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# Wrangling persists over who should oversee auditing in the EU

by Jeremy Woolfe 31 May 2013

**IT'S A CASE OF GOING BACK TO BASICS**. Should the ultimate oversight body for auditing in the EU be the European Group of Auditors' Oversight Bodies (EGAOB), as set up under the 8th Company Law directive, which has roots going back to 2005?

Or should ultimate supervision be the European Securities and Markets Authority (ESMA) set up in Paris at the start of 2011, that is, in response to the crisis? ESMA's duty is to enhance the protection of investors and "reinforce stable and well functioning financial markets in the European Union".

This particular point of potential friction, along with mandatory rotation and a "black list" for non-audit services, came up when EU member state finance ministries discussed proposals from the European Parliament for legislation on auditing.

The meeting of the Council of the EU was set up by the Irish presidency of the council to seek political guidance. The aim was to reach a compromise position on the legislative packages comprising a directive on statutory audit, and a regulation regarding statutory audit of public-interest entities.

On the question of oversight, Germany, to give one example, said it "regrets" moving the supervisory function to ESMA. Likewise, Latvia found that possibility to be "too expensive". The UK's line was similar, and Slovakia stated that the EGAOB would "meet the need". Altogether, nine member states will submit a counter-proposal in favour of the EGAOB, rather than ESMA, as the supervision coordinator.

If the national governments as a whole stick to this line, it will hardly help in trialogue negotiations coming up, when agreement will be sought between the Council, the European Parliament, and the Commission. Both these bodies have favoured power for ESMA. Hoverer, some suggest taking the national members of the EGAOB into the Paris-based authority, in order to give the members teeth.

As for mandatory rotation, a similar picture of diverse views emerged at the Council meeting. There was support for rotation of sorts, but opposition from a number of key governments, such as the UK and Germany, but also Sweden, the Czech Republic, and Hungary.

As for a single blacklist of non- audit services, there was general support, but more opposition than support for a cap to the fees. Here, Michel Barnier has commented that audit firms must focus on their primary function ... to audit.

For investor interests, Guillaume Prache, of EuroFinuse, urges for some reasonable standard of urgency. He notes that the Commission's "green" policy paper dates back to 2010, and regrets that Brussels is still stuck in the discussion stage.

An EU source commented that the Council is highly unlikely to settle on a firm position during the limited remaining period of the Irish Presidency, ending on 30 June. Play then moves to the Lithuanian succession.

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