

# **Audit and Accounting Implementation Challenges**

**Paul Gisby**

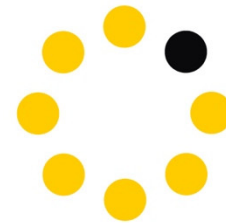
**28 March 2017**

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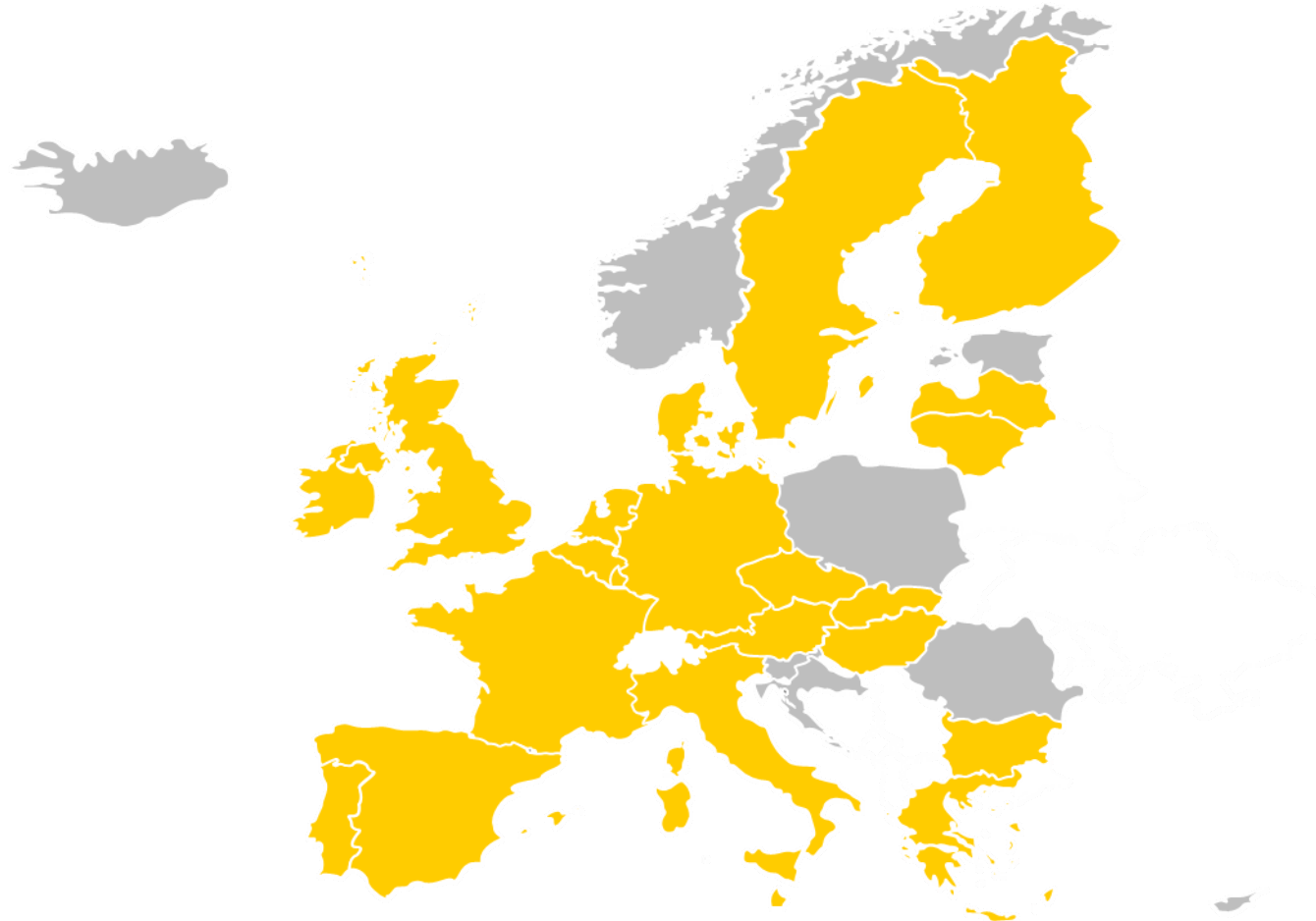


# Audit reform

# Implementation status

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- Implemented
- Not implemented



# Topics with implementation challenges

- Mandatory audit firm rotation
- Prohibition of the provision of non-audit services
- Extended role of the audit committee

