

### **The rules relating to audit rotation are changing**

Due to legislative requirements first applicable for the first time to fiscal year started following 16 June 2016, public-interest entities need to review the duration of their existing engagement with their current auditors and, if necessary, to engage a new audit firm.

The new requirement already adopted by the Parliament will enter into force aiming to ensure among others the consistency with the rules relating to audit rotation laid down in Regulation (EU) No 537/2014 of the European Parliament and of the Council (“**Regulation**”).

Under the new requirement adopted by Act XLIV of 2016, an audit firm may fulfil its tasks without interruption at the same credit institution, undertakings for investment, insurance undertakings of public interest or in any other public-interest entities for a maximum period of eight years of audit.

The regulation of the EU allows the Member States some margin of discretion; it merely requires that the requirement relating to rotation may not specify duration longer than 10 years.

Therefore, in respect of the audit of fiscal year 2017, the companies concerned having a fiscal year corresponding to the calendar year must take the necessary measures till 31 May 2017, if they need to change their auditor due to the new requirement.

According to the Regulation, the same audit firm may not be appointed for four years following the change, which was entrusted as external auditor for eight years prior to the change.

According to the Regulation, the Member States had to fulfil their obligation of implementation till 17 June 2016 and the Regulation is be applicable from this date, thus Hungary fulfilled its obligation as a member of the EU within the time limit.

Within the framework of the obligation of implementation, certain requirements relating to conflict of interest, rules relating to professional scepticism were laid down and also amended, among others, in respect of the audit and the activity of audit.

In parallel with this, Act on Credit Institutions and Financial Enterprises, Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities, Act on the Business of Insurance and Act on the Capital Market were also amended, including the amendments resulting in the expansion of the function of audit committees.



Under the new regulations, the task of the audit committee will be, among others, to monitor the compliance with the provisions of Article 5 of the Regulation regarding the prohibition on the provision of non-audit services.

Article 5 of the Regulation specifies the scope of the prohibited services which may not be provided to the public-interest entity audited by the audit firm or to its parent company seated within the European Union.

It includes, among others, tax, bookkeeping, legal, management services and services relating to decision-making or internal audit and risk management, share trading or human resource services.

At the same time, under the regulation, the Member States may allow the provision of a part of the services prohibited parallel with the audit service under certain conditions.

As indicated above, Act XLIV of 2016 amended Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of the Auditors, and the Public Oversight of the Auditors so that the following services may also be provided simultaneously with the audit service under the requirements of the Regulation: preparation of tax forms, identification of public subsidies and tax incentives, support regarding tax inspection, calculation of direct and indirect tax and deferred tax, provision of tax advice and valuation services.

Under the Regulation, the condition of the provision of services referred to above is that they should not have, whether separately or jointly, direct effect, or they could have only a negligible effect on the audited financial statements; the estimated effect on the audited financial statements is comprehensively documented and explained in the supplementary report to the audit committee; furthermore, the principles of independence laid down in Directive 2006/43/EC are complied with by the audit firm.