Annual Accounts

EU Company Law

Exam question

Outline the provisions applying to annual accounts for companies.

Introduction

EU directives

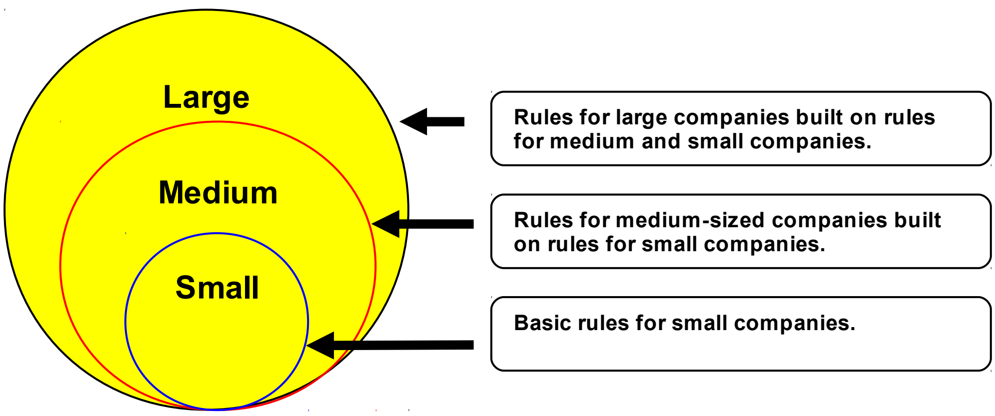
- 4th directive – Annual accounts
- 7th directive – Consolidated accounts

Annual Accounts – What are they?

- 4th Directive, Art. 2(1):
  - "The annual accounts shall **comprise** the **balance sheet**, the **profit and loss account** and the **notes** on the accounts. These documents shall *constitute a composite whole*."
- SME = Small and Medium enterprises
  - "[…] efforts are required to **lower the costs** of doing business and remove unnecessary red tape, both of which are particularly **burdensome for SMEs**."
    - European Council on 23 and 24 March in Lisbon
- Initiatives to modernize company law taking into account business and technology development.
  - => Better regulation

Background

Legislation		Purpose
4th Directive (78/660/EEC)	Annual accounts of companies with limited liability	Coordinates MSs' provisions concerning the: • presentation and content of annual accounts and annual reports, • the valuation methods used and their publication in respect of all companies with limited liability.
7th Directive (83/349/EEC)	On consolidated accounts of companies with limited liability	Coordinates national laws on consolidated (i.e. group) accounts. • Together with the 4th Directive on the annual accounts of public limited liability companies.
Regulation (EC) No 1606/2002	International accounting standards (IAS)	By applying international accounting rules, the EU sets out to maintain confidence in the financial markets while facilitating cross-border and international securities trading.



- The Directive **set minimum standards**. What does this mean?
    - E.g. Article 2(6) of 4th Directive:
        - "The Member States may authorize or require the disclosure in the annual accounts of other information as well as that which must be disclosed in accordance with this Directive."
        - → MS can restrict further.
- Each MS is free to decide on the technical manner in which the requirements stated in the directives are carried out:
    - Incorporate accounting rules in individual company legislation (e.g. a Companies Act);
    - Set up an accounting act, governing the relevant company types; ← Denmark
        - Selskabslov >< Årsregnskabslov – Companies Act >< **Annual Accounting Act**
        - Annual Accounting Act:
            - The Act covers all economic entities except financial companies, like banks and insurance companies.
            - Incorporates rules on accounting principles and practices. - 4th Directive.
        - Companies Act
            - Contains general provisions on accounting and who has the obligation to keep accounts.
                - Provisions on appointing and dismissing auditors and whether accounting is mandatory or optional.
            - Reference to Annual Accounts Act
    - Provisions may be incorporated in an already existing act that is common for the various company types.

Why are we talking about accounting rules in this class?

- Must ensure transparency – more protection for shareholders.

