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A decade of EU audit reform – successes, setbacks and what should be done next

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The audit profession plays a vital role in ensuring the integrity of financial reporting, thus safeguarding the interests of investors, lenders and other stakeholders in public-interest entities PIEs. However, following the 2007-08 global financial crisis, scrutiny of auditing practices intensified, leading to the European Commission's 2014 Audit Reform which aimed to enhance transparency, limit conflicts of interest, promote competition and strengthen supervision.

Despite these efforts, the audit market has witnessed a significant decline in terms of the number of auditors and firms, alongside persistent market concentration dominated by just a few major players. This concentration poses risks to competition, accountability and the EU's strategic autonomy. Additionally, the evolving landscape of digitalisation and sustainability reporting is introducing new challenges and responsibilities for auditors, necessitating a shift in skills and competencies.

To address these issues, it's essential for the EU to implement structural reforms to foster competition, update existing regulations to include non-financial audits, enhance regulatory oversight, promote technological innovation and ensure auditors receive adequate training in emerging areas. By taking these proactive steps, the EU can restore trust in the auditing profession, improve audit quality and ensure that the interests of all stakeholders are effectively protected.

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The audit reform

Auditors, in their statutory role (i.e. auditing is required by law), serve as crucial safeguards for investors, lenders and business counterparties with interests in public-interest entities (PIEs). By providing independent verification on financial information and forming opinions on companies' financial statements, auditors bolster investor confidence, promote transparency and facilitate the efficient functioning of markets and capital allocation. This assurance is essential for maintaining market integrity and empowering stakeholders to make informed decisions based on reliable and accurate financial data.

The 2006 Directive on Statutory Audit ('the Directive') mandated that statutory auditors adhere to principles of professional ethics. It established a range of independence principles, addressing behavioural aspects, ownership considerations, fee structures and governance issues related to audit committees. However, the 2007-08 global financial crisis, coupled with the corporate failures it precipitated, intensified scrutiny of the audit profession. This scrutiny raised significant questions regarding auditing practices, auditor independence and the overall quality of audit work, as highlighted in the European Commission's 2010 Green Paper.

To address the perceived failings within the statutory audit market, the Commission introduced a comprehensive Reform in 20214 through two legislative instruments: the Audit Directive and the Audit Regulation. These reforms became effective in 2016 and aimed to achieve four main objectives:

i) **Enhance transparency**: the reform sought to harmonise legal requirements for audit reports and audit committee reports. This includes stipulations for auditors to express opinions on statutory compliance, identify significant risks and disclose information about prohibited non-audit services (NAS).

ii) **Limit conflicts of interest**: by improving auditors' independence from their clients, the reform introduced measures such as mandatory audit firm rotation, cooling-off periods, prohibitions on certain NAS and caps on fees.

iii) **Promote competition**: the reform aimed to reduce barriers to entry in the audit market, establish a passport mechanism for auditors and introduce standardised rules for tendering and for appointing statutory auditors.

iv) **Strengthen pan-European supervision**: a public oversight principle was introduced, alongside harmonised national investigation and sanctioning systems, to enhance accountability and the oversight of audit practices across the EU.

Overall, through the reform, the EU tried to restore trust in the auditing profession, enhance the quality of audits and ultimately contribute to financial market stability. However, these provisions were subject to intense lobbying from the audit profession, particularly regarding conflict-of-interest rules, which were seen as too restrictive. Consequently, Article 5 of the Audit Regulation allows Member States to apply exceptions to some of these conflict-of-interest provisions, limiting their effectiveness.

Critics argue that this flexibility has significantly diluted the intended impact, making the measure less stringent than initially envisioned. While the reform introduced necessary safeguards, its effectiveness has been undermined by these exemptions, raising concerns about whether it has truly strengthened auditor independence and improved the integrity of financial reporting. Additionally, the market's

structure has remained largely unchanged, with the continued dominance of a few large audit firms despite efforts to enhance competition.