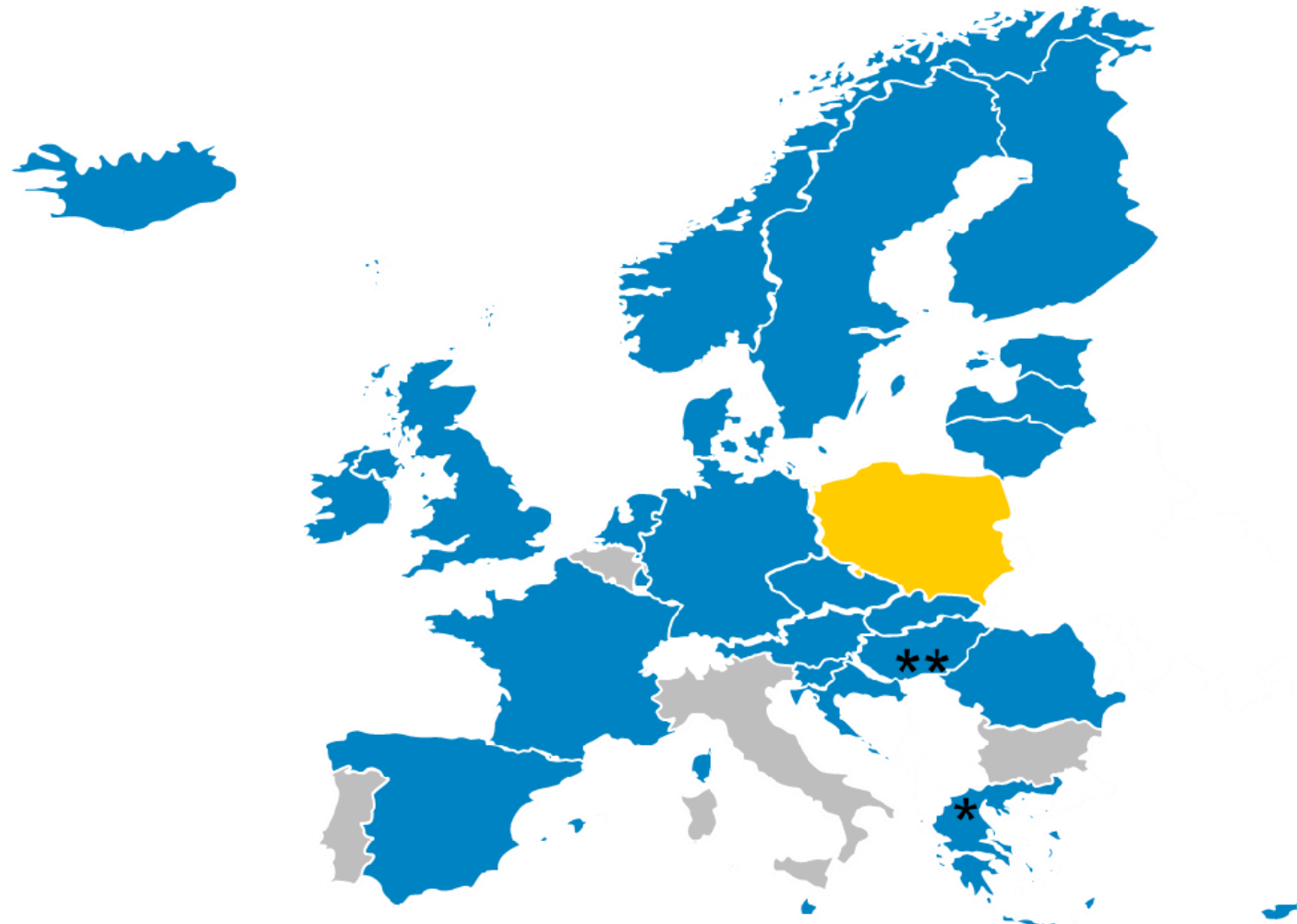
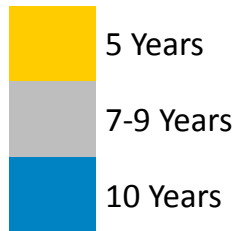
# Mandatory audit firm rotation: Recap

- General rule: Public Interest Entities (PIEs) must rotate auditor after 10 years
- Member States' options to:
  - Shorten the 10 years
  - Extend up to 20 years with 'public' tender or up to 24 years with joint audit