The 4th Directive (78/660/EEC)

Key Components

- Sets forth accounting, reporting and publication requirements for certain types of companies.
- Imposes audit requirement.
- **True and fair** approach! - (Reliable and accurate)
- SMEs may be exempted from financial reporting and audit requirements.
    - Recognition that for most small and medium companies, the cost of compliance outweighs the benefits.
    - Listed companies may not be exempted, irrespective of size.

7th Directive (83/349/EEC)

Key Components

- Requires consolidated accounts for groups which comprise at least one limited liability company.
- Allows for exemptions for SMEs in some cases.
- True and fair approach!
- Definition: Group
    - Dominant influence of other companies.

Trespassing thresholds for SMEs

- Definition of "small" and "medium-sized"

- companies where two of the following three criteria are met:

Category Threshold	"Micro" (COM(2007) 394 final)	"Small" (Article 11 companies)	"Medium-sized" (Article 27 companies)
Balance sheet total	≤ € 500 000	≤ € 4 400 000	≤ € 17 500 000
Net turnover	≤ € 1 000 000	≤ € 8 800 000	≤ € 35 000 000
Average number of employees during the financial year	≤ 10	≤ 50	≤ 250

- "**Large companies**" exceed the limits of two of the three criteria set out.
- For **small companies**, article 11 of the 4th Directive foresees in a MS' option according to which the latter may permit small companies to **draw up abridged balance sheets**.
  - Article 12(1): Only if Two-year in a row.
- For **medium-sized companies**, MS may permit such companies to adopt layouts different from those prescribed in Art. 23-26 (provisions on the profit and loss account), cf. Art. 27.
- MS would be allowed to exclude micro entities entirely from the accounting directives, and there would be an exemption for micro entities from the directives' requirements concerning statutory audits.

Elements of annual accounts

	Small	Medium	Large	Listed*
Balance sheet	+ possibility for abridged format	+ certain possibilities for abridged format	+	+
Profit and loss account	+	+	+	+
Annual report	Can be exempted	+	+	+
Audit report	Can be exempted	+	+	+
Consolidated accounts	Can be exempted	Can be exempted	+	+
Cash flow analysis	–	–	–	+
Note: + Means mandatory requirement * IAS Regulation 1606/2002				

Publication requirements

	Small (incl. micros)	Medium	Large	Listed
Prepare accounts	+	+	+	+
Publish accounts	MS option to publish abridged information	MS option to publish abridged information	+	+
Audit accounts	MS option to exempt	+	+	+
Note: + Means mandatory requirement				

International Accounting Standards (IAS/IFRS)

- **Regulation** (EC) No 1606/2002 on international accounting standards (IAS)
  - Can not be implemented. → applies directly
  - Applies to **listed companies**.

- Priorities
  - To cement the conditions necessary for an integrated, efficient capital market by **improving the comparability** of accounts in the single market so as to facilitate competition and the free movement of capital;
  - to adopt a Regulation is necessary to ensure that by 2005 all listed EU companies apply IAS, which will benefit credibility, ease of evaluation, and competition.
- Scope
  - From 2005 all **listed EU companies** (including banks and insurance companies) must prepare their consolidated financial statements in strict accordance with IAS.
  - MSs may also permit or require other companies to apply the system to their annual accounts.
    - Denmark do permit.
  - MSs may also require application of the new rules in non-publicly traded companies.

- Requires EU Member States to take appropriate measures to ensure compliance with IFRS (applies to listed entities);
    - Give investors confidence in financial markets.
    - MS required to take appropriate measures to ensure compliance with international accounting standards.
- An IAS must be in line with the requirements of 4th and 7th Directive:
  - **True and fair view**!
- Despite Accounting Directives, recognition of need for greater harmonization of financial reporting rules in order to make EU companies more attractive!
  - Only one layout option
  - harmonization => comparability => understandability => more investment

General principles

The annual accounts for a public or private limited company consist of:

- Balance sheet
- A profit and loss account
- Notes
- => Together they constitute a “composite whole” - art. 2 (1).

