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Annex
to
Audit Committee Guide

¹ Case 2017-7987

Contents

B.1. Supervision of auditors and audit firms by the Danish Business Authority	3
B.2. The criteria of the Committee on Corporate Governance for independence.....	6
B.3. Example of 70% limitation according to Article 4 (2) of the Auditor Regulation.....	7
B.4. Relevant provisions on audit committees.....	8

B.1. Supervision of auditors and audit firms by the Danish Business Authority

Introduction

This annex was drawn up to provide information on public supervision of auditors and audit firms for use by audit committees when monitoring statutory audits of the undertaking.

Background

An audit committee shall take into account the result of the latest quality assurance review of the audit firm when monitoring the statutory audit of the undertaking's financial statements².

The Danish Business Authority is responsible for public supervision of auditors and audit firms³.

Public supervision of auditors and audit firms

The most recently published report from the Danish Business Authority's Disciplinary Board on Auditors⁴ is published on the Authority's website. Among other things, the report includes all the results of quality assurance reviews of those audit firms in Denmark that perform statutory audits of public-interest entities (listed companies, etc.).

An audit firm is obliged to have an internal organisation ensuring that quality, integrity and thoroughness are maintained when performing reporting assignments⁵, including ensuring that threats to the independence of the auditors are identified.

Public supervision includes a review of the audit firm's quality management system, and in connection with this, a review of selected reporting assignments (individual case review), e.g. the audit work on which an auditor's report is based for a financial statement⁶.

The individual case review covers auditors, planning, execution and conclusion of the assignment and the audit opinion. Whether the auditor has used the audit firm's quality management system to complete the assignment is reviewed⁷.

Audit firms are obliged to set up and perform internal monitoring of the quality of both the quality management system used and individual cases. The quality assurance review includes a check of whether this requirement has been fulfilled, including whether the audit firm is able to identify errors and omissions in individual cases effectively and independently.

Audit firms that audit public-interest entities⁸ are subject to quality assurance review at an interval not exceeding three years. Audit firms that perform audit of public-interest entities in C25, Large and Mid Cap are reviewed for quality assurance every year, although such that the scope of the review

² Section 34 (3) no. 4 of the Auditor Act

³ Until the new Auditor Act was passed, public supervision was provided by the former Audit Advisory Panel. The Audit Advisory Panel was an independent body set up by the Danish Business Authority.

⁴ The Audit Advisory Panel's report of 10 May 2017 concerning the quality assurance review for 2015

⁵ Section 28 of the Auditor Act

⁶ The precise provisions on conducting the quality assurance review are laid out in the Executive Order on quality assurance review of audit firms (EO no. 968 of 28/06/2016)

⁷ EO no. 968 of 28/06/2016, Section 27 (1) and Section 28

⁸ Section 1 a (1) no. 6 of the Auditor Act

overall equates to a three-year review sequence. Audit firms that audit small and medium-sized PIE undertakings⁹ are subject to quality assurance review at an interval of not exceeding six years.

Previously, the results of quality assurance reviews of individual audit firms were not published separately by the Danish Business Authority, but were solely incorporated in the overall results of the Disciplinary Board on Auditors' annual report. In future, the results of quality assurance reviews for individual audit firms that perform statutory audit of financial statements presented by public-interest entities will be published on the Danish Business Authority's website. However, this will only apply to quality assurance reviews of audit firms that are reviewed every year. The published result will contain a summary of the main conclusions and any points for improvement recommended by the Authority. The name of the audit firm will appear, but other information will be anonymised.

If a quality assurance review highlights a risk of an auditor or audit firm having violated audit legislation, the Danish Business Authority can initiate and perform an investigation¹⁰.

An investigation can lead to a reprimand, order to cease the violation or a summons to appear before the Disciplinary Board on Auditors. Investigations that end in an order to cease violation will be published.

A summons to appear before the Disciplinary Board on Auditors can lead to a warning or a fine¹¹. The Disciplinary Board on Auditors can also revoke approval as an auditor or audit firm for a period of up to five years or indefinitely. Revocation of an auditor's approval can be conditional. The Disciplinary Board on Auditors can also prohibit an auditor from performing or exercising certain types of assignments for up to three years, e.g. auditing or performing functions in a public-interest entity.

Rulings made by the Disciplinary Board on Auditors concerning auditors and audit firms will be published on the website of the Disciplinary Board on Auditors in anonymised format with regard to auditors, unless involving a ruling imposing a prohibition or revocation. Rulings concerning audit firms will contain details of the firm's name, but will be anonymised in all other respects¹². The identity of an audit firm will be anonymised two years after the date of publication.

Use of quality assurance review in the work of an audit committee

As referred to above, an audit committee shall take into account the result of the latest quality assurance review of the audit firm when monitoring the statutory audit of financial statements.

An audit committee will be able to obtain the published report with the results of the latest quality assurance review performed from the Danish Business Authority's website. Because the report only contains the most important conclusions, the audit committee should bear in mind and determine whether it contains details that give cause to request an explanation for more details from the undertaking's auditor. An example of this is remarks concerning the audit firm's handling of the question of independence, which may be relevant in relation to the audit firm's ability to ensure that it does not provide prohibited services to public-interest entities.

The Danish Business Authority is subject to an enhanced duty of professional secrecy, and therefore the publication of the result of a quality assurance review is limited. The published report will therefore not contain details of which auditors and which individual cases have been selected for

⁹ Section 1 a (1) nos. 4 and 5 of the Auditor Act

¹⁰ Section 34 (3) of the Auditor Act

¹¹ Section 44 of the Auditor Act

¹² Section 47 c of the Auditor Act

review.

Audit committees will therefore not find information from the published result on whether the audit of the undertaking's financial statements have been subjected to review, or whether the auditor(s) that signed the auditor's report in the financial statement have been selected for review in general, including results of the same.

The Danish Business Authority can, however, recommend that an audit firm inform the audit committee in a public-interest entity of any errors and omissions found by quality assurance review concerning that undertaking's financial statements¹³. This is a recommendation only, and failure to provide the information cannot therefore be sanctioned by the Danish Business Authority.

The audit committee can, for example, ask the audit firm to provide supplementary details to the committee on:

- Any published results from quality assurance reviews performed by other authorities (e.g. PCAOB).
- Whether the quality assurance review was concluded without further follow-up¹⁴.
- Whether the quality assurance review is a follow-up review to determine whether the recommendations of the review have been acted upon¹⁵.
- Whether the Danish Business Authority has or will subject the quality management system or one or more reporting assignments to closer investigation in pursuance of Section 37 of the Auditor Act (risk of violation of the legislation)¹⁶.
- Whether the Danish Business Authority has recommended an immediate amendment to the audit firm's transparency report¹⁷.
- Whether the Danish Business Authority has recommended that the audit firm inform the audit committee in a PIE undertaking of any errors and omissions found by quality assurance review when reporting for that undertaking¹⁸.
- Whether the Danish Business Authority has decided to publish the results of a quality assurance review if a follow-up review finds that no action has been taken on the recommendations from a previous review¹⁹.
- Whether the Danish Business Authority has decided to publish the results of a quality assurance review when an audit firm fails to heed the Authority's recommendation on drawing up an action plan²⁰.
- Whether any of the approved auditors involved in the audit have been brought before the Disciplinary Board on Auditors or given a disciplinary punishment by the Board within the past year.

