



Core Principles for Audit Regulators – Example Austria
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CFRR Community of Practice Workshop

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1. Responsibilities, organisation and financing

Principle 1:

„The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation“

Principle 2:

„Audit regulators should be independent“

Principle 4:



„Audit regulators should have comprehensive regulatory powers to promote high quality audits“

Principle 5:

„Audit regulators should have sufficient resources and staff with relevant competence and expertise who are independent of the profession“

1. Responsibilities, organisation and financing

1.1 Set up and legal framework

- The Austrian Audit Oversight Authority (APAB) was established in 2016 as the national competent for audit supervision.
- The authority acts **independent and free from instructions** under legal supervision of the Federal Ministry of Finance.
- Legal Framework:
 - Directive 2006/43/EG, Regulation (EU) No. 537/2014
 -  Auditor-Oversight-Act (APAG)
 -  Austrian Business Act (UGB, 3. Book on Financial Statements and Accounting)
 - as well as all provisions relevant to audits of the Austrian Banking Act (BWG), Austrian Insurance Supervisory Act (VAG), Austrian Cooperative Act (GenG) and Austrian Cooperative Audit Act (GenRevG), Austrian Savings Bank Act (SpG), Stock Exchange Act (BörseG), ...
- Scope is limited to statutory audit → other assurance services are out of scope