Must be drawn up clearly and non-complex

- They must give **true and fair** view of the company's assets, liabilities, financial position and result – art. 2 (3).

MS must implement provisions in their law – art. 31

- Assets must to valuated presuming **going concern**.
  - Difference in value, when assets valuated as scrap or as still usable in the service of the enterprise.
- A **prudence principle** must always be observed.
  - Only profits made on the balance sheet date must be included.
  - Only realized profits may be included,
    - that regard must be had to all *predictable* risks and that *deteriorations* in value must be included irrespective of whether the accounting year ended in a profit or loss situation.
  - Also applies to long-term contracts
    - Completed contract method ↔ The percentage of completion method

- Prescriping a **gross principle**.
    - Art. 7 – prohibits set-offs between asset and liability items or income and expenditure.
    - Components of asset and liability items to be determined separately; and
- Opening balance sheet of financial year to correspond with closing balance sheet of previous year (congruence).

- Annual accounts must be **published in accordance with the 1st Directive** (68/151/EEC):
    - Article 2:
        - Member States shall take the measures required to **ensure compulsory disclosure** by companies of at least the following documents and particulars:
            - The balance sheet and the profit and loss account for each financial year.
                - The document containing the balance sheet shall give particulars (detaljer) of the persons who are required by law to certify it.
    - Article 6:
        - Member States shall provide for **appropriate penalties** in case of:
            - **failure to disclose** the balance sheet and profit and loss account as required by Article 2(1)(f).
    - Less strict rules are laid down for **small and medium-sized companies** (cf. Article 11 & 27 of 4th Directive).

Balance sheet

Overview (4th Directive, Art. 9-21)

- The balance sheet must be prepared according to the accounting criteria established by the 4th Company Law Directive!
- 4th Directive, Article 8:
    - "For the presentation of the balance sheet, the Member States shall prescribe one or both of the […] layouts prescribed by Articles 9 and 10. If a Member State prescribes both, it may allow companies to choose between them."
        - E.g. DK – option to choose!
    - A choice is offered between two formats for the balance sheet!
- **Horizontal format** (account book approach) (German tradition): - Article 9
    - A faithful summary of balances in double-entry books of account with debits on one side and credits on the other.
- **Vertical format** (proprietorial approach) (British tradition): - Article 10:
    - To show how shareholders' (or owners') funds have been used to finance net assets.
    - For the vertical format, a modified balance sheet summarizing items under main headings is permitted on the face of the accounts, providing that the **more detailed information still required is disclosed in the notes** to the accounts.

Example: horizontal balance sheet

- Focus on the assets (A = C + L)

Example: vertical balance sheet

- Focus on the capital (A – L = C)
- **First parts** calculates assets employed:
    - Showing what the business did with the money, e.g. purchased fixed and current assets.

        - These items would have been purchased using the money invested in it by owner/s or from an external source of finance such as bank loan or mortgage.
- The **second part** calculates capital employed:
    - Showing where the business got the money to buy fixed and current assets from – owner's capital or an external source of finance such as a bank or loan mortgage.
        - The business owes this money back to the owner or a bank some time in the future.

Provisions on valuation

- Article 32:
    - "The items shown in the annual accounts shall be valued in accordance with Articles 34 to 42, which are based on the principle of **purchase price or production cost**."

  OR
- Article 33:
    - "(a) valuation by the **replacement value** method for tangible fixed assets with limited useful economic lives and for stocks;
    - (b) valuation by methods other than that provided for in (a) which are designed to **take account of inflation** for the items shown in annual accounts, including capital and reserves;
    - (c) **revaluation** of fixed assets."
- Companies must state in the notes which method was used.

