Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014)

Final Report

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Abstract

In 2014, the European Union (EU) adopted an important reform of the EU Statutory Audit Market through two legislative instruments: Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (the Audit Directive) and Regulation No 537/2014 on specific requirements regarding statutory audit of public-interest entities (the Audit Regulation). The reform had four objectives: enhance transparency for investors; reinforce independence of auditors towards their clients; promote competition in a highly concentrated market dominated by the 'Big Four'; and strengthen pan-EU supervision.

This study provides data and analysis of the impact of the transposition and implementation of certain provisions of the Audit Directive and Regulation (i.e. assurance and reporting requirements for statutory auditors, mandatory rotation and appointment of auditors, prohibition of certain non-audit services, and caps on fees for non-audit services) on the achievements of the reform's objectives.

The analysis of national legal regimes shows that, despite some clear improvements in the harmonisation of the national frameworks, significant disparities remain between countries in the transposition, implementation and enforcement of the EU audit legislation (e.g. audit requirements that apply to different types of undertakings, rotation requirements, investigations, sanction regimes).

The analysis shows that the majority of audit reports for public interest entities (PIEs) are led by members of the Big Four. The audit reports do not contain information about corporate governance practices applied over and above the national requirements. The analysed audit reports appear not to go beyond the EU legal requirements. Compliance issues identified in the reports concern requirements related to the management report and the corporate governance statement. Analysis of the compliance of additional reports to the audit committees with the Audit Regulation (based on self-assessment) shows that the audit committee reports for most of PIEs appear mostly in line with the regulatory requirements. However, about two-thirds of the audit committee reports have one or more deficiencies. Significant deficiencies in the audited financial statements are an exception. On the appointment of statutory auditors, more than half of the auditors changed their audit firm or statutory auditor in the period between 2016 and 2020. The large majority of the companies in the sample prefer to have the same audit firm for the companies in their corporate group.

The study shows that the reform effectively increased levels of independence but did not impact competition as intended. The switch across different types of auditors has been limited, with a persistently high market share for the Big Four. Hence, the non-Big Four audit firms are often invited to participate in the tender procedures, but the more complex the company concerned (size, structure, geographical coverage, etc.) the less likely they are to participate and receive the assignment. Nevertheless, the mandatory rotation according to the audit committee representatives and lesser extent the auditors has contributed to improved quality of the audit services, independence of the auditors and competition between audit firms.

Of the 234 audited firms that exceeded the cap in 2015, more than half reduced their non-audit fees below the limit by 2018. Nevertheless, an additional 84 firms exceeded the cap in 2018. Moreover, most undertakings have implemented more stringent internal limits on the use of non-audit services. This has - according to the audit committee representatives - delivered an important contribution to the independence of the auditors and to a lesser extent improvement in the quality. In turn, at least for some undertakings it reduced the competition.

The analysis of audit fees shows huge dispersion in the costs, as well as significant differences depending on the sector. Fees are significantly higher for PIEs than for non-PIE audits. Nevertheless, most of the undertakings that did not conduct regular tender procedures before witnessed a decrease in costs.

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List of main acronyms

Abbreviation	Description
CEAOB	Committee of European Auditing Oversight Bodies
EQCR	Engagement Quality Control Review
ESMA	European Securities and Markets Authority
ISA	International standards on auditing
IAASB	International Auditing and Assurance Standards Board
ISAE	International standard on assurance engagements
IFRS	International financial reporting standards
IAPN	International Auditing Practice Note
ISRS	International standard on related services
NCA	National competent authorities
PIE	Public interest entity
UCITS	Undertakings for Collective Investments in Transferable Securities

1. Introduction

1.1. Background and context of the study

The two main legislative instruments governing statutory audits in the European Union (EU) are Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, as last amended by Directive 2014/56/EU (the Audit Directive) and Regulation 537/2014 on specific requirements regarding statutory audits of public-interest entities (the Audit Regulation). Both Directive 2014/56/EU and Regulation 537/2014 entered into force on 16 June 2014 and were applied from 17 June 2016. The reform of the audit regulatory framework emerged in the aftermath of the financial crisis. As emphasised by the Commission in its Green Paper on audit policy in 2010, 'the fact that numerous banks revealed huge losses from 2007 to 2009 on the positions they had held both on and off-balance sheet raises not only the question of how auditors could give clean audit reports to their clients for those periods, but also about the suitability and adequacy of the current legislative framework'[1]. Following the bankruptcies of Enron and Lehman Brothers, the independence of auditors from their main clients was questioned at international level, especially when they certify annual accounts while providing other advisory services to the same clients, as was the hyper-concentration of the global audit market (from five ultra-dominant players to four, following the bankruptcy of Arthur Andersen).

According to the European Commission report on the monitoring of the EU audit market for public interest entities (PIEs), the EU had some 25,000 PIEs in 2017, while the total turnover of audit firms auditing PIEs in 25 Member States (data not available for BG, ES, FR) was approximately EUR 31 billion. Germany and the Netherlands are the largest markets in the EU[2]. According to the same report, the 'Big Four[3]' had an average market share of almost 70% of statutory audits of PIEs in the then-28 Member States and covered over 80% of the total EU audit market. The predominance of large multinational audit firms risks shortcomings and deficiencies in the quality of audit services provided by audit firms, as they often have a role in controlling the financial activities of the world's largest companies, while also acting as their advisors. In a 2021 report, the Commission noted, 'The dominance of the Big Four in the majority of Member States, combined with the high proportion of revenue from non-audit work, could affect their independence, the level of audit fees and audit quality' [4].

Nevertheless, these large auditing firms play a pivotal role in a globalised market and financialised economy. The recent bankruptcy of the electronic payments company Wirecard in Germany (suspected of inflating its accounts with fictitious funds in the Philippines to the value of EUR 1.9 billion, or one-quarter of its balance sheet), in the aftermath of the Enron/Anderson (2001) and Lehman Brothers (2008) scandals, attests the ongoing need to strengthen national audit authorities' control of the activities of statutory auditors – neither the global audit giant Ernst&Young (EY) nor the German authority involved in the Wirecard case, BaFIN, saw the catastrophe coming[5].

The 2014 audit reform had four objectives. As the last financial and economic crisis raised doubts among investors and academics on the reliability and quality of the audited financial statements of PIEs and other large European companies, the **first objective** was to enhance transparency for investors by further harmonising the legal minimum requirements on the content of audit and audit

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1 European Commission, *Green Paper: Audit policy: Lessons from the crisis*, COM(2010) 561 final, 2010.

2 European Commission, Report to the Council, the ECB, the ESRB and the European Parliament on monitoring developments in the EU market for providing statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) 537/2014, COM (2017)464 final, 2017.

3 The four largest global audit networks - Deloitte, Ernst & Young, KPMG, PwC.

4 European Commission, Report to the European Parliament, the Council, the European Central Bank and the European systemic risk board on developments in the EU market for statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) No 537/2014, COM(2021)29 final, 2021, p. 13.

5 See, for instance, Le Temps, '*Scandale Wirecard: les poursuites s'accumulent contre l'auditeur EY'*, 28 June 2020, https://www.letemps.ch/economie/scandale-wirecard-poursuites-saccumulent-contre-lauditeur-ey

committee reports. The new Audit Directive introduced new legal requirements on the content of audit reports (which must now include the auditor's opinion on the financial statements' compliance with statutory requirements and, for PIEs, a description of the most significant risks of material misstatement, capacity to detect irregularities (including fraud), disclosure of prohibited non-audit services and other services) and additional audit committee reports (for PIEs only) in order to bridge the 'expectation gap'[6] and reinforce professional scepticism. The high concentration of the audit market tends to increase familiarity between audited firms and their auditor; accordingly, the **second objective** was to limit the potential risks of conflict of interest, which can lead to devastating consequences for companies of systemic importance, by enhancing auditors' independence from their clients. The new regulatory framework established general provisions for all auditors, governing the internal organisation of audit firms, cooling off periods and procedures for assessing threats to independence. For PIE auditors, they introduced mandatory rotation of audit firms and the prohibition of certain non-audit services (NAS) associated with a cap on fees generated by allowed NAS. The **third objective** of the reform was to promote competition in the audit market. Given their large and complex structures, PIEs overwhelmingly rely on one of the Big Four for auditing purposes. In this context, the demise of one of the Big Four would jeopardise continuity of audit services and seriously disrupt the market[7]. The high concentration of the audit market therefore necessitated rules ensuring fair competition between audit firms with systemic proportions[8], and strengthening supervision. While the discussions on the reform envisaged downsizing or restructuring systemic audit firms[9], the options chosen were to ramp up non-systemic firms' capacities by establishing a passport mechanism, reduce barriers to entry into the EU audit market for small and medium-sized enterprises (SMEs) and add rules on the appointment of statutory auditors (including tendering procedures). In line with the **fourth objective,** to strengthen pan-European supervision, the new Audit Directive introduced the principle of public oversight, replacing the previous system mainly exercised by professional bodies representing the accounting and audit sector and minimally harmonising national systems of investigation and sanctions.

The Audit Directive is the overall framework, while the Audit Regulation provides for specific requirements applicable to PIEs (e.g. under the definition of Article 2(1) of the Accounting Directive[10], listed companies, credit institutions and insurance undertakings and national PIEs). The additional stricter requirements of the Regulation are justified by the substantially greater negative consequences of mis-statements of PIEs for shareholders, investors and society at large.

1.2. Purpose of the study

The purpose of the study is to provide data and analysis for the Commission services as part of the ongoing monitoring of the implementation of the Audit Directive and the Audit Regulation. In addition, data and analysis contained in the study could be used by the Commission services to carry out an evaluation of these pieces of legislation in the future.

1.3. Methodological approach

The four main underlying research areas linked to the objectives of EU law on auditing (enhancing transparency for investors, providing PIE auditors with a strong mandate to be independent, promoting competition between auditors, strengthening pan-European supervision) include five main data collection and analysis tools:

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[6] This 'expectation gap' is created by the fact that some users, in particular small and medium investors, may be unaware of the internal limitations of an audit (materiality, sampling techniques, role of the auditor in the detection of fraud and management responsibilities).

[7] European Commission public consultation on 15 July 2009 (IP/08/1727) concluded that the high concentration of the audit market for large public company audit services posed a threat to financial market stability.

[8] European Commission, *Green Paper: The Audit policy: Lessons from the crisis*, COM(2010)561final, 2010, p. 4.

[9] Ibid., p.2.

[10] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings,

- Mapping and overview of legal requirements in Member States to provide relevant up-to-date information on the implementation of both the Audit Directive and Audit Regulation that will feed into the analysis required under the remaining tasks (see Part 2);
- Analysis of systems of investigation and sanctions (see Part 3);
- Analysis of reporting requirements for statutory auditors or audit firms (see Parts 4 to 7);
- Analysis of requirements of statutory auditors or audit firms related to mandatory rotation, prohibited non-audit services, calculation of the fee cap and the appointment of auditors (Part 8);
- Analysis of the costs of assurance services provided by statutory auditors or audit firms (Part 9).

Those parts of the study that do not cover all 27 EU Member States (EU-27) nevertheless cover a representative sample of countries in the European Economic Area (EEA). The study sample covers 12 Member States – Cyprus, Czechia, France, Germany, Ireland, Italy, Lithuania, Netherlands, Poland, Romania, Spain, Sweden – as well as Norway.

The sample of Member States is based on geographical location, size (Gross Domestic Product (GDP),) number of PIEs according to the Audit Directive scope and non-PIEs according to the Accounting Directive scope and threshold. More larger Member States are included to enhance the representativeness, as the larger countries account for a larger share of PIEs.

This sample covers the various geographical regions in the Union and the vast majority of economies (83%), PIEs (74%) and non-PIEs (79%).

1.3.1. Methodology for legal mapping and overview of legal requirements applicable in the Member States

The legal mapping and overview were carried out based on:

- National reports prepared by the network of national legal experts;
- Questionnaire responses from national competent authorities (NCAs) in the Member States and Norway.

The national report phase entailed the preparation of national report templates and guidelines, the completion of national reports based on desk research, quality assurance by the Milieu team, the integration of Member State responses to the questionnaire within the national reports, and its sharing for comments with Member State authorities.

The questionnaire template was validated by the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) and discussed with Member State representatives of the Committee of European Auditing Oversight Bodies (CEAOB). NCAs had one month to provide responses, which were then reviewed, and requests for clarifications sent where needed.

Several studies published by the European Parliament[11], Accountancy Europe[12], the online database on the implementation of the EU Audit Legislation of the European Contact group and the International Federation of Accountants (IFAC) website were also used to prepare the legal mapping.

All NCAs provided responses to the questionnaire, with the exception of Croatia, Cyprus and Estonia.

[11] Langenbucher, K., Leuz, C., Krahnen, J.-P. and Pelizzon, L., 'What are the wider supervisory implications of the Wirecard case?', ECON Committee Study, https://www.europarl.europa.eu/RegData/etudes/STUD/2020/651385/IPOL_STU(2020)651385_EN.pdf ; Garcia Osma, B., Gisbert, A. and Navallas, B., 'What are the wider supervisory implications of the Wirecard case? Public oversight systems for stututory auditors in the EU', ECON Committee Study, https://www.europarl.europa.eu/RegData/etudes/STUD/2020/651383/IPOL_STU(2020)651383_EN.pdf

[12] The following studies and surveys, published by Accountancy Europe, were used: Audit exemption thresholds in Europe (2020 update); Definition of public interest entities in Europe, State of play after the implementation of the 2014 Audit Reform (March 2019 update), Implementation of the 2014 EU Audit Directive and Regulation in 30 European countries (July 2020),"Structure and organisation of the Accountancy profession in Europe (2020 update).

1.3.2. Methodology for collecting data and analysis on reporting requirements

The analysis of the audit reports was based on a large sample of audit reports for PIEs and non-PIEs. The sample was drawn from various sub-groups of the population of PIEs (country, ownership, type of company) and non-PIEs (country, ownership).

The population of PIEs was established from lists in the transparency reports of audit firms collected by Audit Analytics. The companies were matched with Orbis Europe to obtain their financial and ownership information. The lists of regulated shares and corporate bonds from regulated markets (as listed by the European Securities and Markets Authority (ESMA), the credit institutions listed by the European Central Bank (ECB), and the insurance undertakings listed by the European Insurance and Occupational Pensions Authority (EIOPA) were used to determine the type of sector for the PIEs. For non-PIEs, the limited liability entities database developed for CEPS (2021)[13] was used, supplemented by the limited liability companies' database in Norway. To obtain a list of non-PIEs, the PIEs and the micro and small companies without an audit requirement were excluded from the database.

Using these databases, PIEs and non-PIEs were selected for the sample. For each of the sub-groups, the highest ranked were selected. The samples for PIEs and non-PIEs were drawn separately. There were further sub-groups for each:

- Selected country (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO);
- Ownership type (parent, subsidiary (EU), subsidiary (non-EU), and individual entity);
- Type of sector (banks, insurance companies, other listed companies and other non-listed companies);
- Size of company (micro, small, medium-sized, large, following the definitions in the Accounting Directive);
- Type of listing (companies with listed shares, companies with listed bonds, and non-listed companies).

The thresholds for each of the sub-groups was set for results within 15% error margin and 90% confidence interval for the individual categories.

For each of the selected entities, annual reports, including audit reports, were obtained from:

- Audit Analytics;
- Corporate websites;
- National registers.

If an annual report (including the audit report) could not be obtained for a company using any of the three sources listed, the entity was replaced by the next ranked entity.

The resulting sample consist of a total of 774 audit reports, of which 455 were for PIEs (about 23% of population[14]) and 319 for non-PIEs. For each of the selected entities, the last available audit report was assessed. Most of the audit reports covered the financial year 2019 (28%) or 2020 (69%), but some (4%) covered 2017 or 2018.

The sample of audit reports was assessed based on a grid covering the legal requirements in Article 28 of the Audit Directive, Article 10 of the Audit Regulation, and Articles 20(3) and 34(1) point (a) and (b) of the Accounting Directive.

The compliance of the additional reports to the audit committees with the Regulation and national requirements is based on the assessment of representatives of 138 audit committees. More than 1,750 PIEs (listed companies, banks and insurance companies) in the EU27 and Norway were contacted to

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[13] CEPS, *Study on the Non-Financial Reporting Directive*, European Commission, Brussels, 2021, https://op.europa.eu/en/publication-detail/-/publication/1ef8fe0e-98e1-11eb-b85c-01aa75ed71a1/language-en

[14] PIEs using the definition in the Non-Financial Reporting Directive (NFRD), rather than the national transposition (see De Groen et al., 2020).

participate to this assessment but only 8% participated. The data analysis on appointment of statutory auditors is also based on the input received from 138 audit committees as described above who also provided their experiences on the implementation of the Audit Reform in 2016 related to the appointment of statutory auditors.

The experiences and views of the representatives of the audit committees, auditors, and users with the Audit Reform (Part VII) is based on the input received from 138 audit committees, 37 auditors (Big Four and non-Big Four) and 21 users (investors, supervisors, and NGOs) during the second half of 2021 and 2022 on their experiences after the required implementation of the Audit Reform in 2016.

1.3.3. Methodology for analysis of requirements on mandatory rotation, use of joint audits, and fee caps

The analysis used a sample of PIEs constructed using a mix of data from Audit Analytics and PIE report data. Audit Analytics contains audit information on PIE companies listed in stock exchanges from the EU-27 and Norway. Additional data from PIE report data were collected to include non-listed PIEs.

The analysis assessed the differences in a range of market indicators calculated across years (before and after 2016, the date of introduction of the regulatory requirements). The measures used included the rotation of auditors (number of firms that discontinued auditor-client engagements, changed to another firm, by type of auditor); single to joint audits (number of firms that changed from using one auditor in 2015 to a joint audit in 2018); fee cap reached (number of firms that paid above the limit for non-audit services in 2015 and 2018); and market composition (change in concentration of the market between 2015 and 2018, by type of audit (single, joint) and type of auditor (Big Four or not).

