KPMG

Boardroom Questions

EU Audit Reform: the impact on Swiss Corporations

The EU Audit Reform that was adopted on 17 June 2014 and became effective on 17 June 2016 will significantly impact companies' engagement of statutory auditors and providers of non-audit services (NAS) within the EU. The regulation, which applies to Public Interest Entities (PIE) with domicile in the EU, contains 21 Member State options with a further 30+ options in the Directives leading to a patchwork of rules throughout the EU. The member states' choosing different options will result in a patchwork of rules within the EU.

Switzerland currently does not intend to adopt the EU Audit Reform regulations or to change the existing legal requirements related to auditor independence. However, **Swiss parent companies may be affected through EU domiciled subsidiaries** that may meet the definition of a Public Interest Entity, and thus need to assess the implications for their business.

What are the key changes?

- Mandatory Firm Rotation (MFR) of auditor after 10 years (or 20 years if public tender is conducted after ten years)
- Restrictions on Non-Audit Services (NAS)
- Fee cap on authorized NAS of 70% of the average audit fees paid in the last three years
- Monitoring, reporting and approval provisions that require greater auditor oversight by the Audit Committee
- Various options for Member States to implement more or less restrictive provisions

Mandatory Firm Rotation

Auditor tenure as at 16 June 2014

Tenure <11 years

2–12 years transition – from 17 June 2016 MFR rules apply on expiry of the 10-year term…

Options to extend if Member State allows

*Example 1: Audit tenure commenced between **June 2003 – June 2006***

Example 1 – **expiry of 10-year term is 2016;** option to extend if Member State allows.

17 June 2016 → ***+10 years:*** tender – 2026 | ***+14 years:*** joint audit – 2030

*Example 2: Audit tenure commenced in **June 2009***

Example 2 – **expiry of 10-year term is 2019;** option to extend if Member State allows.

June 2019 → ***+10 years:*** tender – 2029 | ***+14 years:*** joint audit – 2033

Tenure 11–20 years

9 years transition – from 17 June 2023 the auditor cannot be reappointed.

17 June 2023

Tenure > 20 years

6 years transition – from 17 June 2020 the auditor cannot be reappointed.

17 June 2020

Prohibited NAS

The EU regulation restricts statutory auditors of EU domiciled PIEs from providing the following NAS:

Tax services	HR services
Services that involve playing any part in the management or decision-making of the audited entity	Internal audit services
Valuation services	Bookkeeping and preparing accounting records
Corporate finance type services	Design and implementation of internal control and risk management procedures relating to financial systems
Legal services	Design and implementation of financial information technology systems

The member states may allow some of these services (such as certain tax services) or may further restrict the provision of NAS.

What should the Board consider?

- Is there an EU PIE subsidiary in the group?
- What will be the impact of a rotation of the auditor of the EU PIE subsidiary on the group audit as well as other global services arrangements?
- Is the auditor currently providing NAS to the EU PIE subsidiary that will be prohibited in the future? If yes, are these services significant to the group?
- Are there any existing global service agreements that need to be modified?
- Are Audit Committees in place in EU domiciled PIEs that meet the requirements of the EU legislation?
- Do additional processes need to be put into place in the EU PIEs (e.g. regarding approval of NAS) and how will these interact with the group's corporate governance model?
- Are changes to the procurement process of the EU domiciled PIEs required and how will these interact with the group's procurement processes?

Use the interactive online map to discover which Member States have confirmed their legislation and how it compares to the EU baseline: www.kpmg.com/euauditreform

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