The audit market

In 2021, the EU had 200 484 statutory auditors and 22 427 audit firms, reflecting a 15 % decline in the number of audit practitioners and a 14 % drop in registered firms since 2015 (see *Table 1* below). Notably, the proportion of auditors associated with firms increased to 26 %. Additionally, the number of audit firm auditing public interest entities (PIEs)[1] decreased by 40 % since 2015, now accounting for about 4 % of all registered firms.

Table 1. EU registered statutory auditors and audit firms (2015-2021)

	2015	2018	2021	Change (2015-21)
Statutory auditors	236 963	213 299	200 484	-15 %
Statutory auditors employed by or associated as partners or otherwise with an audit firm	48 627	47 944	51 388	6 %
Audit firms	25 975	25 110	22 427	-14 %
Audit firms auditing PIEs	1 692	1 090	1 008	-40 %

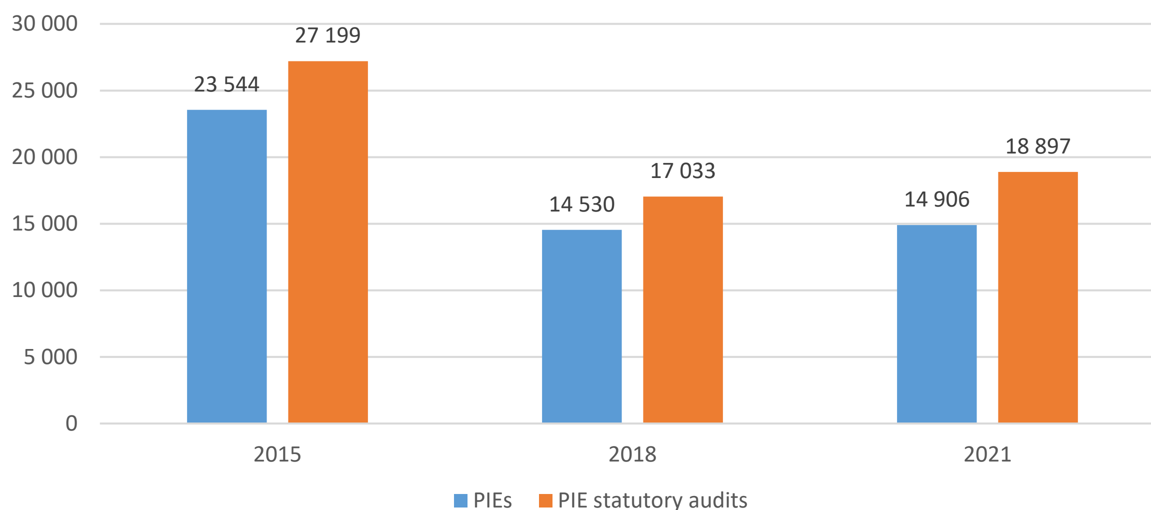
Notes: Figures for all three years, excluding the UK. Norway is included in 2021 figures, but not in 2015 and 2018. For 2015, the reference year is 2015, except for: Bulgaria and Estonia (2014/105); Germany and Denmark (2016); and Greece (2014). For 2018 and 2021, the reference years consist of only 2018 and 2021.

Source: Author's elaboration based on European Commission data.

The decline in registered statutory auditors and audit firms aligns with a reduction in PIEs and their statutory audits, largely driven by the 2014 audit reform (see *Figure 1*). This reform introduced a more harmonised yet narrower definition of PIEs across the EU. Specifically, the number of PIEs decreased by 37 % from 2015 to 2021, while the number of PIE statutory audits dropped by 31 %.

[1] PIEs are broadly defined under Article 2(13) of Directive 2006/43/EC (as amended by Directive 2014/56/EU) as entities whose securities are traded on a regulated market, credit institutions and insurance undertakings. However, Member States have the discretion to broaden this definition to include entities of significant public interest, such as large non-listed companies or cooperatives. This flexibility has led to inconsistencies across jurisdictions, impacting the uniform application of audit requirements and oversight mechanisms.