Horizontal layout – art. 9 – must include

- **Assets**
    - Subscribed, but not paid-up capital
    - Formation expenses
        - Where national law allows such expenses to be shown as assets. - must be written off within 5 years.
    - Fixed assets
        - Generally include assets intended for use on a continuing basis for the company's operation.
        - Covers intangible assets (immaterielle – goodwill, IP) and tangible assets (materielle – land and buildings).
        - Valuation
            - Must be shown at purchase price or production cost.
            - Must be reduced by value adjustments calculated to write off over their useful economic lives.
            - Goodwill must be shown were acquired against baluable consideration.
    - Current assets
        - E.g. debtors of the company – being the (outstanding) claims of the company.
    - Prepayments and accrued income
    - Loss for the financial year
- **Liabilities**
    - Capital and reserves
        - The amount of subscribed capital, as well as the premium price at issue
        - Subordinated loan (mezzanine) may not be entered under equity, but falls under "debts".
    - Provisions
        - Losses and obligations, which on the date of the balance sheet must be deemed to be likely or certain to be incurred, but which they will arise.

- Creditors
  - Debenture loans
  - Amounts owed to credit institutions, trade creditors
  - Amounts owed to affiliated undertakings.
- Accruals and deferred income
- Profit for the financial year

Profit and loss account

Overview (4th Directive, Sec. 5)

- A report that summarizes the revenues and expenses of an accounting period to reflect the changes in various critical areas of the company's operations.
  - Shows the profit or loss on ordinary activities, profit and loss on the sale of capital asset, other abnormal losses and gains, etc.
- Choice of format:
  - "For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26. If a Member State prescribes more than one layout, it may allow companies to choose from among them." - Article 22
  - **Horizontal vs. vertical** and **generic (nature) vs. functional**:
    - **4 formats** for the profit and loss account:
      - **vertical** format (analyzing costs by items of expense - **generic**), cf. Art. 23;
      - **horizontal** format (analyzing costs by items of expense - **generic**), cf. Art. 24.
      - **vertical** format (analyzing costs by type of operation and **function**),cf. Art. 25;
      - **horizontal** format (analyzing costs by type of operation or **function**), cf. Art. 26;

Formats

- Vertical: the accounts work their way systematically to an operating result, positive or negative.
  - Predominant!
  - Treating the revenues (credits) as pluses and the expenses (debits) as minuses.
- Horizontal: represents a fixed income and expense side, reaching a mutual balance by virtue of the net results:
  - Result → income, if it is negative and → expenses, if it is positive

Classification of expenses

- "By function" breakdown
  - Distinguishes between:
    - The "cost of sales" - all costs uniquely identified with generating turnover in business activity.
    - The distribution costs and administration expenses which are the overheads.

      → This enables calculation and specific disclosure of gross profit (turnover minus cost of sales) and also calculation of any net profit (gross profit minus overheads and perhaps other items) which is due to the owners.
  - => Groups all expenses whatever their type according to their function (or "purpose or "destination") in the business!
    - What have we received (internally) for our money?
  - Facilitates easier calculation of the cost of sales and gross profit.

        - Because information on the nature of expenses is regarded as useful in predicting future cash flows the Directive (and IAS) require additional disclosure on the nature of expenses (incl. depreciation and amortization expenses and staff costs).
- Generic: “by nature” breakdown
    - Enables total costs to be calculated of raw materials and consumables, wages and salaries, depreciation and other items defrayed by the business as an economic unit.
    - Items for "change in stocks and work in progress" and " own work capitalized" are also shown explicitly on the face of the accounts.
    - => Groups all expenses whatever their purpose according to their type (or “nature”).
        - What have we bought for our operations?
    - Requires less analyzes and less judgment.
    - BUT less informative:
        - Fails to reveal the cost of sales, and therefore the gross profit. May also imply that changes in inventory are an expense or a revenue in their own right, whereas they are an adjustment to purchase.