¹³ EO no. 968 of 28/06/2016, Section 32 (2)

¹⁴ EO no. 968 of 28/06/2016, Section 31 (2) no. 1

¹⁵ EO no. 968 of 28/06/2016, Section 34 (2), no. 2

¹⁶ EO no. 968 of 28/06/2016, Section 31 (3)

¹⁷ EO no. 968 of 28/06/2016, Section 32 (1)

¹⁸ EO no. 968 of 28/06/2016, Section 32 (2)

¹⁹ EO no. 968 of 28/06/2016, Section 34 (1)

²⁰ EO no. 968 of 28/06/2016, Section 34 (2)

B.2. The criteria of the Committee on Corporate Governance for independence

To be independent according to the recommendation (recommendation 3.2.1), the person concerned cannot:

- be, or have been within the past five years, a member of the Executive Board or a senior employee of the company, a subsidiary or an associated company,
- have received within the past five years substantial remuneration from the company/group, a subsidiary or an associated company in any capacity other than as a member of the Board of Directors,
- represent or have any connection to a majority shareholder,
- have had any significant business relationship within the past year (e.g. personally or indirectly as a partner or employee, shareholder, customer, supplier or management member in companies with corresponding connections) with the company, a subsidiary or an associated company,
- be or within the past three years have been employed or a been a partner in the same company as the auditor elected by the general meeting,
- be a director in a company with common management representation with the company,
- have been a member of the Board of Directors for more than 12 years, or
- be a close relation to persons who cannot be regarded as independent.

The recommendation also states that, regardless or whether a board member is not covered by the criteria above, other factors may cause the Board of Directors to decide that one or more members cannot be regarded as independent.

In the opinion of the Committee on Corporate Governance, employee representatives are not independent.

B.3. Example of 70% limitation according to Article 4 (2) of the Auditor Regulation

The example refers to a public-interest entity with a calendar financial year.

Year	Audit fees (A) ¹	3-year average (B)	Ceiling (70% of B)	Total fee for non-audit services (IRY) ¹	Ceiling
31-12-2017	200	N/A	N/A ²	200	N/A ²
31-12-2018	203	N/A	N/A ²	180	N/A ²
31-12-2019	208	204	N/A ²	150	N/A ²
31-12-2020	210	207	143 ³	87	Yes – but the IRY fee is less than 143
31-12-2021	215	211	145	0	No fee for IRY – three-year rule broken ⁴
31-12-2022	219	215	N/A ²	140	N/A ²
31-12-2023	234	223	N/A ²	300	N/A ²
31-12-2024	245	233	N/A ²	250	N/A ²
31-12-2025	250	243	163 ³	150	Yes – but the IRY fee is less than 163

¹ Fee for statutory audit and fee for non-audit services payable to the elected audit firm.

² There is no ceiling for the provision of non-audit services, as the ceiling only applies if non-audit services have been provided for at least three consecutive years.

³ Calculated on the basis of the audit fee for the three preceding years (70% of 204)

⁴ If no non-audit services are provided in one year, the three-year rule is broken. That means that a ceiling only occurs when there are three consecutive years of non-audit service provided again. The ceiling will therefore only become applicable in the financial year of 2025.

B.4. Relevant provisions on audit committees

The Danish Act on Approved Auditors and Audit Firms (the Auditor Act) (Consolidated Act no. 1167 of 9 September 2016 with amendments)

Part 4

The Auditor's Independence

S. 24. An auditor, audit firm and other persons in the audit firm linked to the engagement or supervising its performance shall, when performing engagements covered by Section 1 (2), be independent of the company that the engagement concerns and must not be involved in the decisions made in the company. Independence is required both during the engagement period and during that period covered by the financial statements or other activities for which a report has to be provided. The engagement period commences when work on the reporting engagements starts, and ceases once the report has been provided.

(2) An auditor is not independent if there is a direct or indirect financial, business or employment relationship or other relationship, including the provision of services not covered by Section 1 (2), between the auditor and the company that the engagement concerns that may raise doubt in a well-informed third party about the auditor's independence. The same shall apply if there is such a relationship between other persons in the audit firm who are attached to the engagement or who are in a position to influence the outcome of the engagement, the audit firm or the audit firm's network and the company that the engagement concerns.

(3) In the event of threats to the auditor's or audit firm's independence, including self-review, self-interest, advocacy, close personal relations, including familiarity, relationships or intimidation, the auditor or the audit firm shall apply safeguards aimed at mitigating such threats. If the threat is of such a nature in relation to the safeguards applied that the auditor's or the audit firm's independence has been compromised, the auditor shall desist from performing engagements in pursuance of Section 1 (2).

(4) The Danish Business Authority lays down rules on relationships covered by (2) and (3), including threats, safeguards and situations in which auditors or audit firms are not independent.

(5) Audit firms shall ensure that auditors in connection with performance of engagements document all significant threats to the auditor's or audit firm's independence in their work papers, and the safeguards applied to mitigate such threats.

(6) If the auditor performs an audit for a company that is taken over by, merges with or takes over another company during the account period, the auditor shall identify and assess all previous and current interests or relationships, including provision of any services other than audit to that company, which, with regard to available safeguards, can put the independence of the auditor and his ability to continue the audit after the merger or takeover date in doubt.

(7) The auditor shall take all necessary precautions to terminate current interests or relationships that could put the auditor's independence, cf. (6), in doubt as soon as possible and within no more than 3 months. The auditor shall furthermore apply safeguards to mitigate any threats to his independence as a result of previous and current interests and relationships.

S. 24 a. By way of derogation from Article 5 (1) in Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, an auditor or audit firm auditing public-interest entities can perform the following engagements for audit customers and their parent or subsidiary companies:

- 1) Tax services related to
 - a) preparation of tax forms,
 - b) identification of public subsidies and tax incentives,
 - c) support regarding tax inspections, and
 - d) provision of tax advice on the application of tax legislation, and
 - 2) Valuation services, including valuations performed in connection with actuarial services or litigation support services.
- (2) A condition for the performance of engagements in pursuance of (1) is that
- 1) the engagements individually or collectively do not have or only have an immaterial effect on the audited financial statements,
 - 2) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the auditors' record for the audit committee and Board of Directors, cf. Article 11 in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, and
 - 3) The auditor and audit firm fulfil the conditions on independence in Section 24.