1. Responsibilities, organisation and financing

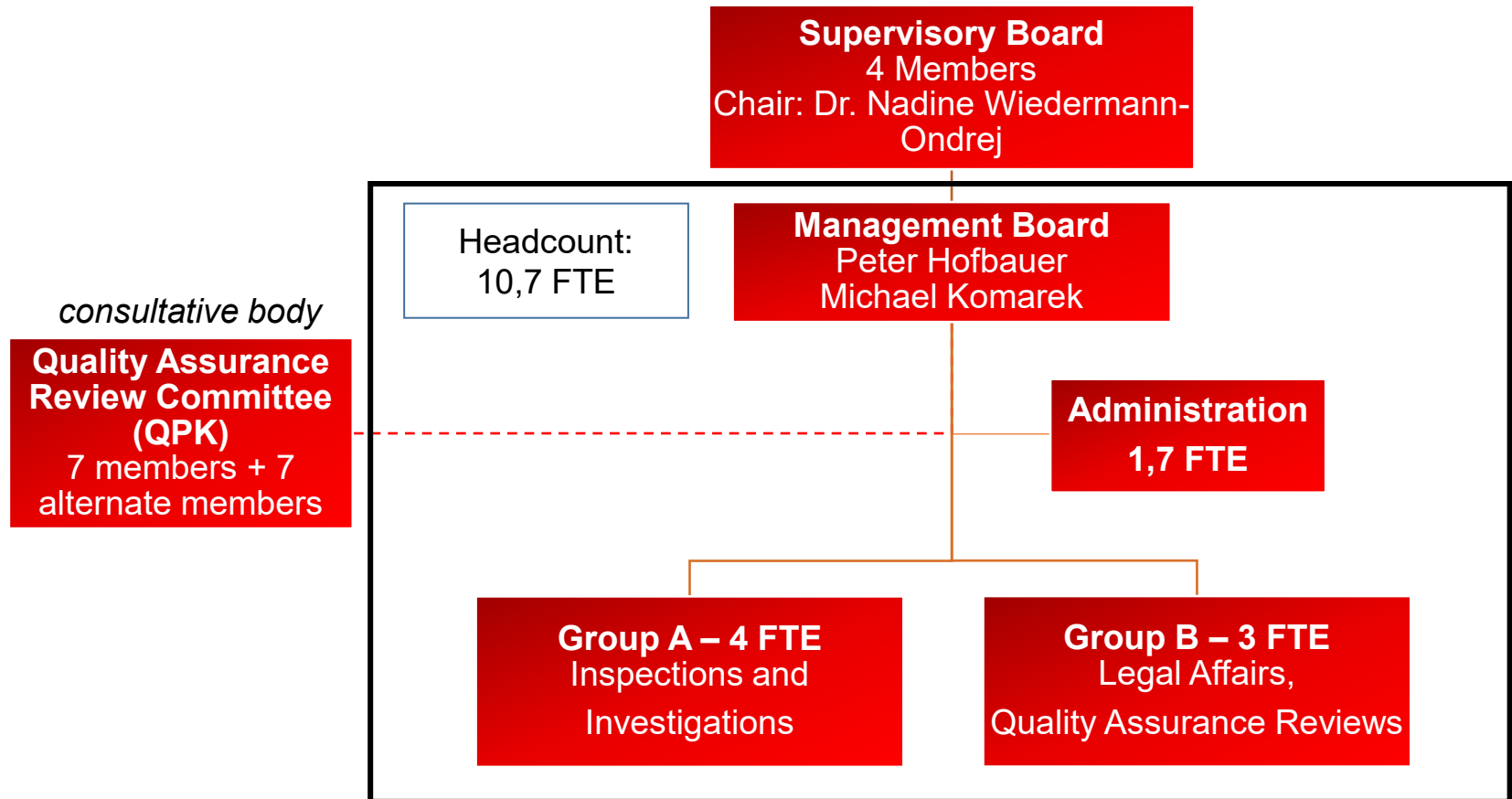
1.2 Catalogue of tasks

- Inspections with PIE-audit firms
- Quality Assurance Reviews for statutory auditors and audit firms
- Registration of statutory auditors and audit firms
- Investigations of statutory auditors, audit firms or PIEs
- Imposition of sanctions in case of infringements of Audit Oversight Act, Regulation (EU) No. 537/2014
- Approval of standards for internal quality assurance and auditing standards
- Monitoring of compliance with training obligations of statutory auditors
- Supervision of quality and competition in the audit market for PIEs

1. Responsibilities, organisation and financing

1.3 Organisational structure

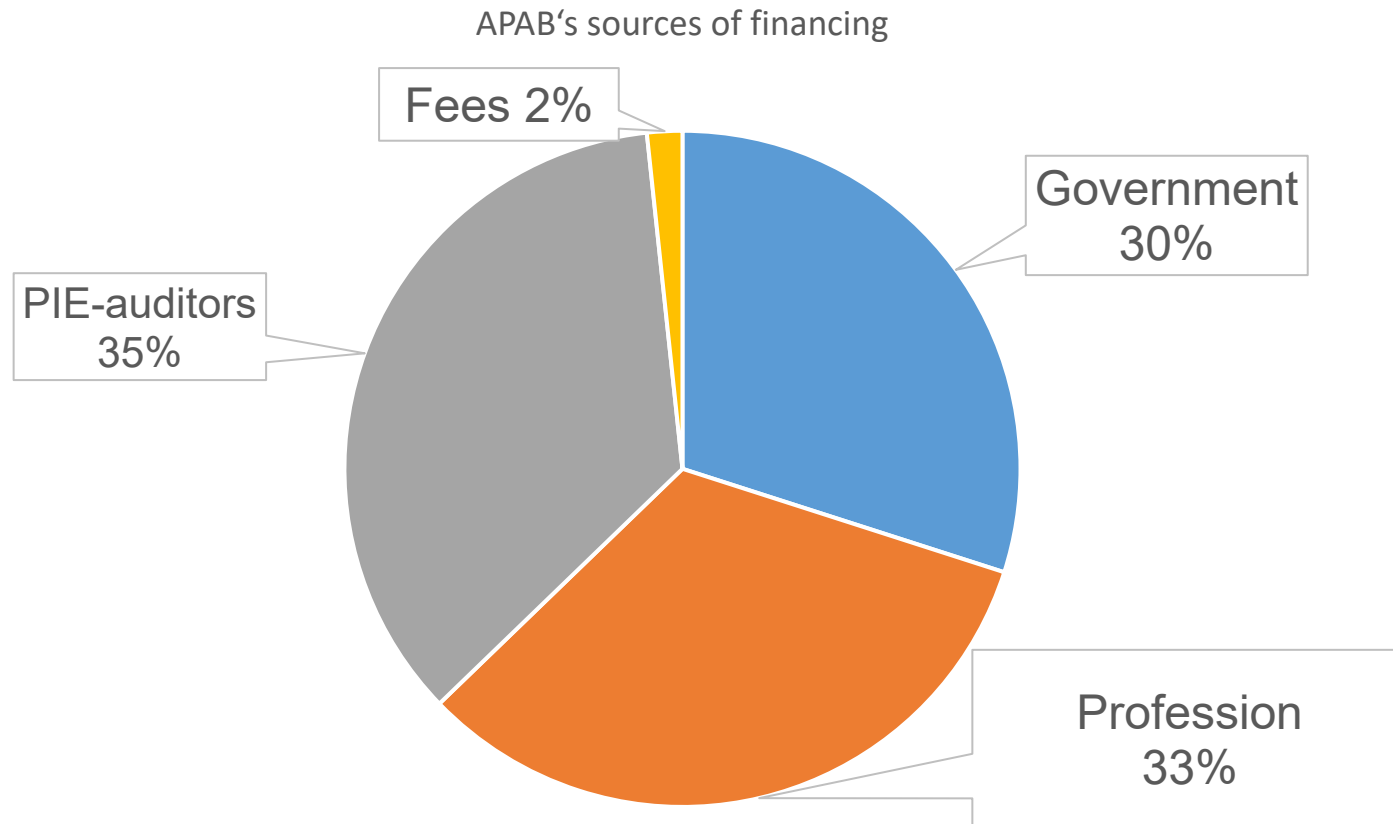
Legal Supervision by the Federal Ministry of Finance