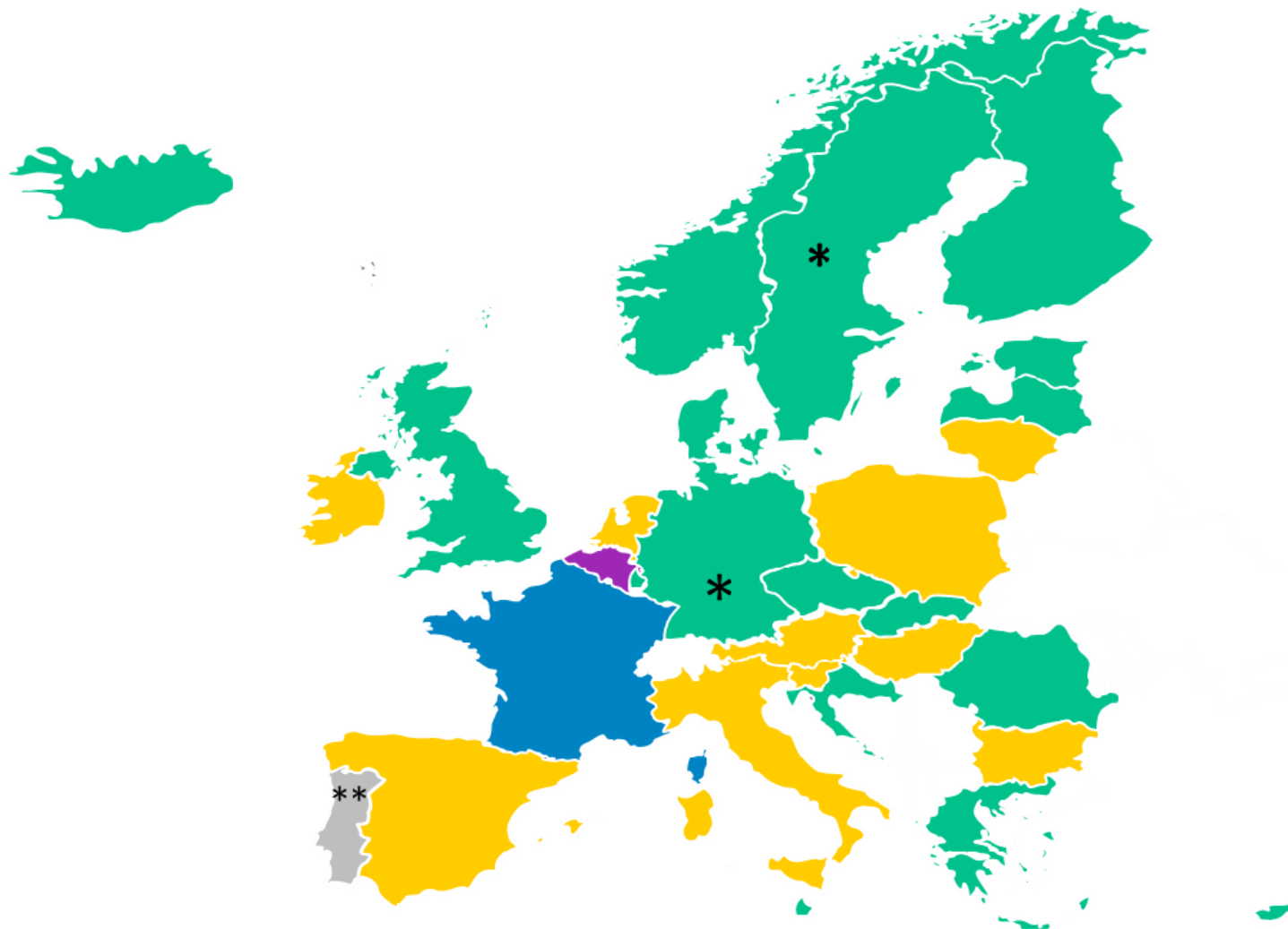
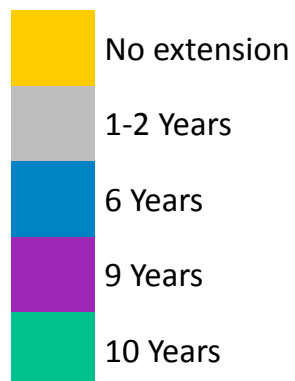
# Mandatory audit firm rotation: Initial duration of engagement