1.3.4. Methodology for collecting data and analysis of the systems of investigation and sanctions

For the collection and analysis of the systems of investigation and sanctions, the same methodological approach was used as for legal mapping and overview of legal requirements, with information gathered through national reports and responses from Member State authorities. In addition, EU associations of statutory auditors were contacted for their views on the systems of investigations and sanctions set at EU level and implemented in selected 13 countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO).

1.3.5. Methodology for collecting data and analysis of the costs of assurance services (audit fees)

The fees paid to auditors were obtained from the annual financial statements of listed PIEs, other PIEs (banks and insurance companies) and non-PIEs. The annual financial statements of listed companies were analysed by Audit Analytics, whereas those of other PIEs and non-PIEs were obtained by the research team from their latest available annual reports for 2016, 2018 and 2019 or 2020. This means that the financial years 2015 to 2020 were covered for most entities.

The selection and collection of annual reports of other PIEs and non-PIEs followed the same approach as for collecting data and analysis on reporting requirements. However, not all other PIEs and non-PIEs published information on their auditor or auditor's fees for at least 2016 and 2018. These were excluded from the sample. This resulted in a sample of 121 other PIEs (707 entity-year observations) and 575 non-PIEs (2,724 entity-year observations).

The data collection considered indicators on auditor and type of fees. Five indicators were collected on auditors: 1) auditor name, 2) other auditor names, 3) auditor's home office (city), 4) auditor's home office (country), and 5) auditor network. In addition, there was information on six types of fees collected: 1) audit fees, 2) audit-related fees, 3) tax advice fees; 4) other fees; 5) total non-audit fees (=2+3+4); and, 6) total fees (=1+5). The types of fees were collected in reported currencies for both the first auditor and the other auditors. They were then translated into euro amounts based on the end of year exchange rates (Eurostat).

1.4. Limitations

This section summarises the limitations of the study methodology.

1.4.1. Legal mapping and collection of data and analysis of the systems of investigation and sanctions

To complement the desk research, national authorities in the EU-27 and Norway were asked to complete a detailed questionnaire. The objective of the questionnaire was to ensure that all of the relevant additional rules, technical standards and implementing measures in the national regulatory frameworks had been identified, as well as to retrieve quantitative and qualitative data on the sanctions applied since the entry into force of the audit reform. In addition, the national reports were sent to NCAs for validation. The national authorities in Czechia, Estonia, France, Germany and Sweden did not wish to review the national reports. France and Germany, however, sent a very detailed questionnaire response. No response was received from Croatia, Cyprus or Estonia. National authorities in small countries have more limited resources and often struggle to contribute to these consultations.

The result of the consultations was very useful in completing the mapping, with additional national elements evident in the sectoral legislation regulating PIEs and their reporting obligations. However, comparing the data proved challenging, with many discrepancies in Member States' interpretation of the different provisions of the Audit Directive and Audit Regulation. National authorities still need time to adapt their systems to collect and analyse complete data on sanctions. The differences in the audit oversight organisation (supervisory competence, resources, budget) explain why retrieving comparable data on sanctions proved more difficult than anticipated.

In order to gather feedback from statutory auditors on the investigation and sanctioning regime as a result of the audit reform in 13 countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE, NO), their representatives at EU level were contacted (i.e. Accountancy Europe, the European Federation of Accountants and Auditors for SMEs and the European Contact Group (ECG) representing Deloitte, EY, KPMG, PwC, BDO and Mazars). Feedback was received from Accountancy Europe and their members in the 12 countries and from the representative of one of the Big Four.

1.4.2. Collection of data and analysis of reporting requirements

The audit reports are not easily accessible for many non-listed PIEs and non-PIEs. The analysis of audit reports is based on publicly available reports and those submitted to national registries. As there were only three audit reports available for non-PIEs with an audit obligation in the national registry of Cyprus, those results are not necessarily representative.

The annual reports of non-PIEs often do not include information on the fees paid to the auditor, nor do they provide the amounts for the different types of fees (e.g. only for current year, excluding VAT). The annual reports of about half of the companies for which the auditor was evident included audit fees for at least one year. The non-reporting of audit costs is partially explained by subsidiaries whose audit costs are paid by the parent entity, and abridged public reports.

1.4.3. Analysis of requirements on mandatory rotation, use of joint audits, and fee caps

The analysis of the impact of different provisions relied on the opinions of national authorities, which provided indicative views and some data on the state of competition in their respective markets. This information was very useful in gauging overall trends across markets and developing high-level conclusions. However, they are necessarily limited to each individual response and view. A detailed market analysis would provide conclusive findings on competition in different markets, especially to understand explanations given by small numbers of respondents.

The survey responses provided by the national authorities were useful in qualifying different aspects of the analysis, especially those elements where information was lacking. Surveys come with particular limitations, most notably that responses are conditional on the respondent, or dependant on the type of question provided and answered.

1.4.4. Analysis of the costs of assurance services (audit fees)

The dataset compiled for the analysis of audit fees contains information on a large sample of listed PIEs in the market (3,776). This sample represents a significant portion of the entire market and should cover most aspects of PIEs that were subject to changes under the Audit Regulation. The results from the analysis of audit fees across different rotation categories cannot be entirely attributed to the implementation of the Audit Regulation, however, either because the changes may result from pre-existing national requirements on audit rotation, or because some rotations would have occurred even without the Regulation.

2. Mapping legal requirements in the Member States and Norway

A major element of the study is to provide information on the legal requirements/measures adopted by the Member States and Norway (together, 'countries' across the study) in the context of the transposition of the Audit Directive and the implementation of the Audit Regulation. It concerns the mapping of:

- Scope of application of audit requirements across countries as a result of the audit reform (Section 2.1);
- Assurance and reporting requirements for statutory auditors or audit firms (Section 2.2);
- Duration requirements for mandatory rotation and whether they have already been implemented (Section 2.3);
- Requirements on prohibition of the provision of certain non-audit services, including the list of prohibited services and the rules relating to the provision of allowed NAS (Section 2.4);
- Requirements on the cap on the fees generated by allowed NAS, including entire fee cap calculation requirements and the stage of implementation (e.g. already in force) (Section 2.5);
- Requirements on the minimum number of statutory auditors or audit firms to be appointed by PIEs and on the conditions governing the relations between the statutory auditors or audit firms appointed (Section 2.6).

The mapping provides relevant up-to-date information on the implementation of both the Audit Directive and Audit Regulation and will complement the analysis under the remaining tasks.

2.1. Scope of application of audit requirements across countries as a result of the audit reform

The audit reform brought significant changes to the scope of application of audit requirements in the EU and Norway (audit thresholds, scope/extent of the audit, obligation to have an audit committee for the audited entity). This section describes how the audit reform's new provisions on the scope of application of audit requirements are transposed and implemented across countries. It provides an overview of:

- Audit requirements applicable to small undertakings;
- Categories of undertakings exempted from the obligation to provide a corporate governance statement and management report;
- Additional categories of designated PIEs;
- How countries have transposed the obligation to have an audit committee under Article 39 of the Audit Directive.

Main findings on the scope of application of audit requirements as a result of the audit reform

Despite the reform and harmonisation efforts at national level, important disparities remain between countries in respect of the audit requirements that apply to the different types of undertakings:

- Countries have set different thresholds for mandatory annual statutory audits, which have been subject to various changes, depending on the market situation in each country;
- The frequent amendments in various Member States during the transposition and implementation phase of the audit reform show that mandatory audit thresholds will continue to have an important impact on competition in the market (numbers of audit firms and auditors) and on audit quality;
- The differences in the audit thresholds reflect the differences in the structure of national economies;

Main findings on the scope of application of audit requirements as a result of the audit reform

- Only seven countries used the definition of 'small undertaking' under the Accounting Directive to define the audit thresholds;
- Half of the countries set-up thresholds below the thresholds of the EU definition of small undertaking;
- Discrepancies between the countries persist in respect of reporting obligations of audited entities and in the scope of statutory audits. The use of different options in the Accounting Directive also leads to discrepancies in the scope of the audit. For instance, 15 countries have chosen to exempt small undertakings and small and medium-sized groups from the obligation to prepare a management report and provide non-financial information, while four countries only exempted micro undertakings;
- Sixteen countries have chosen to maintain or designate additional PIEs, while 12 countries have the same categories of PIEs as the Audit Directive. These divergences have created implementation issues for cross-border entities, notably for rotations of auditors and the provision of non-audit services;
- Additional categories of PIEs mainly relate to the financial sector (with pension funds most frequently designated as PIEs, then Undertakings for Collective Investment in Transferable Securities (UCITS), asset management companies, payment institutions and other financial undertakings). In eight countries, State-owned companies and government/State entities are also PIEs. Less frequently, health insurance companies, companies operating or managing stock exchanges and regulated markets, and companies designated as PIE based on their size and/or sector of special public interest are also designated additional categories of PIEs, under national law;
- The majority of countries decided to allow PIEs to choose the form of their audit committee.

2.1.1. Audit requirements for small undertakings

Under Article 3(2) of the Accounting Directive, small undertakings are defined as undertakings which on their balance sheet date for two consecutive years do not exceed the limits of at least two of three criteria:

a) Balance sheet total: EUR 4 million;
b) Net turnover: EUR 8 million;
c) Average number of employees during the financial year: 50.

Member States are allowed to increase thresholds a) and b) up to EUR 6 million and EUR 12 million, respectively.

The legal mapping shows that countries have set different thresholds for mandatory annual statutory audits[15]. Only seven of the 28 countries used the definition of small undertakings in the Accounting Directive for the audit thresholds (EE, EL, FR, HR, MT, RO, SI). Of these, Croatia and France have maintained an audit obligation for certain categories of undertakings below the thresholds for small companies. France significantly increased its thresholds in 2019. The PACTE Act provides for a far-reaching reform of the statutory audit of financial statements and, in particular, a modification of the thresholds for the mandatory appointment of statutory auditors. The previous legislation provided for two different sets of thresholds for limited liability companies (LLCs) by shares and for LLCs and general partnerships (the thresholds being slightly higher for these latter two types of company). The new thresholds now apply to all commercial companies, but lower thresholds are still applicable to subsidiaries and training institutions. Croatia applies lower thresholds for joint stock companies,

[15] See Table 3 in the Annex for an overview of undertakings covered by audit requirements in the EU-27 and Norway.

partnerships or LLCs. Romania has also set up thresholds in its national currency, very close to the thresholds of Article 3(2) of the Accounting Directive.

Denmark, Germany, Ireland and the Netherlands used the option of Article 3(2) second sub-para of the Accounting Directive to increase the thresholds of mandatory audit up to a balance sheet of EUR 6 million and net turnover of EUR 12 million. Denmark set up a minimum and a maximum threshold, between which small companies have a choice between statutory audit and extended review.

Austria, Belgium and Luxembourg set thresholds above the EU definition and below the increased thresholds of Article 3(2) second sub-para of the Accounting Directive. Belgium maintained an additional exemption from the statutory audit obligation for partnerships where all partners with unlimited liability are natural persons, as well as agricultural enterprises subject to personal income tax.

In Italy statutory audit is mandatory for all “società per azioni” (companies limited by shares) irrespective of the company’s size (the thresholds set by law for small undertakings are not applicable for the purpose of the mandatory statutory audit). The limited liability companies are subject to mandatory statutory audit if the company:

a) is required to prepare consolidated financial statements;
b) controls a company required to have a statutory audit;
c) has exceeded for two consecutive financial years at least one of the following limits:
  1) total assets in the balance sheet: €4 million
  2) revenue from sales and services: 4 million euros;
  3) average number of employees during the financial year: 20 units

Half of the countries (BG, CY, CZ, ES, FI, HU, LT, LV, PL, PT, SE, SK and NO) set thresholds below the thresholds of the EU definition of small undertaking. Spain retained specific provisions, i.e. mandatory audits for companies receiving subsidies from the State or the EU or having executed contracts for the Administration, for an amount of at least more than EUR 600,000. Lower thresholds also apply to foundations and certain housing cooperatives. Hungary set two low thresholds for mandatory audit (net sales and number of employees) and made annual statutory audit mandatory, without any thresholds, for certain types of undertakings (although subject to possible legal exemption). In addition to its low thresholds, Portugal imposed annual statutory audits for all limited companies (*sociedades anonimas*).

In 2010, the Swedish Parliament decided to exempt all small undertakings from the audit obligation. The reform aimed ‘to reduce the administrative burden on companies and the costs of audit [and], along with other regulatory reforms, to strengthen companies’ competitiveness and help more companies to grow and employ more people. The fears about the reform were reduced tax revenue, increased economic crime and poorer accounting quality’[16]. In 2017, the Swedish National Audit (NAO) office launched an audit to determine whether the objectives of the reform had been achieved or if it had had undesirable consequences. The NAO concluded that the disadvantages (loss of tax revenue for the State and income for auditors, increased errors in annual reports, work to combat economic crime more difficult) clearly outweighed the advantages (savings for companies were quite small, rate of growth slowed among companies opting out). On the recommendation of the NAO, the Swedish government abolished the exemption.

The three countries with the lowest thresholds are Cyprus (no exemption from statutory audit), Finland and Sweden.

[16] Swedish National Audit Office, *Report number RIR 2017:35*, 12 December 2017, Abolition of audit obligation for small limited companies

2.1.2. Exemptions from the obligation to provide a corporate governance statement and management report

Chapter 5 of the Accounting Directive requires undertakings to prepare a management report, which must include a fair review of the development and performance of the undertaking's business and position, and a description of the principal risks and uncertainties. Article 34 of the Accounting Directive states that the statutory auditor shall also express an opinion and identify material misstatements in that report. Member States are allowed to exempt small undertakings from the obligation to issue a management report, and small and medium-sized enterprises (SMEs) from the obligation to provide non-financial information. Fifteen countries chose to exempt small undertakings (AT, BE, BG, CY, CZ, DE, EE, EL, ES, FI, FR, IT, PL, PT, SK) or SMEs. Estonia, Finland, Greece and Portugal exempted micro undertakings.

Article 20 of the Accounting Directive obliges listed PIEs to include a corporate governance statement in their management reports, on which the auditor shall also express an opinion. However, countries are allowed to exempt listed companies that have only issued securities other than shares admitted to trading on a regulated market from elements of the obligation. Small and medium-sized PIEs can also be exempted from the obligation to provide information on their diversity policies.

More than half of the countries (AT, BE, BG, CY, CZ, DE, DK, FI, IE, IT, LU, MT, NL, PT and NO) chose to exempt listed companies that have only issued securities other than shares admitted to trading on a regulated market from the obligation to provide the information that the auditor must verify as present in the corporate governance statement.

Bulgaria and Croatia provide for stringent requirements, as the obligation also applies to credit institutions, insurers and reinsurers (BG) or to all PIEs (HR).

2.1.3. Designation of additional PIEs

Sixteen countries chose to maintain or designate additional PIEs (BE, BG, CZ, ES, FR, HR, HU, IT, LT, LV, NL, PL, PT, RO, SI, SK). The remaining 12 countries have only the three categories set up in the Audit Directive. Of these, Austria, Cyprus, Greece and Malta transposed the possibility to designate additional PIEs by executive measures but have not made use of this option.

Several categories of undertakings are considered PIEs in the 28 countries:

- Pension funds (BG, CZ, ES[17], FR, HR[18], LT, LV, NL[19], PL, PT, RO[20], SK[21]);
- UCITS[22] and investment undertakings (ES[23], HR[24], LV, LT, PL, PT[25], RO[26]);
- Asset management companies (BG[27], HU, LT, LV, SK[28]).

Payment institutions and electronic money institutions (ES, HR, PL, RO):

- State-owned companies (LT[29], PT[30], RO, SI, SK[31]);
- Governmental/State entities or units (HU, PL, SK);

17 Including their managing entities, based on a size criterion.
18 Including pension insurance undertakings.
19 Subject to a size criterion.
20 Including managing entities.
21 Supplementary pension funds.
22 Undertakings for Collective Investments in Transferable Securities
23 Subject to a size criteria
24 Including their management entities
25 Except for investment advice undertakings, but includes venture capital and credit securitisation companies and funds
26 And their managing entities
27 Also subject to a size criterion.
28 Including branches of foreign asset/pension asset management companies.
29 Subject to a size criterion.
30 Subject to a size criterion.
31 Import-Export Bank of the Slovak Republic and the Railways of the Slovak Republic.

- Other financial undertakings, such as financial holdings, specific credit institutions not falling under the definition of point 1 of Article 3(1) of Directive 2013/36/EU or non-banking financial companies (FR[32], LT[33], RO);
- Health insurance companies (CZ, FR[34], SK);
- Companies operating or managing stock exchanges and regulated markets such as:
- National stock exchange (HR, SK);
- Clearing institutions (BE, HR, RO);
- Multilateral trading platform (MTP) operators and other market operators (HR, RO);
- Central depositories (HR, RO);
- Companies designated as PIE based on their size and/or sector of special public interest, such as extraction/mining companies, water, gas and electricity suppliers (BG, HR, NL, PL).

Some countries designated other special entities as PIEs. In Slovenia, a PIE can also be any other legal entity that must be audited if provided by other special laws. No such special laws have been adopted yet. In Spain, banking foundations are also PIEs. France included insurance groups and unions not covered by Article 2(1) of Directive 91/674/EEC[35] in its PIE categories. Croatia included leasing and factoring undertakings, while the Netherlands included institutions for scientific research.

In Romania, the national legislation classifies 'autonomous undertakings' (*regii autonome*) in the PIE category. These autonomous undertakings are the legacy of the years immediately after 1989, as they were the legal form created to replace the former State enterprises of the Communist era. Although they play a rather minor role in the economy nowadays, they are still mentioned in the legislation.