1. Responsibilities, organisation and financing

1.4 Financing

APAB's budget for 2022 is 1,7 Mill. EUR, the contributions by PIE-auditors and the profession are compulsory and determined on a legal basis



2. Regulator independence and confidentiality

Principle 6:

„Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements“

2. Regulator independence and confidentiality

2.1 Independence

Independence from the profession

- Cool-off periods:
 - Executive directors and members of the supervisory board have to be independent from the profession for at least three years
 - Inspectors are barred from inspecting their former employers for at least three years
- Financing of the authority by the supervised entities is based on legal obligations
- Members of the supervisory board are appointed by the Minister of Finance and the Minister of Economy
- Executive Directors are appointed by the cabinet of ministers based on the recommendation of the supervisory board

2. Regulator independence and confidentiality

2.2 Confidentiality

Confidentiality

- All of APAB's employees are bound by the Austrian official secrecy obligations for civil servants
- Infringement of the official secrecy obligations is a felony sanctioned by a maximum sentence of 3 years in jail

→ Problem: APAB cannot share information with other national authorities (e.g. Financial Markets Authority) unless there is an explicit legal provision allowing it

2. Quality assurance

Principle 8:

„Audit regulators should at a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities“

Principle 9:

„Audit regulators should ensure that a risk-based inspections program is in place“

Principle 10:

„Audit regulators should ensure that inspections include effective procedures for both firm-wide and audit engagement file reviews“

Principle 11:

„Audit regulators should have a mechanism for reporting inspection findings to the audit firm and addressing remediation of findings with the audit firm“

2. Quality assurance

2.1. Quality Assurance & Registration

- To conduct statutory audits in Austria a time-limited licence is required
- The registration into **public register** is usually linked to a successful completion of a quality assurance review
- After the successful completion of a quality assurance review the auditor or audit firm receives a time limited licence for up to 6 years
- If deficiencies are identified the licence might be denied or the licence's length of validity may be reduced.
- New admissions or re-admissions of auditors: temporary licence limited to 18 months

2. Quality assurance

2.2. Quality Assurance Reviews vs. Inspections

Quality Assurance Reviews

- All statutory auditors are subject to quality assurance reviews
- These are carried out by practitioners who are registered as quality assurance reviewers with the APAB
- The quality assurance reviewers are selected by the APAB
- Their reports are evaluated by the Quality Assurance Review Committee which makes recommendation
- The APAB decides whether the review was successfully completed and on the validity period of the licence (max. 6 years)