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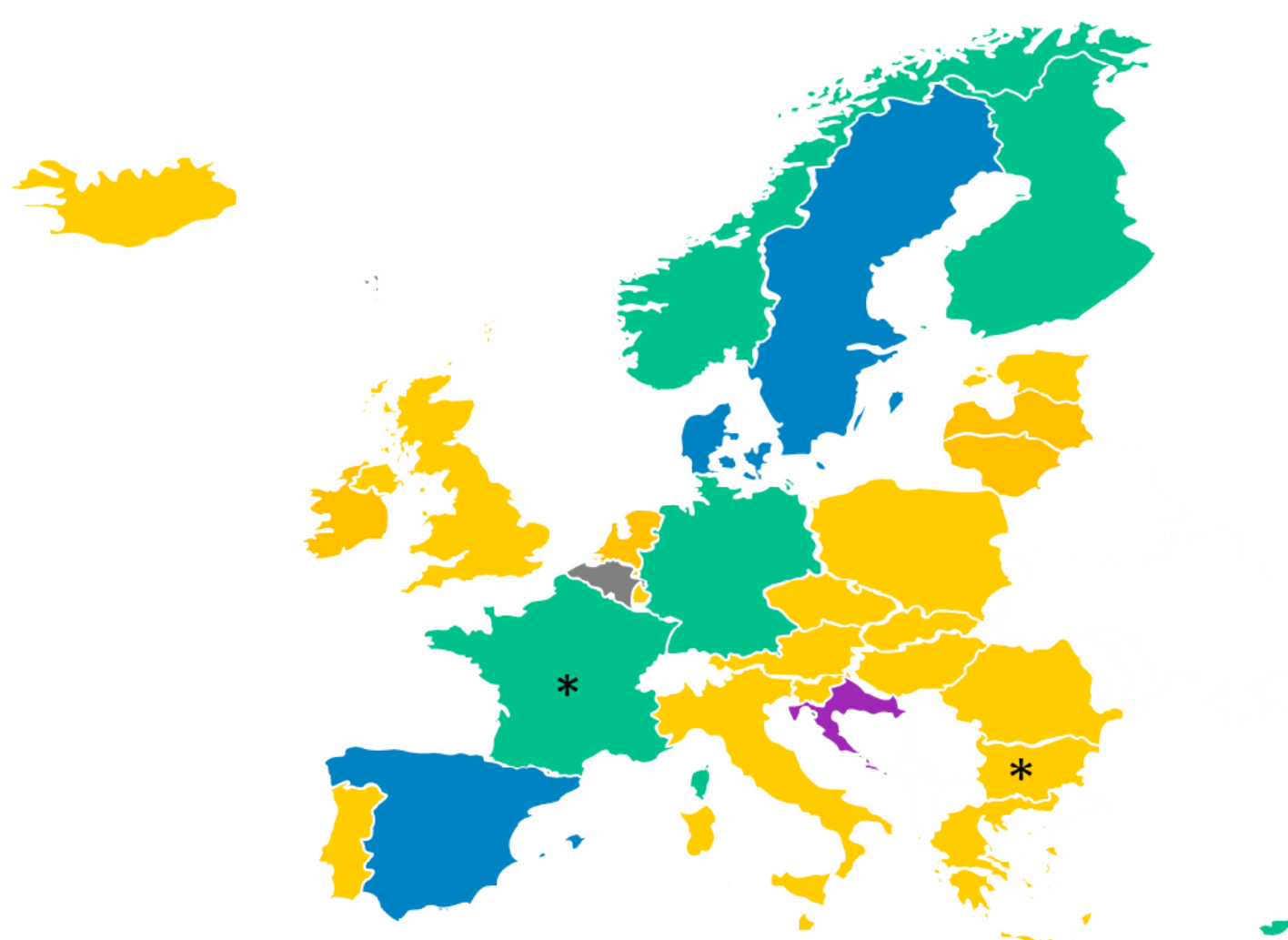
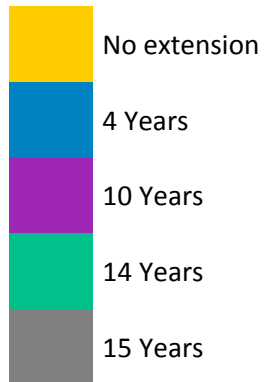
# Mandatory audit firm rotation: Tender extension

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# Mandatory audit firm rotation: Joint audit extension

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\* Mandatory joint audit. For Bulgaria it is only for banks, insurance undertakings and pension funds

