PUBLIC OVERSIGHT
OF THE AUDIT PROFESSION

1. Legal and regulatory aspects
2. Quality assurance
3. Human and financial means
4. International standards on auditing
5. Ethics and independence
6. Third-country auditors and audit entities
1. LEGAL AND REGULATORY ASPECTS

The law of 18 December 2009 relating to the audit profession which entered into force on 23 February 2010 transposes Directive 2006/43/EC of 17 May 2006 on statutory audits of annual accounts and consolidated accounts into Luxembourg law and replaces the law of 28 June 1984 on the organisation of the profession of réviseur d’entreprises (statutory auditor). The law confers to the CSSF the mission of public oversight of the audit profession.

The following three Grand-ducal regulations were made pursuant to the above-mentioned law:

- the Grand-ducal regulation establishing the qualification requirements of réviseurs d’entreprises (statutory auditors);
- the Grand-ducal regulation determining the conditions of recognition of providers from other Member States under the regime of free provision of services; and
- the Grand-ducal regulation organising continuing education of réviseurs d’entreprises (statutory auditors).

Circular CSSF 10/439 lays down the practical framework deriving from the law of 18 December 2009 and the Grand-ducal regulations concerned.

A consultative committee for the audit profession was created within the CSSF with the mission to rule on any draft law or Grand-ducal regulation regarding the statutory audit of accounts and the audit profession. Its composition is set by the law of 18 December 2009.

2. QUALITY ASSURANCE

Another task conferred to the CSSF by the law of 18 December 2009 is the implementation of a quality assurance system. This system shall apply to all réviseurs d’entreprises agréés (approved statutory auditors) and cabinets de révision (approved audit firms) for the statutory audit of accounts and for all other assignments which are exclusively conferred to them by the law.

The adopted approach consists, first, in ensuring inter alia that the internal organisation of the audit firm complies with the provisions of International Standard on Quality Control (ISQC) and, second, in selecting and checking the mandates by taking into account the risks inherent to the files as well as the efficiency of the firms’ internal organisation.

3. HUMAN AND FINANCIAL MEANS

3.1. Human resources

The department “Public oversight of the audit profession”, implemented within the CSSF, worked with reduced staff during 2009, since the relevant law has only entered into force in 2010. During this period, the team participated in the drawing-up of the above-mentioned Grand-ducal regulations, in the creation of an Internet portal so as to count the population under the supervision of the CSSF and in the development of a standardised approach of the quality assurance activity. The CSSF also defined the permanent staff needed for the fulfilment of all its assignments in a long-term plan. A recruitment procedure has started in order to meet this objective.
3.2. Financing the activities

The CSSF levies fees equivalent to staff costs, financial costs and operating costs for carrying out the mission of public oversight of the audit profession from persons subject to its supervision. The fees’ amounts were drawn up and adopted via the Grand-ducal regulation of 18 December 2009.

4. INTERNATIONAL STANDARDS ON AUDITING

In order to maintain continuity in the standards applicable to the activity of statutory audit of accounts in Luxembourg, the CSSF adopted via a CSSF regulation the professional standards and recommendations of the Institut des Réviseurs d’Entreprises (IRE) applicable at the time of the entry into force of the law of 18 December 2009 until the European Commission adopts international audit standards via an EU regulation.

After analysing the potential impact on the audit profession, the CSSF contemplates adopting, in 2010, the international audit standards revised or replaced by the International Federation of Accountants (IFAC). In this context, the CSSF draws the attention to project Clarity set by the International Auditing and Assurance Standard Board (IAASB). The purpose of this project is to facilitate the reading and enhance the understanding of international audit standards. Thus, 36 standards were updated. The IFAC recommends that these standards apply for the financial years starting after 15 December 2009.

The standards specify the objectives and the due diligence with which the statutory auditor, which uses these standard references, has to comply during his audit. These standards also specify their application for audits of small- or medium-sized companies by emphasising a certain proportionality of the standards. Considerations for a proportional application of the standards are mainly located at the level of the application modalities and other explanatory information. Further explanations are also provided for in “Questions and Answers” published by IAASB in August 2009.

The CSSF invites in particular the réviseurs d’entreprises agréés (approved statutory auditors) to review the provisions of the new ISA 600 standard which deals with particular aspects of a group’s financial statements audit. The major changes which took place concern the definition of a significant component in the context of a group’s audit and the recommendation of a strong implication of the group’s auditor in the audit of these entities either by carrying out the audit himself or by actively participating in the process of the entity’s audit.

Project Clarity also provided clarification on ISQC. Thus, IFAC published in March 2009 a handbook on quality control for small- and medium-sized firms whose purpose is to adapt the requirements of the quality control standard to smaller firms.

5. ETHICS AND INDEPENDENCE

The CSSF which is responsible for the adoption of standards on ethics uses the code of ethics initially adopted by IRE on 12 June 2007. The CSSF also contemplates adopting via a CSSF regulation the revised version of the code of ethics published by IFAC in July 2009. This adoption is necessary because it extends the provisions in relation to independence, applicable to listed entities, to public interest entities. The consequence is restrictions regarding the services, other than those of audit, that a firm may provide to one of its clients for which it is responsible for the audit.
The réviseurs d’entreprises agréés (approved statutory auditors) and cabinets de révision agréés (approved audit firms) which audit public interest entities are also required to:
- publish a transparency report as defined in the law of 18 December 2009;
- carry out an additional independent review for mandates of public interest entities;
- perform a rotation of the responsible associate every seven years.

### 6. THIRD-COUNTRY AUDITORS AND AUDIT ENTITIES

The CSSF registers third-country auditors and audit entities which draw up an audit report of annual accounts or consolidated accounts of a company incorporated outside the EU whose transferable securities are admitted to trading on the Luxembourg regulated market. Nevertheless, some exceptions are provided for.

These third-country auditors and audit entities are also subject to the public oversight by the CSSF and must observe the same provisions regarding quality control and investigation and sanction system as the national population. Nevertheless, in case of equivalence, exemptions for the registration and the public oversight of these third-country auditors and audit entities are set. Thus, an exemption is possible when the auditor is subject, in the third country where it is established, to equivalent requirements concerning systems of public oversight, quality assurance, investigation and sanctions as the requirements laid down in Articles 29, 30 and 32 of the Directive 2006/43/EC.