Figure 1. Number of PIEs and PIE statutory audits (2015-2021)

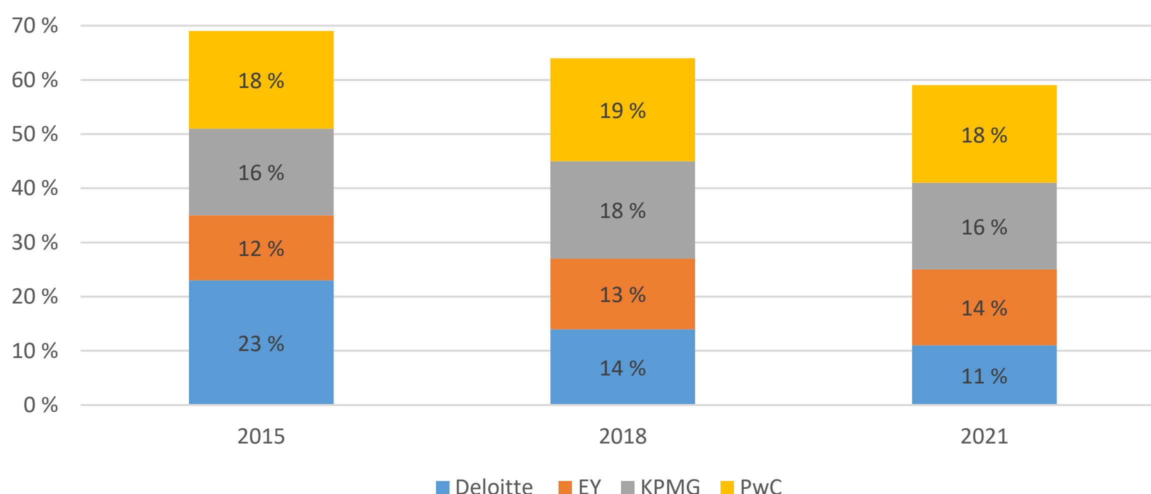


Notes: Figures for all three years, exclude the UK. Norway is included in 2021 figures, but not in 2015 and 2018. For 2015, the reference year is 2015, except for: Bulgaria and Estonia (2014/105); Germany and Denmark (2016); and Greece (2014). For 2018 and 2021, the reference years consist of only 2018 and 2021.

Source: Author's elaboration based on European Commission data.

The audit reform aimed to foster a competitive market for statutory audit services and provide sufficient choices for PIEs. While some progress has been made, the Big Four firms – Deloitte, EY, KPMG and PwC – held a 59 % average market share in 2021, down from 69 % in 2015 (see *Figure 2*). Despite this decrease, they've maintained an oligopoly (i.e. market share between 50 % and 80 %) in 12 Member States[2], with shares exceeding 80 % in 10 of those countries[3], indicating a concentrated market structure (i.e. close to a monopoly).

Figure 2. Big Four market share of number of PIE statutory audits (2015-2021)



Note: Based on Member State totals given in national reports and market monitoring sub-group analysis.

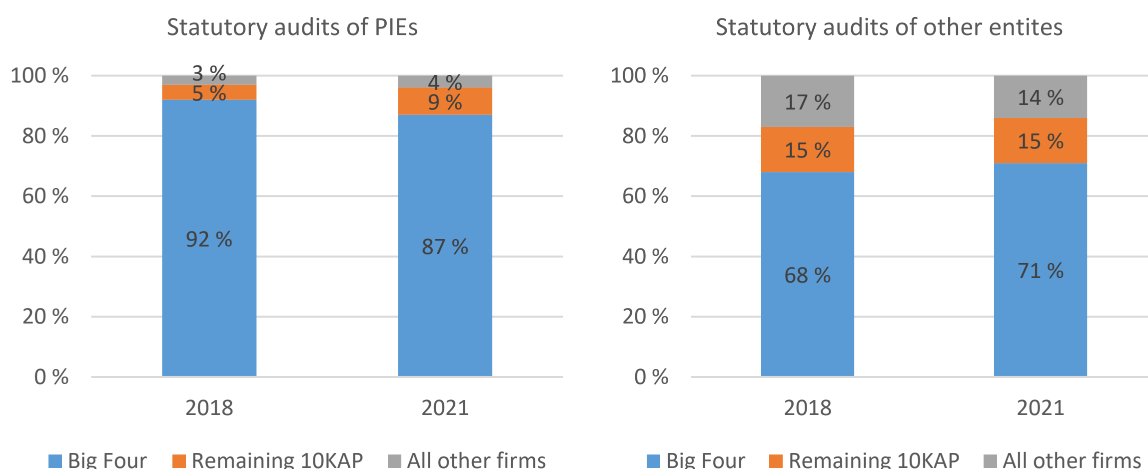
Source: Author's elaboration based on European Commission data.