# Mandatory audit firm rotation

- Divergences on the duration and the use of the option to allow extension of the initial duration
  - Extension with tender: 18 Member States with 4 different periods
  - Extension with joint audit: 9 Member States with 4 different periods
- As an overview: 16 different mandatory audit firm rotation regimes across the European Union
- On a positive note: more or less consistency in setting the initial duration of engagement period at 10 years

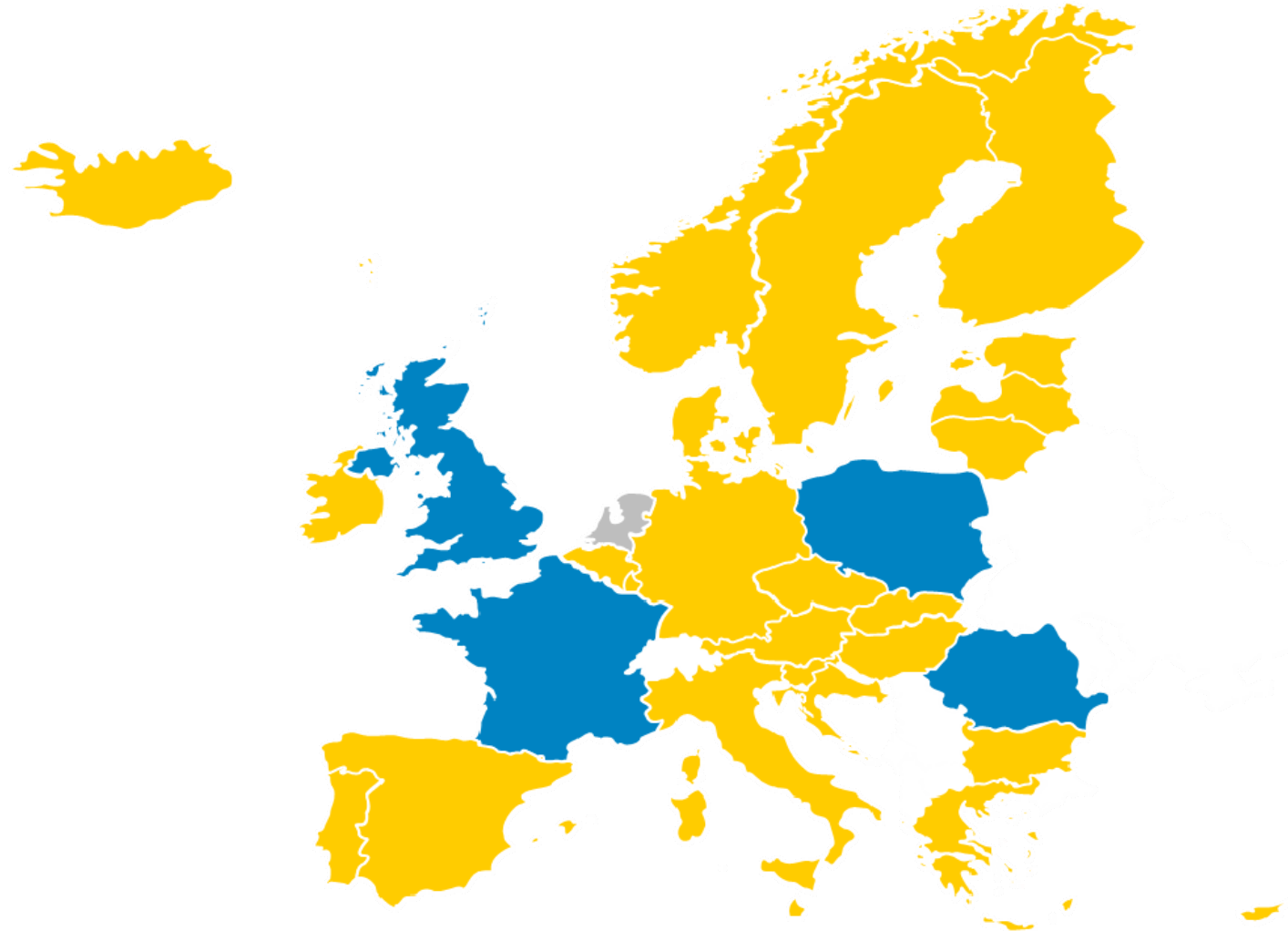
# Provision of non-audit services: Recap

- Auditor of Public Interest Entities (PIEs) cannot provide certain non-audit services – List of prohibitions included in the Regulation (article 5)
- Member States' options to:
  - Be more restrictive than the list included in the Regulation
  - Allow certain tax and valuation services
- Allowed services are capped to 70% of the average of statutory audit fees paid in the last three consecutive years

