

Banking - Estonia

Amendments to banking auditing regulations

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May 14 2010

After the scandalous collapse of US energy company Enron, the US Congress passed the Sarbanes-Oxley Act. After the bankruptcy of Italian food company Parmalat SpA, the European Parliament and the Council adopted the EU Statutory Audit Directive (2006/43/EC). These corporate failures, together with the recent collapse of Lehman Brothers, illustrate how accounting attempts to flatter balance sheets may be fatal and result in significant shocks.

On March 8 2010 the new Estonian Auditing Act entered into force, introducing amendments not only to the auditing industry, but also to the financial sector, including amendments to the Credit Institutions Act. The recent turbulent events in the global economy have revealed the need for credit and the importance of credit institutions. They have crystallized the fact that credit institutions are infrastructure units. Therefore, pursuant to the new regulations, credit institutions are regarded as public interest entities which can be audited only by sworn auditors.

Pursuant to the new rules, Estonian credit institutions are obliged to set up an internal auditing committee. Furthermore, the heads of internal audit divisions within credit institutions must comply with the rules that are applicable under the new Auditing Act to certified internal auditors. The amendments also provide for situations where a sworn auditor's report is required - for example, when applying for a banking licence or when acquiring a qualifying holding in a credit institution.

However, the new accounting rules leave room for interpretation: one accountant is unlikely to come up with exactly the same figure for a company's profit as another accountant. Therefore, qualified auditing is essential for the health of the financial system - particularly bearing in mind the importance of credit institutions and the recently coined concept of 'too big to fail'. In the aftermath of the financial crisis, further reforms in financial regulation are expected.

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