



# **AUDITING AS EXTERNAL SURVEILLANCE MECHANISMS OF CORPORATE GOVERNANCE**

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# INTRODUCTION

- Problems in auditing legislative and profession - change in Directives of EU
- External auditing as external surveillance mechanism
- Financial crises has highlighter weakness in statutory audit with regard to public interest entities (PIE)
- Conditions for carry out the statutory audit on the financial statements of PIEs



# PROBLEMS IN AUDITING PROFESSION THAT MAY REQUIRE REGULATORY ACTION

- **Expectation gap** between what shareholders expect of an audit and what auditors actually do
- **Independence** is not assured where audit has become a base for conducting commercial services
- **Market concentration and lack of choice** (the majority of Member States, the big four audit more than 85% of large listed companies)



# CHANGE OF DIRECTIVES EU REGARDING STATUTORY AUDITING

- Additional requirements of Directives (2006)
- Specific requirements regarding statutory audit of public-interest entities (PIEs)



# ADDITIONAL REQUIREMENTS OF DIRECTIVES (2006)

- „European passport“
- **International Auditing Standards** – additional requirements possible but not exceptions from International Auditing Standards
- **SME-s** - application of auditing standards regarding the size and complexity of business of SMEs



# SPECIFIC REQUIREMENTS REGARDING STATUTORY AUDIT OF PUBLIC INTEREST ENTITIES (1)

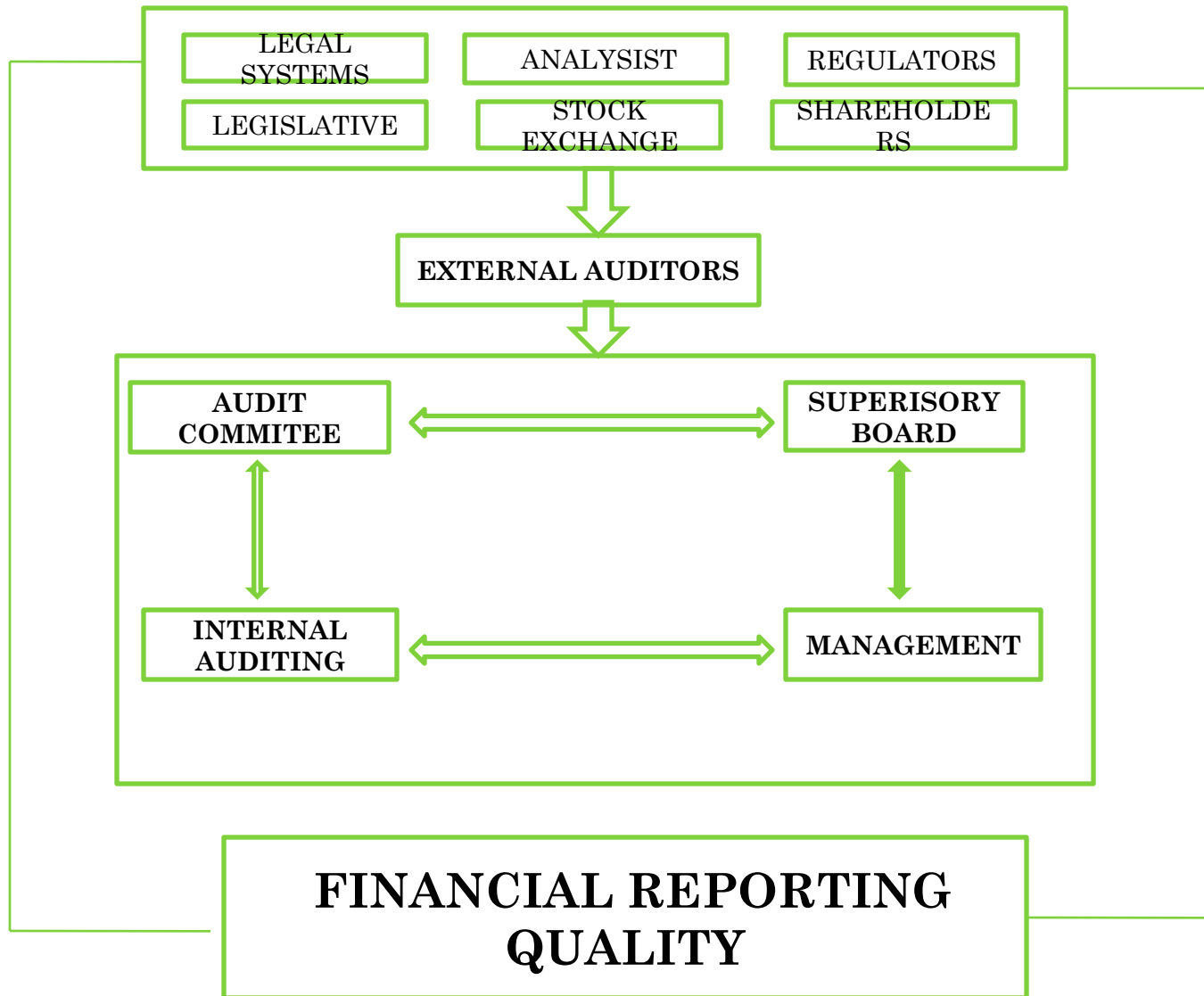
- The prohibition of provision of non-audit services to the audited entities (even the prohibition of non-audit services in general would effectively address the need to reinforce independence and professional skepticism)
- **Non-audit service**
  - *white list*;
  - *black list*;
  - *gray list*.



