2016](#).

DISCLAIMER:

This Q&A is not a legal document. This is an unofficial opinion of Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). The answers provided therein are not binding on the European Commission as an institution.

1. Public-interest entities (PIEs) and duration of the audit engagement

Q: *When does an entity become a PIE? How does this impact on the calculation of the duration of the audit engagement?*

A: For the purpose of the Audit Directive and the Audit Regulation, entities are PIEs from the moment that they fulfil the criteria of a listed company, a credit institution or an insurance undertaking set out in EU law. In practice this means, for example, that a listed company qualifies as a PIE from the moment its securities are admitted on a regulated market, regardless of when it was defined as a PIE under EU law.

The calculation of the duration of the audit engagement for a PIE should normally start with the first financial year covered in the audit engagement. If, however, an entity qualifies as a PIE during the course of an audit engagement, the calculation of the duration should start from the first financial year after the entity qualifies as a PIE. This also applies to the calculation of the transitional regime.

The same applies in the case of a 'national PIE', i.e. an entity designated as such by a Member State.

2. Application of the new rules to non-listed PIEs

Q: *The 2006 Audit Directive provided an option for Member States to exempt certain PIEs from certain requirements. Does this exemption have any impact on the application of the rotation requirements to these PIEs under the new rules?*

A: Under the 2006 Audit Directive, Member States had the possibility to exempt audits of non-listed PIEs, including for instance non-listed credit institutions or insurance undertakings, from specific requirements governing the audits of PIEs. However, this exemption did not modify the scope of PIEs.

Hence, these non-listed entities qualified as PIEs, regardless of whether Member States had made use of the option to exempt them from certain requirements. This means that the same requirements will apply to listed and non-listed PIEs when the new rules become applicable, including for instance the rotation requirements or the transitional regime. Moreover, the option for Member States to exempt non-listed PIEs from certain requirements will no longer be possible under the new rules.

3. Audit engagements entered into after the new rules entered into force

Q: Which regime will apply to PIE audit engagements entered into after the entry into force of the new rules?

A: The Regulation does not set out any transitional regime for PIE audit engagements entered into on or after 16 June 2014, the date of entry into force of the new rules. The general rotation rules will apply to those audit engagements. Likewise, the maximum duration of these audit engagements will start counting as from the first financial year covered in the respective audit engagement letters.

4. Extension of the maximum duration of audit engagements following a public tender

Q: Does a PIE need to make the tender public to extend the maximum duration of the audit engagement?

A: Where a Member State makes use of the option to extend the maximum duration of the audit engagement following a tender, the Regulation requires that a public tendering process is conducted, in order to allow external audit firms or statutory auditors to bid for the tender. This differs from the general rules on the selection procedure to appoint a statutory auditor or an audit firm (see Q2 of the Q&A document published in February 2016).

5. Extension of the maximum engagement period following joint audit

Q: Does a PIE need to conduct a tender to select another auditor to extend the maximum duration of the audit engagement following joint audit?

A: Where a Member State makes use of the option to extend the maximum duration of the audit engagement following joint audit, the general rules on the selection procedure to appoint a statutory auditor or an audit firm apply. This means that the PIE will need to conduct a tender to select joint auditor B.

6. Application of new cooling-off requirements for key audit partners

Q: When will the new three-year cooling-off period for key audit partners start to kick in?

A: The new rules require the key audit partners responsible for carrying out a statutory audit to cease their participation in the statutory audit of the audited entity after a maximum of seven years. Three years should elapse following this cessation before the key audit partners can participate again in the statutory audit of that audited entity. These three years correspond to the so-called cooling-off period.

The new rules have extended the existing cooling-off period for key audit partners, which currently lasts two years. The new three-year requirement will apply to cooling-off periods starting on and after 17 June 2016.

7. Application of the transitional regime

Q. Does the transitional regime established by the Regulation apply in the same way across the EU?

The Regulation provides a transitional regime to allow for a gradual introduction of mandatory auditor rotation. This will help avoid that all PIEs rotate their long-standing auditors at the same time and trigger a 'cliff effect' in the audit market.

The transitional regime will apply in a uniform manner across the EU. This means that all PIEs will be able to benefit from the transitional regime as laid down in the Audit Regulation, no matter where they are located in the EU, and regardless of the options that Member States may choose to adopt to extend the maximum duration of the audit engagement.

In order to support the co-legislators' intention to ensure legal certainty, the Commission has published several documents¹ providing guidance on the application of the transitional regime.

8. Composition of audit committees

Q: What will be the impact of the new rules on the composition of audit committees?

The new rules strengthen audit committees, both in their composition and in their competences, so that audit committees, or bodies performing an equivalent function within the audited public interest entity, can play a decisive role in contributing to high-quality audits.

The new rules on the composition and the competences of audit committees will apply to the financial year starting on or after 17 June 2016. It is up to each audit committee to assess whether specific changes are required to its composition so that its members and the committee as a whole will be in line with the requirements of the new rules.

¹ Available via the following link: http://ec.europa.eu/finance/auditing/reform/index_en.htm