[2] These were: Croatia, Czech Republic, France, Germany, Hungary, Ireland, Latvia, Lithuania, Malta, Slovakia, Slovenia and Spain.

[3] There were: Austria, Belgium, Cyprus, Denmark, Estonia, Finland, Italy, Luxembourg, the Netherlands and Sweden.

In 2021, the Big Four firms dominated the market in terms of revenues from PIEs statutory audits, holding an 87 % market share at the EU level, down from 92 % in 2018 (see *Figure 3*, left-hand panel). They accounted for 71 % of revenues from audits of other entities (see *Figure 3*, right-hand panel). In 13 Member States, the Big Four's share exceeded 90 %, while in nine countries[4], their revenue was below the EU average. Additionally, they maintained significant market shares in non-audit services (NAS), with 84 % of permitted NAS to audited entities and 82 % to other entities.

Figure 3. EU market shares of audit firms auditing PIEs, by revenue (2018 and 2021)



Notes: The Big Four are Deloitte, EY, KPMG and PwC. The remaining 10 key audit firms (10KAP) are Baker Tilly, BDO, Grant Thornton, Mazars, Nexia and RSM.

Source: Author's elaboration based on European Commission data.

Ten years since the EU audit reform – a mixed picture

Assessing the first decade of the audit reform is a complex endeavour. While some of the reform's objectives have been partially achieved or are still in progress, others present more significant challenges. Empirical evidence on the impact of these objectives remains inconclusive, with both positive and negative outcomes observed. On top of this, research on the European market is limited, instead typically focusing on individual Member States.

Transparency

Enhancing transparency for investors was one of the primary goals of the audit reform. On the one hand, progress has been made; transparency has improved through initiatives such as the publication of transparency reports by audit firms and more detailed audit reports. However, further efforts are necessary to ensure consistent audit quality and to simplify technical audit language to enhance investors' overall understanding of the audit process.

It's important to note that the responsibility for achieving high-quality audits does not solely rest with audit firms. Other participants in the financial reporting ecosystem also play a crucial role. Well-governed companies, transparent reporting practices and effective internal controls are essential for underpinning a quality audit. Audited entities' management and their audit committees must ensure

[4] These were: Bulgaria, Croatia, France, Greece, Lithuania, Poland, Portugal, Romania and Slovenia.

that the information provided to auditors is timely and of high quality. This collaborative approach can significantly contribute to the overall quality and reliability of financial reporting.

Independence

To limit conflicts of interest and enhance auditor independence, the Audit Regulation introduced mandatory audit firm rotation for PIEs. This requires listed companies to change their audit firm after a maximum engagement period of 10 years, based on the assumption that prolonged engagements can lead to decreased auditor independence and lower audit quality. While this reform aimed to improve market competition, its implementation has shown mixed results.

Before the Regulation, only Italy had a mandatory rotation system, while several countries (e.g. Austria, the Czech Republic, Greece, Latvia, Slovakia and Spain) had abolished similar requirements. In contrast, mandatory audit partner rotation for certain types of firms is more common in countries like Belgium, France and Germany. Though the Audit Regulation took effect in June 2016, the requirement for audit firm rotation was only enforced from 2020 onwards[5], allowing Member States to modify specific rules, such as minimum engagement time (e.g. more than one year) and shorter rotation cycles (Art. 17.2). Additionally, they can extend the audit firm's tenure up to 20 years, which requires public tendering, or up to 24 years, which requires a joint audit (Art. 17.4).