S. 24 b Upon justified application from an auditor or an audit firm, the Danish Business Authority may in exceptional cases, and if indicated by highly extraordinary circumstances, exempt the auditor or audit firm from the limit imposed in Article 4 (2) in Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

- (2) Exemption in pursuance of (1) cannot be given for more than one financial year.

S. 24 c The auditor or auditors that sign the auditor's report in a company cannot accept a managerial position or become a member of the Board of Directors or supervisory body or of an audit committee in that company within one year of resigning as auditor. The first sentence shall not apply if the audit is performed in pursuance of the Danish Business Authority's reporting standard, cf. Section 135 (1), second sentence of the Financial Statements Act. Concerning the auditor's report for public-interest entities, the prohibition applies in pursuance of the first sentence for two years.

(2) (1), first sentence, shall correspondingly apply to any other auditor related to the same audit firm, and who has been directly involved in the audit.

S. 25. Audit firms and auditors shall ensure that the auditor or auditors that sign the auditors' report for companies referred to in (2) are replaced for period of at least 3 years not later than 7 years after they have been appointed to handle the engagement.

(2) Companies not covered by Section 1 a (1) no. 3, but that exceed two or more of the following criteria in two consecutive financial years, are covered by (1) until they no longer fulfil the following criteria:

- 1) A workforce of 2,500 people,
- 2) a balance sheet total of DKK 5 billion, and
- 3) net turnover of DKK 5 billion.

(3) Section 1 a (2) and (3) shall apply when calculating the sizes in pursuance of (2).

(...)

Part 8

Audit Committee

S. 31. Public-interest entities shall set up an audit committee, cf., however, (5), (6), (8) and (9). The audit committee shall consist of members of the company's Board of Directors that are not concurrently members of the company's Executive Board, supervisory board or persons elected by the company's general meeting or similar body. The majority of the committee's members, including the chairman, shall be independent, unless the committee solely consists of members of the company's Board of Directors or Supervisory Board. At least one member shall have qualifications within accounting or auditing. The committee members shall collectively have competences relevant to the company's sector.

(2) A person elected by the general meeting or corresponding body to be a member of the audit committee, shall, in the performance of their work, be subject to the same regulations as a member of the audit committee who is also a member of the company's Board of Directors or supervisory body.

(3) The duties of the audit committee, shall, as a minimum, consist of the following:

- 1) Informing the full supreme management body of the result of the statutory audit, including the financial reporting process,
- 2) monitoring the financial reporting process and presenting recommendations or proposals to ensure integrity,
- 3) monitoring whether the company's internal control systems, including any internal audits and risk management systems, function efficiently with regard to the financial reporting process in the company without compromising its independence,
- 4) monitoring the statutory audit of financial statements, etc., taking into account the result of the latest quality assurance review of the audit firm,
- 5) checking and monitoring auditor independence in accordance with Sections 24-24 c and Article 6 in Regulation (EU) No. 2014/16 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and the provision by an approved auditor of non-audit services, cf. Article 5 of the Regulation, and

- 6) Being responsible for the procedure for selection and proposal of auditor for election in accordance with Article 16 in Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, however, cf. (4).

(4) A company with a nomination committee on which the shareowners or owners have significant influence and with the purpose of making recommendations for election of auditor can opt to allow the committee to undertake the assignment in pursuance of (3) no. 6.

(5) Companies covered by (1), first sentence, may, however, decide that the audit committee's functions are instead to be performed by the supreme management body. This shall require that no members of the Board of Directors are concurrently members of the Executive Board and that at least one member of the Board of Directors is has qualifications within accounting or auditing.

(6) If a company has a Chairman of the Board of Directors who is not a member of the Executive Board, it can elect to have the functions of the audit committee performed by the supreme management body if the company has had an average market value over the past three calendar years of less than EUR 100 million based on its value at the end of the year, or if the company does not exceed two of the following criteria in two consecutive financial years as at the balance sheet date:

- 1) A staff of 250 full-time employees,
- 2) A balance sheet total of EUR 43 million, and
- 3) Net turnover of EUR 50 million.

(7) In companies in which the audit committee's functions are performed by the supreme management body, cf. (5) and (6), details shall be disclosed in the annual report.

(8) The following companies are not obliged to set up an audit committee in pursuance of (1)-(7):

- 1) Subsidiaries, if the parent company is covered by the requirements for setting up an audit committee.
- 2) Investment associations.
- 3) Alternative investment funds as defined in Article 4 (1) (a) in Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers.
- 4) Companies with the sole objective of issuing securities hedged against assets as defined in Article 2, no. 5 in Commission regulation (EC) No. 809/2004 as regards information contained in prospectuses.
- 5) Financial undertakings covered by Section 5 (1) a or b of the Danish Financial Business Act, the shares in which are not listed for trading on a regulated market in an EU or EEA country, and in the event of bond issue regularly or repeatedly have only issued bonds listed for trading on a regulated market, providing that the total nominal value of such bonds is less than EUR 100 million, and that such undertakings have not published any prospectus in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading.

(9) A company that, in pursuance of Section 8 no. 4, decides not to set up an audit committee shall detail the reasons why it does not find it appropriate to have an audit committee, a Board of Directors or a supervisory body responsible for exercising the functions of an audit committee in its annual report.

Part 9
Public Oversight, etc.
General Provisions

S. 32. The Danish Business Authority is responsible for the supervision of auditors and audit firms.

(2) The Danish Business Authority's supervisory duties shall include supervision of

- 1) examination, cf. Section 33 and continuing education, cf. Section 4,
- 2) quality assurance reviews, cf. Sections 34-35 b,
- 3) investigations, cf. Sections 37-42,
- 4) disciplinary sanctions, cf. Sections 43-47, and
- 5) Co-operation and exchange of information with the competent authorities in other countries, cf. Sections 48 and 49.

(3) The Danish Business Authority is furthermore responsible for

- 1) supervision to ensure that members of the supreme management body, Executive Board or audit committee in a public-interest entity fulfil the duties applied by this Act, by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, or provisions that implement Articles 37 and 38 in Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU, and
- 2) Monitoring and appraisal of developments in the market for statutory audit services for public-interest entities.

(4) In connection with the performance of the Danish Business Authority's supervisory duties in pursuance of (1)-(3), the Authority may obtain information from other Danish and foreign competent authorities and demand any necessary information from auditors and audit firms, including the surrender of working papers and other documents regarding engagements performed in pursuance of Section 1 (2), and from any other organisations, etc. performing engagements in pursuance of (2). In order to perform its supervisory duties in pursuance of (3), the Authority can also obtain necessary information from public-interest entities.

(5) (2) nos. 3-5 and (3) shall apply correspondingly to audit firms registered in pursuance of Section 13 a (1).