Inspections

- Audit firms auditing PIEs (listed entities, banks and insurance companies) are subject to inspection
- Inspections are carried out at least every 3 years, for Big-4 firms every 1 to 2 years
- Inspections are carried out by the APAB's own inspectors – sometimes supported by external experts
- As of September 30 2022 there are 14 PIE-audit firms

2. Quality assurance

2.3. *Inspection approach*

- The whole process is based on the APAB's inspection approach manual
- The APAB uses the Common Audit Inspection Methodology (CAIM) of the *Committee of European Auditing Oversight Bodies* → CAIM is published on CEAOB's website
- Inspections include both firm and file reviews
- Inspection tests and steps are documented with the use of a software tool (Pentana)
- Time spent on each inspection: between 5-12 FTE work weeks for firm review and between 1-3 FTE work weeks for each file review
- Findings are communicated and discussed with the audit firm before an inspection report is finalised

2. Quality assurance

2.4. Remediation

- If deficiencies are identified in inspections or quality assurance reviews the APAB may give the auditor or audit firm an administrative order to remedy the deficiencies within a reasonable period of time (usually 9 months)
- The statutory auditor has to prove the remediation to the APAB
- In case of persistent non-compliance with imposed measures resulting from quality assurance reviews the APAB can withdraw the licence

3. Investigations and enforcement

Principle 12:

„Audit regulators should have independent investigatory powers vis-à-vis auditors and audit firms under their jurisdiction“

Principle 13:

„Audit regulators should have at their disposal a comprehensive and impactful range of disciplinary measures/sanctions against auditors and audit firms“

Principle 14:

„Audit regulators should have the authority to communicate disciplinary measures/sanctions to the public“

3. Investigations and enforcement

3.1. Investigations

- The APAB can conduct investigations of auditors and PIEs to identify possible breaches of legal obligations relating to audits
- Investigations can be initiated by procedural order at any time
- The APAB can make use of external experts
- Costs of investigation are charged to the investigated auditor or PIE regardless of the outcome

3. Investigations and enforcement

3.2. Powers of Sanctions

- Ordering a natural or legal person responsible for an infringement to stop the conduct which led to the infringement and to refrain in future from repeating any such conduct
- Public declaration about the nature of infringement, which will be published on the webpage of the APAB → however: without disclosing personal information
- Prohibition of performing and/signing statutory audits for up to 3 years for the statutory auditor, the audit firm or the responsible auditor
- Temporary prohibition of execution of role for up to 3 years for members of audit firms or members of an administrative or management body of PIEs
- Imposition of financial penalties between € 400,-- and € 350 000,--
- Withdrawal of licence

➤ If there is reasonable suspicion for a criminal offence, the APAB has to refer the case to the Public Prosecution Service

4. Transparency and cooperation

Principle 3:

„Audit regulators should be transparent and accountable. They should have a good understanding of the needs of their stakeholders and the audit market in their jurisdiction“

Principle 7:

„Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other national authorities“

4. Transparency and cooperation

4.1. *Transparency*

The APAB publishes:

- Annual working program
- Annual report on the APAB's activities which also includes statistical data on the audit market
- Annual budget and financial statements
- Annual Corporate Governance Report
- Reports on supervisory activities (e.g. reports published in 2022: Report on Audit Culture; Report on Activities of Audit Committees)

4. Transparency and cooperation

4.2. Cooperation

International cooperation

- The APAB is an active member of both IFIAR and CEAOB
- The APAB chairs IFIAR's Investor and other Stakeholders Working Group
- Cooperation with EU Member States' authorities via CEAOB
- Cooperation with third countries: MoU and Data Protection Agreement with the PCAOB (US), MoUs with the CPAB (Canada) and the RAB (Switzerland); the APAB has carried out joint inspections with the PCAOB and the CPAB

National cooperation

- Intense cooperation with Austria's Financial Markets Authority on different topics, e.g.:
 - Auditing Standards
 - Accounting enforcement
 - Suitability of auditors of banks and insurances
 - Dialogue with audit committees
 - Cooperation with Chamber of Public Accountants, Public Prosecution Service, Financial Reporting Enforcement Panel and other national authorities
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