Despite the intentions behind mandatory rotation, empirical evidence at the European level is scarce and findings from individual country analyses indicate that the benefits are largely unproven, with potential drawbacks outweighing the advantages. In the Netherlands, for example, mandatory rotation has been associated with a higher probability of errors in first-year audits (FYAs). This highlights the competitive pressures among audit firms that can arise when entities are allowed to select and compensate their auditors.

The Italian experience, which has had mandatory rotation since 1975, suggests that while increased auditor turnover can enhance competition, it may also have unintended negative consequences. Higher turnover can lead to increased costs without corresponding improvements in quality, as new auditors often lack the in-depth knowledge that incumbents have about a company's operations and accounting practices. Although competition among auditors is generally desirable, mandatory rotation can result in opportunistic pricing, where outgoing and incoming auditors engage in lowballing strategies (particularly with larger PIEs), often resulting in discounted fees for FYAs. This pressure on fees can have detrimental effects on audit quality, as lower fees may reduce audit scope or rigour, ultimately compromising audit reliability and stakeholder trust.

Mandatory rotation may also restrict companies' choices of auditors, especially for more complex firms (e.g. in terms of size, structure or geographic coverage) that require auditors with substantial resources and quality control. It's counterproductive if challenging audits are assigned to firms lacking the capacity to deliver high-quality services. Furthermore, many PIEs prefer a single auditing firm to review their accounts across all subsidiaries, adding another yet layer of complexity.

The introduction of mandatory rotation and the potential unbundling of audit and non-audit services could inadvertently limit competition among audit firms, potentially leading to a duopoly or monopoly situation for audit mandates. Existing legislative barriers hinder small and medium-sized audit firms

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[5] According to Article 41 of the Audit Regulation: as from 17 June 2020, audit engagements cannot be entered into or renewed if the auditor or audit firm has been providing audit services for 20 or more consecutive years on the date of the Regulation's entry into force. As from 17 June 2023, this applies if audit services have been provided for 11 and more but less than 20 consecutive years on the date of entry into force.

from entering the PIE audit market, reducing competitive pressure on the Big Four and diminishing the likelihood of improved auditor behaviour.

To summarise, while the intent behind mandatory audit firm rotation was to enhance independence and competition, how it has been implemented has revealed complexities and challenges that require ongoing evaluation and adjustments to achieve the desired outcomes.

Competition and concentration

Regulators have long been concerned about the potential lack of competition in the audit market, attributing this issue to high levels of market concentration. This may restrict a company's options when selecting an auditor, thus limiting price competition and fostering complacency among existing auditors. On the other hand, a concentrated market could lead to higher audit quality by making it harder for companies to replace their current auditor with one who might issue a more favourable (i.e. lenient) audit opinion.

Due to the challenges of directly measuring competition, findings present conflicting evidence over how sufficient the level of competition is and its impact on audit fees and quality. Increased audit market concentration has been found to correlate with higher and lower audit fees, as well as reduced and increased audit or financial reporting quality. Reduced audit market concentration also facilitates opinion shopping by clients.

The size of audited firms also plays a role. For example, in the SME-client segment – where audits are less complex – market concentration hampers both price and quality competition. However, in the large-client segment, where audits demand technology and resources, market concentration does not affect audit quality. Here, client mobility plays a key role: increased mobility leads to lower fees and improved audit quality. This demonstrates that even in concentrated markets, competition can thrive if clients can easily switch auditors. Thus, concentrated markets can remain competitive in terms of price and quality, provided client mobility is high.

Expanding the scope of audit

Historically, audits have focused primarily on financial reporting and compliance, ensuring that companies present an accurate picture of their financial health. However, the audit profession is undergoing a transformation as new areas – such as sustainability, digitalisation and cybersecurity – are becoming integral to corporate governance and reporting.