(6) The Danish Financial Supervisory Authority will act in place of the Danish Business Authority to perform supervision in pursuance of (3), no. 1, concerning public-interest entities subject to supervision by the Financial Supervisory Authority. The Danish Financial Supervisory Authority can exercise the authority given it in (4) for the purpose of such supervision.

(...)

Investigations

S. 37. If the Danish Business Authority believes that there is a risk that an auditor, an audit firm, a public-interest entity or a member of the supreme management body or audit committee in a public-interest entity has violated or will violate a duty arising from this Act or from Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Authority can initiate and conduct an investigation to detect, correct or prevent such a violation. This shall not apply to a report provided in pursuance of Section 1 (3). The Authority may also initiate an investigation if it receives a request to do so from a competent foreign authority, cf. Section 32 (2), no. 5.

(2) The Danish Business Authority can also initiate and conduct an investigation as referred to in (1) if it believes that there is a risk that a public-interest entity or a member of the supreme management body or audit committee in such an entity has violated or will violate legal provisions that implement Articles 37 and 38 in Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU.

(3) The Danish Business Authority can furthermore initiate and conduct an investigation as referred to in (1) if a quality assurance review detects a risk that an auditor, an audit firm, a public-interest entity or a member of the supreme management body or audit committee in such an entity has violated the provisions referred to in (1) and (2).

(4) The Danish Business Authority may make a decision on the use of external assistance in connection with an investigation in pursuance of (1)-(3).

(5) (1)-(4) shall apply correspondingly to foreign audit firms covered by Section 13 a.

(6) The Danish Business Authority may lay down provisions on initiating and conducting investigations in pursuance of (1)-(3).

S. 38. The Danish Business Authority may demand all information from an auditor or audit firm, including working papers, auditors' records, correspondence and other documents deemed necessary for the Authority's decision on whether there has been or will be a violation of the provisions in the present Act, provisions laid down in pursuance of the present Act or provisions on the duties of auditors laid down in other legislation.

(2) For investigations involving public-interest entities, the Danish Business Authority can demand corresponding details concerning the statutory audit of the audited company by persons who are involved in or have connections to the auditor or audit firm, and by third parties to whom work has been assigned by the auditor or audit firm.

S. 39. The Danish Business Authority shall have access to an audit firm's premises, without a court order, at any given time against the presentation of adequate identification and to the audit firm's records, documents, etc., including material kept electronically, in order to obtain information that is necessary for use in an investigation in pursuance of Section 37, cf., however, Section 9 of the Danish Act on Due Process in Connection with the Administration's Use of Compulsory Intervention and Duties of Disclosure.

(2) (1) shall not apply to buildings or parts of buildings that are solely used for private dwellings.

(3) The police shall, if necessary, provide assistance in the performance of an investigation in pursuance of (1). The Minister of Industry, Business and Financial Affairs may lay down further rules on this following negotiations with the Minister of Justice.

(4) In connection with the performance of an investigation in pursuance of Section 37 (1), third sentence, the Danish Business Authority may permit personnel from the relevant foreign authority to accompany the Authority.

(5) The Danish Business Authority shall lay down provisions on the participation of personnel from foreign authorities in pursuance of (4).

S. 40. Following the conclusion of an investigation, the Danish Business Authority shall decide whether the findings of the investigations provide grounds for

- 1) conclusion of the investigation without comment,
- 2) issuing a reprimand,
- 3) ordering that any violations be brought to an end,
- 4) bringing the auditor, audit firm or both before the Disciplinary Board on Auditors, cf. Section 43, or
- 5) bringing a member of the supreme management body or audit committee in a public-interest entity, a public-interest entity or both before the Disciplinary Board on Auditors, cf. Section 44 a.

(2) The Danish Business Authority may publish a ruling in pursuance of (1) no. 3, cf. Section 47 a.

S. 41. (Repealed.)

S. 42. (5) The Danish Business Authority may, as a sanction, levy daily or weekly fines on members of an audit firm's Board of Directors, Executive Board or similar executive body and auditors, plus members of the supreme management body or audit committee in a public-interest entity, if they fail to

- 1) comply with a request for information in pursuance of Section 38, or
- 2) comply with an order issued by the Authority in pursuance of Section 40.

(2) The fines shall accrue to the Treasury.

(3) The authority in charge of collecting arrears may waive claims in pursuance of (1) and (2) in pursuance of the rules in the Act on Recovery of Debt to the Public Authorities.

The Danish Disciplinary Board on Auditors

S. 43. The Danish Business Authority shall appoint a Disciplinary Board on Auditors, which consists of a Chairman (who shall be a judge) and at least 16 other members, eight of whom shall be approved auditors and a further eight of whom shall be representatives of financial statement users. At least two of the members representing the financial statement users shall have management experience from public-interest entities. The representatives of the financial statement users cannot be approved auditors or be employees of or run an audit firm along with approved auditors. In the event of an expansion of the number of members, a proportionally equal number of state-authorized accountants and registered public accountants shall be appointed, and the proportion of representatives of the users of financial statements shall be maintained. The Board's Chairman and members shall be appointed by the Danish Business Authority, which can also appoint one or more judges as Deputy Chairmen. At least one member of the chairmanship must be a High Court judge. The chairmanship and members shall be appointed for a period of up to four years.

(2) In the Disciplinary Board on Auditors' hearing of a case concerning state-authorized public accountants, at least one state-authorized public accountant and one representative of financial statement users shall participate in the hearing together with the Chairman or one Deputy Chairman. In the Disciplinary Board on Auditors' hearing of a case concerning registered public accountants, at least one representative of financial statement users and one accountant, who shall where possible be a registered public accountant, shall participate in the hearing together with the Chairman or one Deputy Chairman. If more members participate in the hearing, the number of auditors shall correspond to the number of representatives of financial statement users. In cases that may involve revocation, cf. Section 44 (4) and (6), a prohibition, cf. Section 44 (3), or conditional revocation, cf. Section 44, at least two state-authorized public accountants or two registered public accountants shall always participate along with the Chairman or one Deputy Chairman, although in the event of a complaint against a registered public account, two registered public accounts wherever possible and a corresponding number of representatives of financial statement users. The Disciplinary Board on Auditors can only rule on revocation, prohibition or conditional revocation when the use of such a sanction is requested during the hearing of a complaint.

(3) Complaints that an auditor has failed to comply with the duties of the office of auditor in the performance of engagements in pursuance of Section 1 (2) and (3) may be brought before the Disciplinary Board on Auditors. The same shall apply to complaints about auditors who are registered in pursuance of Section 11 (2) and complaints about matters mentioned in Section 44 (4), second sentence. Complaints about an auditor's fees and cases concerning collegial matters cannot be brought before the Disciplinary Board on Auditors.

(4) Complaints about audit firms and foreign audit firms covered by Section 13 a, regarding matters mentioned in Section 44 (6), sentence 4, may be brought before the Disciplinary Board on Auditors.