Italy has no full 'additional PIE categories', but Legislative Decree 39/10 created a new category of undertakings previously considered PIE that are now partially covered by the PIE regime (only subject to Articles 4(1) and (2), 5(1) and (5), 6(1), 7, 8, 12 and 17 of the Audit Regulation). These intermediate regulatory regime undertakings are non-listed companies issuing widely distributed financial instruments, companies managing regulated markets or clearing and guarantee systems; centralised administration companies of financial instruments; stock brokerage companies; asset management companies and the relevant (Italian) managed mutual funds; Italian mutual funds managed by EU management companies; EU and non-EU alternative investment fund management (AIFMs); investment companies with variable capital and investment companies with fixed capital, payment institutions as defined in Directive 2007/64/EC (Payment Services Directive (PSD)[36]; electronic money institutions and financial intermediaries.

2.1.4. Transposition of the obligation to have an audit committee

Article 39 of the Audit Directive provides for the obligation to have an audit committee for PIEs. This can be a stand-alone committee or a committee within the administrative body or supervisory body of the audited entity.

Where an audit committee forms part of the administrative or supervisory body of the audited entity, Member States may permit or require that body to perform the functions of the audit committee for the purpose of the obligations set out in the Audit Directive and the Audit Regulation on specific requirements regarding statutory audit of public-interest entities.

Under Article 39(2) of the Audit Directive, Member States may decide to allow SMEs to assign the function of the audit committee directly to the administrative or supervisory body as a whole, provided that where the chair of such a body is an executive member, they must not act as chair while the body is performing the functions of the audit committee.

32 Subject to a size criterion.
33 Financial brokerage firms and central credit unions.
34 Insurance group companies, mutual insurance group companies, mutual group unions and social protection group companies.
35 Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings.
36 PSD I was repealed by Directive (EU) 2015/2366 of 25 November 2015 on payment services in the internal market (PSD II).

Article 39(3) of the Audit Directive allows Member States to exempt certain undertakings from the obligation to have an audit committee:

- A PIE that is a subsidiary undertaking (within the meaning of Article 2(10) of the Accounting Directive) if it fulfils the requirements of Article 39(1), (2) and (5);
- A PIE that is an UCITS (as defined in Article 1(2) of Directive 2009/65/EC) or an alternative investment fund (as defined in Article 4(1)(a) of Directive 2011/61/EU;
- A PIE whose sole business is to act as an issuer of asset-backed securities (as defined in Article 2(5) of Commission Regulation No 809/2004);
- A credit institution whose shares are not admitted to trading on a regulated market of any Member State and which has, in a continuous or repeated manner, issued only debt securities admitted to trading in a regulated market, provided that the total nominal amount of all such debt securities remains below EUR 100,000,000 and that it has not published a prospectus.

These options have an impact on the scope of application of articles on mandatory rotation, prohibition of NAS, caps on fees and appointment of auditors, as they play a specific role in all these provisions and in ensuring the auditor’s independence. Regarding the caps on fees, if the auditor becomes excessively dependent on a single client, the audit committee should decide whether the auditor may continue to carry out the statutory audit[37]. NAS shall be approved by the audit committee, which also has an important role in the selection of the new auditor. In cases where these options are used, the functions of the audit committee are performed by another body or bodies, established and functioning in accordance with national provisions where audited entity is registered.

For each country, the legal mapping identified whether:

- There was an obligation for all or certain types of PIEs to have a stand-alone committee;
- SMEs can assign the function of the audit committee directly to the administrative or supervisory body;
- SMEs are exempted from the obligation to have an audit committee.

Important disparities can be highlighted in the establishment of audit committees within PIEs, as summarised below and described in Table 26 in the Annex.

The majority of the countries decided to allow PIEs to choose the form of their audit committee. Austria, Croatia, Cyprus, Denmark, Finland, France, Greece, Luxembourg, the Netherlands, Portugal, Romania, Slovakia, Sweden and Norway imposed no obligation to appoint a stand-alone committee, and the audit committee can also be a committee of the administrative body or supervisory body of the audited entity. Sweden extended the option under Article 39(2) of the Audit Directive to allow the administrative board or supervisory body as a whole to perform the role of the audit committee to all PIEs.

Austria and Slovakia chose to extend the obligation of an audit committee for large undertakings that are not PIEs. In Norway, audit committees are also mandatory for holding enterprises with licences to operate as a parent company in finance concerns, including finance enterprises that are PIEs, in line with the Auditors Act.

In the Italian framework the audit committee coincides with the supervisory body of the company which could vary depending on the company’s corporate governance model.

Several Member States made it compulsory to have a stand-alone committee:

- For all PIEs: Bulgaria, Czechia, Ireland, Latvia, Malta, Poland;
- For specific PIEs: Estonia, Germany, Hungary, Lithuania, Spain;

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37 Audit Regulation, recital 7.

- In Belgium and Slovenia there is no obligation for a stand-alone committee, but the audit committee must be a committee within the administrative board (BE) or the supervisory board (SI);
- Belgium, Germany, Ireland, Latvia, Lithuania, Luxembourg, Poland, Spain and Norway made use of the Article 39(2) option to allow the administrative or the supervisory board of the PIE to perform the functions of the audit committee for SMEs. The option was also used for specific types of companies, mainly in the financial sector, in Czechia, Hungary, Ireland and Poland. In Ireland, Latvia, Lithuania and Luxembourg, the option also applies to companies with reduced market capitalization;
- Finally, the option under Article 39(3) of the Audit Directive was used in full by Denmark, Ireland, Luxembourg and the Netherlands, and partially for Belgium, Croatia, Estonia, Finland, Germany, Greece, Lithuania, Latvia, Poland, Slovenia, Slovakia, Spain and Norway.

On the competence and responsibilities of audit committees under the Audit Regulation, Italy suggested that the procedure for the approval of NAS and calculation of the fees for audit and NAS could benefit from clarification. It noted that Article 5 of the Audit Regulation could specify whether it is possible for audit committees to proceed not only with the approval of proposed NAS, but also pre-approval of certain types of NAS (through more general decisions) identified according to specific criteria and considering the complexity of single approval, especially for audit committees of large international groups. Any introduction of this method of approval would require safeguards and subsequent checks on pre-approved services.

2.2. Mapping of assurance and reporting requirements for statutory auditors or audit firms

The general obligation for PIEs, medium-sized and large undertakings to have their financial statements audited by approved auditors derives from Article 34 of the Accounting Directive. In addition to the audit of financial statements, auditors must also express an opinion on the consistency and compliance of the management reports with the requirements defined in Chapter 5 of the Accounting Directive. The statutory audits must be carried out on the legal basis of Article 28 of the Audit Directive and Article 34 of the Accounting Directive.

Article 28 of the Audit Directive, supplemented by Article 10 of the Audit Regulation for the audit of PIEs, details the content of the audit reports to be prepared for undertakings covered by the annual audit obligation. Additional requirements for PIEs are specified in Articles 10 and 11 of the Audit Regulation.

For PIEs that are listed companies, the management report must include a corporate governance statement (Article 20(1) of the Accounting Directive). The statutory auditors of these listed PIEs must also include in their audit report an opinion on the information contained in the corporate governance statement (Article 20(3) of the Accounting Directive).

Article 28 of the Audit Directive specifies the minimum content of the annual audit report for all types of undertakings covered by an audit obligation under EU and national law. Article 34(1) second sub-paragraph of the Accounting Directive adds to the audit requirements of Article 28(2) of the Audit Directive with an obligation to verify the consistency of the management report with the financial statements and compliance with legal requirements, for PIEs and for medium-sized and large undertakings. Additional audit requirements are provided for in Article 10 of the Audit Regulation. Article 20(3) of the Accounting Directive also requires that auditors for listed PIEs prepare the mandatory statement using the same process as the management report, based on the information provided in the corporate governance statement.

The following summarises the results of the legal mapping of the transposition and implementation of the provisions discussed. It includes an overview of the reporting requirements applicable to all undertakings under an annual audit obligation, and an overview of additional requirements for PIEs (see Table 28 in the Annex for detailed information on the transposition and implementation of these provisions).

Main findings on the mapping of assurance and reporting requirements for statutory auditors or audit firms

- The option of Article 28(2), 2nd subparagraph, of the Audit Directive to set additional elements in the audit report was not used by 15 countries. Those that used this option adopted very diverse additional elements;
- The option under Article 28(4), 4th sentence, of the Audit Directive, allowing the audit report to be published without signature(s) being disclosed to the public, if such disclosure could lead to an imminent and significant threat to the personal security of any person, was used by six countries;
- A lot of NCAs consider ISAs and other international standards published by the IAASB as implementing measures for Article 28(2) of the Audit Directive and Article 10 of the Audit Regulation;
- All countries rely on ISAs to some degree;
- In almost all countries, ISAs must be translated into the national language and/or adopted by the national standard setter in order to be applicable;
- There are numerous discrepancies between countries on the type of assurance to be provided by the auditor on the management report;
- Only six countries adopted additional requirements on the content of the audit report for PIEs;
- Thirteen countries used the option under Article 11(1), first subparagraph, of the Audit Regulation to require that an additional report must be submitted to the administrative or supervisory body of the audited entity;
- Eight countries used the option under Article 11(1), second subparagraph, allowing the audit committee to disclose the additional report to third parties;
- Regarding Article 11(2), 2nd subparagraph, of the Audit Directive, only two countries laid down additional requirements in relation to the content of the audit committee report;
- Thirteen countries laid down additional audit process requirements;
- There are significant disparities among countries on the performance of the audit. If most countries refer to ISAs for the general performance of statutory audits, almost half have specific national requirements and processes, mostly linked to verification of the financial information;
- Twenty-two countries laid down additional, considerably diverse legal missions for statutory auditors.

2.2.1. Audit reporting requirements

Article 28(2) of the Audit Directive setting out requirements on the audit report was properly transposed by almost all countries. Article 28(2), letter a) was transposed by all countries except Germany and the Netherlands, where the transposing provisions refer to the annual financial statements or the consolidated financial statements and to the financial reporting framework applied in their preparation, but not explicitly to the entity audited. Article 28(2), letter g) was fully transposed by all Member States except Denmark, Hungary and Slovakia. The Danish legislation requires the indication of both the audit firm's registration number and the identification number of the individual auditor. Slovakia's legislation only refers to information about the home Member State of an audit firm if the statutory auditor carries out the statutory audit on behalf of an audit firm registered in another Member State. Hungary has yet to transpose the obligation to include the place of establishment of the auditor in the audit report.

The option of Article 28(2), second subparagraph, of the Audit Directive, on additional elements in the audit report was not used by Bulgaria, Croatia, Cyprus, Czechia, Germany, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Romania, Slovenia, Slovakia and Norway. The additional elements identified in Austria, Belgium, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Lithuania, Poland, Spain and Sweden significantly differ from one another, encompassing:

- More detailed obligations to report on financial statements (e.g. additional justifications and explanations of assessments), or report breaches (AT, BE, DK);
- More detailed reporting on non-financial matters (DK, PL);
- Administrative/legal information (EE, ES, HU, PL, SE), such as descriptions of the division of responsibilities between the auditors and the management board, or the nature of the assurance statement. In Spain, the auditor must explain what reasonable assurance means, that the annual accounts are free from material misstatements, including due to fraud. Any significant risk of the existence of such material faults, including fraud, must be described, as well as the reaction of the auditor to these risks and the essential observations of the risks.

2.2.2. Some examples of additional elements in audit reports are described below.

In Austria, the Commercial Code provides for the submission of two reports by the auditors: the ‘short’ audit report, as specified in Article 28 of the Audit Directive, and a ‘long-form’ report, which also includes a report on legal compliance of accounting records, additional explanations on elements of financial statements, breaches (if any) of the articles of association of the company statutes, and key figures. The report must state the equity ratio and the notional debt repayment period. The auditor must also report on the existence of the conditions for the presumption of a need for company reorganisation. If the members of the governing body of the company receive such a statement by the auditor and do not act on it, they may be personally liable in case of insolvency.

In Denmark, the auditor has a detailed obligation to report separately any additional conditions that come to their attention that lead to a reasonable suspicion that members of the management may be liable for damages or criminally liable for actions or omissions affecting the undertaking, attached undertakings, participants, creditors or employees. If the non-financial reporting obligations applicable to large companies (social responsibility, diversity policies, payment to national authorities) are not subjected to an audit requirement, the statutory auditor shall nevertheless give an opinion on the consistency of the information supplementing the management report and referenced in the annual report with the annual accounts and any consolidated accounts. The national provision also allows the possibility for the Danish Business Authority (DBA) to establish specific audit requirements for the additional reports included in the annual report of some or all of the companies included in accounting classes C and D[38] (medium-sized and large companies, public and private limited companies, limited partnerships, commercial foundations, limited partnerships, listed companies, and stock-based State-owned companies). The national authority reports that the DBA has not established any such specific requirements for medium-sized and large undertakings and listed companies.

In Poland, the legislator considered the European requirements the minimum and provided for broader national requirements, reflecting the needs of the Polish markets and entrepreneurs. These additional requirements include various statements, such as a statement that the scope of audit is exclusive of guarantee of future profitability of the audited entity or its effectiveness, more detailed information on justification of reservations or negative opinion, or additional information on non-financial information.

[38] Specific to Danish law.
Class B: small businesses, public and private limited companies, limited partnerships, commercial foundations, and limited partnership companies that meet the size criteria. Class B companies must apply the rules set out in the Danish Financial Statements Act. Alternatively, undertakings in Class B can prepare their financial statements in accordance with full international financial reporting standards (IFRS).
Class C: medium-sized and large companies, public and private limited companies, limited partnerships, commercial foundations, and limited partnership companies that meet the size criteria. Class C companies follow the same standards as Class B companies. Some of the requirements on recognition, measurement, and disclosures are mandated in Class C, but are voluntary for Class B.
Class D: listed companies and stock-based State-owned companies. These companies are required to apply EU-endorsed IFRSs in consolidated financial statements and in separate financial statements for listed companies that do not prepare consolidated statements.

Swedish legislation contains requirements to include statements of opinion on the decisions of the management body based on the audit report, recommendations on liability of board members and managing directors, and a statement of fulfilment of various tax obligations by the entity. In Finland, national law requires the audit report to also comply with the requirements imposed by the general meeting or other body of the company or foundation to provide other statements.

The option under Article 28(4), fourth sentence of the Audit Directive, allowing the audit report to be published without signature(s) being disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person, was used by six countries (CY, EL, HR, PT, RO, SK).

2.2.3. Implementing measures for Article 28(2) of the Audit Directive and the use of international auditing standards

All countries adopted implementing measures for Article 28(2), first sub-paragraph, of the Audit Directive, except Finland, Germany, Greece, Latvia, Romania, Slovakia and Sweden.

Slovenia transposed Article 28(2) of the Audit Directive through direct application of the ISAs. Many NCAs consider ISAs and other international standards published by the IAASB to be implementing measures for Article 28(2) of the Audit Directive and Article 10 of the Audit Regulation. All countries rely on ISAs to some degree. In most countries (except BG, MT, PT, SI, SK), ISAs must be translated into the national language and/or adopted by the national standard setter to be applicable. When countries use national standards, they either use ISAs as a basis and integrate national specifications into the ISA translation, or set up additional national standards directly. Austria, Belgium, Czechia, Denmark, Estonia, France, Germany, Hungary, Ireland, Italy, Luxembourg, the Netherlands, and Spain used the option of Article 26(1), second sub-paragraph, to apply national auditing standards, procedures or requirements.

The list of international/national standards used in the 28 countries is provided in Table 27 in the Annex. The list was compiled by the research team by comparing the data available on the IFAC website and national standard-setting authorities.

The national authorities in France and Poland have expressed their support for the adoption of ISAs at the EU level. They point out that this could support the harmonisation effort and reinforce the influence of the EU on the international standard-setting scene. Based on their international counterparts, EU auditing standards should be tailored to the EU market situation and existing rules. Poland also argues for the need to maintain the possibility of setting additional national standards to address the specific needs of each Member State market.

2.2.4. Transposition of Article 34(1) of the Audit Directive

All Member States transposed Article 34(1), second paragraph, a). Denmark is the only country not to transpose Article 34(1), second paragraph, b).

There are several discrepancies between countries on the type of assurance to be provided by the auditor on the management report. Only Finland, Hungary, Italy, Lithuania, Poland, Romania, Slovenia, Sweden and Norway provided for a reasonable level of assurance. In Italy, for example, reasonable assurance is given regarding consistency with financial statements and compliance with the law. By contrast, there is more limited assurance on the statement about material mis-statements in the management report, as it is issued on the basis of the knowledge and understanding of the entity and its context obtained during the course of the statutory audit. In Finland, the national authority explained that in situations where the management report does not have to be audited in full, for the part which is verified by the auditor, the assurance statement is part of the audit report and will thus be a reasonable assurance. In Poland, reasonable assurance is required for the management report, on (1) whether it has been prepared according to regulations, (2) whether it is consistent with the information included in financial statements, and (3) whether any significant distortions have been identified.

2.2.5. Transposition of Article 20(3) of the Accounting Directive

Article 20(3) of the Accounting Directive states that 'the statutory auditor or audit firm shall express an opinion in accordance with the second subparagraph of Article 34(1) [i.e. on whether the management report is consistent with the financial statements for the same financial year, and has been prepared in accordance with the applicable legal requirements; and a statement on whether the auditor has identified material misstatements [with an indication of the nature of any such misstatements], regarding [part of the information on the corporate governance statement] and shall check that [the rest of the information required in that statement] has been provided'.

Most countries transposed Article 20(3) of the Accounting Directive. Austria[39], Belgium[40], Denmark[41] and Finland[42] partially transposed it. No transposing measures were identified in Czechia[43]. The partial compliance issues in all cases related to the obligation for the auditor to identify material mis-statements.

