



# Good Practices for the selection and mandate of External Auditors according to Article 27.1 of the ESCB/ECB Statute

## Introduction

Under Article 27.1 of the ESCB/ECB Statute, the accounts of the ECB and the Eurosystem National Central Banks (hereafter collectively referred to as "the Eurosystem central banks") shall be audited by independent external auditors recommended by the Governing Council and approved by the EU Council<sup>1</sup>. The following "Good Practices for the selection and mandate of External Auditors according to Article 27.1 of the ESCB/ECB Statute" (hereinafter the "Good Practices") have been established to provide high level guidance for the selection and mandate of the external auditors<sup>2</sup>. The Good Practices are not binding. However, it is intended that each Eurosystem central bank, when selecting the External Auditor pursuant to Article 27.1 of the Statute, and when determining its mandate thereafter, applies the Good Practices and/or explains any divergence. Information on the application and/or any divergence<sup>3</sup> should be provided to the ECB when requesting issuance of a Governing Council recommendation on the appointment of a Eurosystem central bank's external auditor to the EU Council.

The Good Practices are based on relevant EU legislation, most notably the EU Directive "on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts"<sup>4</sup>, the EU Directive "on statutory audits of annual accounts and consolidated accounts"<sup>5</sup> and the EU Regulation on specific requirements regarding statutory audit of public-interest entities<sup>6</sup>.

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<sup>1</sup> Art. 27.1 reads as follows: "The accounts of the ECB and the national central banks shall be audited by independent external auditors recommended by the Governing Council and approved by the Council. The auditors shall have full power to examine all books and accounts of the ECB and national central banks and obtain full information about their transactions".

<sup>2</sup> For the purposes of this document the term "external auditors" refers to the auditor as a natural person or the audit firm responsible for carrying out the audit of the annual financial statements of the Eurosystem central banks for the respective financial year (Statutory auditor).

<sup>3</sup> In case the (non-binding) Good Practices would at any point in time contradict (binding) national or EU legislation, such information would need to be communicated explicitly.

<sup>4</sup> Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (OJ L 134, 30.4.2004, p. 114), which has been repealed by Directive 2014/24 with effect from 18 April 2016.

<sup>5</sup> 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, which has been amended by Directive 2014/56/EU.

<sup>6</sup> Regulation 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 repealing Commission decision 2005/909/EC.

Amendments to the Good Practices will not apply to procurement procedures for the selection of auditors, which have already been initiated prior to the entry into force of these amendments. Such pending procurement procedures for the selection of auditors will be finalised in accordance with the Good Practices in force at the time of launching the relevant procurement procedure.

## Good Practice # 1 on Selection and evaluation conditions

External audits pursuant to Article 27.1 of the ESCB/ECB Statute shall be carried out only by auditors or audit firms which are independent and approved under the applicable professional regulations of an EU Member State. For the ECB, the auditor should be certified in one of the EU Member States. It is reminded that Member States are expected to approve as auditors natural persons or firms who satisfy formal conditions such as good repute, educational qualifications, professional competence, theoretical knowledge and practical training. The approved auditors or audit firms shall be registered in a public register. All auditors and audit firms shall be subject to a system of independent quality assurance<sup>7</sup>.

## Good Practice # 2 on Procurement procedure

Each Eurosystem central bank is responsible for carrying out a procurement procedure for the selection of its auditors or audit firms which ensures that auditors are treated equally, non-discriminatory and in a transparent way. A procurement procedure for the selection of auditors or audit firms should be carried out at least once every seven years. Their appointment should take place after their approval by the EU Council, following the ECB Governing Council recommendation.

In the case where several auditors have been approved by the EU Council for the same central bank, this central bank does not have the discretion to autonomously decide on an auditor's ranking<sup>8</sup>. The Governing Council shall be informed of any change in the ranking of the auditors and of the reasons thereof.

## Good Practice # 3 on Mandate: duration, rotation and dismissal

The Eurosystem central banks should establish a defined multi-year mandate for the appointment of the external auditor or the audit firm. This will help to enhance overall effectiveness, efficiency and independence<sup>9</sup>.

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<sup>7</sup> In line with the provisions for quality assurance as set-up in art.26 of Regulation 537/2014 and in art.29 of Directive 2006/43/EC, as amended.

<sup>8</sup> The auditors ranking refers to the case where an external auditor is appointed for performing the statutory audit and another one is appointed as deputy auditor, who may be required to stand in for the main auditor in the event of refusal, impediment, resignation or death.

<sup>9</sup> For these purposes, a minimum mandate of three years is commonly suggested.

The auditor or the audit firm should be rotated<sup>10</sup> from the statutory audit engagement at least every seven years. After the expiry of the maximum duration of the engagement, the audit firm shall not undertake any statutory audit of the same CB within the following four-years period (“cooling off” period). The key audit partner shall not participate again in a statutory audit of the same central bank before three years have elapsed following the cessation of the last engagement (“cooling off period”).

Any divergence of opinions on accounting treatments or audit procedures between the Eurosystem central bank and the external auditor should not be a ground for dismissal. The Governing Council shall be informed of any case of dismissal and of any case where a renewable mandate is not renewed, as well as of the reasons thereof.

### Good Practice # 4 on external auditor’s independence

The Eurosystem central banks should ensure that the selected auditors and audit firms carry out external audits in accordance with International Standards on Auditing (ISAs<sup>11</sup>), the IFAC(/IESBA)<sup>12</sup> Code of Ethics and the relevant EU legislation.

The Eurosystem central banks should verify on an annual basis that the auditor or the audit firm (including its network members) carrying out an external audit is independent from the audited Eurosystem central bank, in particular that it is:

- not providing any of the non-audit services described in the Annex, to the audited Eurosystem central bank;
- not in any way involved in management decisions of the audited Eurosystem central bank.

The auditor or the key audit partner should not be allowed to take up a key management position<sup>13</sup> in the audited Eurosystem central bank until a period of at least two years has elapsed since she/he resigned as an auditor or key audit partner of the external audit team.

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<sup>10</sup> When a central bank is obliged by law to appoint two auditors or audit firms as joint auditors, the rotation scheme for the auditors or audit firms could be applied following a staggered approach. It should be in any case ensured that the maximum duration of the engagement for each of the jointly appointed auditors should not exceed 12 years. Key audit partners should however rotate at least every seven years.

<sup>11</sup> The “International Standards on Auditing” are issued by the International Auditing and Assurance Standards Board as established by the International Federation of Accountants.

<sup>12</sup> The International Ethics Standards Board for Accountants (IESBA) is under the auspices of the International Federation of Accountants (IFAC).

<sup>13</sup> This restriction includes also becoming a member of the audit committee or a non-executive member of the administrative body or a member of the supervisory body of the Eurosystem central bank.

## Annex

Article 5 of Regulation 537/14 “Prohibition of the provision of non-audit services” establishes the following:

“A statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity, or any member of the network to which the statutory 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 statutory 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 statutory auditor or the audit firm in respect of such services 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 financing 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”.

The above listed non-audit services encompass also SSM-related consultancy services.

Assurance engagements performed by the Eurosystem central banks' external auditors at the request of the external auditors of the ECB are not defined as non-audit services.

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