(5) An audit firm may be brought before the Disciplinary Board on Auditors by the Danish Business Authority if the Authority based on a quality assurance review, cf. Section 29, or an investigation, cf. Section 37, finds errors or omissions in the audit firm that, in the Authority's view, give rise to the case being brought before the Disciplinary Board on Auditors, including the firm's duties, cf. Section 15 a (1) and (4) and Section 24 (5), if the firm has no quality control system, cf. Sections 28 and 28 a, or a quality assurance review has otherwise found errors or omissions in the audit firm. The Disciplinary Board on Auditors can consider a complaint brought in pursuance of the first sentence or in pursuance of (4), regardless of whether the audit firm continued to be approved in pursuance of Section 13 or registered in pursuance of Section 13 a at the time the complaint is brought.

(6) The Disciplinary Board on Auditors or the Chairman may refuse to hear complaints from persons who do not have a legal interest in the matter that the complaint concerns and complaints that must be regarded as groundless in advance. The Disciplinary Board on Auditors shall hear any complaint

about an auditor or an audit firm that has been brought by the Danish Business Authority, the Danish Financial Supervisory Authority, the Ministry of Taxation, the Prosecution Service or the Institute of State Authorized Public Accountants in Denmark (FSR). The Disciplinary Board on Auditors shall hear any complaint about an auditor's performance of engagements in pursuance of Section 1 (2) and (3) for a municipality or a municipal association, cf. Section 60 of the Danish Local Government Act, or for a region, which has been brought by the municipal or regional supervisory authority in question. Before rejecting a complaint in pursuance of the first sentence, the Disciplinary Board on Auditors or the chairman may refuse to deal with a complaint that is not covered by the Board's competency, or which was brought too late.

(...)

S. 44 a The Disciplinary Board on Auditors considers complaints concerning neglect of duties in pursuance of this Act or Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, which apply to public-interest entities or members of the supreme management body or audit committee of such entities. Correspondingly, the Disciplinary Board on Auditors considers complaints concerning neglect of duties incumbent on public-interest entities or members of the supreme management body or audit committee in such an entity as a result of rules that implement Article 38 in Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU.

(2) In the Disciplinary Board on Auditors' hearing of a case covered by (1), at least one state-authorized public accountant and one representative of financial statement users with management experience from public-interest entities, shall participate in the hearing together with the Chairman or one Deputy Chairman. If more members participate in the hearing, the number of auditors shall correspond to the number of representatives of financial statement users. In cases in which a prohibition may be relevant, cf. Section 44 b (2), at least two state-authorized accountants and a corresponding number of representatives of financial statement users shall participate in addition to the Chairman or one Deputy Chairman. The Disciplinary Board on Auditors can only rule on a prohibition when the use of such a sanction is requested during the hearing of a complaint.

(3) Complaints covered by (1) can be brought by the Danish Business Authority or Danish Financial Supervisory Authority, cf. Section 32 (6), or by anyone with a legal interest in the matters the complaint concerns. The Disciplinary Board on Auditors or the Chairman may refuse to hear complaints from complainants with no legal interest or complaints that must be regarded as groundless in advance. A complaint can also be rejected if the complaint is not within the board's competence or is submitted too late. If a complaint is submitted by the Danish Business Authority or other public authority, the Board shall consider it unless the complaint is outside the Board's competence or is submitted too late.

S. 44 b The Disciplinary Board on Auditors can issue a warning or a fine not exceeding DKK 300,000 if a public-interest entity or a member of the supreme management body or audit committee of such an entity neglects the duties arising from this Act and in Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities. The same applies correspondingly to neglect of a duty arising from rules that implement Article 38 in Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU.

(2) If a person covered by (1) has shown gross or persistent negligence of duties as referred to in (1), the Disciplinary Board on Auditors can prohibit that person from being a member of one or more

of the following company bodies in public-interest entities for up to three years:

- 1) The supreme management body,
- 2) the Executive Board, and
- 3) the audit committee.

(3) A ruling in pursuance of (2) shall include information about access to a judicial review in pursuance of Section 52 and on the time limit for instituting such legal proceedings.

(4) A right of restraint shall apply to fines levied in pursuance of (1).

S. 45. Upon application, the Disciplinary Board on Auditors may, at any given time, set aside a ruling on prohibition issued in pursuance of Section 44 (3), revocation in pursuance of Section 44 (4) or (6) or prohibition in pursuance of Section 44 b (2).

(2) If the approval has been revoked until further notice, and the Disciplinary Board on Auditors rejects the application to set aside the ruling on revocation, the auditor or the audit firm may demand that the ruling shall be heard by a court if a period of five years has passed since the approval was revoked and at least two years have passed since the approval has most recently been refused by ruling. Section 44 (10) and Section 52 shall apply correspondingly.

S. 46. The time limit for bringing a case before the Disciplinary Board on Auditors shall be five years from the date on which the breach of duty or the omission has ceased.

(2) The time limit shall be suspended on the submission of a complaint to the Disciplinary Board on Auditors.

S. 47. The Danish Business Authority shall lay down the provisions for the Disciplinary Board on Auditors that shall be covered by sanction and publication of the Board's rulings, including the payment of fees for submission of complaints, case preparation, hearing date, attendance of the parties involved and pertinent circumstances. No fees are payable for complaints brought in pursuance of Section 43 (6), sentences 2 and 3, or in pursuance of Section 44 a (3) by the Danish Business Authority or other public authority.

(2) The Danish Business Authority may decide that the Disciplinary Board on Auditors may also hear complaints about state-authorized public accountants or registered public accountants who have been authorized or registered by the Faroese registration authority.

Publication

S. 47 a The Danish Business Authority shall publish rulings on its website in pursuance of Section 40 (1), no. 3. Rulings concerning natural persons will be published in anonymised form.

(2) Rulings concerning a legal entity will be published with details of their identity unless doing so will represent a serious threat to the stability of the financial markets or a criminal investigation in progress, or when publication will cause disproportionate harm.

(3) The identity of a legal entity shall be anonymised two years after the date of publication.

(4) If the ruling is published before expiry of the complaint deadline in Section 51 (1), or a complaint

is lodged about the ruling to the Companies Appeals Board, publication shall be made in pursuance of (1), first sentence, containing details of status and the result of the complaint made to the Board.

S. 47 b The Danish Business Authority can announce that an investigation in pursuance of Section 37 is to be initiated or has been initiated. The Authority can furthermore publish the result of an investigation in pursuance of Section 40.

(2) The Danish Business Authority shall decide in what form publication will be in pursuance of (1). Publication will be on the Authority's website.

S. 47 c The Disciplinary Board on Auditors shall announce rulings made in pursuance of Section 44 (1)-(4) and (6), and Section 44 b (1) and (2) on its website.