2.2.6. Additional requirements and implementing measures on the content of the audit report for PIEs

Czechia, Finland, France, Hungary, Latvia and Norway adopted additional requirements on the content of the audit report for PIEs.

Czechia and Hungary have laid down additional requirements for certain PIEs (banks, investment, and insurance companies) subject to specific financial reporting requirements, which must be verified by the auditor. In Hungary, these additional elements are provided in a separate audit report. France decided to maintain some specific elements that were already provided in its national law for PIEs audit reports, which consist of additional verification of the consistency between the financial statements and the management reports and other documents provided to the shareholders, and of the presentation of the information on remuneration and benefit of company directors.

Finnish law requires the same additional elements for both non-PIEs and PIEs audit reports.

In Latvia, non-financial information (a statement on a corporate governance and a non-financial statement) must be included in the audit report for PIEs. In Norway, similar additional requirements apply to PIEs. All additional reporting requirements related to non-financial information applicable to PIEs (e.g. the statement on corporate governance, the statement on corporate social responsibility, or, where applicable, on reporting on payments to authorities) must be audited in the same way as the management report, even if the information is published separately.

A large majority of countries (BE, BG, CY, DE, DK, EE, ES, FR, HR, HU, IE, IT, LU, NL, PT and NO) adopted implementing measures on the content of the audit report of PIEs. These implementing measures take the form of either national standards (e.g. BE, ES, FR, HU, IT), audit report templates

39 Article 20(3) is only partially transposed, as the auditor has to verify that the information required for the corporate governance statement (and other non-financial information) is provided, without requiring an opinion either on the consistency between the description of the main features of the undertaking's internal control and risk management systems and the information on shares, shareholders and members of the administrative board and the financial statements, or on their compliance with the relevant legal requirements. There is therefore no obligation for the auditor to conduct an analysis of the content of the corporate governance statement nor to identify material misstatements, but only to verify that the required information has been provided.

40 Belgium lays down that the audit report shall include reporting on breaches of articles of association or the Companies Code, but only with regard to annual, not consolidated, statements. The corporate governance statement is directly included in the management report. Article 34(1), second subparagraph and Article 20(3) of the Accounting Directive were partially transposed, as the Code of Companies does not clearly state that the auditor shall state if material mis-statements have been identified. However, this obligation is specified in the additional national standard and in the template report.

41 Transposition of Article 20(3) is partial, as there is no requirement for the auditor to state if they identified material mis-statements in the management report.

42 The transposing provision does not explicitly mention an obligation to check if each point in the cross-referred information has been provided. It is, however, necessary to check that the corporate governance statement has been provided and to give an opinion in the audit report as the whether the financial statements satisfy the legal requirements. The auditor must also express an opinion when they believe there to be inconsistencies in the information in the separate report and in the description of the main features of the undertaking's internal control and risk management systems.

43 CZ: for the corporate governance statement, the auditor only has to verify that non-financial information has been prepared by the audited entity and presented in the annual report or in a separate report. Additional report to the audit committee also for non-PIEs.

or illustrative reports (e.g. IE), best practices (e.g. DE) or recommendations and guidelines for the auditors (e.g. DK, HR, or NO).

2.2.7. Implementing measures on the content of the audit report for PIEs

A large majority of countries (BE, BG, CY, DE, DK, EE, ES, FR, HR, HU, IE, IT, LU, NL, PT and NO) adopted implementing measures on the content of the audit report of PIEs.

Belgium issued a revised standard in 2020. The standard contains an introduction, general provisions, required diligence and application procedures, explaining more precisely what due diligence means or is intended to cover, and giving examples for both the audit report and the additional requirements for PIE audits.

In Bulgaria, instructions were adopted by the Commission for Public Oversight of Registered Auditors and the Management Board of the Institute of Certified Public Accountants. These are issued on established cases of inconsistencies of audit reports with the legal requirements and the applicable auditing standards established by the Commission for Public Oversight of Registered Auditors.

In Cyprus, the local professional accountancy body (ICPAC) issues sample audit reports for EU PIEs, after consultation with the Cyprus Audit Oversight Board.

In Germany, the Chamber of Auditors runs a website with best practices in auditing. In Denmark, this is run by the DBA, which has issued a guideline on the Danish Executive Order on approved auditors' reports.

In Spain, a technical standard on auditing, on relations between auditors (specific provisions for joint audits and succession of auditors), and a national technical standard on auditing, on the requirements for auditors in relation to the financial statements presented in the European Single Electronic Format (ESEF) were issued by the audit oversight authority.

In France, the national standard NEP100 on joint audits applies.

The Croatian Chamber of Auditors issued 15 guidelines (12 still applicable), providing auditors with practical solutions when preparing audit or other reports. Guideline no. 12 refers to the inclusion of elements of Article 10 of the Audit Regulation. It recommends that the additional elements from Article 10(2) of the Audit Regulation are presented in a separate sub-chapter within the chapter '*Report on other statutory requirements*' of the audit report (alongside the management report and corporate governance statement), as well as wording suggestions for each of the elements to be presented.

In Hungary, Standard No 6100 on the preparation of the separate supplementary audit report provides guidance and detailed requirements for the preparation of such reports. It specifies that auditors of credit institutions, investment firms and insurance companies operating as branches are obliged to prepare this report. The methodology of planning and preparation for the auditor's work is also provided.

The Irish Accounting and Auditing Supervisory Authority (IAASA) has produced a compendium of template reports to assist auditors with auditing various kinds of companies.

ISAs 700 and 701 are mandatory in the Netherlands, and the professional auditors' association issues templates (in an electronic tool) for auditors' reports, notes and alerts on a variety of professionally relevant topics.

The Portuguese Statutory Auditors Bar Association has issued various guidelines on the application of international standards of accounting, which include template audit reports for individual/separate accounts and consolidated accounts, reports for collective investment schemes, including venture capital, investment schemes, reports for entities applying the public official accounts plan or the sectoral official accounts plan, and on limited revision of financial statements.

Estonia, Italy and Luxembourg all refer to ISA 700 and ISA 701.

Czechia and Finland both chose to include additional requirements in respect of Article 10 of the Audit Regulation but did not issue implementing measures or guidance on these additional elements, instead relying on the ISAs.

2.2.8. Options used under Article 11(1) of the Audit Regulation on additional reports to audit committee

Thirteen countries (BE, CZ, DE, DK, FI, HR, HU, IT, LT, LU, PL, PT and NO) used the option under Article 11(1), first sub-paragraph, of the Audit Regulation to require that this additional report be submitted to the administrative or supervisory body of the audited entity.

Seven countries (BE, CZ, FR, HU, IE, LV, PL, PT) used the option under Article 11(1), second subparagraph, of the Audit Regulation, allowing the audit committee to disclose the additional report to third parties. In each case, the additional report shall be sent, generally on request, to the PIE surveillance authorities and the audit supervisor, except in Latvia, where the law only provides for automatic submission of the additional report to the Financial and Capital Market Commission, but not to the Ministry of Finance, and Poland, where the additional report must be made available to the general meeting, partners, or owners of the audited entity.

Similarly, few countries (AT, BE, BG, HR, LV, PL) adopted implementing measures on the content of the additional report to the audit committee.

Regarding Article 11(2), second sub-paragraph, of the Audit Regulation, only two countries (DK, LT[44]) laid down additional requirements in relation to the content of the audit committee report. Ireland transposed the option by giving the IAASA the power to set down additional requirements, although this possibility has not been exercised. In Czechia, although there are no additional requirements on the content of the additional report to the audit committee, the obligation to have an audit committee – and thus the obligation for the auditor to submit an additional report to this audit committee – was extended to some non-PIEs (e.g. large business corporations, large State-owned undertakings).

Table 1: Additional requirements on the content of the audit committee report

Additional requirements in relation to the content of the audit committee report	
DK	- Conclusion on whether the financial institution's measurement of loans, loan commitments and financial guarantees was made in accordance with the relevant rules; - Summary of the number of sub-authorisations granted by the company via the Board of Directors during the financial year, together with management's comments on the number of sub-authorisations; - Indication of the total number of authorisations granted by the Board of Directors during the financial year; - Statement on exposures of the financial institution.
LT	- For banks and financial groups, the auditor shall report on accuracy of assets valuation, performance of mandatory adjustments of the value of the assets and write-offs, on required capital, reserves and provisions to reduce operational risk, compliance with capital requirements, efficiency of asset management, and adequacy of the internal control and information systems.

[44] According to the national authority, additional elements to the audit committee report include the provisions of Article 62 of the Law on Banks and Article 44 of the Law on Financial Institutions. However, these additional elements are taken to refer to the audit report and not the additional report to the audit committee.

2.2.9. Additional reporting requirements and legal missions for auditors

The Audit Directive allows countries to adopt more stringent national audit performance and process rules than required under the EU legislative framework:

- **Additional elements in the audit report** linked to the performance of the audit of financial statements and management reports, such as the obligation for the auditor to report on the existence of specific disclosure obligations;
- Additional **audit process requirements,** such as the verification of additional data on undertaking activities,
- **Additional legal mission of statutory auditors,** such as additional regulatory assurance report for certain types of undertakings.

These additional requirements are described in the following paragraphs and summarised in Table 29 of the Annex.

2.2.10. Additional assurance and reporting requirements outside of the scope of EU law

Under Article 28(2) of the Audit Directive and Article 10(2) of the Audit Regulation, countries are allowed to add or maintain additional elements to be presented in the audit report. They can also adopt or maintain specific requirements on the performance of statutory audits and auditing processes, either linked to the establishment of the audit report or to other reports. Several countries (AT, BG, DE, HR, IE, IT, LT, NL, PL, SI, SK and NO) laid down additional audit process requirements.

In Austria, for public limited companies whose shares are admitted on a regulated market, or which exclusively issues securities other than shares on a regulated market and whose shares are traded via an MTF, the presence of all disclosure obligations of Article 10 of Directive 2004/25/EC[45] shall be verified by the auditor. Bulgaria laid down additional audit process requirements for banks, insurers, pension funds and listed entities. Different additional requirements were added under German law, such as special duties of auditors of companies subject to regulatory supervision in the financial sector and listed public companies (extension of the content of the financial statements). Audits of the annual financial statements must also include the accounting records. Irish national law requires auditors to report on whether a company has maintained proper books of account as part of their statutory audit opinion.

Italy laid down additional requirements for certain undertakings and large groups subject to non-financial declaration obligations (e.g. indication of the administrative body's approval of the non-financial report). Additional requirements are also foreseen under national standard SA 250B (the statutory auditor must verify the regular keeping of the accounting books and records during the financial year, and the correct recording of companies' events and facts in the accounting records) and SA 720B (the statutory auditor must express their opinion on the consistency of the management report, of some specific information contained in the report on corporate governance with the financial statements, and of compliance with the law, as well as providing a statement on any material mis-statement). The Netherlands requires auditors of PIEs to report on materiality and scope of the group audit, beyond EU requirements. Under Polish law, in addition to additional statements and information to be included in the audit report, auditors must also form an opinion and provide justifications for issuing an opinion, for example on properly kept books. In Slovenia, several laws regulating the financial and banking sector (i.e. Banking Act, Market in Financial Instruments Act) set up additional elements during the audit process. In Norway, the national law established specific requirements for audits of consolidated accounts (the parent undertaking auditor shall review the work of the other auditors and has access to relevant documentation or is entitled to put in place other audit procedures).

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[45] Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

The mapping results show important disparities between countries on the performance of the audit. While most countries refer to ISAs for the general performance of statutory audits, almost half have specific national requirements and processes, usually linked to verification of the financial information.

2.2.11. Additional legal missions for statutory auditors

A large majority of countries (AT, BE, BG, CZ, DE, EL, ES, FR, FI, HR, HU, IE, IT, LT, MT, PL, PT, RO, SE, SI, SK and NO) laid down additional legal missions.

Austria, for example, added legal missions for audits of credit institutions, insurance undertakings and other industry sectors. Credit institutions must submit an additional regulatory assurance report covering legal and compliance issues to the Financial Market Authority. Insurance undertakings require an additional regulatory assurance report covering the Solvency and Financial Conditions (SCFR), a report and other compliance matters (e.g. on risk management). Specific industry sectors (e.g. energy) also require regulatory assurance reports.

Belgian law provides, inter alia, for regular reporting and certification missions by the statutory auditors in the Company Code, and specific missions related to restructuring operations or to a contribution in kind or tasks of auditors when a company changes its corporate form as part of a specific national audit standard.

Bulgaria foresees a mandatory opinion on presentation of non-financial statement and report on payments to governments.

In Czechia, the National Bank can order specific verification by the auditor for insurance and reinsurance undertakings (including third-country undertakings) on control systems, as well as a report on solvency and financial situation (i.e. report from the auditor must be sent by the audited entity to the National Bank). For issuers of shares or similar securities admitted to trading on an EU regulated market, and issuers with their registered office in Czechia, the auditor must verify whether the report on remuneration contains the necessary information.

Under Irish law, the Companies Act allows voluntary revision of the financial statements in case of mistakes in their content. The revised financial statements shall be audited again, either by the current company’s auditor or the auditor that audited the first financial statement. This revised audit report contains additional statements. The management report can also be subject to a revised audit.

In Italy, the statutory auditor of the financial statements of insurance and reinsurance companies with registered offices in Italy must provide, in addition to the audit opinion, an opinion on the adequacy of the company's technical reserves. There are also other verification missions that must be compiled by statutory auditors, such as activities requested with reference to specific industries or, in the case of corporate transactions (including admission to listing), participation in tenders or to obtain specific benefits and tax breaks.

In Lithuania, there is a specific mission for auditors of energy undertakings and drinking water supply and waste-water undertakings in order to control regulated water supply, electricity, gas and heating activities reports.

Under Portuguese law, several reports are required by law to statutory auditors, such as specific reports to supervisors or verification reports of tax rules.

In Slovenia, national legislation added an additional audit review and additional auditor's report on compliance with rules on risk management for banks. There is also an obligation for the auditor to notify the Bank of Slovenia in case of a material violation that may affect the operation of the bank or lead to a qualified or dissenting opinion or refusal to issue an opinion. Insurance companies must report certain material violations to the Insurance Supervision Agency, as well as deterioration of uninterrupted operations of the company or facts endangering the security of operations, leading to a qualified or dissenting opinion or refusal to issue an opinion, or constituting breaches of the solvency capital and minimum capital requirements. The Agency may also request additional explanations from the auditing company in connection with the audit.

Slovakian law extended the scope of audit reports for banks (not public, but solely for the National Bank of Slovenia).

Under national legislation in Norway, audit confirmation can be either voluntary or required by the NCA. The auditor also verifies certain tax papers annually.

The result of the mapping shows a significant diversity of additional legal missions in the countries.

These additional legal missions include:

- Non-financial information, as some countries assign statutory auditors the task of auditing or reviewing non-financial reports, such as the reports on payments to governments and activities reports (BG, CZ, DE, ES, FR, IT, LT, MT). Depending on the country, the result of these additional missions must be presented either in the audit report or in a separate report;
- Specific verification missions (e.g. on control systems, solvency, the financial situation of the audited entity, taxation) which can arise either in parallel with the audit of the financial statements' process or without connection to the statutory audit process (CZ, DE, FR, IT, PL, SI and NO);
- Additional reports to be submitted to the NCAs (BE, CZ, ES, HR, HU, IE, IT, SI, SK) on specific topics (e.g. on compliance with specific requirements, remedies adopted pursuant to irregularities or illegalities in the financial reporting).

Greece and Ireland included additional missions on a voluntary basis – audit of tax certificates (EL) and revision of the financial statements in case of mistakes in their content (IE).

2.3. Mapping of requirements on mandatory rotation of audit firms and statutory auditors

Article 17 of the Audit Regulation introduces a new rule in the EU audit legal framework, requiring PIEs to change their statutory auditors or their audit firms every 10 years, maximum, to '*address the familiarity threat and therefore reinforce the independence of statutory auditors and audit firms'* (Recital 21). However, the Audit Regulation leaves a significant margin of discretion to Member States, as it provides for four different options regarding minimum initial engagements and maximum duration of engagements. After the expiry of the maximum engagement period, including the extensions of paragraph 4 (options) and paragraph 6 (extension of up to two years, by exception), the statutory auditor, audit firm or members of their networks in the Union may not undertake a statutory audit of the same PIE during the following four years.

The maximum duration periods for audit engagements, either as defined under the Audit Regulation or under national frameworks, apply to each PIE separately rather than to the group as a whole. Thus, if a group has several PIEs in the EU, this does not necessarily mean that the statutory auditor or audit firm that audits the consolidated accounts of the group will have to rotate. Under the Audit Regulation, if the audited entity is not a PIE, it does not have to change its statutory auditor or audit firm, irrespective of its subsidiaries. If it is a PIE, it will be subject to the rules governing rotation in the Member State where it is located. Having different statutory auditors/audit firms/networks auditing companies of the same group on a more frequent basis is one of the possible outcomes of the audit reform.

The introduction of the mandatory rotation principle was one of the most significant parts of the audit reform. According to the supervisory authorities and auditors, it has played an important role in enhancing auditors' independence vis-à-vis the audited entity, as regular changes of auditor help to counteract excessive familiarity.

Nevertheless, it does not seem to have had the intended impact on the number of actors in the market for PIE audits, partly due to its articulation with the appointment procedure of Article 16, which remains quite burdensome for small audit firms.

The mapping and stakeholders' consultation shows a clear need for further harmonisation on maximum durations of audits engagements, clearer rules on procedures for termination of an audit engagement, resignation, or withdrawal of the auditor. A limitation on the number of options available under Article 17 is supported by NCAs from France, Germany, Italy, the Netherlands, Spain and Norway.

