The Future of Audit

24th Forum of the Auditor
André Kilesse, FEE President
Sitges, 4 July 2014
FEE federates professional institutes across Europe

- **47** professional institutes of accountants and auditors
- **36** European countries, including all EU 28
- **800,000** professionals incl. all sections of the profession: large, medium, small practices, business, public sector

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FEE adds value to Members

- Representation toward stakeholders
- Analysing and influencing public policy developments
- Promoting cooperation among Members

EC, EP, Council, ESMA, EBA, EIOPA, IOSCO - IASB, EFRAG, IIRC, IFAC, IAASB, IESBA, IPSASB, CAGs, PCAOB, OECD etc.

Informs, advises & influences EU & international regulation, public policy, standard setting etc.

Facilitates consensus between Institutes, accountancy firms (big & small)…
2014 : FEE target priorities

- Corporate Reporting
- Public Sector
- Tax (new)
- SMP Forum
- Audit & Assurance

FEE pays attention to the challenges the SMPs face and will face in the future.
Working structures
FEE current main workstreams in the field of Audit and Assurance

1. EU Audit Policy 2014

2. Discussion Paper: The Future of Audit and Assurance
EU Audit Policy 2014
Some key challenges ahead for the European profession [1/2]

- **In general**
  - Extra-territorial effects
  - Trickle-down effects from PIEs to non-PIEs

- **Mandatory audit firm rotation** (for PIEs)
  - Implementation
  - Transitional arrangements

- **Non-Audit Services** (for PIEs)
  - Meaning and scope of some prohibited services
  - Calculation of the cap applicable to ‘permissible’ services fees
Some key challenges ahead for the European profession [2/2]

- **Auditor communication**
  - More extensive audit report
    - Statement on going concern assumptions (for all entities)
    - List of key areas of material misstatements (for PIEs)
  - Additional report to the Audit Committee (for PIEs)

- **ISA adoption**: when and what?

- Cooperation of audit oversight bodies and Creation of Committee of European Auditing Oversight Bodies (CEAOB)

- Delegation of oversight tasks

- Etc.

- And **so many options available** to Member State and Competent Authority
FEE is committed to making this work in practice

Factsheet summarising the main provisions

Tables summarising the options etc.

FAQ web page
European Directive on Statutory Audits of Annual and Consolidated Accounts and Regulation on Statutory Audit of Public Interest Entities (Mandatory Auditors) (2014) (hereinafter referred to as the "2014 Audit Regulation")

1. The purpose of the present document is to highlight the options available to Member States and Competent Authorities in the Regulation on statutory audit of public-interest entities and thereby assist FEE Member Bodies and other relevant stakeholders in advising each European Union Member State as to the selection of the most appropriate option.

Legend
- The document is formatted to follow the order of the Articles as contained in the 2014 Audit Regulation.
- Normal text:
  - Provides a competent authority may, upon a request
  - The text of the Article containing the Member State option
- Items in bold and underlined:
  - Member State option being discussed
- Items in italics:
  - The imposition of penalties, including sanctions and measures...
- Text in italics contained within square brackets:
  - [Option to withdraw from the Regulation in order to assist in the understanding of the Article being discussed]
- Additional information, which may be paraphrased and not taken verbatim from the Regulation, inserted in the body of the Article to provide the context of the Article being discussed without the necessity of referring to another Article.

Article reference numbers

17.2(a) This article reference number signifies, for example, Article 17, point 1, point (a). The notation follows the logic progression within the 2014 Audit Regulation but is not used verbatim within it.

Options available to Member States and Competent Authorities in the Regulation on statutory audit of public-interest entities
Amended Dir-mu

Unofficial advance version of amended Directive 2006/43/EC on Statutory Audits of Annual and Consolidated Accounts, approved in April 2014

Legend

The below document is meant to serve as an advance version of the full amended text of the Directive 2006/43/EC on Statutory Audits of Annual and Consolidated Accounts as approved in April 2014, unofficially compiled by FEE. The document is formatted to distinguish between the original text (Directive 2006/43/EC) and the new or amended text. Some notes have also been included to facilitate reading.

CONTENT EXAMPLES EXPLANATIONS

Normal text This Directive establishes rules concerning The text of the Article (old or new).

Blue text 1. In Article 1 the following paragraph is added: new or amended text of the Article.

Purple text 2014 Audit Regulation] FEE note to facilitate reading.

The publication in the Official Journal (OJ) of the European Union (EU) is expected by mid-May 2014.

Member states will have two years to transpose (adopt and publish) the provisions of the amended Directive after its entry into force, namely 20 days after the publication in the OJ.