Structure of the profit and loss account

- The total revenue of a business is generated from the provision of goods or services.
- For example, in the form of:
    - sales (goods)
    - interest received (on loans)
    - rents (from property)
    - subscriptions (to TV channels)
    - fees (professions)
    - royalties (books, CDs)
    - …
- Profit and Loss Account: vertical/functional layout
    - → easier to predict what to do in the future.
    - Categories in must exist in the order mentioned

Notes on the annual accounts

Overview

- Provide vital information **to help the reader improve his/her understanding of a company’s accounts**.
    - Contain details which is inconvenient or impossible to state on the balance sheet or profit and loss account.
    - Give information about the accounting methods the company has used and any estimates and or assumptions it has made in deriving the numbers in the account.
    - The notes contain **additional information** which **helps investors interpret the numbers** in the financial statements and make more reliable projections from them.

  → The note to the accounts in which a company’s accounting policies (its accounting methods and estimates) are disclosed is therefore of major interest to financial statement users.

4th Directive (mainly Sec. 8)

- Together with the balance sheet and the profit and loss account, the notes on the annual account make up a “composite whole”. (Art. 2(1))

    - Integrated component of the annual account.
    - The content is partly determined by the articles on balance sheet and profit and loss account
- Article 14:
    - “All commitments by way of guarantee of any kind must, if there is no obligation to show them as liabilities, be clearly set out at the foot of the balance sheet or in the notes on the accounts […].”
- Article 15(3)(a):
    - “Movements in the various fixed asset items shall be shown in the balance sheet or in the notes on the accounts.”
- Art. 29.
    - Unless the amounts are immaterial for the assessments of the results, the notes on the accounts must explain the amount and nature of extraordinary income and extraordinary charges.
- **Article 43(1):**
    - “In addition to the information required under other provisions of this Directive, the notes on the accounts must set out information in respect of the following matters at least…”
    - Notes to the accounts: such as...
        - **Valuation methods**
        - Subsidiaries
        - Financial commitments not on balance sheet
        - Material off-balance sheet arrangements
        - Related parties transactions
        - Average employment
        - **Emoluments to management**
            - Important due to the financial crisis.
        - Credits and other commitments to managements
        - Fees for audit, assurance, tax advisory, non-audit services

Annual Report

Overview

- Not an integrated component of the annual accounts but an “addendum”.
- 4th Directive
    - Annual accounts **must be submitted in their entirety** – but annual report may be exempted from this obligation, cf. Art. 47(1). (There are exemptions)
        - However, “it must be possible to obtain a copy of all or part of any such report free of charge upon request.” → even if it is not published it must still be prepared.
    - **Contents** of annual report (extended through 2001/65 and 2003/51).
        - The annual report must include a fair review of the development of the company's business and of its position, cf. Art. 46(1).
        - It must also provide information on any important events that have occurred since the end of the financial year, the company's likely future development and activities in the field of research and development, cf. Art. 46(2). 1 time 4 min.
    - The Directives lay down certain rules on publication (documents which must be published, etc.).

Exemptions & additional requirements

- **Small companies** may be exempted but must fulfill mandatory disclosure obligations under Art. 22(2) of 2nd Directive.
  - In the notes on the annual accounts, cf. Art. 46(3).
- **Medium-sized companies** may be allowed to make an *abridged disclosure*, cf. Art. 46(4) [amendments], in so far as it relates to non-financial information.
- Additional requirements for **listed companies** regarding information disclosure, cf. Art. 46a.
  - To enhance comparability of financial statements.
  - Information must be set out in a separate report published together with the annual report, or by means of reference in the annual report, if documents are available on the company's website, cf. Art. 46A(2)

Publication

Requirements

- Annual Accounts → published in accordance with with Article 3 of 1st Directive (cf. Art. 47).
  - "[…]a file shall be opened in a central register, commercial register or companies register, for each of the companies registered therein."