Main findings on the mapping of requirements on mandatory rotation of audit firms and statutory auditors
- Nine countries used the option under Article 17(2)(a) of the Audit Regulation, requiring that the initial engagement referred to in paragraph 1 must be for a period of more than one year. - Eight countries used the option under Article 17(2)(b) of the Audit Regulation, requiring that the maximum duration if the engagements must be less than 10 years. - Twelve countries used the option under Article 17(4)(a) of the Audit Regulation, prolonging the duration to 20 years in case of public tender. - Twelve countries used the option under Article 17(4)(b) of the Audit Regulation, but not all of them extended the maximum duration up to 24 years in case of joint audit. - Only seven countries made use of the option under Article 17(6) of the Audit Regulation to allow for an exceptional extension after the expiry of the maximum duration of successive engagements. - Seven countries used the derogation under Article 17(7), second paragraph of the Audit Regulation and require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity within seven years of the date of their appointment. - The number of options available and their use has led to a fragmented situation, with 17 different rotation regimes in 28 countries. Linked to the different definitions of PIE in the countries and the shortage of auditors' choices in the PIE audit sector, this absence of harmonisation led to practical issues during the rotation process for cross-border groups with multiple PIEs. Five NCAs have expressed their support for further harmonisation of the duration of engagements and rules on rotations, particularly by limiting the number of options (DE, ES, FR, IT, NL). - Auditors have started to rotate in all but three countries. The national legislation in three others already required rotation before the entry into force of the Audit Regulation. - The implementation of Article 17 of the Audit Regulation did not lead to an increase in the number of joint audits carried out, except in Bulgaria.

Table 2 summarises the implementation of the different options provided by Article 17 of the Audit Regulation and illustrates the differences in the maximum duration of audit engagements in the EU-27 and Norway.

Table 2: Overview of implementation of the different options on mandatory rotation

No of years / Country	Initial minimum duration	Maximum duration	Maximum duration can be prolonged to 20 years in case of public tender	Maximum duration can be prolonged to 24 years in case of joint audit
AT	1	10	20 (transitional period)[46]	24 (transitional period)
BE	3	9	18	24
BG	1	7	No	12 Under Bulgarian law, the maximum duration of 7 years may be extended to the maximum duration of 12 years (with a maximum of 5 years)
CY	1	9 Cyprus used this option for credit institutions	20 Maximum duration for credit institutions is 9 years	24 Maximum duration for credit institutions is 9 years
CZ	1	10	20	N
DE	1	10	20 Does not affect banks and insurance companies	24 Does not affect banks and insurance companies
DK	N/A (Indefinite time, unless otherwise stated in the articles of association)	10	20	24
EE	2	10	20	N/A
EL	1	10	N/A	N/A
ES	3	10	N/A	Possible, but only up to 4 years
FI	1	10	20	24
FR	6	10	16[47]	24

[46] Austria used the option under Article 17(4)(a) and (b). According to the National Oversight Authority, the number of rotations in Austria concerned 18 PIEs in 2017, 10 in 2018 and 16 in 2019. In principle, all rotations were carried out with a tender procedure in accordance with the Audit Regulation.

[47] The auditor may be appointed for a further term of office of six financial years (added to the initial period of 10 years) if the conditions laid down in paragraphs 2 to 5 of Article 16 of the Audit Regulation are met.

No of years / Country	Initial minimum duration	Maximum duration	Maximum duration can be prolonged to 20 years in case of public tender	Maximum duration can be prolonged to 24 years in case of joint audit
HR	N/A	7	N/A	N/A
HU	1	10	N/A	N/A
IE	1	10	N/A	N/A
IT	9 years for audit firms; 7 years for statutory auditors	9 years for audit firms; 7 years for statutory auditors	N/A	N/A
LT	2	10	N/A	N/A
LU	1	10	20	N/A
LV	1	10	20	N/A
MT	1	10	20	N/A
NL	1	10	N/A	N/A
PL	2 years	5 years for key statutory auditor and 10 years for audit firm	N/A	N/A
PT	2	10 (up to 12 in exceptional circumstances)[48]	N/A	N/A
RO	1	10	20	N/A
SE	1[49]	7	20	24
SI	3	10	N/A	N/A
SK	2	10	10	14
NW	1	10	20	24

Nine countries (BE, EE, ES, FR, IT, LT, PL, PT, SI, SK) used the option under Article 17(2)(a) of the Audit Regulation and require that the initial engagement referred to in paragraph 1 must be for a period of more than one year. France and Italy established a very high initial minimum duration compared to other countries. France foresees a minimal initial duration of six years, while in Italy, the legislation requires a fixed mandate of nine years for audit firms and seven years for statutory auditors, with a four-year cooling period, and the minimum initial engagement corresponds to the maximum extent of the engagement. Belgium, Slovenia and Spain foresaw a minimum initial engagement of three years, while Estonia, Lithuania, Poland and Slovakia established a minimum engagement of two years.

Eight countries (BE, BG, CY, HR, IT, PL, SE, SK) used the option under Article 17(2)(b) of the Audit Regulation, which enables Member States to set a lower duration than the 10-year maximum duration for audit engagements. Cyprus used the option for credit institutions (nine years). Poland established a maximum duration of five years for key statutory auditors and 10 years for audit firms. In Italy, the minimum initial engagement corresponds to the maximum extent of the engagement (nine

[48] According to Article 54(3) Annex to Law 140/2015, the maximum duration of the audit engagement can be shorter than 10 years if statutory auditors are appointed for two terms of four years or three terms of three years. This maximum duration can be extended up to 10 years only if, on a recommendation of the audit committee, the administrative or supervisory body proposes to the general meeting of shareholders or members that the engagement be renewed and that proposal is approved (Article 54(4) Annex to Law 140/2015).

[49] SE transposition is divided into different instruments that regulate two different kinds of audited bodies: companies and economic associations. Savings banks are omitted.

years for audit firms; seven years for statutory auditors), as the Italian legislation requires a fixed mandate for the auditors of PIEs and companies subject to an intermediate regime. Belgium, Croatia, Slovakia and Sweden foresaw a maximum duration of three years. According to Portuguese national legislation, the maximum duration of the audit engagement can be shorter than 10 years if statutory auditors are appointed for two terms of four years or three terms of three years. This maximum duration can be extended up to 10 years only if, on a recommendation of the audit committee, the administrative or supervisory body proposes to the general meeting of shareholders or members that the engagement be renewed and that proposal is approved.

Twelve countries (AT, CZ, DE, DK, EE, FI, LU, LV, MT, RO, SE and NO) used the option under Article 17(4)(a) of the Audit Regulation and prolonged the duration to 20 years in case of public tender. Belgium foresaw a maximum duration of 18 years, and France sixteen years. No other countries have implemented this option.

Twelve countries (AT, BE, BG, CY, DE, DK, ES, FI, FR, SE, SK, NO) used the option under Article 17(4)(b) but not all extended the maximum duration to 24 years in case of a joint audit. In fact, Bulgaria foresaw a maximum duration of 12 years, while Slovakia and Spain prolonged it to 14 years.

Seven countries (EL, ES, IE, LT, NL, PL, SK) used the derogation under Article 17(7), second paragraph, of the Audit Regulation and require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity within seven years of the date of their appointment (i.e. five years).

Spain’s rules on key audit partner rotations are more stringent than the Audit Regulation. The key audit partner has to rotate for the audit report of the consolidated annual accounts of a group and if that key audit partner is also the key audit partner auditing the accounts of the parent company that draws up the aforementioned consolidated annual accounts, the rotation is also mandatory with regard to the parent company.

Seventeen different rotation periods (or regimes) coexist in the 28 countries. Only three rotation regimes are used in more than one country: a ‘1–10–20 -24’ regime (min and max. durations as specified in Article 17(1) Audit Regulation and the two extensions for public tender and joint audit) in Austria, Finland, Germany and Norway; a ‘1-10-20’ regime (with extension only in case of public tendering) in Czechia, Latvia, Luxembourg, Malta and Romania; and a ‘1-10’ regime (without any extension) in Greece, Hungary, Ireland and the Netherlands. This difference in the maximum duration of the audit engagement and the various possibilities to renew the engagement led to some practical difficulties for groups with multiple PIEs operating in several Member States. These issues are linked to the structure of the audit market for PIEs, dominated for a long time by the Big Five, and highly concentrated.

The first issue is the lack of credible competitors for the audit committees when they must rotate their auditors. Therefore, when tendering for a new auditor, the concentration of that market, combined with the rules on the prohibition of certain NAS, have sometimes left PIEs with a choice of only two competitors, or even one auditor presenting no conflict of interest. This was reported in Finland and Ireland, where entities sometimes struggled to identify two, or sometimes even one, audit firm to tender, particularly when the local entity might be a relatively small audit and the network has more lucrative non-audit work in other countries.

The existence of various rotation periods and different definitions of PIEs in the Member States makes it challenging for groups with mixed entities, which must organise tenders for each PIE entity. European or international cross-border groups may face rotation difficulties when the group head is not in Europe, or in a European country where the rotation requirement is more frequent (e.g. one year, three years) than for others (e.g. six years, 10 years). Statutory auditors may be forced to resign because, or may not resign while, the statutory auditors of the group head must ‘rotate’ (because they are branches and therefore subject to the rotation rules of the Member State of the parent company or because a conflict of interest arose from the change of auditor of the parent company).

The lack of harmonisation between the rotation systems in the Member States has created some difficulties in identifying the entities subject to rotation within groups, due to differences in the definition of PIEs in different countries, both on the qualification of PIEs and on the issue of the 'chain of control'. The NCA in Germany explained that issues have arisen in relation to the PIE definition, in particular for insurance undertakings. The definition in Article 2, 13) lit. c of the Audit Directive has proved quite confusing due to the reference to a repealed directive and a subsequent complex chain of references through several other amended and repealed directives. France mentioned the same issue, along with the issue of the 'control chain', which can be modified in case of mergers. France also specified that rotations are particularly difficult for groups with a mix of PIEs and non-PIEs, due to differences in the maximum durations of audit engagements in the Member States for cross-border groups, and in general where the group has appointed only two auditors for the whole group at the same time. In these cases, there is a greater audit risk due to the loss of experience. The identification of the starting point of the rotation period can also be problematic, in particular for entities that have become a PIE during the period under review, where consolidation operations changed the chains of control of the entities concerned, or where there have been transactions in the capital of the audit firms, etc.

France reported that the variety of situations (and sometimes the difficulty for entities to reconstitute the starting point of the rotation period) sometimes leads mixed groups to wish to homogenise the statutory auditors involved in the audits of their entities and to proceed with the early renewal of statutory auditors. This results in actions that run counter to the desire to open the audit market to competition.

In the Netherlands, parent companies of groups have reported difficulties finding component auditors when subsidiaries are subject to different rotation periods. However, according to the NCA, there is no evidence that these problems solely relate to rotation regimes.

The number of options led to a very fragmented legal framework in respect of rotation periods in the different countries. Some NCAs highlighted the need to either remove the provision or reduce the various options in Article 17 (DE, ES, FR, IT, NL). For instance, Germany supports the withdrawal of Article 17(4) (a)'s extension on public tendering. Indeed, as reported by auditors' representatives and some national authorities, the organisation of public tendering has not lifted the entry barriers to the PIE and large company audit market. By contrast, as participating in a tender is considerably more costly for audit firms, even when invited, in many cases small and mid-tier auditors will refrain from competing against the Big Four. Italy also supports the withdrawal of the extensions of the maximum duration up to 20 or 24 years and proposes adopting a common duration of five years in all Member States.

Poland suggests extending the application of the provisions on independence (i.e. rotations and NAS) to non-PIE audits, as many of the notified breaches received by the national supervisor show that too much proximity between the auditor and the audited entity lead to important irregularities or frauds going undetected, particularly when the audited entity has been audited by the same auditor for more than seven years.

Auditors have started to rotate in all countries except Latvia, Slovenia and Norway. No information could be gathered for Croatia[50], Cyprus or Estonia. Rotations were already mandatory before the reform in Italy, the Netherlands and Spain. Very few changes from Big Four to non-Big Four auditors were identified in the Member States. In many of the cases, PIEs switched from one Big Four to another, or from a non-Big Four to another non-Big Four. The implementation of Article 17 of the Audit Regulation did not increase the number of joint audits carried out, except in Bulgaria, where this type of audit is mandatory for banks, insurers and pension funds.

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[50] The national authorities contacted did not send their replies to the questionnaire.

Infringements of the maximum duration of audit engagement rules are quite rare[5] and were reported only in Belgium and Portugal.

Only Finland, France, Ireland, Italy, Lithuania, the Netherlands and Portugal made use of the Article 17(6) option to allow for an exceptional extension after the expiry of the maximum duration of successive engagements.

In Finland, all applications for such an extension have been refused. In France, extensions have been granted, but only rarely. Ireland granted 17 extensions because of mergers, acquisitions, or significant restructuring. Entities also reported difficulties associated with having different firms in the group and different rotation times. However, according to the NCAs, no extensions have been granted for these reasons alone. In some instances, entities have been in run-off or going into liquidation and required short extensions to close out that process. Italy granted this extension three times. In one case, for only one year, with the use of a joint audit. The justifications for the extensions were related to the need for reorganisation imposed by industry legislation, or to realign the deadlines of the audit engagements within a complex group. In Lithuania, it was granted only once after a merger of two PIEs. The Netherlands also granted one extension for two years, after confirmation that no other audit firm was willing to accept the engagement and that the company ensured that it would engage another audit firm before the end of the extension. In Portugal, the possibility is used mainly where engagements have been concluded for less than 10 years (i.e. two terms of four years or three terms of three years). In these cases, an extension of up to two years can be granted on request by the NCA. In Poland, the audit supervisor is not competent to appoint auditors, with that task instead conferred to the Financial Supervision Authority.

2.4. Mapping of requirements on prohibition of the provision of certain NAS

Article 5 of the Audit Regulation prohibits statutory auditors from providing certain NAS to the audited entities for the period between the beginning of the audited period and the issuing of the audit report. The Regulation provides a blacklist of prohibited services. These encompass some tax services, services that involve playing any part in the management or decision-making of the audited entity, bookkeeping and preparing accounting records and financial statements, payroll services, designing and implementing internal control or risk management procedures, valuation services, legal services related to the provision of general counsel, negotiating on behalf of the audited entity and acting in an advocacy role in the resolution of litigation, services related to the audited entity's internal audit function, services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, services promoting, dealing in, or underwriting shares in the audited entity and some human resources services related to management and recruitment of staff influencing the preparation of the financial statements, the structuring of the organisation design and cost control. In addition, Article 5(1) provides for a one-year cooling-off period for the provision of one of the NAS on this blacklist. This means that the audit firm cannot provide statutory audit services to its client, where it has provided this type of NAS one year prior to the period between the beginning of the period audited and the issuing of the audit report.

Main findings on the mapping of requirements on the prohibition of the provision of certain NAS

- Only three countries (FR, NL, PL) used the option under Article 5(2) of the Audit Regulation and set additional prohibitions. Two (NL, PL) chose the ‘whitelist’ approach, i.e. issuing an exhaustive list of permitted NAS.
- Twenty-one countries used the option under Article 5(3) of the Audit Regulation, allowing the provision of all services referred to in points (a) (i), (a) (iv) to (a) (vii) and (f). Of these, seven partially used this option and allow only certain services.
- Clarification efforts are still needed to ensure effective implementation at national level and to reach the objective of enhancing competition, in particular regarding the legal consequences of a breach of Article 5, the definition of NAS (especially the NAS that can still be provided under

Main findings on the mapping of requirements on the prohibition of the provision of certain NAS
certain conditions (tax advices and valuation services)), the timing of application of the prohibitions, or the removal of the Article 5(3) option.

Article 5(2), (3) and (4) of the Audit Regulation provide several options to implement this prohibition, as summarised in the analysis below and further detailed in Table 30 in the Annex.

Article 5(2) of the Audit Regulation provides for the possibility for Member States to prohibit services other than those listed in paragraph 1. Only France, the Netherlands and Poland used this option. France provides for additional prohibited NAS and has supplemented the list of Article 5(1) of the Audit Regulation with five prohibitions in Article 10 of the Code of Deontology:

- Services whose purpose is to prepare financial information or financial communication;
- Provision of legal advice and services whose purpose is to draw up acts/deeds or to provide legal secretarial services;
- Missions of commissioner for contributions and mergers;
- Responsibility, even partial, for an outsourcing service;
- Handling or sequestration of funds.

The Netherlands applies a strict separation between the provision of audit services and the provision of other services by auditors, going further than the prohibition in Article 5(1) of the Audit Regulation. It prohibits statutory auditors from providing services other than the performance of the audit. According to the national legislation, the restrictions on NAS are also applicable to related entities outside the EU. Article 24b of the Audit Firms Supervision Act allows the auditor to perform certain services, a 'whitelist' of authorised NAS, which are aimed at providing assurance to external users, including supervisory boards, such as assurance regarding the Director's report, assurance of interim financial statements and assurance on mandatory reports to prudential supervisors. In Poland, prohibited services are all those that do not concern audit activities. The provision refers to Article 5(1) of the Audit Regulation. The Polish approach is similar to the Netherlands' whitelist, as Article 136(2) of the Audit Act lists the types of services related to the audit of financial statements or non-financial reporting obligations[51]. All activities that fall out of scope of this definition are prohibited.