# Non-audit services: additional prohibitions

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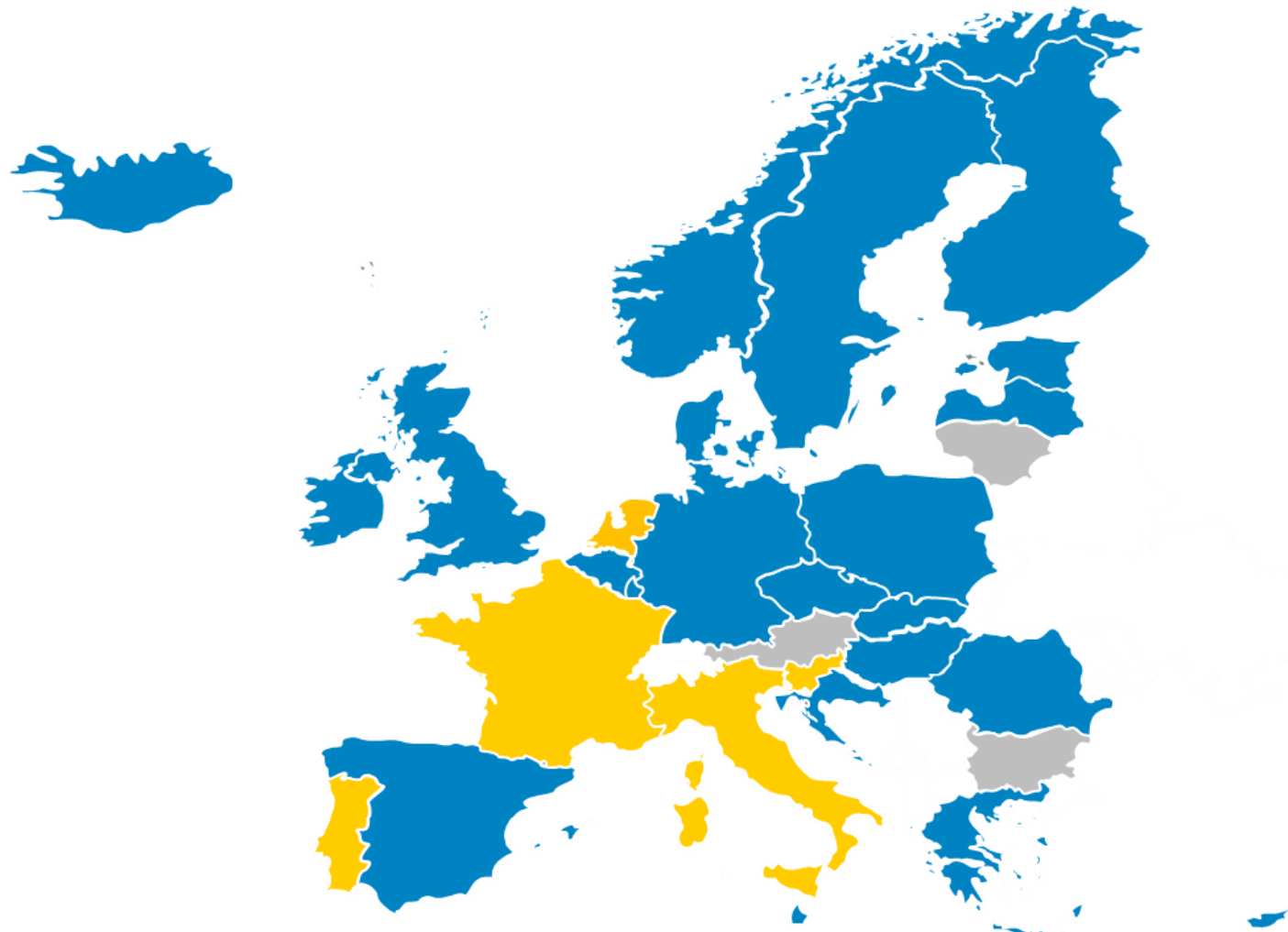
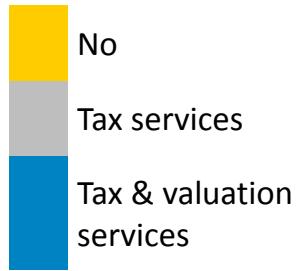
- List of prohibitions as per the Regulation
- 'White' list approach\*
- Additional prohibitions



\*Auditors and audit firms can only provide the non-audit services included in the "white" list.