This document has been prepared by FEE to the best of its knowledge and ability to ensure it is not liable for any loss or damage arising from any inaccuracies or omissions within this unauthorised advance version of the full amended text of the Directive.

Amendments table

Table summarising the amendments of the Directive 2006/43/EC on Statutory Audits of Annual and Consolidated Accounts

Legend

The below document is meant to compare the original 2006 Statutory Audit Directive[1] (left column) and the new 2014 Audit Directive[2] (right column). Some notes have also been included to facilitate reading.

CONTENT EXAMPLES EXPLANATIONS

Normal text This Directive establishes rules concerning The text of the Article (old or new).

Blue text 1. In Article 1 the following paragraph is added: new or amended text of the Article.

Struck through text [“statutory audit” means audit on audit of annual accounts] Text from 2006 Audit Directive that has been deleted or replaced in the 2014 Directive.

Purple text [2014 Audit Regulation] FEE note to facilitate reading.

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Unofficial advance version of the full amended text of the 2014 Audit Directive
General Factsheet

Factsheet – main provisions relevant to SMPs/ SMEs
Discussion Paper: The Future of Audit and Assurance
Outcome of the Project

- Developing a vision for the future scope and scale of audit and assurance
- Engaging with outside stakeholders in order to find solutions

We are starting a journey!
Discussion open!

- **Online survey** set to grasp responses
- Follow-up events and meetings are envisioned
- **Please help**! The more views we collect, the further we can develop this project
Our Focus for the Future of Audit and Assurance

- Enhance quality in our day-to-day activities
- Improve our output: the auditor communication
- Develop and deepen services that are more relevant by better responding to stakeholders’ needs
All about Audit Quality

Quality determined by (global) standards: key distinguishing element for the profession

- Need to promote professional scepticism at the heart of our profession
- Demonstrate the application of the ethical fundamental principles: professional ethics is and should continue to be the bedrock of the profession in the future
The Profession’s Fundamental Principles

- Ethical behaviour
  - Fundamental for **public trust and confidence**
  - Bedrock of the profession **now** and for the **future**

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How can we further develop and demonstrate integrity and objectivity?
What about Standard Setting?

Are standards becoming too rules-based?

- Structured and more transparent approach
- ‘Benchmark’: minimum unified requirements
- Too strong guidance may limit innovation
- Application of standards through “check-lists” that diminish professional judgement
- Overemphasis on documentation – form over substance

Are standards becoming too rules-based? Do standards add the intended value or do they inhibit innovation?
A critical factor for the Future: Impact of IT

- The business environment is changing and auditors need to adapt
  - IT has and will have a huge impact on the business models of our practices – ‘Big Data technologies’
    - Automation of data collection and reconciliation,
    - Automation of audit sampling and testing,
    - Automation of complex recalculation, etc.

IT training for every auditor?
At least one IT expert on every team?
PIE and larger entities focus: Auditor Communication

- Is expressing an audit opinion enough?
  - The auditor communication should be developed beyond the “pass or fail”
  - The IAASB project is a strategic step
    - More meaningful entity-specific information
    - Explain important issues behind the figures (goodwill, estimates), going-concern, more qualitative information
  - Will this be sufficient?

Grading or rating system? More frequent and other reporting? Other methods of communication?
Role of Practitioner in SMEs beyond Numbers and Statutory Requirements

Develop beyond numbers

- Use our expertise and unique skill sets to develop other solutions to better meet stakeholder & business needs
- **Market-driven** innovation
- Focus on internal controls, processes or **non-financial** information
- Market/sector **insights**

Businesses are not interested in technicalities, they need our work to be **meaningful** to them.
Developing New Approaches

- New “forms of assurance” to pre-empt higher audit exemption thresholds in the EU
  - Extended reviews: recent developments in Denmark and the Netherlands
  - Compilation services like in Germany
  - Voluntary audits in the interest of third parties
  - ...

- Assurance in areas beyond numbers to better meet stakeholders’ needs
  - Development in Integrated Reporting are monitored closely
  - Non-financial information are more and more important in the reporting framework of a company
  - ...

- Extended reviews: recent developments in Denmark and the Netherlands
- Compilation services like in Germany
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- ...
Conclusion: Looking Ahead

- We need to anticipate the reassessment of the role of the profession and be at the forefront in shaping change

- **Development** driven by
  - Relevance
  - Quality
  - Integrity
  - Transparency
  - Innovation

Never stop seeking **new solutions**!
Next steps

- Deadline for responses 30 June 2014
  - Next step to be determined based on the analysis of the feedback received

- Possible further steps
  - ‘Follow-up’ paper
  - Roundtables, events
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