Only the Netherlands and Slovenia used the option under Article 5(4) of the Audit Regulation and adopted specific implementing rules. Article 5(4) of the Regulation provides for the conditions under which a statutory auditor, an audit firm or a member of a network to which the statutory auditor or audit firm belongs may provide to the audited entity, its parent undertaking or controlled undertakings NAS other than those prohibited. It also allows Member States to adopt stricter rules. In the Netherlands, an audit firm carrying out the audit of a PIE is prohibited from providing any NAS to that PIE and its affiliated entities. In addition, Dutch law prohibits auditors from auditing a PIE domiciled in the Netherlands if they are part of a network providing services other than 'audit services'[52] to that PIE or its related entities in the Netherlands, in other Member States, or the parent

[51] For example, services referred to in Article 15(3) of the Act of 7 December 2000 on the functioning of cooperative banks, their affiliation and affiliating banks; services related to carrying out due diligence procedures on economic and financial condition, issuing certification letters performed in connection with the prospectus of the audited entity, carried out in accordance with a national standard for related services and consisting of the performance of agreed procedures; assurance services on pro forma financial information, profit forecasts or estimated results included in the prospectus of the audited entity; auditing historical financial information for the prospectus referred to in Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council on information contained in prospectuses, as well as on the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements; verification of consolidation packages; confirmation of the fulfilment of conditions of credit agreements concluded on the basis of the analysis of financial information from financial statements audited by a given auditing firm; assurance services on reporting on corporate governance, risk management and corporate social responsibility; services consisting of assessing compliance of disclosures by financial institutions and investment firms with disclosure requirements for capital adequacy and variable components of remuneration; certification of statements or other financial information intended for supervisory authorities, the supervisory board or any other supervisory body of the company or the owners, going beyond the scope of statutory audit and designed to assist those bodies in fulfilling their statutory responsibilities.

[52] An amendment from the Dutch Parliament clarifies the meaning of 'control services': providing 'assurance' in relation to the management report, the corporate governance report, the risk management report and the corporate social responsibility report. Any other service would be considered an NAS for the purposes of this legal provision.

entity if domiciled in a state that is not a Member State. It also prohibits the statutory audit of a PIE if another entity of the network domiciled outside the Netherlands is providing services other than 'audit services' to a PIE or any related entity of that PIE in the Netherlands. Slovenia, in May 2019, adopted the Rules on prohibition of the provision of NAS. In Article 4(2) and (3), the Rules repeat the list from Article 5(1) of the Audit Regulation. The list only adds 'any other services that could materially affect items in the financial statements'. Rules issued by the Agency do not provide any further administrative guidelines, but, rather, a catch-all provision to cover all other NAS not envisioned up front but which could result in potential conflicts of interest. No case-law exists to date.

Twenty-one countries (AT, BE, CY, CZ, DE, DK, EE, ES, FI, FR, HU, HR, LT, LV, LU, MT, PL, RO, SI, SK and NO) used the option under Article 5(3) of the Audit Regulation, allowing the provision of all or many services referred to in points (a) (i), (a) (iv) to (a) (vii) and (f). Belgium, Croatia, Finland, Latvia, Poland, Slovakia, and Norway partially used this option and allow only certain services. Croatia and Finland do not allow only the provision of valuation services under point (f). Latvia does not allow the provision of services under points (a)(v) and (f). Poland does not allow the services under points (a)(i) and (f). Slovakia allows all services except point (a)(vii). Lastly, Norway does not allow the provision of services under points (a)(vii) and (f). The Croatian national legislation makes direct cross-reference to the conditions provided in Article 5(3) of the Audit Regulation and list of NAS from Article 5(1). However, it does not allow performance of services from item (f) of Article 5(1) second sub-paragraph of the Audit Regulation (valuation services). This derogation is not applicable to credit institutions, insurance and reinsurance companies, alternative investment funds management companies, pension insurance companies, pension companies and pension funds (both mandatory and voluntary), investment firms, investment protection fund, stock exchange, central counterparty and central depositary and auditors are prohibited from performing any of these NAS in any circumstances.

Although widely used, the option of Article 5(3) of the Audit Regulation has experienced some difficulties in its practical implementation, particularly in respect of the condition of 'no direct or material effect' for tax advisors and valuation services. More detailed guidance on the interpretation of this option or its removal (supported by DE, IT and NO) could create more uniform requirements throughout Europe and overcome the difficulties of interpretation. Other possibilities could include a 'de-minimis' exemption from the prohibition or removing it entirely.

Spanish law contains a direct cross-reference to Article 5(3) of the Audit Regulation. The implementing measure specifies the valuation services that are considered not to have direct effect on the audited financial statements[53] or to have only a minor material effect, separately or in aggregate, in relation to other services in the audited financial statements, where certain circumstances do not arise in the value assigned or allocated. These circumstances concern a situation or service that is considered to have a material effect or not to have a low materiality effect, separately or in aggregate with other situations or services[54].

Poland also used the option under Article 5(3) of the Audit Regulation and some specific valuation services fall under the derogation (as included in the whitelist). The valuation services authorised are those specified in the whitelist, whereas tax services are all prohibited.

NCAs in Austria and Denmark referred to the application of ISA 320 for the application of this prohibition. Belgium has published specific guidelines on the matter after detecting numerous infringements by PIE auditors. Auditors or audit firms wishing to provide the NAS concerned must

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[53] When they did not form the basis of the accounting record or valuation support assigned to an asset, liability or combination thereof in the annual accounts, financial statements or other accounting records of the audited entity.

[54] When any of the following circumstances occur: the interests, assigned values, assigned amounts, separately or in aggregate, exceed the materiality levels or figures to be set by the auditor in performing the audit work on the aforementioned accounts or other financial statements for the financial statements as a whole, in accordance with the provisions of the auditing standards. The interests, assigned values or assigned amounts, separately or jointly, directly or indirectly exceed the parameter, among those listed below, which is most representative according to the circumstances occurring in the audited entity, which are included in the annual accounts or financial statements corresponding to the financial year included in the period of validity of the incompatibilities: 1. 3% of total assets; 2. 5% of total turnover.

provide a detailed argumentation to the Belgian Audit Oversight Board (BAOB) and document this in the additional report to the audit committee. In Germany, the option of Article 5(3) is no longer applicable as of 31 December 2021. According to the previous legal situation, the interpretation of the criterion ‘direct’ was to consider that an exclusive identification of options for tax structuring by the auditor does not constitute a direct effect. With regard to the criterion ‘immaterial’, under the legal basis of § 319a (1) sentence 1 no. 2 of the Commercial Code, based on Recital 9 of the Audit Regulation, prohibiting aggressive tax planning, the German Authority considered that a not merely immaterial effect existed where the provision of tax advisory services in the business year under review either significantly reduced the taxable profit or shifted a significant part of the profit abroad - at a tax rate of less than 15% - without there being any economic necessity for the company to do so beyond obtaining a tax advantage.

France transposed the option only for cross-border groups, where the parent entity is in France and has subsidiaries in countries where valuation and tax services are authorised. Otherwise, the provision of tax and valuation services by the statutory auditor is strictly prohibited. Ireland, and Lithuania referred to their ethical standards and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, recently modified.

Italy noted that the option has not been applied in practice, as CONSOB estimates that the conditions of application are unclear and difficult to apply and believes the option should be repealed underlying that the IESBA Code of Ethics has been modified with reference to this aspect.

In Luxembourg, Malta, Romania and Slovakia, the interpretation of ‘no direct and no material effect’ is left to the interpretation of the audit firms. The NCAs only check the legal provision of such services during the inspection process on the system of quality control of the firm, where policies and procedures established by the audit firms are reviewed and compliance is assessed.

Only the NCAs in Austria and Slovenia developed additional guidelines on prohibited NAS[55]. Spain has issued a regulation implementing the Audit Law and further defining the prohibited services. In Belgium, Germany and Sweden, national auditors’ associations have developed their own guidelines and Q&As. The absence of clear harmonised interpretative guidelines at EU level on the different types of services prohibited/allowed can lead to interpretation issues and issues with calculation of the cap on fees. The Polish NCA mentioned that interpretation doubts could potentially lead to abuse regarding the type of services provided in the course of the statutory audits, the provision of voluntary audits of a PIE entity controlled by a PIE, or review or audit of the financial statements prepared for the group auditors and shareholders as audit services (especially when provided in the course of the statutory audit of the PIE) or NAS. Slovakia mentioned grey areas in the interpretation of ‘general counsel’ translated as ‘general legal services’ in the Slovak version of the Audit Regulation and ‘tax services’ when combined with accounting services, for instance.

2.5. Mapping of requirements on the cap on the fees generated by allowable NAS

Article 4 of the Audit Regulation contains two options:

- Under Article 4(2), countries may provide that a competent authority may, upon a request by the statutory auditor or the audit firm, allow that statutory auditor or audit firm, on an exceptional basis, to be exempt from the requirements in the first subparagraph [...the total fees for NAS other than those referred to in Article 5(1) – listed below – shall for three consecutive financial years be limited to 70% of the average of the audit fees paid in the last three consecutive years...] in respect of an audited entity for a period not exceeding two financial years;
- Under Article 4(4), countries may apply more stringent requirements than set out in this article.

55 No information could be gathered for CY, EE, HR.

Main findings on the mapping of requirements on the cap on the fees generated by allowed non-audit services

- Fifteen countries introduced an exemption from the cap on fees for a maximum of two years;
- Most countries indicated that audit firms have started to implement the provision in practice and have already carried out calculations (except BE, EL and NO). However, according to the mapping, very few NCAs have indicated that they have started to check the calculations and carry out a follow-up;
- To limit the risk of circumventing the objective of Article 4 to increase auditors' independence through the exclusion of the fees paid to the auditor's network or subsidiaries, several NCAs expressed support for inclusion of the auditor's network and subsidiaries in the scope of application of the cap.

Austria, Belgium, Croatia, Cyprus, Denmark, France, Germany, Ireland, Latvia, Luxembourg, Malta, Poland, Slovakia, Spain, Sweden and Norway introduced an exemption from the cap on fees for a maximum of two years, pursuant to Article 4(2), third paragraph of the Audit Regulation.

Only Austria, Denmark and Germany opted to use Article 4(4) of the Audit Regulation, on more stringent requirements. The implementing measures on stringent requirements were only set in Germany. In Denmark and Germany, the exemption can only be granted for a maximum of one year. In Germany, the maximum was set at 140%[56]. However, the option was removed with Germany's adoption of the Financial Market Integrity Strengthening Act, which entered into force on 1 July 2021.

The vast majority of countries indicated that calculations have already been carried out. However, due to differences in the implementation date of the Audit Regulation or availability of the financial statements for the first year of the cap (i.e. 2020), no calculations have been carried out so far in Belgium, Greece and Norway[57].

Some Member States' authorities reported that they monitor compliance with the cap outside the case of an application for derogation (CZ, IE, IT, LT, MT, RO, SK). The lack of monitoring is partly explained by the fact that the Audit Regulation entered into force relatively recently and the calculations need to be carried out based on the average fees paid in the last three consecutive financial years, so the first period of three full years has just expired. Italy, for example, has monitored the information from auditors (Article 14 of the Audit Regulation), but the data relating to 2020 revenues that are needed to monitor compliance with the fee cap requirements are not always available because the financial statements of PIEs for 2020 are approved in 2021 and almost all financial statements of the audit firms will be approved in the second half of 2021.

The NCA in Austria indicated that the calculations are checked only when applying for an exemption pursuant to Article 4(2), third paragraph of the Audit Regulation. In Czechia, the calculations are inspected by the Audit Oversight Authority. In Ireland, Lithuania, Malta, Romania and Slovakia, NCAs confirmed that they checked the calculations during quality inspections. Romania has established an online platform to collect information on the fee for statutory audit services and the fee for NAS, but the platform does not automatically perform calculations to monitor the fee cap. Ireland reviews audit files where there is evidence of fee cap calculations having taken place, but this is not systematically assessed.

56 This amount was very high because it was intended to apply only in case of a specific event rendering the temporary derogation necessary (e.g. merger of audited entities or audit firms) and for only one year.
57 In NO, 2021 is the first year these requirements apply.

Denmark, France, Malta and Portugal reported that they have no public and systematised information with data about fee caps. In Poland, information on the cap on fees is collected by the NCA only since 2020.

The calculations of the cap on fees are checked when auditors apply for a temporary exemption. The exemption in Article 4(2), third paragraph, has been used in Austria[58], Belgium[59], Denmark[60], Finland[61], France, Germany[62] and Luxembourg[63].

Article 4(2) of the Audit Regulation provides that the cap applies at the level of the auditor or audit firm auditing a PIE, and its subsidiaries if they are also PIEs, but does not apply to the whole network of the auditor. As reiterated by the CEAOB in its guidelines on monitoring the fee cap of NAS, 'If NAS are provided by affiliated entities from a same network even within the same Member State, the cap will not apply to NAS provided by these firms. […] Even if the other members of the network were also audit firms, NAS provided would not be included in the cap calculation (although they would have to calculate a separate cap in case, they also audit public interest entities […])'. No countries decided to apply the cap to other members of the auditor's network (through the option of Article 4(4)), nevertheless, some national authorities have expressed concerns that the exclusion of the auditor's network from the calculation may lead to a circumvention of the prescribed limits by the auditor, by shifting the permitted NAS to its subsidiaries or network companies (CZ, DE, IT). This could undermine the reform's objective of increasing auditors' independence from their clients. They suggested reviewing the possibility to extend the scope of Article 4(2) and 4(3) to the whole network of the auditor or audit firm.

Several Member States (AT, BE, FI, HU and PL) issued implementing measures and guidelines on Article 4 of the Audit Regulation. In Finland, the implementing measures are linked to a more stringent application of the cap on fees. Indeed, the Audit Regulation does not address the situation where a natural person working in the service of an audit firm is appointed as the auditor. In this case, in practice, the fees are paid directly to the audit firm and not the auditor. To prevent circumvention of Article 4, the Finnish legislator specified that these fees paid to the firm shall also be included in the total fees of the statutory auditor. Belgium and Poland adopted legislative measures to implement the Article 4(2) option. Therefore, only Austrian and Hungarian NCAs issued guidance on the calculation method for the cap, based on Commission, CEAOB and other institutions' publications. Italy suggested applying the cap not only to NAS provided by the audit firm, but also those provided by its network. It also proposed clarifying the methodology for calculating the fee cap, specifically the possibility of including/excluding some types of NAS, based on the CEAOB's guidelines *Monitoring the fee cap of non-audit services* (September 2018).

2.6. Mapping of requirements on appointment of statutory auditors or audit firms

The general procedure for the appointment of auditors is provided for in Article 37 of the Audit Directive. Under this provision, statutory auditors and audits firms are appointed by the general meeting of shareholders or members of the audited entity unless the Member State has alternative systems or modalities in place that ensure the independence of the statutory auditor or audit firm from the executive members of the administrative body or from the managerial body of the audited entity.

[58] The reason for exceeding the fee cap has always been the preparation of a comfort letter in connection with a planned issuance of securities by the audited PIE.

[59] On a case-by-case basis. This mainly concerns attestations of prospectuses or other similar documents, usually at short notice.

[60] Extraordinary circumstances relate to 'situations [that] may arise where a company suddenly has an extraordinary need for advice, e.g. in connection with a major restructuring of the company, and where the company may be at risk of suffering significant damage.'

[61] The situations have been linked to particular circumstances such as mergers, demergers, acquisitions and corporate restructuring.

[62] The option will no longer be available as of 2022. Aspects that have played a role in the decision-making of the German Auditor Supervisory body (APAS) are when the performance of the NAS by the auditor appears necessary and the facts are based on a singular event. An exemption granted is also limited to the specific individual case, in both amount and content.

[63] Derogations were granted in only a few cases for non-recurring work, mostly closely linked to audit services that do not affect independence.

Article 16 of the Audit Regulation introduced new conditions for the appointment of auditors by the general meeting of shareholders or members of the audited entity, for PIEs. These conditions do not apply where a country chose to apply Article 37(2) of the Audit Directive.

The appointment procedure under Article 16 has three steps:

- The audit committee organises a tender procedure, defined in Article 16(3) of the Regulation. The procedure must respect several criteria, such as invitations, tender documentation, tender procedure;
- A recommendation from the audit committee containing at least two choices for the audit engagement and a duly justified preference for one of them;
- The administrative or supervisory body of the audited entity addresses a recommendation to the general meeting of shareholders, which must include the recommendation of the audit committee, but can depart from the preference of the audit committee, justifying its reasons. The statutory auditor or audit firm recommended by the administrative or supervisory body must have participated in the tender procedure.

Main findings on mapping of requirements on appointment of statutory auditors or audit firms

- Four countries (CY, CZ, IT, SK) provide for alternative appointment procedures pursuant to Article 37(2) of the Audit Directive.
- Only five Member States (BG, FI, FR, HR, IE) chose the option in Article 16(7) of the Audit Directive regarding the mandatory joint audit;
- Most countries (24) did not choose the option in Article 16(7) of the Audit Directive regarding the nomination committee performing the functions of the audit committee. Only Bulgaria, Croatia, Denmark and Finland used it;
- Further implementation measures and guidelines at EU level could facilitate harmonisation of the procedures for appointing and changing auditors, in particular for international groups with multiple PIEs in different Member States.

Overall, most countries did not set out any alternative appointment procedures pursuant to Article 37(2) of the Audit Directive. In Austria, Belgium and Germany, an alternative appointment procedure is not foreseen as such. However, in Austria, a judicial appointment is possible in case the choice of auditor is contested by shareholders representing at least 5% of the voting rights (EUR 350,000 in nominal capital), or in case of late appointment, if the auditor was not elected by the end of the financial year. In Germany, in principle, the auditors are appointed by the shareholders. However, companies with limited liability, general partnerships and limited partnerships may decide in their articles of association to set up another procedure to choose the auditors.