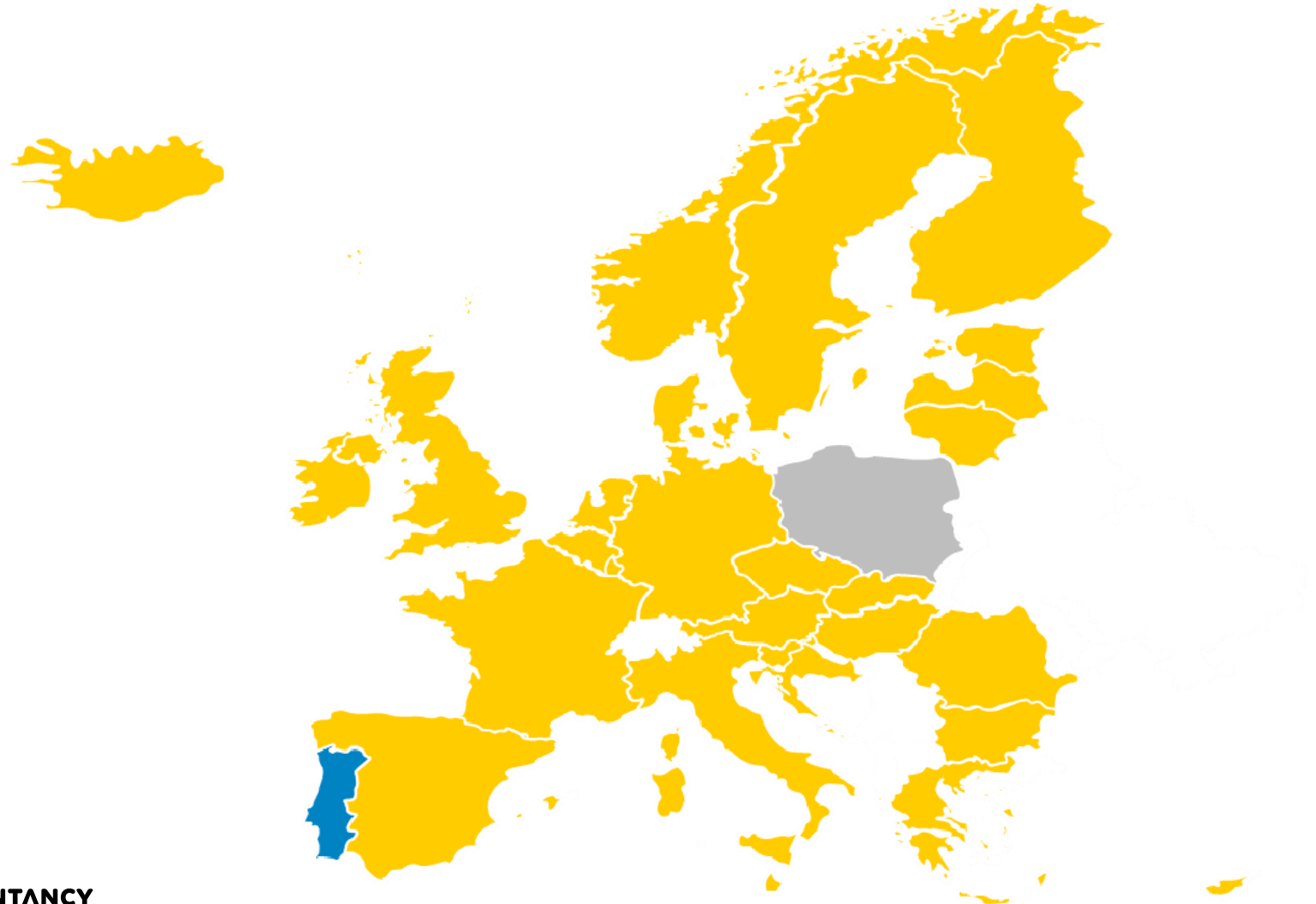
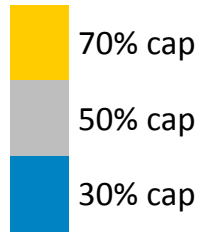
# Non-audit services: derogation of prohibition

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# Non-audit services: allowed NAS cap

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# Provision of non-audit services

- Clear trend to stick to the list of prohibitions as included in the Regulation
- The large majority of Member States have taken up the option to allow tax and valuation services within the conditions of the Regulation
- Two Member States opted to lower the NAS cap below 70%