The introduction of the Corporate Sustainability Reporting Directive (CSRD) is a key example of this shift. The CSRD mandates that companies provide detailed sustainability reports, encompassing environmental, social and governance (ESG) factors. This expands the role of auditors from merely validating financial data to assessing a company's compliance with sustainability regulations, carbon emissions targets and other non-financial performance indicators. For PIEs, including large corporations and financial institutions, the CSRD introduces stringent reporting requirements that will require auditors to develop expertise in areas far removed from traditional financial accounting.

At the same time, the Digital Services Act (DSA) and the Digital Markets Act (DMA) are setting new standards over how companies handle digital services, data security and algorithmic transparency. These regulatory frameworks will require auditors to understand and assess companies' cybersecurity protocols, data governance structures and the ethical use of AI and algorithms. As more companies integrate AI systems into their operations, auditors will need to evaluate not just financial performance

but also how these systems are trained, how data is processed and whether companies are complying with privacy and cybersecurity regulations.

Implementation challenges

The expansion of audit responsibilities into sustainability and digital areas presents significant implementation challenges. One of the most pressing concerns is the automation of auditing services. As companies adopt automated systems to process financial transactions and generate reports, auditors must adapt to a world where much of the data they traditionally analysed manually is now produced by machines. The reliance on algorithms and AI in financial and non-financial reporting raises questions about how auditors can ensure the accuracy and integrity of these systems – especially when the technology is evolving faster than the regulatory frameworks that govern it.

For example, continuous auditing, where data is analysed in real-time, is becoming increasingly prevalent, especially for large corporations with complex, global operations. This type of automation can improve audit efficiency but it also requires auditors to develop a deep understanding of how these automated systems work. Without the necessary technical expertise, auditors may struggle to identify potential risks or inaccuracies in algorithmically generated data.

Moreover, the auditing profession faces a skills gap in these new areas. While auditors have traditionally been trained in financial analysis and reporting, the move towards sustainability and digital auditing requires a new set of skills, including expertise in environmental science, cybersecurity and data analytics. The EU's push toward greater sustainability reporting and digital oversight will require auditors to either retrain or collaborate with experts in these fields, which could slow down the implementation of new audit requirements or lead to inconsistencies in how audits are conducted.

The growing reliance on digital tools and automated systems also raises concerns about maintaining high-quality reporting. If auditors increasingly rely on algorithms to process vast amounts of data, there's a risk that they may miss important details or anomalies that could affect the accuracy of their reports. Ensuring that automation enhances – rather than undermines – audit quality will require robust regulatory oversight and the development of best practices for using AI in auditing.

Risks to competition and strategic autonomy

One of the most significant risks posed by the expansion of audit responsibilities is the potential for further market concentration. Currently, the EU audit market is dominated by a small number of large firms that have the resources and expertise to adapt to new audit requirements, while smaller audit firms may struggle to keep pace. This will undermine the Commission's ambition to foster greater competition in the sector and the growth of mid-tier audit firms.

The DSA, for example, emphasises three critical aspects in the auditing of digital platforms: i) the lack of uniformity in the services provided by different platforms, ii) the rapid evolution of digital services offered, and iii) the frequent deployment of sophisticated technologies. Given these factors, digital platforms are increasingly compelled to partner with auditing firms that can keep up with these technological advancements.

This market concentration also raises questions about the EU's strategic autonomy. If the audit market becomes dominated by a few large firms, with many of them operating on a global scale, the EU may find itself increasingly reliant on non-EU firms for critical auditing services. This reliance could undermine the EU's ability to ensure the integrity of its financial markets and regulatory frameworks,

particularly if the interests of global audit firms do not align with the EU's goals for transparency, sustainability and digital sovereignty.

What needs to be done?

To address these challenges, the EU needs to take proactive steps, ensuring that the audit profession can adapt to new legislative requirements without compromising competition or quality.

To address market concentration, **a market structural reform** may be necessary, one that will **encourage more competition** by introducing market caps or mandating that larger PIEs rotate auditors more frequently. Additionally, providing incentives to smaller audit firms and promoting their expansion into specialised areas such as sustainability and digital compliance auditing, should also be explored.