(2) Rulings concerning natural persons will be published in anonymised form with the exception of those that apply a prohibition in pursuance of Section 44 (3), or Section 44 b (2), or if an auditor's approval is revoked in pursuance of Section 44 (4). Rulings in pursuance of Section 44 (3) and (4), and Section 44 b (2) shall be anonymised at the end of the period for which sanctions are imposed, but no later than five years after the date of publication.

The Auditor Regulation

(Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities)

Article 4

Audit fees

1. Fees for the provision of statutory audits to public-interest entities shall not be contingent fees.

Without prejudice to Article 25 of Directive 2006/43/EC, for the purposes of the first subparagraph, contingent fees means fees for audit engagements calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. Fees shall not be regarded as being contingent if a court or a competent authority has established them.

2. When the auditor or the audit firm provides to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, non-audit services other than those referred to in Article 5(1) of this Regulation, the total fees for such services shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings.

For the purposes of the limits specified in the first subparagraph, non-audit services, other than those referred to in Article 5(1), required by Union or national legislation shall be excluded.

Member States may provide that a competent authority may, upon a request by the auditor or the audit firm, on an exceptional basis, allow that auditor or audit firm to be exempt from the requirements in the first subparagraph in respect of an audited entity for a period not exceeding two financial years.

3. When the total fees received from a public-interest entity in each of the last three consecutive financial years are more than 15% of the total fees received by the auditor or the audit firm or, where applicable, by the group auditor carrying out the statutory audit, in each of those financial years, such an auditor or audit firm or, as the case may be, group auditor, shall disclose that fact to the audit committee and discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats. The audit committee shall consider whether the audit engagement should be subject to a quality control review by another auditor or audit firm prior to the issuance of the audit report.

Where the fees received from such a public-interest entity continue to exceed 15% of the total fees received by such an auditor or audit firm or, as the case may be, by a group auditor carrying out the statutory audit, the audit committee shall decide on the basis of objective grounds whether the auditor or the audit firm or the group auditor, of such an entity or group of entities may continue to carry out the statutory audit for an additional period which shall not, in any case, exceed two years.

4. Member States may apply more stringent requirements than set out in this Article.

Article 5

Prohibition of the provision of non-audit services

1. An auditor or an audit firm carrying out the statutory audit of a public-interest entity, or any member of the network to which the auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union any prohibited non-audit services in:

- a) the period between the beginning of the period audited and the issuing of the audit report; and
- b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (g) of the second subparagraph.

For the purposes of this Article, prohibited non-audit services shall mean:

- a) tax services relating to:
 - i) preparation of tax forms
 - ii) payroll tax
 - iii) customs duties
 - iv) identification of public subsidies and tax incentives unless support from the auditor or the audit firm in respect of such services is required by law
 - v) support regarding tax inspections by tax authorities unless support from the auditor or the audit firm in respect of such inspections is required by law
 - vi) calculation of direct and indirect tax and deferred tax
 - vii) provision of tax advice
- b) services that involve playing any part in the management or decision-making of the audited entity
- c) bookkeeping and preparing accounting records and financial statements
- d) payroll services
- e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- f) valuation services, including valuations performed in connection with actuarial services or litigation support services
- g) legal services with respect to:
 - i) the provision of general counsel
 - ii) negotiating on behalf of the audited entity, and
 - iii) acting in an advocacy role in the resolution of litigation
- h) services related to the audited entity's internal audit function
- i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity
- j) promoting, dealing in, or underwriting shares in the audited entity

k) human resources services, with respect to:

i) management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve: — searching for or seeking out candidates for such position; or — undertaking reference checks of candidates for such positions

ii) structuring the organisation design, and

iii) Cost control.

2. Member States may prohibit services other than those listed in paragraph 1 where they consider that those services represent a threat to independence. Member States shall communicate to the Commission any additions to the list in paragraph 1.

3. By way of derogation from the second subparagraph of paragraph 1, Member States may allow the provision of the services referred to in points (a) (i), (a) (iv) to (a) (vii) and (f), provided that the following requirements are complied with:

a) they have no direct or have immaterial effect, separately or in the aggregate on the audited financial statements

b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the audit report to the audit committee referred to in Article 11, and

c) the principles of independence laid down in Directive 2006/43/EC are complied with by the auditor or the audit firm.

4. An auditor or an audit firm carrying out statutory audits of public-interest entities and, where the auditor or the audit firm belongs to a network, any member of such network, may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraphs 1 and 2 subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with Article 22b of Directive 2006/43/EC. The audit committee shall, where applicable, issue guidelines with regard to the services referred to in paragraph 3.

Member States may establish stricter rules setting out the conditions under which an auditor, an audit firm or a member of a network to which the auditor or audit firm belongs may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraph 1.

5. When a member of a network to which the auditor or the audit firm carrying out a statutory audit of a public-interest entity belongs provides any of the non-audit services, referred to in paragraphs 1 and 2 of this Article, to an undertaking incorporated in a third country which is controlled by the audited public-interest entity, the auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

If his, her or its independence is affected, the auditor or the audit firm shall apply safeguards where applicable in order to mitigate the threats caused by such provision of services in a third country. The auditor or the audit firm may continue to carry out the statutory audit of the public-interest entity only if he, she or it can justify, in accordance with Article 6 of this Regulation and Article 22b of Directive 2006/43/EC, that such provision of services does not affect his, her or its professional judgement and the audit report.

For the purposes of this paragraph:

- a) being involved in the decision-taking of the audited entity and the provision of the services referred to in points (b), (c) and (e) of the second subparagraph of paragraph 1 shall be deemed to affect such independence in all cases and to be incapable of mitigation by any safeguards.
- b) Provision of the services referred to in the second subparagraph of paragraph 1 other than points (b), (c) and (e) thereof shall be deemed to affect such independence and therefore to require safeguards to mitigate the threats caused thereby.

Article 6

Preparation for the statutory audit and assessment of threats to independence

1. Before accepting or continuing an engagement for a statutory audit of a public-interest entity, an auditor or an audit firm shall assess and document, in addition to the provisions of Article 22b of Directive 2006/43/EC, the following:

- a) whether he, she or it complies with the requirements of Articles 4 and 5 of this Regulation
- b) whether the conditions of Article 17 of this Regulation are complied with
- c) Without prejudice to Directive 2005/60/EC, the integrity of the members of the supervisory, administrative and management bodies of the public-interest entity.

2. An auditor or an audit firm shall:

- a) confirm annually in writing to the audit committee that the auditor, the audit firm and partners, senior managers and managers, conducting the statutory audit are independent from the audited entity;
- b) Discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats, as documented by them pursuant to paragraph 1.

(...)

Article 11

Audit report to the audit committee

1. Auditors or audit firms carrying out statutory audits of public-interest entities shall submit an audit report to the audit committee of the audited entity not later than the date of submission of the audit report referred to in Article 10. Member States may additionally require that this audit report be submitted to the administrative or supervisory body of the audited entity.

