EUROPEAN UNION AUDIT REFORM
&
IMPACT OF AFRICA MARKET

Presentation by:

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Introduction

- The new EU audit legislation was adopted by the EU institutions in April 2014.
- Most EU member states aligning their existing legislation with the provisions of EU audit legislation
- Multinationals with businesses in different jurisdictions to take note of changes in requirements in the countries in which they operate.

MAIN FOCUS

- EXTRACT FROM REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities-
- THREAT/OPPORTUNITY FOR AUDIT FIRMS?

KEY ISSUES

Effective date

- ❖Effective date for the legislation is June 17,2016
- ❖First Financial Year starting on or after June 17, 2016

Exception. Mandatory rotation, which is subject to a transition period.

Where applicable

- ❖ To be applicable in the 28 EU member states plus Iceland, Liechtenstein, and Norway.

Extract

Article 2:

Scope

“1. This Regulation shall apply to the following:

(a) statutory auditors and audit firms carrying out statutory audits of public-interest entities;

(b) public-interest entities.

2. This Regulation shall apply without prejudice to Directive 2006/43/EC....”

Extract

Article 4:Audit fees

1. Fees for the provision of statutory audits to public-interest entities shall not be contingent fees. Without prejudice to Article 25 of Directive 2006/43/EC, for the purposes of the first subparagraph, contingent fees means fees for audit engagements calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed.

Extract

Article 4 Continues: Audit fees

- Fees shall not be regarded as being contingent if a court or a competent authority has established them.

2. When the statutory auditor or the audit firm provides to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, …..

Extract

Article 4 Continues: Audit fees

- …….., non-audit services other than those referred to in Article 5(1) of this Regulation, the total fees for such services shall be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and,…….”

Extract

Article 5:Prohibition of Non-Audit services

“1. A statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:...........

Extract

Article 5: Continue

(a) the period between the beginning of the period audited and the issuing of the audit report; and

(b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (g) of the second subparagraph.

Extract

Article 5:Continue

....For the purposes of this Article, prohibited non-audit services shall mean:

(a) tax services relating to:

(i) preparation of tax forms;

(ii) payroll tax;

(iii) customs duties;....

Extract

Article 5:Continue

....(iv)identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;

(v) support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;....

Extract

Article 5: Continue

....

(iv) identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;

(v) support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;

Extract

Article 5: Continue

....

(vi) calculation of direct and indirect tax and deferred tax;

(vii) provision of tax advice;

(b) services that involve playing any part in the management or decision-making of the audited entity;

Extract

Article 5: Continue

....

(c) bookkeeping and preparing accounting records and financial statements;

(d) payroll services;

(e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;

Extract

Article 5:Continue

....

(f) valuation services, including valuations performed in connection with actuarial services or litigation support services;

(g) legal services, with respect to:

(i) the provision of general counsel;

(ii) negotiating on behalf of the audited entity; and

(iii) acting in an advocacy role in the resolution of litigation;

Extract

Article 5:Continue

….

(h) services related to the audited entity's internal audit function;

(i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;……..

Extract

Article 5:Continue

....

- ...., non-audit services other than those referred to in Article 5(1) of this Regulation, the total fees for such services shall be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and,.......”

Australia

- Exempt taxation and valuation services for companies outside the banking sector from the prohibition

- Expected to maintain the 70 percent limit for the cap on Non-Audit revenue.

Czech Republic

- Expected to allow taxation and valuation services;

- The initial period of 10 years to be extended by another 10 years in case of a tender

Denmark

- Taxation and Valuation services will be allowed
- The initial period of ten years will be extended for another ten year on the basis of tender
- (henceforth known as the “ten plus ten option”)

Finland

- Expected to adopt the ten plus ten option and is also likely to adopt the joint audit option.
- To allow taxation and valuation services
- To adopt the 70% limit for the cap and reduce the definition of PIE to the minimum requirements of the Directive.

Germany

- Includes the ten plus ten mandatory firm rotation period, but not for financial institutions and insurance undertakings.

- Taxation and valuation services will be allowed under certain conditions.

Poland

- Major proposals include the capturing of all Financial services entities in a "quasi PIE " definition;

- Tax and valuation services would be allowed and the 70 % cap would apply to Non-PIE, with an additional cap of 50% introduced for tax and valuation services.

- Rotation of key audit partners for PIEs will be every four years and for non-PIEs, every seven, with the minimum of audit tenure set to two years.