For example, **a dedicated funding mechanism to support smaller audit firms** in adopting cutting-edge technologies could be developed. This could take the form of EU grant schemes, subsidised loans, or tax incentives, all aimed at facilitating investment in AI-driven audit tools, blockchain-based reporting systems, and cybersecurity measures. Another option could be a **co-financing scheme** where national governments and industry bodies jointly fund technological upgrades for non-Big Four audit firms. Such measures would help level the playing field between the Big Four and smaller firms, potentially creating more competition and improving overall audit quality.

The 2014 audit reform introduced various measures aimed at enhancing transparency and reducing conflicts of interest in the audit profession. Moving forward, these reforms need to be **updated and expanded** to cover the increasingly diverse demands of modern auditing. Given the rise of digital and sustainability reporting requirements, further legislative action could involve integrating non-financial audit services into the existing legal framework. Audits of sustainability reports, for example, would need to be formalised, ensuring they are conducted with the same rigour as financial audits.

To enhance the capability of audit firms in evaluating digital processes, cybersecurity, algorithms and sustainability data, it may be essential to establish a **new governance framework** to oversee these intricate non-financial domains. This framework could involve the creation of specific guidelines, standards and training initiatives tailored for auditors specialising in sustainability and digital compliance. Additionally, forming a **European Digital Audit Board** could facilitate collaboration with industry organisations and regulators to uphold the integrity of digital audits. This board would be responsible for developing audit standards for emerging technologies such as artificial intelligence (AI) and blockchain.

To maintain high standards across the evolving audit landscape, **stronger and more harmonised regulatory oversight** is needed. Currently, there is no single EU-wide supervisory authority, and different audit norms continue to be applied across Member States, leading to inconsistencies. The only coordinating body at the EU level is the Committee of European Auditing Oversight Bodies (CEAOB), which primarily facilitates cooperation among national authorities but lacks direct enforcement powers.

Given these gaps, the European Securities and Markets Authority (ESMA) and the CEAOB could play a more prominent role in ensuring that audit firms adhere to strict guidelines when it comes to auditing new reporting requirements, such as those mandated by DMA or CSRD. One potential reform could involve expanding ESMA's mandate or granting the CEAOB stronger enforcement powers to oversee audit quality across Member States.

Additionally, **cross-border cooperation among EU Member States' national authorities** could be enhanced, particularly when it comes to auditing companies that operate in multiple jurisdictions. A more coordinated EU approach would help ensure greater consistency and rigour across the audit market, reducing regulatory fragmentation.

Promoting **technological innovation** in the audit sector (e.g. AI-driven tools, blockchain-based systems) could improve audit accuracy and efficiency but also poses challenges regarding data privacy and the auditor's role in validating these technologies. Having a clear framework in place for how such technologies are used in audit processes, while ensuring that auditors remain accountable for the final output, is crucial.

Finally, as the audit profession expands into new domains, ensuring auditors are equipped with the necessary **expertise** is critical. There is a growing need for auditors to possess knowledge in sustainability science, digital technology, cybersecurity and data analysis. The EU might look at introducing training programmes or certification requirements that ensure auditors can competently assess these new areas. Collaboration between universities, professional bodies and regulators could facilitate the creation of such programmes.

Conclusion

The future of audit in the EU is one of expansion, complexity and transformation. As legislative frameworks such as the CSRD, DSA and DMA introduce new audit requirements in areas like sustainability and digitalisation, auditors must adapt while maintaining high standards of independence and quality. However, the growing complexity of audits, combined with regulatory fragmentation and gaps in EU-wide oversight, raises concerns about both market concentration and the effectiveness of existing reforms.

Without stronger regulatory harmonisation and targeted reforms – including clearer PIE definitions, market-structure adjustments and support for smaller firms – the audit market risks becoming further concentrated in the hands of a few large players. A more proactive EU approach is needed to balance competition, innovation and audit quality, ensuring that the sector remains dynamic and capable of meeting the challenges of the 21st century.

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