# Audit committee: in the eye of the storm



IEWS



**The impact of the audit reform on audit committees in Europe**

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JANUARY 2016



- Many new and important tasks assigned to the audit committee
- Building well-functioning audit committees is still work in progress in many EU Member States
- Significant potential to contribute to audit quality
- Overall objective: improving an effective two-way communication with the auditor

# Accounting Directive



# Accounting Directive overview

- Primarily a reporting framework
- Sets minimum public disclosure of financial information across the EU
- Transposition complete except Ireland
- An amalgam of large MSs GAAP – implementation tougher on smaller countries
- Despite welcome reduction – still over 100 MS options

# Accounting Directive – recap

## Simplification for small entities

- Turnover <8 mil €, BS <4 mil €, 50 employees
- Restricted definition of FS to P&L account, balance sheet & 5 Notes (+MS options)
- MS option : **prepare** abridged BS and P&L
- MS option : **not to prepare** MR
- MS option : **not to publish** P&L and MR
- No consolidated FSs and MR

# Accounting Directive – issues Simplification for small entities

- Choose the threshold for small entities
  - Sole instance of a MS choice in thresholds
  - Turnover **up** to €12 mil, BS **up** to €6 mil
  - What level is appropriate for local economy?
  - Is it linked to the audit threshold?
- Defining turnover can be a challenge
- Are any of the optional additional notes appropriate for your jurisdiction?

# Accounting Directive – recap

## Micro entities

- Turnover <700 000€, BS < 350 000, 10 ee's
- MS have option the simplifications:
  - Abridged BS and P&L account
  - No management report & notes
  - Use of “Cash +” accounting: accrue only for revenue, raw materials/consumables, staff costs, value adjustments to assets and tax
  - Publish only an abridged BS

# Accounting Directive – Micro entities

- AE not convinced of usefulness
  - Accounting records must be kept
  - Cash accounting not ideal except for smallest
  - Mostly a reduction in reporting requirements – is information on public record fit for purpose?
  - Minimal cost reduction - €72 pa?
- Causes many transposition issues
  - Few countries drop accruals and prepayments
  - Interaction with audit and true & fair
  - Threshold all or nothing (strata are possible)



# Accounting Directive – Payments to government

- Anti-corruption measure – new requirement
- Groups with logging\extractive large companies\PIE's
- Disclose series of payments > 100 000 €
- Challenges
  - Deciding whether entities are controlled by government
  - Difference between cash and accruals basis
  - Interaction with other initiatives such as EITI
  - Companies must still disclose even when disclosure prohibited under local law
  - Payments under joint operations - apportionment

# Accounting Directive – recap

## NFI Directive

- Applies to large PIE's with >500 ee's
- Between 6 -12 000 entities across the EU
- Disclose
  - Business model
  - Policies, due diligence, policy outcomes for environmental, social & employee, human rights and anti-corruption matters
  - Board and management diversity policy

# Accounting Directive – issues

## NFI Directive

- AE supportive of ESG reporting using NFI
- Directive flexible – MS have choice on:
  - Increasing scope
  - Where to publish the report
  - What frameworks should be used
  - Level of assurance required
  - Specific disclosures for local economy

# Recent publications



**FEE** Federation of European Accountants

**VIEWES**

**EU Directive on disclosure of non-financial and diversity information**  
The role of practitioners in providing assurance

POSITION PAPER

AUDIT & ASSURANCE DECEMBER 2015



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**ideas**

**Disclose what truly matters**  
Model disclosures under the non-financial and diversity information directive

Corporate Reporting November 2016



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**VIEWES**

**EU Directive on disclosure of non-financial and diversity information**  
Achieving good quality and consistent reporting

POSITION PAPER

CORPORATE REPORTING MARCH 2016

# Transposition challenges

- Tailoring the options to national legislation and accounting practices i.e. reporting principles, use of fair value etc.
- The interaction with other relevant EU acquis:
  - Banking Accounting Directive / IAS Regulation
  - Specialised law takes precedence over general law
- Capacity in government departments
- Replace or add to existing legislation?
- Ensuring consistency with related legislation – i.e. audit thresholds for small entities

# Other challenges

- Setting national GAAP & Auditing Standards:
  - IFRS, IFRS for SMEs or locally developed
  - IAS? – required under Audit Directive
- Education – essential for IFRS and IAS application and to deal with new concepts
- Are reporting frameworks the future or direct access to company accounting systems?
- The profession can provide valuable help with all of these

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