Cyprus, Czechia, Italy and Slovakia set out an alternative appointment system. In Cyprus, a statutory auditor or audit firm is appointed by the majority of general partners if the audited company is a partnership, or by the majority of the members of the Board of Directors or such other body, as provided for in the law governing the incorporation of the audited entity, if the audited entity is an entity with no shareholders or members. In Czechia, if an entity has an obligation to have its financial statements audited, the auditor must be appointed by the entity's highest body. If it does not have the highest body, the auditor must be appointed by the supervisory body, provided that the members of the supervisory body are not members of the management body. If an entity without legal personality is obliged to have financial statements verified by an auditor, the auditor shall be appointed by the manager (mutual fund, sub-fund, trust fund), the pension company (pension fund), or the person who established it (where the entity is a branch). If none of these rules apply, the entity shall appoint the auditor in a manner that is independent of the members of the management body of that audited entity. This does not apply if the entity is a natural person. In Italy, an alternative appointment is possible, but only in the cases of cooperative societies belonging to Federations, where the statutory audit is assigned to the Federation, which appoints its statutory auditors. In Slovakia, where the accounting entity does not have a general meeting, the system for the appointment of statutory auditors must be prescribed by a separate regulation. The Ministry of Finance of the Slovak Republic is entitled to approve a statutory auditor/audit firm based on the proposal for an appointment. Prior to the approval, the supervisory board is obliged to provide a statement on the proposal for an appointment that is based on a recommendation of the audit committee. This alternative appointment system is applicable to the Export-Import Bank of the Slovak Republic.

Most countries did not choose the option in Article 16(7) of the Audit Directive, on mandatory joint audit. Only Belgium, Croatia, Finland, France and Ireland chose this option. In Bulgaria, the financial audit of the annual individual and consolidated statements of banks, insurers, reinsurers, insurance and financial holding companies, pension insurance companies and the funds managed by them must be carried out jointly by two audit firms. In Finland, there is a requirement to appoint a deputy auditor if the primary auditor is not an audit firm. Specific legislation applying to certain PIEs requires that at least one of the auditors is an auditor specially authorised to carry out PIE audits, or an audit firm. In France, a minimum number of statutory auditors or audit firms is decreed. The joint statutory audit is intended to strengthen the auditor's independence *vis-à-vis* the most important audited entities. The joint statutory auditor is neither a ‘double’ nor a ‘shared’ statutory auditor. The work is split between the auditors, but the responsibility is fully shared. Mandatory joint audit is not related to an entity being a PIE, but, rather, to the fact that an entity is legally required to established consolidated financial statements. In Croatia, PIEs that employ more than 5,000 employees or have assets exceeding HRK 5,000,000,000 must appoint at least two independent auditors. In Ireland, the audit committee will justify and contain at least two choices for the audit engagement, with a preference for one, in its recommendation to the directors; where the entity is exempt from the requirement for an audit committee, these provisions apply to the directors of the entity.

Most countries did not choose the option in Article 16(7) of the Audit Directive, on the nomination committee performing the functions of the audit committee. Only Bulgaria, Croatia, Denmark and Finland chose this option. In Bulgaria, where the audited entity has a nomination committee[64], such committee should submit the recommendation to the general meeting of shareholders of the audited entity. In Denmark, the nomination committee is allowed to perform the functions of the audit committee. In Finland, limited liability companies are not required to have an audit committee and the tasks may be carried out by the board or by another committee consisting of members of the board. In Croatia, an audit firm nomination committee (if it exists) takes the role of the audit committee in the appointment procedure.

[64] A nomination committee is a committee in which the shareholders or partners have a considerable influence; the committee is tasked with making recommendations on auditor appointment.

3. Data and analysis on the systems of investigation and sanctions

The 2014 reform served to strengthen the competence and powers of the authorities responsible for public oversight of the audit profession and to harmonise the various rules related to sanctions. It led to a significant revision of the Audit Directive, with Chapter VII on investigations and sanctions now containing:

- Article 30a, harmonising the sanctioning powers of the competent authorities;
- Article 30b, specifying that the sanctions shall be applied in an effective manner, taking into account several circumstances (e.g. gravity or duration of the breach);
- Article 30c, requiring that sanctions and administrative measures must be published on the competent authority website;
- Article 30d, providing for a right of appeal;
- Article 30e, requiring countries to ensure that effective mechanisms for reporting breaches are in place;
- Article 30f, setting exchange of information requirements between competent authorities and the newly established CEAOB.

The following sub-sections describe and assess the sanction and investigation systems in place in the different countries and how they have been applied since the entry into force of the new provisions of Chapter VII of the Audit Directive. It includes:

- Overview of the legal regime on sanctions;
- NCAs in charge of audit supervision;
- Types of sanctions that can be imposed under national laws;
- Criteria for the determination of the sanctions under national laws;
- Rules on the publication of sanctions in national laws;
- Overview of the application of the sanctioning regime since the audit reform;
- Assessment of the effectiveness of the existing investigation and sanctions regimes by NCAs from 12 selected countries.

3.1. Overview of the legal regime on sanctions

Main findings on the legal regime on sanctions across countries

- There are significant differences in the organisation of audit supervision across countries;
- Most countries have set up a specific authority dedicated to audit supervision, while several rely on authorities with broader competences, such the Ministry of Finance or financial markets' supervisors;
- In all countries, the audit supervisors have direct power to sanction auditors;
- Three countries conferred sanctioning powers on their audit supervisor following the audit reform;
- In 16 countries, audit supervisors are also entitled to sanction members of a PIE in case of a breach of their audit obligations. The remainder leave this competence with PIE supervisors;
- Three Member States (CZ, NL, PT) did not give NCAs the power to issue a declaration against an auditor that an audit report does not meet the requirements of Article 28 of the Audit Directive or Article 10 of the Audit Regulation;
- In some countries (AT, CZ, DE, HU, IE, LT, PT, SK), part of the sanctioning power was delegated to the national auditors' professional associations, which are competent to impose disciplinary sanctions on non-PIE auditors (e.g. temporary bans, suspension of registration, warnings or notices to cease or to follow a specific behaviour), except Austria, Lithuania and Portugal, where the delegation also applies for disciplinary litigation;

Main findings on the legal regime on sanctions across countries

- Many differences persist in the competence to sanction PIE and non-PIE auditors, as well as the competence to sanction members of a PIE for breaches of their obligations under the Audit Directive and Audit Regulation. The division of competence between the national authorities (audit supervisor, PIE supervisor, professional bodies of auditors) differs from one country to another, both in terms of sanctioning powers and inspection/investigation powers, leading to some overlap in supervision;
- The national legislation of all countries includes the sanctions under Article 30a(1)(a), (c) and (f) of the Audit Directive;
- All countries except Sweden entitle their competent authorities to issue a public statement indicating the person responsible and the nature of the breach, published on the website of competent authorities;
- Eleven countries rely on the minimum sanctioning power provided by Article 30a of the Audit Directive and have not added national sanctions. The remaining countries have set additional sanctions, most commonly the withdrawal of approval as auditor, or permanent prohibition from carrying out audits;
- All countries have established a maximum amount in the pecuniary sanctions applied under national law. Thirteen countries (BG, CY, HR, HU, EE, ES, FR, LU, IE, SE, SI, SK and NO) set a different amount for natural and legal persons while others (ES, SE) set different amounts based on the types of audited entities (PIEs and non-PIEs) and for persons who are not auditors (e.g. when the person carrying out the audit is not an authorised auditor or member of the audited entities);
- There are significant discrepancies between countries on the maximum amount of pecuniary sanctions set in law (i.e. ranging from EUR 14,200 to EUR 5 million). Seven countries also provide for an amount proportionate to the revenue of the auditor/audit firm sanctioned, or to the material gain/avoidance of loss for the perpetrator resulting from the breach, leading to very high maximum fines. The term ‘revenue’ of the auditor/audit firm sanctioned differs in these Member States;
- At least four sanctions of over EUR 1 million were issued against an audit firm between 2017 and 2020, in the Netherlands, Portugal and Spain;
- Sixteen countries used the option under Article 30b, second paragraph, of the Audit Directive, allowing national competent authorities to take into account additional factors when determining the type and level of administrative sanctions and measures (e.g. material loss for third parties caused by the infringement; extent of consequences of the unlawful actions; adverse effects on the public or national economy, whether the responsible person is a key partner, risk for the reliability and proper operation of the auditing institution, nature of the firm);
- In all but three countries, the competent authorities published information on their website about the sanctions they issued;
- Twenty-three countries used the option to provide some degree of anonymisation when publishing sanctions;
- Countries publish their data on sanctions in different ways. When several authorities have a sanctioning power, the data are published on each authority’s website, sometimes with different publication rules. In some countries, the names of individual auditors are not made public, only the names of their audit firms. In others, anonymisation depends on the type of measures. Auditors sanctioned by a withdrawal of their approval and a reprimand are often identified, but the name of the person receiving a pecuniary fine or notice to cease conduct is not mentioned;
- An increased role for the CEAOB in coordinating supervisory activities and evaluating national implementation of the audit reform could greatly support harmonisation.

3.1.1. Competent authorities in charge of audit supervision and issuing sanctions

The mapping shows considerable disparities in countries' organisation of audit supervision.

Eighteen countries (AT, BE, BG, CY, CZ, DE, EE, EL, ES, FR, IE, LT, MT, PL, RO, SK, SI, SE) designated a specific competent authority for audit supervision, with different degree of autonomy and competence. In the remaining countries, the supervision of audit services and auditors was assigned to the national Ministry of Finance (HR, HU, IT, LV, where a specific unit within the Ministry was designated as the audit oversight authority), and/or to their financial markets' supervisor (IT, LU, NL, PT). In Denmark, the DBA is the audit supervisor, while in Finland it is the Patent and Registration Office.

In all countries, the audit supervisor(s) has direct power to sanction auditors.

Within countries that have designated a specific authority for audit supervision, different approaches exist:

- Audit supervisor can be the sole authority to issue sanctions against auditors, audit firms and members of a PIE for any breach of their audit obligations (CY, EL, ES, FR, MT, SI) or
- the audit supervisor focuses on PIE auditors and delegates sanctioning powers to the professional auditors' associations (AT, CZ, DE, HU, IE, LT, LV, PT, RO). However, in Austria, Czechia, Lithuania, Portugal and Romania, the division of powers between the NCA and the professional auditors' associations does not follow the division PIE/non-PIE. Rather, the task is jointly conducted by the NCA and the professional body, under the responsibility of the NCA[65];
- In the Netherlands, the disciplinary sanctioning power is exercised by a special judicial authority, the Court of Auditors. Both the NCA and the professional association can file disciplinary cases against statutory auditors.
- - In Italy the Consob is in charge of issuing sanctions against auditors, audit firms and members of administrative or supervisory body of the audited entity for auditors of PIE and auditors of entities under intermediate regulatory regime; the Ministry of Economics and Finance is in charge of issuing sanctions against auditors and audit firms of other entities.

Countries have put different arrangements in place to sanction PIEs in relation to breaches of their audit obligations. Austria, Cyprus, Czechia, France, Greece, Ireland, Italy, Lithuania, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia, Slovakia and Spain decided to grant their audit supervisor competence to sanction members of a PIE in such cases. In some, the audit oversight authority and the PIE supervisor are the same authority (e.g. IT, NL). In Poland, however, there is an overlap of competence between the audit supervisor and the Polish Financial Supervision Authority, as both authorities have the power to sanction members of a PIE (either with a ban or pecuniary sanctions). NCAs can issue temporary prohibitions on exercising functions within the audited entity against its own members. France, Italy and Lithuania extended the sanctioning power of their audit supervisor to include both temporary bans from exercising functions within a PIE and pecuniary fines against the PIE (and a public statement which indicates the person responsible and the nature of the breach in the case of Lithuania).

By contrast, in Bulgaria, Denmark, Estonia, Finland, Germany, Latvia, Luxembourg, Sweden and Norway, the audit supervisor is not competent to directly sanction members of the audited entities, which remain either under full supervision of the PIE supervisor(s) (BG, DE, FI, LV, SE and NO), the judicial authority (EE), or court-like authorities ('Disciplinary boards of auditors' in DK[66]).

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[65] Accountancy Europe, *Organisation of the Public Oversight of the Audit Profession in 30 European countries State of affairs after the implementation of the 2014 EU Audit Reform*, November 2021.

[66] A similar court-like body exists in NL (Chamber of Auditors) and was in place in France since the suppression of the Regional disciplinary Commissions.

Luxembourg has no specific provisions granting power to the CSSF[67] (the main PIE supervisor) to sanction members of an administrative or management body of a PIE.

In Croatia, the auditors' professional association (the Croatian Audit Chamber) had competence to sanction non-PIE auditors, but the reform transferred all sanctioning powers for PIEs and non-PIEs to the Ministry of Finance. In Hungary, the Ministry of the Economy has sanctioning powers over PIE auditors and audit firms, while the Chamber of Auditors (the auditors' professional organisation) is competent to sanction non-PIE auditors and audit firms. The power to sanction members of a PIE for breaches of their audit obligations remains within the competence of the National Bank and judicial authorities.

In countries that chose to grant audit supervision to their financial markets' supervisors (, LU, NL, PT and NO), there is some overlap of competence in respect of PIE members and PIE/non-PIE auditors.. For instance, in Luxembourg, the CSSF has competence to sanction PIE members and PIE/non-PIE auditors, but the professional auditors' association (IRE) has its own investigative and disciplinary system. The same applies in the Netherlands, where the Authority for Financial Markets has the power to sanction PIE members and auditors, but disciplinary proceedings against an individual auditor are carried out by the Ministry of Justice's Disciplinary Court of Auditors.

In Portugal, the competent authority (CMVM) has sanctioning power over PIE members and auditors, but delegated the competence to sanction non-PIE auditors to the auditors' professional organisation (OROC). In Norway, *Finanstilsynet* has full competence over PIE/non-PIE auditors, including imposing sanctions on PIE members.

In Denmark, the DBA has full competence over PIE/non-PIE auditors and the competence to sanction PIE members (full supervision of audit committees by the DBA) with warnings, fines, and prohibitions. The auditors' professional association (FSR) cooperates with the DBA on investigations, but the sanctioning power remains within the DBA's competence. In Finland, the Finnish Patent and Registration Office has full competence over PIE/non-PIE auditors (although the auditors' professional organisation has its own investigation and discipline system for its members) but has no sanctioning power against PIE members.

Irrespective of the organisational arrangements of the audit supervision, the degree of cooperation between the different institutions is instrumental to the quality of the supervision, particularly for PIEs. Austria, Bulgaria and Romania, for example, introduced a form of duty of cooperation between competent authorities. In Bulgaria, the national legislation specifies that the audit supervisor 'may propose to a competent authority supervising the activities of a PIE to impose a prohibition on a member of its management body' and that 'the relevant supervisory authority shall, within a reasonable period, notify the Commission about the actions undertaken'. To avoid overlap of competence and blind spots in the supervision of the financial sector, cooperation covenants and guidelines have been issued by the Financial Markets Authority (AMF) and the Dutch National Bank.

3.1.2. Overview of types of sanctions in national laws

The national legislation in all countries includes the sanctions under Article 30a(1)(a), (c) and (f) of the Audit Directive, i.e. notices requiring the natural or legal person responsible for the breach to cease the conduct and to abstain from any repetition of that conduct, a temporary prohibition, of up to three years' duration, banning the statutory auditor, the audit firm or the key audit partner from carrying out statutory audits and/or signing audit reports, and the imposition of administrative pecuniary sanctions on natural and legal persons.

All countries except Sweden entitle their competent authorities to issue a public statement indicating the person responsible and the nature of the breach, published on their website.

[67] The Commission de Surveillance du Secteur Financier is a public institution which supervises the professionals and products of the Luxembourg financial sector.

Czechia, the Netherlands and Portugal did not transpose Article 30a(1)(d), thus do not allow their national authority to issue a declaration that the audit report does not meet the requirements of Article 28 of the Directive or, where applicable, Article 10 of the Audit Regulation.

Point (c), on the three-year temporary prohibition on carrying out audits or signing reports has been transposed more strictly in Estonia, where the prohibition is not limited in time but can only be lifted if the auditor concerned regains their licence.

All countries transposed Article 30a(1)(e), providing for a temporary prohibition of up to three years' duration, banning a member of an audit firm or a member of an administrative or management body of a PIE from exercising functions in audit firms or PIEs. The exception is Estonia, where this is linked to misdemeanour proceedings that are part of the criminal sanctioning system. In Germany and Malta, the transposing provisions refer to banning a member of an audit firm but omit the reference to ‘a member of an administrative or management body of a public-interest entity’.

Sweden did not transpose point (b), on the public statement, because of its privacy rules (under national law, decisions regarding disciplinary measures shall be published (only) in an anonymous form).

Eleven countries rely on the minimum sanctioning power provided by Article 30a of the Audit Directive, and did not add national sanctions (AT, BG, CZ, EE, EL, FI, LV, MT, NL, RO and NO). The rest of the countries have set additional sanctions such as:

- Temporary suspension of the auditor’s registration (BE)[68];
- A prohibition on carrying out specific services (BE, PL)[69];
- Prohibition on the statutory auditor or audit firm accepting new audit engagements for a period not exceeding three years (IT);
- Prohibition on carrying out the audit of a specific company or mandatory termination of an audit engagement, including for PIEs (ES, IT);
- Warnings (BE, FR, LT, LV, SE, SK);
- Reprimands (DE, FR, IE, SI);
- Participation in advanced training (HU).

Under Belgian law, the Sanctions Commission of the Financial Services and Markets Authority (FSMA) is in charge of sanctioning auditors and PIE board members. Nevertheless, in a specific provision, the Audit Oversight College, in carrying out its supervisory functions, may impose a limited period of time within which :

- auditors and audit firms,
- persons involved in the activities of auditors,
- audited public interest entities, their affiliated entities and third parties related to them,
- third parties to whom auditors have outsourced certain functions or activities, and
- any person otherwise related or associated with auditors,

must comply with specific provisions of the applicable legislative and regulatory framework and refrain from repeating the conduct in question. In the context of this ‘injunction’, the Board of FSMA has specific powers against the persons concerned. It may prohibit the auditor from carrying out all

[68] This emergency ‘sanction’ is applicable only to the investigation period. Under Article 59(1) point 7 of the Law on Auditors (point c being transposed by Article 59(1) point 6), ‘Without prejudice to the other measures of this law, the College can impose a time limit to any person to which reference is made in 54, § 1st, paragraph 3, within which it must conform to the requirements set out in the applicable legislative and regulatory framework and refrain from repeating the offending behavior.
In case of urgency, the College can prohibit, during the duration of that time period, the carrying out of all or part of the activity of the company auditor and suspend the registration.’ Article 54(1), paragraph 3, of the Law on Auditors deals with the power of the NCA to request any documentation from the auditor in the context of an investigation within a period a time that it shall specify. In addition, this sanction can be published in the newspapers and publications of its own choice and during the period it determines, at the expense of the company auditor.

