

# WORLD TRADE ORGANIZATION

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**Working Party on Professional Services**

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## COMMUNICATION FROM THE EUROPEAN COMMUNITIES AND THEIR MEMBER STATES

Current Community system on the recognition of professional qualifications  
held by members of the accountancy profession,  
who are nationals of EC Member States

### Addendum

The following communication is circulated at the request of the European Communities and their Member States to the members of Working Party on Professional Services.

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Eighth Council Directive (84/253/EEC) of 10 April 1984 on  
"the approval of persons responsible for carrying out  
the statutory audits of accounting documents"

#### **1. Basic objective**

Several Directives require the annual and consolidated accounts of certain undertakings to be audited by a qualified professional. As the audit is required in the public interest, the audit function must be surrounded with a common set of minimum guarantees which permit the various users to rely on the accounts published by the undertakings concerned.

The basic objective of the Eighth Council Directive (84/253/EEC) of 10 April 1984 is to ensure that people carrying out statutory auditing activities in any Member State fulfil at least the minimum qualifications laid down in the Directive. Because these are minimum qualifications, Member States may impose additional requirements.

The Eighth Directive is meant to set up minimum requirements concerning three basic characteristics: personal integrity, theoretical education and practical experience. Personal integrity is indicated as a pre-requisite for any person who has to carry out a control function. Theoretical education and practical experience are necessary to achieve professional competence, which may only be obtained nowadays with an adequate mix of appropriate education and extensive practice.

The Eighth Directive does not deal with the question whether and to what extent a professional auditor can establish himself in another Member State in order to carry out statutory audits in that State. Nor does the Directive deal with the question whether a professional auditor from one Member State can carry out a statutory audit in another Member State, without establishing himself in that State. The first matter is dealt with in the Mutual Recognition of Diplomas Directives (89/48/EEC and

92/51/EEC). The second matter is covered by Article 59 EEC-Treaty and might be the subject of further rules.

## **2. Contents**

### **Scope**

The Eighth Directive sets up the minimum qualifications for the approval of the natural and legal persons who carry out the statutory audit of annual and consolidated accounts as required by Community law.

According to the Eighth Directive, both natural and legal persons may be approved. In the case of legal persons, certain criteria have been established in order to ensure that the statutory audits carried out on behalf of a firm of auditors are actually conducted by approved persons and that control and management of such firms are in the hands of approved persons.

Approval may be given by a national authority or by a professional association to which this authority has been delegated by law.

### **Minimum Requirements**

The minimum characteristics required for being approved as statutory auditors may be divided in moral requirements and educational requirements.

#### **Moral requirements**

To be approved, a person must have the following moral requirements:

1. *To be of good repute.*
2. *To show professional integrity, which means not to carry on any activity which is incompatible with the auditing activity.*
3. *To be independent.*

The Eighth Directive does not provide for any specific definition of the above-mentioned moral characteristics nor for a list of what they consist of. It has been left to Member States to define such criteria. Member States shall also ensure that the approved persons who carry out audits without having the moral characteristics necessary are liable to appropriate sanctions.

#### **Educational requirements**

To be approved, a person must fulfil the following educational requirements:

1. *To have attained university entrance level.*
2. *To have then completed a course of theoretical instruction.*

3. *To have undergone practical training.* The training consists in a minimum of three years' practical training in (among other things) the auditing of annual accounts, consolidated accounts or similar financial statements. The whole period of training must be carried out under persons providing adequate guarantees of training, and at least two-thirds of the practical training must be completed under a person approved.
4. *To have passed an examination of professional competence of university, final examination level organised or recognised by the State.* The Eighth Directive specifies the subjects to be covered by the examination. The examination must guarantee the necessary level of theoretical knowledge of subject relevant to the statutory auditing of accounting documents as well as the ability to apply such knowledge in practice.

In order to take account of the tradition in some Member States, where a professional acquires his expertise after many years of practice with an established professional, the Directive allows Member States to approve persons who have been engaged in professional activities which have enabled them to acquire sufficient experience in the fields of finance, law and accountancy for a number of years and which have passed the examination of professional competence.

### **Quality control**

Member States must see to it that the persons who carry out a statutory audit are doing so in a proper way. As a result of this requirement, many Member States have set up elaborate systems of peer review or monitoring.

### **Mutual Recognition of professionals from third countries**

The Eighth Directive does not deal with questions of freedom of establishment or freedom to provide services. Member States may however approve professionals who have obtained all or part of their qualifications in a third country, provided that such qualifications are considered as equivalent and that the professionals concerned can demonstrate to be sufficiently skilled in the legal knowledge required in that Member State for the purposes of statutory auditing.