

More information about the Audit Firms Supervision Act

The Audit Firms Supervision Act contains standards for audit firms, external auditors, and third-country audit entities. The Decree on the supervision of audit firms includes more detailed requirements regarding these standards. The applicable Articles from the Act are placed in parentheses.

The standards for audit firms can be summarised as follows:

- The audit firm must ensure that the external auditors employed by or affiliated to the firm comply with the requirements prescribed in the Act (Article 14).
- The integrity of the persons who determine or co-determine the day-to-day policies of the audit firm must be beyond any doubt (Article 15).
- The persons who determine the day-to-day policies of the audit firm must be knowledgeable in regard to the quality control system used by the audit firm and the majority of these persons must satisfy the rules in regard to their (audit) competence (Article 16).
- The majority of the voting rights in the audit firm must be held by audit firms, audit entities or persons that satisfy the rules in regard to their (audit) competence (Article 16a).
- The formal or actual control structure of the audit firm may not represent an obstacle to effective supervision of the compliance with the provisions prescribed in the Act by the audit firm itself (Article 17).
- The audit firm must have a system in place for quality control (Article 18).
- The audit firm must satisfy the rules in regard to its independence (Article 19).
- An audit firm is bound to maintain the confidentiality of data, except to the extent that it is required to divulge such information by or pursuant to some statutory regulation (Article 20).
- An audit firm will manage its business in such a way as to safeguard controlled and fair business operations (Article 21).
- Public interest entities must satisfy the rules concerning the establishment of an audit committee (Article 21a). In certain circumstances the audit firm is required to communicate with the client's audit committee (Article 24a).
- The audit firm will not perform a statutory audit for a public interest entity if, in regard to that organisation: a. they have compiled the financial accounts on which the statutory audit is based at any time during the previous two years; or b. they were responsible for or actually set up a substantial part of the financial administration during the period to which the financial accounts refer and on which the statutory audit will be based, or are involved in such a way during the period in which the statutory audit will be carried out (Article 23).
- The audit firm will not allow a statutory audit for a public interest entity to be performed by an external auditor who has been responsible for performing statutory audits for that public interest entity during the previous seven consecutive financial years. The audit firm will ensure that any external auditor who has been responsible for the performance of the statutory audits for a public interest entity and who has ended his activities, does not perform statutory audits for that public interest entity during two consecutive financial years (Article 24).

The standards for external auditors can be summarised as follows:

- The external auditor must satisfy the rules in regard to its competence, independence, objectivity and integrity (Article 25 and 25a).
- An external auditor is bound to maintain the confidentiality of data, except to the extent that he is required to divulge such information by or pursuant to some statutory regulation (Article 26).
- An external auditor who, during the performance of a statutory audit, is given access to data or information which justifies the reasonable assumption of fraud of substantial importance in regard to the financial accounts of the audit client, will report this assumption to an investigating official, except in cases specified in the Decree on the supervision of audit firms (Article 26).
- The external auditor is a Registered Accountant or a qualified Accounting Consultant, and who fulfils the requirements prescribed by and pursuant to the Registered Accountants Act or the

Accounting Consultants Act, as appropriate, insofar as they are applicable to carrying out activities in regard to the preparation or the execution of an assignment to perform statutory audits (Article 27).

- The external auditor issues an audit report and signs it in his own name, stating the audit firm by which he is employed or to which he is affiliated (Article 29).
- The external auditor is not allowed to accept a position as policymaker of an audit client that qualifies as a public interest entity within two years after termination of his position as external auditor for this client (Article 29a).
- If, while carrying out activities relating to the preparation or the execution of one or more assignments to perform statutory audits, the external auditor becomes involved in disciplinary proceedings, he will report this immediately to the audit clients concerned (Article 30).

The standards for third-country audit entities can be summarised as follows:

- The integrity of the persons who determine or co-determine the day-to-day policies of the third-country audit entity must be beyond any doubt (Article 12c (1b)).
- The persons who determine the day-to-day policies of the third-country audit entity must be knowledgeable in regard to the quality control system used by the third-country audit entity and the majority of these persons must satisfy rules in regard to their (audit) competence (Article 12c (1b)).
- The third-country audit entity must satisfy rules in regard to its independence (Article 12c (1b)).
- The audits must be performed in accordance with the International Standards of Auditing and with rules equivalent to the rules applicable to external auditors concerning the third-country auditor's competence, independence, objectivity, and integrity (Article 12c (1c)).
- The third-country audit entity must publish on its website an annual transparency report which provides equivalent information to reports which EU audit firms must prepare under Article 40 of the Statutory Audit Directive (Article 12c (1d)).

In case audit firms or third-country audit entities are not compliant with the rules and regulations, the AFM is empowered to enforce compliance by means of:

- communicate expected standards and giving a warning
- issuing a designation order
- imposing an incremental penalty
- imposing an administrative penalty
- publicise an incremental or administrative penalty
- revoking the licence or registration or imposing restrictions on the licence
- reporting a violation by an audit firm or third-country audit entity to the Public Prosecutor
- reporting a violation by an external auditor to the Disciplinary Court for Auditors