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1. In your view, what is the key purpose of the statutory audit system reform in EU?

The new EU Audit Directive and Regulation from 2014 impose many new requirements in a variety of areas for EU Member States. But a common theme is strengthening the independence of statutory auditors and the oversight systems that regulate them. Ever since the wave of corporate accounting scandals beginning about 15 years ago in the U.S. and Europe, a consensus has developed that auditors are often too close to their clients and may not have the right incentives to protect investors and others who rely on financial information. The new Directive and Regulation are the latest attempt to help reshape the incentives of the auditing profession. You can see this in a variety of the new requirements, including increased restrictions on auditors providing non-audit services, provisions that prevent an auditor from becoming too financially reliant on one audit client, and additional requirements to communicate independence issues to audit committees. The new laws also seek to strengthen the independence of audit oversight bodies by measures such as precluding current audit practitioners from their decision-making and requiring the oversight body to perform quality assurance for Public Interest Entities, rather than delegating that function to the professional body. Independence is the recurring theme in modern audit regulation.

2. What in your opinion is the optimal structure of the public oversight body?

The optimal model for a public oversight body really depends on specific national circumstances. Alternative structures have their own strengths and weaknesses. The Netherlands embodied their oversight body in their securities regulator. Other countries have self-standing oversight bodies. But the key requirements for any effective structure are (1) adequate and stable funding, (2) adequate staffing, including experienced and well-trained auditors to perform quality assurance functions, (3) governance that is competent and independent from the audit profession, (4) insulation from partisan political influence, and (5) some mechanism of accountability for the oversight officials, to assure they are properly executing their duties. An effective oversight body is somewhat expensive, because significant funds have to be available to hire competent people to staff it. But it would be better to have no oversight body at all than to have one staffed with people who are not experienced and competent in auditing. An incompetent regulator can do a lot of damage.

3. Whose interests should represent the public oversight body – services users` or auditors`?

A public oversight body should never view itself as representing the interest of auditors, and its main purpose is also not to represent the interests of the companies who hire auditors. Instead, the job of the public oversight body is to protect those who use and rely on

financial information reported by companies, including investors, lenders, regulators and others. The whole purpose of public oversight is to supersede the old system, in which auditors regulated themselves, because it is believed that they too often acted to protect themselves rather than assuring audit quality and protecting the public.

However, good auditors can benefit from the work of a public oversight body. For example, auditors who are doing their best to perform quality audits should not have to compete for clients with auditors who offer to provide audit reports for very little money by performing grossly inadequate audits, or no audit at all. In every country, there are unfortunately some auditors who sell audit reports, rather than audit services. That is, they may provide an audit report to a company that needs one to comply with regulations, for a very low price, without really performing an audit. A public oversight body should be able to remove these kinds of dishonest auditors from the market. And that helps other auditors, who are honestly trying to do their jobs, as well as enhancing the reputation of the audit profession.

4. EU Directive #56 of 2014 strengthened the role of auditors' committee. What is your opinion of this body?

Audit committees are responsible for corporate accounting, internal controls, risk management, and the relationship with the company's external auditor, among other things. A strong and independent audit committee can help make sure that a company is well-run, honest, and focused on long-term business success, rather than serving the short-term individual interests of managers. The role of audit committees has been greatly strengthened by new laws in the U.S. and Europe since 2002. However, in many countries, it can be challenging to find people with the right experience and background to serve on audit committees.

5. How will the role of professional organizations change in the new framework?

In general, the new framework removes some powers from professional organizations and transfers them to the public oversight body, to strengthen independence. Most importantly, quality assurance and enforcement functions for auditors of Public Interest Entities can no longer be delegated to professional organizations in the new framework. However, professional organizations can still perform these functions for auditors who do not audit PIEs.

6. What are your key recommendations for Ukraine as regards to adoption of provisions of the EU Directive and Regulation on statutory audit.

If Ukraine chooses to establish a system of public oversight, the biggest challenge may be to create a stable and adequate source of funding, to assure that the oversight body has the funds to hire experienced auditors to perform quality control functions, for example. As earlier mentioned, it would be better not to create an oversight body at all than to create one staffed with people who do not understand modern auditing. Incidentally, if the body is authorized to impose fines on auditors, the money collected should never be used to support the oversight

body's budget or in any other way benefit the members or staff of the oversight body, because that could call into question the body's fairness and objective judgment. The next big challenge would be to find competent, public-spirited people to serve on the governing body, and to serve in key leadership positions in the staff of the body. As an Eastern Partnership country, Ukraine need not comply with the provisions of the EU Directive and Regulation immediately. There is time to consider Ukraine's approach very cautiously and deliberately. Ukraine should take the time.

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