    → requirement for the MS to make the register available.
- **Duty and liability for drawing up and publishing** the annual accounts and the annual report, cf. Art. 50b.
  - Collectively the duty of the members of the administrative, management and supervisory bodies of the company:
    - the duty to ensure that the annual accounts, the annual report and,
    - when provided separately,
      - the corporate governance statement to be provided pursuant to Article 46a are drawn up and published in accordance with the requirements of this Directive and, where applicable, in accordance with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002.
  - Breach of this → liability of members of the company bodies, cf. Art. 50c.
- Problems for companies resulting from these requirements?
  - Costly.
  - Competitors can inspect.
  - If not good → reputation might be at stake.
- Exceptions for **small and medium-sized** companies:
  - Small companies:
    - Okay to publish a heavily abridged balance sheet and abridged notes, cf. Art. 47(2).
    - Relieve from publishing profit and loss accounts, reports and auditor's opinion.
    - → because it is to costly for the small companies.
  - Medium-sized companies:
    - May to a certain extent use abridged balance sheets and notes when their accounts are published, cf. 47(3).
  - **Requirements when abridged publication** of annual accounts is made, cf. Art 49.
    - Indication that the version published is abridged.
    - Reference must be made to the register in which the accounts are available.
    - Either the character of the audit opinion (unqualified, qualified or adverse) must be disclosed

or a reference must be made that the statutory auditors were unable to express an audit opinion.

- **If annual accounts and the annual report are published in full**: (Important for exam)
  - They must be reproduced in the form with the text on the basis of which the company **auditor** has made his opinion, and that **opinion must be published in full**, cf. Art. 48.
- In case that the annual accounts do not state the proposed net result of the year (negative or positive) and how it should be applied and how it actually was applied
  - → the information must be published separately together with the abridged annual accounts.

Interim financial statements

Overview

- Issued for a period of less than a financial year.
- **Listed companies** on the are required to prepare a **half-yearly report** on their activities and profit and loss during the first six months of each financial year.
  - Listed companies are traded on day-to-day basis.
  - → mainly for the stock-exchange investors.
- Directive 2001/34/EC:
  - to coordinate the conditions for the admission of securities to official stock-exchange listing and the information to be published on those securities in order to provide equivalent protection for investors at Community level;
  - concerns all securities for which admission to official listing is requested and those admitted, irrespective of the legal nature of their issuer.
    - However, certain **exemptions** are possible in the case of securities issued, e.g., by public international bodies, by the European Central Bank and by the central banks of Member States.

    → In order to protect investors, information on the financial circumstances of the issuer and details of the securities must be disclosed.

    → More specifically, in the case of securities for which admission to official listing is requested, the information required is published in a prospectus.

Disclosure requirements

- The information provided to investors must be minimal, sufficient, regular, adequate and international:
  - **minimal** MS may find it useful to establish non-discriminatory minimum quantitative criteria which issuers must meet in order to benefit from the possibilities for exemption provided for in the Directive; this does not rule out the right of MS to impose stricter rules should they so wish;
  - **sufficient** to ensure that investors possess the relevant information;
  - **regular** so that investors are supplied with appropriate information throughout the entire period during which the securities are listed; irrespective of whether the information is provided in the form of an annual financial report, a half-yearly report or interim management statements, it must accurately reflect the current situation and prospects of the issuer;
  - **adequate** in that investors must be informed by shareholders of "major" holdings of changes in those holdings;
  - **international** since the principle of equivalence in respect of the disclosure requirement also applies to issuers located in non-member countries.
- Published not later than **four months** after the end of the period to which it relates.
- There is **no requirement for the interim statements to be audited**.
  - But if auditor involved – opinion must be included!

- Requirement to include mainly profit information:
    - Reports results for the six-month period immediately following the year-end.
        - (There is a trend for the larger companies to also provide balance sheet and cash-flow statements.)
- → Opportunity for investors, potential investors and anyone else who is interested, to obtain information about a company at approx. 6-monthly intervals.

Consolidated Accounts

Overview

- A parent company in charge of the group.
    - Each company has its own. But parent company must consolidate it.
- Financial statements that factor the holding company's subsidiaries into its aggregated accounting figure.
- It is a representation of how the holding company is doing as a group.
- The consolidated accounts should provide a true and fair view of the financial and operating conditions of the group.
    - Doing so typically requires a complex set of eliminating and consolidating entries to work back from individual financial statements to a group financial statement that is an accurate representation of operations.

