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THE EUROPEAN UNION**

**Brussels, 16 April 2013**

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Subject:       Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities  
- Opinion on the application of the Principles of Subsidiarity and Proportionality

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Delegations will find attached the Opinion<sup>1</sup> of the Irish Parliament on the above proposals.

Encl.:

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<sup>1</sup> Translation(s) may be available on the interparliamentary EU information exchange site IPEX at the following address: <http://www.ipex.eu/IPEXL-WEB/search.do>.



**Joint Committee on Jobs, Enterprise and Innovation**

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15 March 2013

Mr. Martin Schulz,  
President,  
European Parliament,  
Brussels.

Dear President Schulz,

The Joint Committee on Jobs, Enterprise and Innovation has completed its scrutiny of the following European Commission proposals –

*COM (2011) 778 final - Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, and*

*COM (2011) 779 final - Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities,*

and has agreed the attached report for consideration as part of the Commission's political dialogue process with national parliaments. The report has been sent to the President of the European Commission and will also be forwarded to the Irish Minister for Jobs, Enterprise and Innovation.

Yours sincerely,

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Damien English TD  
Chairman



**Joint Committee on Jobs, Enterprise and Innovation**

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15 March 2013

Mr. José Manuel Barroso,  
President,  
European Commission,  
Brussels.

Dear President Barroso,

The Joint Committee on Jobs, Enterprise and Innovation has completed its scrutiny of the following European Commission proposals –

*COM (2011) 778 final - Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, and*

*COM (2011) 779 final - Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities,*

and has agreed the attached report for consideration as part of the political dialogue process with national parliaments. The report is also being sent to the President of the European Parliament and to the Irish Minister for Jobs, Enterprise and Innovation.

Yours sincerely,

Damien English TD  
Chairman



## **TITHE AN OIREACHTAIS**

### **AN COMHCHOISTE UM POIST, FIONTAIR AGUS NUÁLAÍOCHT**

#### ***Cion Polaitiúil Díreach***

***ar***

*COM (2011) 778 críochnaitheach – Togra le haghaidh Treorach ó Pharlaimint na hEorpa agus ón gComhairle lena leasaítear Treoir 2006/43/CE maidir le hiniúchtaí reachtúla ar chuntais bhliantúla agus ar chuntais chomhdhlúite, agus*

*COM (2011) 779 críochnaitheach - Togra le haghaidh Rialacháin ó Pharlaimint na hEorpa agus ón gComhairle maidir le ceanglais shonracha i ndáil le hiniúchadh reachtúil ar eintitis atá ar leas an phobail*

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## **HOUSES OF THE OIREACHTAS**

### **JOINT COMMITTEE ON JOBS, ENTERPRISE AND INNOVATION**

#### ***Direct Political Contribution***

***on***

*COM (2011) 778 final - Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, and*

*COM (2011) 779 final - Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities*

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**PART 1**  
**REPORT OF JOINT COMMITTEE SCRUTINY OF EU PROPOSALS**

**1. Introduction**

- *COM (2011) 778, Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and COM (2011) 779, Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities* have been examined by the Joint Committee on Jobs, Enterprise and Innovation.
  
- The Joint Committee first considered these proposals at its meeting on 7 March 2012 following an outline presentation by the EU Policy Clerk on the proposals. The Committee decided at that meeting to further scrutinise the draft proposals and to invite representatives from the Department of Jobs, Enterprise and Innovation to attend a meeting of the Committee to assist it in this task.
  
- Following its meeting on 16 October 2012 with the officials from the Department, the Committee agreed that further engagement with the officials would be necessary and that the Irish Auditing and Accounting Supervisory Authority (IAASA), the supervisory body in the Irish audit sector, should also be invited to attend before it. The Department officials and representatives of the IAASA attended the further meeting of the Committee on 18 December 2012 at which the proposals were again considered.

**2. Decision of the Joint Committee**

On concluding its scrutiny of the proposals on 18 December 2012, the Joint Committee agreed to provide a direct political contribution to the European Commission and European Parliament on these important dossiers. This contribution, in Part 2 of this document, was agreed on 12 March and is hereby formally communicated to the European Commission and the European Parliament for consideration and response. The political contribution will also be forwarded to the Minister for Jobs, Enterprise and Innovation and laid before the Houses of the Oireachtas.

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Damien English, T.D.  
Chairman

## PART 2

### POLITICAL CONTRIBUTION ON COM (2011) 778 FINAL AND COM (2011) 779 FINAL

The following are the observations and recommendations of the Joint Committee, based on its scrutiny of the European Commission proposals COM (2011) 778 final and COM (2011) 779 final. The Joint Committee:-

- Concludes that reform of the audit sector is necessary in the context of the recent past and therefore welcomes, in board terms, the Commission proposals;
- Is of the opinion that the proposals should have been brought forward sooner as a response to the financial crisis but, now that they are published, adequate time must be allowed for debate of this critical legislation;
- Believes strongly that a robust audit is a crucial component in restoring confidence and trust in the business environment and particularly if recent events are not to be repeated;
- Is of the view that these proposals are a starting point only in addressing the problems in the audit process itself and the audit markets;
- Is also of the view that the role of the ‘audit’ in the recent financial crisis in the EU has yet to be fully examined and explained;
- Contends that addressing the perceived weaknesses in the audit process itself is a complex problem to solve and cites the following issues in that regard:-
  - The existence of the so-called audit ‘expectation gap’;
  - A lack of clarity regarding the role of the ‘audit’ referencing the uncovering of fraud and future viability of a commercial entity;
  - A lack of accountability and a perceived lack of professional liability of audit firms;
  - A lack of competition in the audit market with reference to the ‘big four’ auditing firms;
  - An unhealthy relationship, due in some instances, to the length of tenure of many audit contracts between auditing companies and commercial entities due to lack of competition in the audit market;
  - The practical inability of small–medium audit firms to undertake audit of public interest entities;

- Agrees with the consensus that the so-called audit ‘expectation gap’ does exist (that is, an expectation of something from audit, that it does not deliver) and is of the view that this issue, in particular, needs to be addressed and supports efforts in that regard;
- Recommends that the audit process provides a more holistic view of the ‘health’ of the entity under audit, as well as the required view on the ‘true and fair’ statement of accounts, at a point in time;
- Supports the concept of an expanded audit report to support this approach to audit;
- Supports to concept of mandatory rotation of auditors to ensure independence in the performance of the function and the avoidance of any perception of long-term closeness between client and auditor;
- In relation to audit requirements for SMEs, urges proportionate application of standards for these entities and supports an increase in current exemption thresholds in that regard;
- In relation to the proposed expansion of the definition of Public Interest Entities under the EU proposal, considers that the widening of the definition may disproportionately impact on some Member States;
- In that regard, recommends that the existing core definition of Public Interest Entities should remain, with Member States retaining the power to add to it, if they so wished. Alternatively, it recommends that the proposed definition should provide for a mechanism for an assessment of the entity, in terms of its scale, scope and activity, in defining it for inclusion or otherwise, in this definition.

**Joint Committee on Jobs, Enterprise and Innovation**  
**12 March 2013**

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*Links to relevant Joint Committee transcripts:*

<http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/FAJ2012030700003?opendocument>

<http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/BUJ2012101600003?opendocument#B00100>

<http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/committeetakes/BUJ2012121800003?opendocument#D00100>

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