If the audited entity does not have an audit committee, the audit report shall be submitted to the body performing equivalent functions within the audited entity. Member States may allow the audit committee to disclose that audit report to such third parties as are provided for in their national law.

2. The audit report to the audit committee shall be in writing. It shall explain the results of the statutory audit carried out and shall at least:

- a) include the declaration of independence referred to in point (a) of Article 6(2);
- b) where the statutory audit was carried out by an audit firm, the report shall identify each key audit partner involved in the audit;

- c) where the auditor or the audit firm has made arrangements for any of his, her or its activities to be conducted by another auditor or audit firm that is not a member of the same network, or has used the work of external experts, the report shall indicate that fact and shall confirm that the auditor or the audit firm received a confirmation from the other auditor or audit firm and/or the external expert regarding their independence;
- d) describe the nature, frequency and extent of communication with the audit committee or the body performing equivalent functions within the audited entity, the management body and the administrative or supervisory body of the audited entity, including the dates of meetings with those bodies;
- e) include a description of the scope and timing of the audit;
- f) where more than one auditor or audit firm have been appointed, describe the distribution of tasks among the auditors and/or the audit firms;
- g) describe the methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variation in the weighting of system and compliance testing when compared to the previous year, even if the previous year's statutory audit was carried out by other auditor(s) or audit firm(s);
- h) disclose the quantitative level of materiality applied to perform the statutory audit for the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions, account balances or disclosures, and disclose the qualitative factors which were considered when setting the level of materiality;
- i) report and explain judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment;
- j) report on any significant deficiencies in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the audit report shall state whether or not the deficiency in question has been resolved by the management;
- k) report any significant matters involving actual or suspected non-compliance with laws and regulations or Articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;
- l) report and assess the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods;
- m) in the case of a statutory audit of consolidated financial statements, explain the scope of consolidation and the exclusion criteria applied by the audited entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the financial reporting framework;
- n) where applicable, identify any audit work performed by third-country auditor(s), auditor(s), third-country audit entity(ies) or audit firm(s) in relation to a statutory audit of consolidated financial statements other than by members of the same network as to which the auditor of the consolidated financial statements belongs;
- o) indicate whether all requested explanations and documents were provided by the audited entity;
- p) report:

- i) any significant difficulties encountered in the course of the statutory audit;
- ii) any significant matters arising from the statutory audit that were discussed or were the subject of correspondence with management; and
- iii) Any other matters arising from the statutory audit that in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Member States may lay down additional requirements in relation to the content of the audit report to the audit committee.

Upon request by an auditor, an audit firm or the audit committee, the auditor(s) or the audit firm(s) shall discuss key matters arising from the statutory audit, referred to in the audit report to the audit committee, and in particular in point (j) of the first subparagraph, with the audit committee, administrative body or, where applicable, supervisory body of the audited entity.

3. Where more than one auditor or audit firm have been engaged simultaneously, and any disagreement has arisen between them on auditing procedures, accounting rules or any other issue regarding the conduct of the statutory audit, the reasons for such disagreement shall be explained in the audit report to the audit committee.

4. The audit report to the audit committee shall be signed and dated. Where an audit firm carries out the statutory audit, the audit report to the audit committee shall be signed by the auditors carrying out the statutory audit on behalf of the audit firm.

5. Upon request, and in accordance with national law, the auditors or the audit firms shall make available without delay the audit report to the competent authorities within the meaning of Article 20(1).

(...)

Article 13

Transparency report

1. An auditor or an audit firm that carries out statutory audits of public-interest entities shall make public an annual transparency report at the latest four months after the end of each financial year. That transparency report shall be published on the website of the auditor or the audit firm and shall remain available on that website for at least five years from the day of its publication on the website. If the auditor is employed by an audit firm, the obligations under this Article shall be incumbent on the audit firm.

An auditor or an audit firm shall be allowed to update its published annual transparency report. In such a case, the auditor or the audit firm shall indicate that it is an updated version of the report and the original version of the report shall continue to remain available on the website.

Auditors and audit firms shall communicate to the competent authorities that the transparency report has been published on the website of the auditor or the audit firm or, as appropriate, that it has been updated.

2. The annual transparency report shall include at least the following:

- a) a description of the legal structure and ownership of the audit firm;
- b) where the auditor or the audit firm is a member of a network:

- i) a description of the network and the legal and structural arrangements in the network;

- ii) the name of each auditor operating as a sole practitioner or audit firm that is a member of the network;
 - iii) the countries in which each auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as an auditor or has his, her or its registered office, central administration or principal place of business;
 - iv) the total turnover achieved by the auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements;
- c) a description of the governance structure of the audit firm;
 - d) a description of the internal quality control system of the auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;
 - e) an indication of when the last quality assurance review referred to in Article 26 was carried out;
 - f) a list of public-interest entities for which the auditor or the audit firm carried out statutory audits during the preceding financial year;
 - g) a statement concerning the auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
 - h) a statement on the policy followed by the auditor or the audit firm concerning the continuing education of auditors referred to in Article 13 of Directive 2006/43/EC;
 - i) information concerning the basis for the partners' remuneration in audit firms;
 - j) a description of the auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);
 - k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the auditor or the audit firm, divided into the following categories:
 - i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;
 - ii) revenues from the statutory audit of annual and consolidated financial statements of other entities;
 - iii) revenues from permitted non-audit services to entities that are audited by the auditor or the audit firm; and
 - iv) Revenues from non-audit services to other entities.

The auditor or the audit firm may, in exceptional circumstances, decide not to disclose the information required in point (f) of the first subparagraph to the extent necessary to mitigate an imminent and significant threat to the personal security of any person. The auditor or the audit firm shall be able to demonstrate to the competent authority the existence of such threat.

3. The transparency report shall be signed by the auditor or the audit firm.

(...)

THE APPOINTMENT OF AUDITORS OR AUDIT FIRMS BY PUBLIC-INTEREST ENTITIES

Article 16

Appointment of auditors or audit firms

1. For the purposes of the application of Article 37(1) of Directive 2006/43/EC, for the appointment of auditors or audit firms by public-interest entities, the conditions set out in paragraphs 2 to 5 of this Article shall apply, but may be subject to paragraph 7.

Where Article 37(2) of Directive 2006/43/EC applies, the public-interest entity shall inform the competent authority of the use of the alternative systems or modalities referred to in that Article. In that event, paragraphs 2 to 5 of this Article shall not apply.

2. The audit committee shall submit a recommendation to the administrative or supervisory body of the audited entity for the appointment of auditors or audit firms.

Unless it concerns the renewal of an audit engagement in accordance with Article 17(1) and 17(2), the recommendation shall be justified and contain at least two choices for the audit engagement and the audit committee shall express a duly justified preference for one of them.