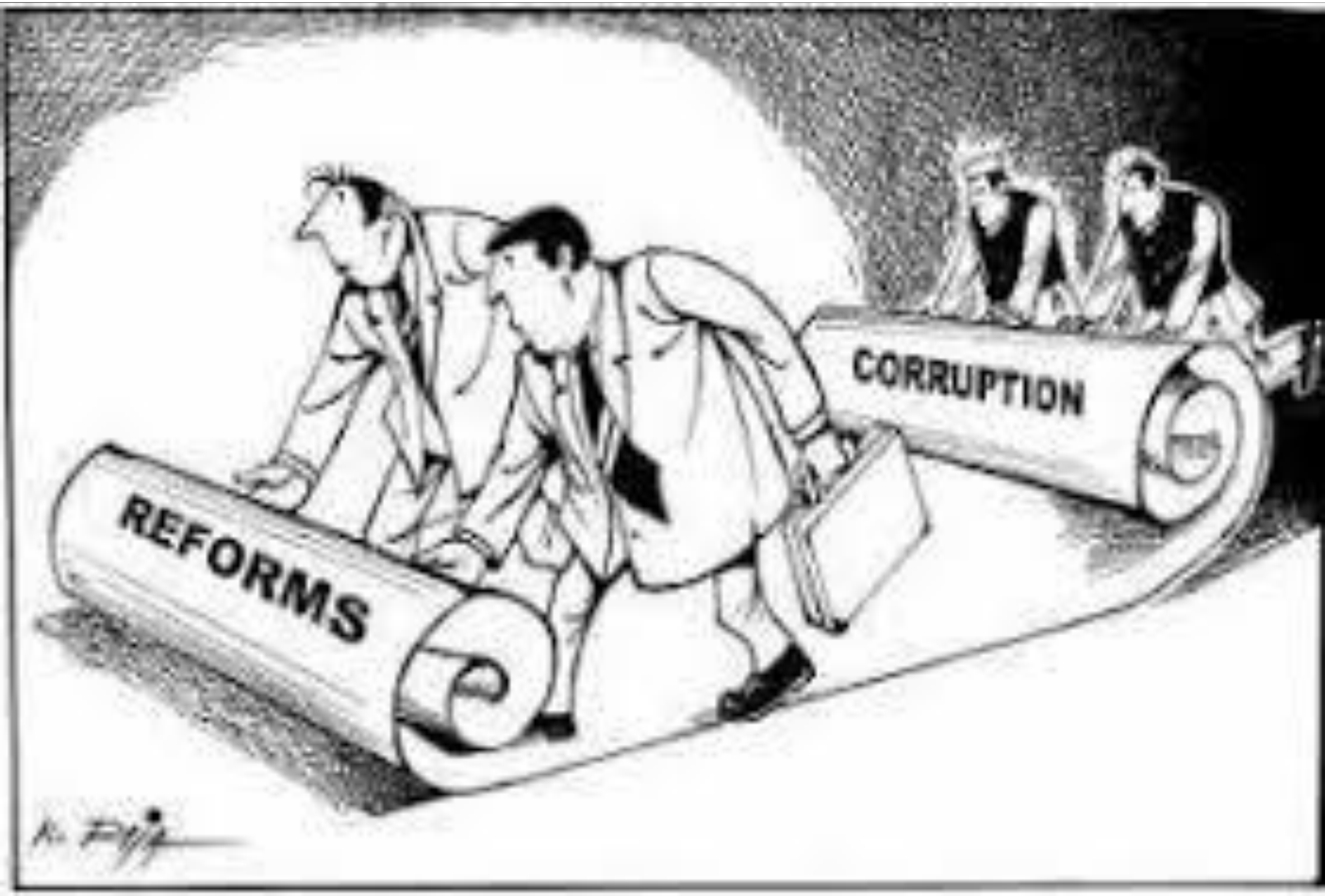
Sweden

- To allow taxation and valuation services
- The ten plus ten period on the basis of a tender and joint audit option except for financial institutions or insurance undertakings.
- The Swedish recommend the adoption of the minimum definition of PIE.

Impact on Africa Business in Relation to Taxation

- No direct restriction/prohibition on taxation services for firms offering assurance services for entities in Africa.
- The Audit reforms could affect indirectly subsidiaries and branches with EU group connection. Tax fee not more than 70%.
- May be a challenge to many firms in Kenya who use assurance platform to secure tax related jobs.
- GlaxoSmithKline, Siemens,BP,Total,Novartis,Vodafone,HSBC, Nestle

Discussions



Discussions

Thank you!

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