7th Directive

- A parent company and all its subsidiaries are companies to be consolidated where either the parent company or one or more subsidiaries is established as a company with limited liability if the **parent company exercises a dominant influence over the subsidiary**.
- When consolidated accounts must be established (legal versus control approach).
- True and fair approach.
- Layouts and valuation – as in 4th Directive.
- **Uniform valuation methods in the group.**
    - If a method it applied, it must be applied to all of the group.
        - Eventually revaluation of assets where another method was used.
- Consolidation techniques.
- Participating interest (4th Dir.) vs. associated undertaking (7th Dir.).
    - Show the power
- Publication, auditing, cf. 4th Directive.

Exemptions

- Exemption from the requirement to prepare consolidated accounts
    - If the group (collectively) is small or medium sized.
    - If the parent is also a subsidiary of another undertaking incorporated in the EC.
- **Exclusion of subsidiaries from consolidation** (Art. 13):
    - Dissimilar activities:
        - If the subsidiary's activities are so different from those of other undertakings to be included in the consolidation that its inclusion would be incompatible with the requirement for the consolidated accounts to give a true and fair view.
    - Severe long term restrictions:

    - If severe long term restrictions substantially hinder the exercise of the rights of the parent company over the subsidiary's assets or management.
  - Subsidiary acquired with a view to resale:
    - If the group's interest in the subsidiary undertaking is held exclusively with a view to resale and the subsidiary undertaking has not previously been consolidated.

Methods/Contents

- The Directive sets out the methods of drawing up consolidated accounts:
  - Consolidated accounts comprise the consolidated balance sheet, the consolidated profit and loss account and the notes to the accounts, cf. Art. 16.
    - These documents constitute a composite whole.
    - Consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the companies included therein taken as a whole.
  - The book values of shares in the capital of companies included in a consolidation must be set off against the proportion which they represent of the capital and reserves of those companies, cf. Art. 19.
    - Such set-off must be effected on the basis of book values as at the date on which the companies are included in the consolidation for the first time.
  - The consolidated accounts must be drawn up on the same date and by the same methods as the annual accounts of the parent company, cf. Art. 27.
    - To avoid deformation.

Audit

Overview

- An evaluation of a company:
  - to ascertain the validity and reliability of information;
  - also to provide an assessment of a system's internal control.
  - → The goal of an audit is to express an opinion on the company in question.
- 4th Directive: Art. 51(1):
  - The annual accounts of companies shall be audited by one or more persons approved by Member States to carry out statutory audits on the basis of the 8th Directive on the approval of persons responsible for carrying out the statutory audits of accounting documents.
  - The statutory auditors shall also express an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.
  - → MS may relieve small companies from this requirement.
- 7th Directive, Article 37:
  - An undertaking which draws up consolidated accounts must have them audited by one or more persons authorized to audit accounts under the laws of the Member State which govern that undertaking.
  - The person or persons responsible for auditing the consolidated accounts must also verify that the consolidated annual report is consistent with the consolidated accounts for the same financial year.
  - → No requirement that the consolidated accounts have to be audited by the same person, who audits the parent company!
- 8th Directive (amended by Directive 2006/43/EC):
  - Defines the qualifications of persons responsible for carrying out the statutory audits of the accounting documents required by the fourth and seventh directives.

    - It clarifies the duties of statutory auditors and establishes ethical principles to guarantee their objectivity and independence.

Audit Committees

Revised 8th Directive, Article 41:

- Each public-interest entity must have an audit committee, responsible, among other things, for:
    - monitoring the financial reporting process;
    - monitoring the effectiveness of the company's internal control, internal audit where applicable, and risk management systems;
    - monitoring the statutory audit of the annual and consolidated accounts;
    - reviewing and monitoring the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity.
- Independent audit committees with at least one financial expert
- Exemption for certain companies, cf. Article 42(6).