In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no clause of the kind referred to in paragraph 6 has been imposed upon it.

3. In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no clause of the kind referred to in paragraph 6 has been imposed upon it.

a) the audited entity shall be free to invite any auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 17(3) is respected and that the organisation of the tender process does not in any way preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year;

b) The audited entity shall prepare tender documents for the attention of the invited auditors or audit firms. Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by auditors or audit firms;

c) the audited entity shall be free to determine the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure;

d) where, in accordance with Union or national law, the competent authorities referred to in Article 20 require auditors and audit firms to comply with certain quality standards, those standards shall be included in the tender documents;

e) The audited entity shall evaluate the proposals made by the auditors or the audit firms in accordance with the selection criteria predefined in the tender documents. The audited entity shall prepare a report on the conclusions of the selection procedure, which shall be validated by the audit committee. The audited entity and the audit committee shall take into consideration any findings or conclusions of any inspection report on the applicant auditor or audit firm referred to in Article 26(8) and published by the competent authority pursuant to point (d) of Article 28;

f) The audited entity shall be able to demonstrate, upon request, to the competent authority referred to in Article 20 that the selection procedure was conducted in a fair manner.

The audit committee shall be responsible for the selection procedure referred to in the first

subparagraph.

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 20(1) shall make public a list of the auditors and the audit firms concerned which shall be updated on an annual basis. The competent authority shall use the information provided by auditors and audit firms pursuant to Article 14 to make the relevant calculations.

4. Public-interest entities which meet the criteria set out in points (f) and (t) of Article 2(1) of Directive 2003/71/EC shall not be required to apply the selection procedure referred to in paragraph 3.

5. The proposal to the general meeting of shareholders or members of the audited entity for the appointment of auditors or audit firms shall include the recommendation and preference referred to in paragraph 2 made by the audit committee or the body performing equivalent functions.

If the proposal departs from the preference of the audit committee, the proposal shall justify the reasons for not following the recommendation of the audit committee. However, the auditor or audit firm recommended by the administrative or supervisory body must have participated in the selection procedure described in paragraph 3. This subparagraph shall not apply where the audit committee's functions are performed by the administrative or supervisory body.

6. Any clause of a contract entered into between a public-interest entity and a third party restricting the choice by the general meeting of shareholders or members of that entity, as referred to in Article 37 of Directive 2006/43/EC to certain categories or lists of auditors or audit firms, as regards the appointment of a particular auditor or audit firm to carry out the statutory audit of that entity shall be null and void.

The public-interest entity shall inform the competent authorities referred to in Article 20 directly and without delay of any attempt by a third party to impose such a contractual clause or to otherwise improperly influence the decision of the general meeting of shareholders or members on the selection of an auditor or an audit firm.

7. Member States may decide that a minimum number of auditors or audit firms are to be appointed by public-interest entities in certain circumstances and establish the conditions governing the relations between the auditors or audit firms appointed.

If a Member State establishes any such requirement, it shall inform the Commission and the relevant European Supervisory Authority thereof.

8. Where the audited entity has a nomination committee in which shareholders or members have a considerable influence and which has the task of making recommendations on the selecting of auditors, Member States may allow that nomination committee to perform the functions of the audit committee that are laid down in this Article and require it to submit the recommendation referred to in paragraph 2 to the general meeting of shareholders or members.

Article 17

Duration of the audit engagement

1. A public-interest entity shall appoint an auditor or an audit firm for an initial engagement of at least one year. The engagement may be renewed.

Neither the initial engagement of a particular auditor or audit firm, nor this in combination with any renewed engagements therewith shall exceed a maximum duration of 10 years.

2. By way of derogation from paragraph 1, Member States may

- a) require that the initial engagement referred to in paragraph 1 be for a period of more than one year
- b) Set a maximum duration of less than 10 years for the engagements referred to in the second

subparagraph of paragraph 1.

3. After the expiry of the maximum durations of engagements referred to in the second subparagraph of paragraph 1, or in point (b) of paragraph 2, or after the expiry of the durations of engagements extended in accordance with paragraphs 4 or 6, neither the auditor or the audit firm nor, where applicable, any members of their networks within the Union shall undertake the statutory audit of the same public-interest entity within the following four-year period.

4. By way of derogation from paragraph 1 and point (b) of paragraph (2), Member States may provide that the maximum durations referred to in the second subparagraph of paragraph 1 and in point (b) of paragraph 2 may be extended to the maximum duration of:

a) 20 years, where a public tendering process for the statutory audit is conducted in accordance with paragraphs 2 to 5 of Article 16 and takes effect upon the expiry of the maximum durations referred to in the second subparagraph of paragraph 1 and in point (b) of paragraph 2; or

b) twenty four years, where, after the expiry of the maximum durations referred to in the second subparagraph of paragraph 1 and in point (b) of paragraph 2, more than one auditor or audit firm is simultaneously engaged, provided that the statutory audit results in the presentation of the joint audit report as referred to in Article 28 of Directive 2006/43/EC.

5. The maximum durations referred to in the second subparagraph of paragraph 1 and in point (b) of paragraph 2 shall be extended only if, upon a recommendation of the audit committee, the administrative or supervisory body, proposes to the general meeting of shareholders or members, in accordance with national law, that the engagement be renewed and that proposal is approved.

6. After the expiry of the maximum durations referred to in the second subparagraph of paragraph 1, in point (b) of paragraph 2, or in paragraph 4, as appropriate, the public-interest entity may, on an exceptional basis, request that the competent authority referred to in Article 20(1) grant an extension to re-appoint the auditor or the audit firm for a further engagement where the conditions in points (a) or (b) of paragraph 4 are met. Such an additional engagement shall not exceed two years.

7. The key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation.

By way of derogation, Member States may require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity earlier than seven years from the date of their respective appointment. The auditor or the audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as auditors. The gradual rotation mechanism shall be applied in phases on the basis of individuals rather than of the entire engagement team. It shall be proportionate in view of the scale and the complexity of the activity of the auditor or the audit firm.

The auditor or the audit firm shall be able to demonstrate to the competent authority that such mechanism is effectively applied and adapted to the scale and the complexity of the activity of the auditor or the audit firm.

8. For the purposes of this Article, the duration of the audit engagement shall be calculated as from the first financial year covered in the audit engagement letter in which the auditor or the audit firm has been appointed for the first time for the carrying-out of consecutive statutory audits for the same public-interest entity.

For the purposes of this Article, the audit firm shall include other firms that the audit firm has acquired

or that have merged with it.

If there is uncertainty as to the date on which the auditor or the audit firm began carrying out consecutive statutory audits for the public-interest entity, for example due to firm mergers, acquisitions, or changes in ownership structure, the auditor or the audit firm shall immediately report such uncertainties to the competent authority, which shall ultimately determine the relevant date for the purposes of the first subparagraph.