# **SPECIFIC REQUIREMENTS REGARDING STATUTORY AUDIT OF PUBLIC INTEREST ENTITIES (2)**

- **Additional information in the auditor report** (methodology, level of materiality, identify key areas of risk of material misstatement, including critical accounting estimates or areas of measurement uncertainty etc...)
- **Additional report to the audit committee**
- **Reporting to national audit supervisory authorities**
- **Audit committee requirements**
- **Duration of audit engagement**







# **ADDITIONAL REPORT TO THE AUDIT COMMITTEE (1)**

- The statutory auditor(s) or the audit firm(s) carrying out statutory audit of public interest entities shall submit an additional report to the audit committee of the audited entity.
- The additional report shall be disclosed to the general meeting of the audited entity if the management or administrative body of the audited entity so decides.



# ADDITIONAL REPORT TO THE AUDIT COMMITTEE (2)

- include a declaration of independence
- identify the dates of the meetings with the audit committee
- describe the appointment procedure;
- indicate and explain judgments about material uncertainty (going concern)
- indicate and explain in detail all instances of non-compliance, including nonmaterial instances
- assess the valuation methods applied to the various items
- provide full details of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been relied upon when making a going concern assessment; etc.....



# AUDIT COMMITTEE REQUIREMENTS

- Each public-interest entity shall have an **audit committee**.
- The audit committee shall be **composed of non-executive members** of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity
- **At least one member of the audit committee** shall have competence in auditing and another member in accounting and/or auditing.
- The committee members as a whole shall have competence relevant to the sector in which the audited entity is operating.
- **A majority of the members** of the audit committee shall be **independent**. The chairman of the audit committee shall be appointed by its members and shall be independent.



# RESPONSIBILITIES OF AUDIT COMMITTEE OF PIE

- **monitor financial reporting process** and submit recommendations or proposals to ensure its integrity;
- **monitor the effectiveness of the undertaking's internal control, internal audit** where applicable, and risk management systems;
- **monitor the statutory audit** of the annual and consolidated financial statements and supervise the completeness and integrity of the draft audit reports
- **review and monitor the independence of the statutory auditors** or audit firms in and in particular the provision of additional services
- be responsible for the **procedure on the selection of** statutory auditor(s) or audit firm(s)



# CONCLUSION

- Auditing external as surveillance mechanisms
- The quality of financial reporting in the interest of stakeholders on capital markets
- Legislative rules
- further significant improvement in organizing and functioning surveillance mechanisms, especially in state owned companies, in order to improve the process of corporate governance.
- proposal and expected changes of legislative rules in the EU – long- term process of negotiation - comparison of proposal and final legislative adopted by European parliament





**THANK YOU FOR YOUR  
ATTENTION!**

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