[69] Not yet implemented in PL (according to the data provided by the NCA), but according to the legislation, it can be any services subjected to a professional standard. Nor is it yet issued in BE, where the law only states that if the auditor/firm does not comply with the temporary measures ordered during the investigation phase, the NCA can enjoin the company auditor to temporarily refrain from all professional services, or from defined professional services.

or part of their activity for the duration of the injunction, suspend their registration, require them to pay a daily penalty in the event of non-compliance, and make their position public. If the facts of which the auditor is accused, although proven, do not justify the imposition of a time limit, the College may call the auditor to order. These are without prejudice to the sanctioning power of the FSMA. The data available suggest that only the latter possibility has been implemented to date.

In addition to the types of sanctions mentioned above, the FSMA can also impose a penalty payment per day, not exceeding EUR 2,500,000 in total.

In Cyprus, irrespective of the imposition of any other penalties, the Disciplinary Committee may require the guilty party to pay all or part of the expenses of the disciplinary proceedings.

French law established a specific sanction – ineligibility to become a member of a professional body for a maximum period of 10 years.

Portuguese legislation provides for the possible seizure of the object of the offence, including the benefit obtained by the infringer by the practice of the offence.

The national laws of all countries established a maximum amount of pecuniary sanctions. Thirteen countries (BG, CY, HR, HU, EE, ES, FR, LU, IE, SE, SI, SK and NO) set a different amount for natural and legal persons, while others (ES, SE) set different amounts based on the types of audited entities (PIE/non-PIE) and for persons who are not auditors (e.g. where the person carrying out the audit is not an authorised auditor, or member of the audited entities), Italy sets different amounts for maximum and minimum sanctions imposed by Consob and Ministry of Economy and Finance. By contrast, 14 countries (AT, BE, CZ, DE, DK, EL, FI, LT, LV, MT, NL, PL, PT, RO) only provide a single maximum amount.

Similarly, some countries (BE, CY, EL, FI, FR, IE, LU, LV, PL, SK and NO) did not foresee a minimum amount for pecuniary sanctions. Others (AT, CZ, DE, DK, EE, ES, HU, IT, LT, MT, PT, RO, SE) set out a single minimum amount. Four countries (ES, HR, HU, IT) apply the same minimum amount for statutory auditors and audit firms. In Croatia, the maximum and minimum amount can differ for PIEs, depending on the sector. Indeed, the national supervisors in the different PIEs sectors also have the power to issue fines (of a lesser amount, except for credit institutions) against their supervised entities for breaches of the obligation to carry out a statutory annual audit, to submit the audit report to their supervisory authority, or to notify the appointment of an auditor.

There are significant discrepancies between countries in the maximum amount of the pecuniary sanctions, ranging from EUR 14,200 (LV, for audit firms) to EUR 5 million (PT).

Several countries provide for an amount proportionate to the revenue of the audit/audit firm sanctioned (BE, BG, ES, FR, IE, RO, SE). In France, the fines can be higher than the EUR 1 million amount provided in Article L824-2 of the Commercial Code. Where the fault occurs in the context of an auditing mission, the fine can be fixed to the annual average of the fees invoiced for the financial year during which the misconduct was committed and the two preceding financial years, by the statutory auditor, the person or entity with which they are responsible for certifying the accounts, or, failing that, the amount invoiced by the statutory auditor to that person or entity in respect of the financial year during which the misconduct was committed. Stricter penalties can be imposed in case of repeated misconduct within a period of five years. In Belgium, the sanction shall be proportionate to the gain resulting from the breach (in addition to a lump sum fine). In Bulgaria, the sanction can be fixed up to 10% of total net sales revenue for the financial year preceding the date of detection of the violation. In Spain, the amount of the sanction can be fixed at six to nine times the amount invoiced for the audit work in which the breach was committed. In Ireland, if the person sanctioned is an audit firm, the maximum amount determined for natural persons (EUR 100,000) is multiplied by the number of statutory auditors in the firm at the time that the contravention occurred (irrespective of whether or not any particular statutory auditor was a party to the relevant contravention). In Romania, the sanction is either proportionate to the gross minimum wage of an auditor or to the annual revenue in the case of an audit firm. In Sweden, the maximum pecuniary sentence for legal persons can be fixed at 2% of the turnover of the preceding year, or an equivalent estimate where the legal person has not been operating for a full year.

Without taking into account these countries where the amount of the pecuniary sanction depends on the revenue of the person sanctioned, seven countries set out maximum pecuniary sanctions above EUR 1 million (BE, CY, EL, FR, HU, NL, PT), and five below EUR 100,000 (EE, LV, FI, MT, SK).

Due to incomplete data on pecuniary sanctions, it is not possible to calculate the average amount of this type of sanction among countries, but at least four sanctions above EUR 1 million were issued against an audit firm between 2017 and 2020 (ES - EUR 1.4 and 1.6 million; NL- EUR 4 million; PT - EUR 1 million).

Some countries delegated part of the sanctioning power to the national auditors' professional associations, which are competent to impose disciplinary sanctions on auditors, such as temporary bans, suspension of registration as a professional auditor, or warnings/notices to cease or follow a specific behaviour (AT, CZ, DE, HU, IE, LT, LV, PT, RO). In Germany, Hungary, Ireland, and Latvia, the division of power follows the division PIE/non-PIE. However, in Austria, Czechia, Lithuania, Portugal and Romania, the division of powers between the NCA and the professional auditors' associations does not strictly follow the PIE/non-PIE division. In Lithuania, the main criterion to determine the competent authority is the severity of the case. In Czechia, the NCA focuses on statutory audits for PIEs, leaving the professional body in charge of investigating and sanctioning PIE/non-PIE auditors to undertake other work. In Romania, the division of power is based on the type of engagement (NCA for statutory audits of PIEs and non-PIEs; professional body for all non-statutory audits and other engagements). In Italy, the delegation is an option for the Ministry of Economy and Finance , but has not yet been exercised.

Several countries have undergone a centralisation process since the audit reform. In Croatia, Cyprus and France, disciplinary sanctioning powers were transferred from the national auditors' professional associations to the audit supervisor. In France, the disciplinary sanctions against auditors were issued by the Regional Commissions of Discipline, under the supervision of the judicial authority. The disciplinary proceedings were transferred to the Haut conseil du commissariat aux comptes (H3C), and the Regional Commissions of Discipline were discontinued.

3.1.3. Criteria for determination of sanctions

Article 30b of the Audit Directive, on the effective application of sanctions, introduced a list of circumstances that the national authorities should consider when determining the type and level of administrative sanctions and measures.

All countries correctly transposed the circumstances under Article 30b, first paragraph, letter (a) to (f), of the Audit Directive, except Estonia and the Netherlands. Estonia did not transpose points (a) to (e) and the Netherlands did not transpose point (e). In Bulgaria, the legislator transposed Article 30b, first paragraph, in a very broad and general way, only specifying that 'in meeting out the punishment, account shall be taken of the gravity of the violation, the motives or inducements for the commission thereof and other mitigating and aggravating circumstances, as well as the property status of the offender'. Nevertheless, the mitigating and aggravating circumstances for violations were further detailed in the 'Methodology for determining the amount of administrative penalties under the Independent Financial Audit Act', issued by the Commission of Public Oversight of Statutory Auditors. This methodology lays down the procedure and order for determining the amount of administrative penalties - property sanctions and fines imposed on registered auditors and specialised audit firms.

More than half of the countries (BE, CY, CZ, DE, DK, EE, EL, ES, FI, IT, LT, MT, PT, SE, SK and NO) used the option under Article 30b, second paragraph of the Audit Directive, allowing NCAs to consider additional factors (where such factors are specified in national law) in determining the type and level of administrative sanctions and measures.

Belgium, Cyprus, Denmark, Greece, Italy, Slovakia, Spain and Norway include three additional factors: (i) the material loss for third parties caused by the infringement; (ii) the extent of consequences of the unlawful action; (iii) adverse effects on the public or national economy.

On aggravating circumstances, Cyprus specified two additional factors: (i) whether the responsible person is a key partner as an additional factor; (ii) risk for the reliability and proper operation of the auditing institution. Belgium allows national authorities to consider the nature of the firm (PIE or non-PIE) as an additional factor.

On mitigating circumstances, Belgium and Italy also consider the measures taken following the infringement by the responsible person to avoid repetition of the infringement. Under German law, negligence is considered a mitigating circumstance. Estonia added three additional factors: (i) confession of disciplinary offence; (ii) sincere remorse; (iii) good cooperation with the body conducting proceedings. Portugal allows the national authorities to consider as an additional factor the acts carried out by the agent, on their own initiative, to repair the damage or prevent the danger caused by the offence. Sweden allows national authorities to consider whether the violation consists of the auditor failing to carry out their obligation to notify the competent authority.

3.1.4. Publicity of the sanctions across countries

One of the objectives of the audit reform was to enhance the supervision of the audit sector through increased sanctioning powers and transparency in their application. The Audit Directive introduced a full new provision on publication of sanctions. Article 30c (1) states the general obligation for competent authorities to publish the sanctions imposed for breach of the provisions of this Directive or of the Audit Regulation.

The competent authorities in all countries (except CY, EL, HU) have published on their website information on the sanctions issued. In Cyprus, no sanctions have been issued. In Hungary, the public oversight authority summarises and publishes an annual report, but detailed provisions on the publication of decisions sanctioning the unlawful acts or omissions of the statutory auditors or audit firms is not regulated in the national legislation. The annual reports of the competent authorities present the findings, assessments, measures applied, and sanctions imposed in an aggregated way. In Greece, the legislation specifies that 'the sanctions can be published on the HAASOB website according to the Decision of the Disciplinary Board', but no sanctions have been published on the NCA's website.

In Slovakia, data on sanctions can be found on the Authority's website, but only in the auditors' registry, in the description sheets of each auditor/audit firm.

Under paragraph 3, last indent, of Article 30c of the Audit Directive, 'Member States may decide that such publication or any public statement is not to contain personal data within the meaning of point (a) of Article 2 of Directive 95/46/EC[70]'. Twenty-three countries used the option to provide some degree of anonymisation when publishing sanctions. Only Cyprus, Czechia, Estonia, Slovenia and Slovakia do not provide any possibility in their national law for anonymised publication.

Slovenia has published data only since 2019. The NCA is obliged to publish the sanctions, 'in particular the personal name of the key audit partners, the audit firms and the name of the contracting parties'. However, no personal data could be found on the NCA website on pecuniary sanctions or notices to cease conduct. Decisions on withdrawal or conditional withdrawal of approval and reprimands are fully published.

Croatia's NCA (Ministry of Finance) started to publish the sanctions on its website in May 2020. Before March 2018, the Croatian Audit Chamber had the legal competence to conduct supervision,

[70] Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data has been repealed by Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (GDPR).

disciplinary procedures and impose sanctions against audit firms and auditors. The sanctions from that period are therefore published on the Chamber's website.

Countries publish their data on sanctions in different ways. When several authorities have sanctioning power, the data are published on each authority's website, in some cases with different rules governing the content of the publication.

Some countries have a broad anonymisation policy and do not publish any natural or legal persons' names (AT, DE). In Austria, based on Article 30(3) of the Audit Directive, sanctions shall not contain personal data (Section 64 of the Auditors Supervision Act, first para.). The same provision also transposes, in its second paragraph, Article 30c(2) of the Audit Directive, allowing anonymised publications of sanctions against natural persons under specific circumstances (i.e. if disproportionate, if publication would jeopardise ongoing investigations or the stability of financial markets, and where publication would cause disproportionate damage to the institutions or individuals involved). In practice, the sanctions published on the NCA's website are all anonymised[71]. In Germany, the provisions of the Ordinance on Auditors provide for mandatory publication of the name and type of infringements sanctioned for both natural and legal persons. It also transposed Article 30c(2) (section 69(2) of the Ordinance). Section 69(2) seems to be applied systematically, as no personal data are published on either the NCA website or the Association of Auditors' website.

In the Netherlands, Portugal, Sweden and Norway, the names of individual auditors are not made public, only the names of their audit firms. In other countries, anonymisation depends on the type of measures (DK, RO, SI). Auditors sanctioned by a withdrawal of their approval and a reprimand are often identified, but the name of the person receiving a pecuniary fine or notice to cease conduct are not given. In Denmark, sanctions corresponding to a notice requiring the natural or legal person responsible for the breach to cease the conduct and to abstain from any repetition of that conduct and adopted against natural persons are published in an anonymised way on the DBA website. Sanctions for breach of the obligation for auditors to maintain and update their continuing education shall be published anonymously until the expiry of their validity period. For other types of sanctions, the publication shall contain information about the person's identity, unless publication would be a serious threat to financial market stability, or in case of a criminal investigation. In addition, sanctions against legal persons are anonymised two years after publication on the DBA website. In Romania, notices to cease the conduct and to abstain from any repetition of that conduct are never published (they are included in the inspection reports, which are confidential), and temporary prohibitions on carrying out statutory audits and/or signing audit reports become public only after going through all the procedural stages.

3.2. Application of the sanctioning regime since the audit reform

One key aspect of the analysis of the sanctioning regimes is an overview of how sanctions were applied in the 28 countries since the audit reform. National experts gathered available information from the websites of competent authorities on sanctions (e.g. total number, types of sanctions applied, categories of actors). This information was then complemented and/or revised by a questionnaire completed by representatives of NCAs. However, challenges arose in gathering this information, given the diversity of the legal administrative sanctioning regimes in place, the division of competence between the PIE supervisor and national auditors' associations, which often have a residual competence in the area of sanctions (AT, BE, CZ, DE, HU, IE, LT, NL, SE, SI, SK, SE), and the existence of different sanctioning regimes. Both the degree of publicity of the sanctions, from automatic publication of the name of the auditors (e.g. MT) or members of the board of a PIE, to fully anonymised publications (e.g. SE) and accessibility of the sanctions (i.e. non-restricted public access to comparable data) differ between countries (see Section 3.1.4). Finally, the date of application of the sanctions provided by the Audit Directive differed considerably from one country to another.

[71] Link to APAS's website on sanctions: https://www.apab.gv.at/aufsicht/enforcement

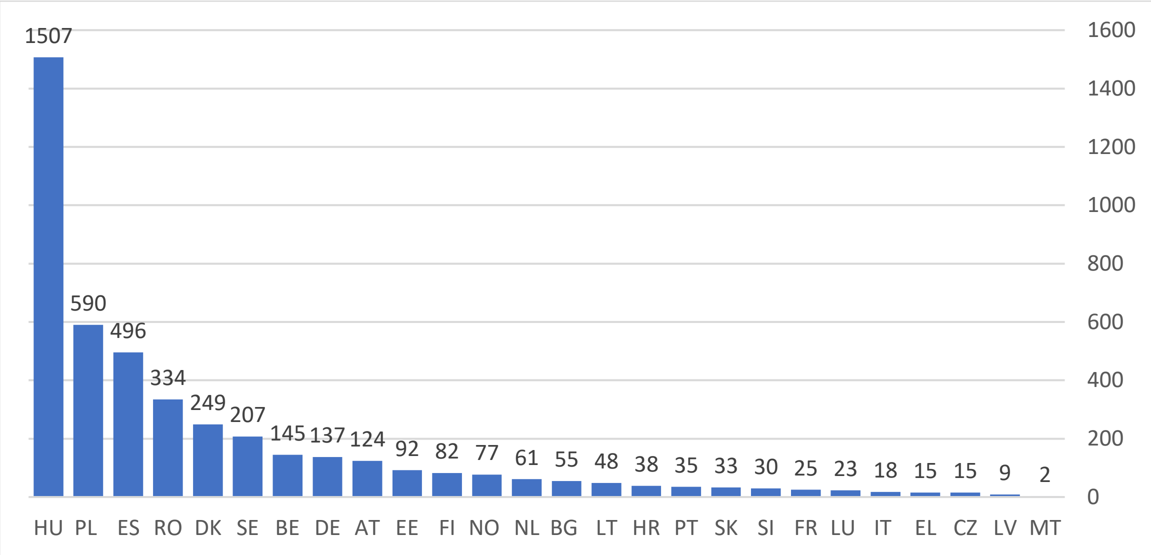
Some countries have statistical data on sanctions, while others do not. The mapping shows that there is no correlation between the number of sanctions issued and the number of auditors sanctioned, as, depending on the national regime, one sanction can be issued against multiple auditors and auditors can be sanctioned several times.

The following findings on the application of the sanctioning regime in the 28 countries should be read in light of these challenges.

3.2.1. Number and type of sanctions applied

Figure 1 shows the number of sanctions imposed by countries between 2017 and 2020. There are a number of discrepancies in the total amount of sanctions imposed, but it is difficult to identify a correlation between the number of sanctions imposed and the effectiveness of the investigation and sanction system.

Figure 1: Total number of sanctions, by country, 2017-2020



Note: *IE not included. For comparability reasons, data provided by the IAASA, on sanctions issued by both the IAASA (against PIE auditors) and by the recognised audit associations (RABs), were excluded, as a number of RABs operate internationally and Ireland-specific sanction data are not available in some cases (some statutory audit complaints will also be Irish-relevant complaints, so there will be overlap, which cannot be stripped out). The total number of sanctions issued in IE was 576, against 741 auditors or audit firms. The national report for IE includes more detail on the types of sanctions.*

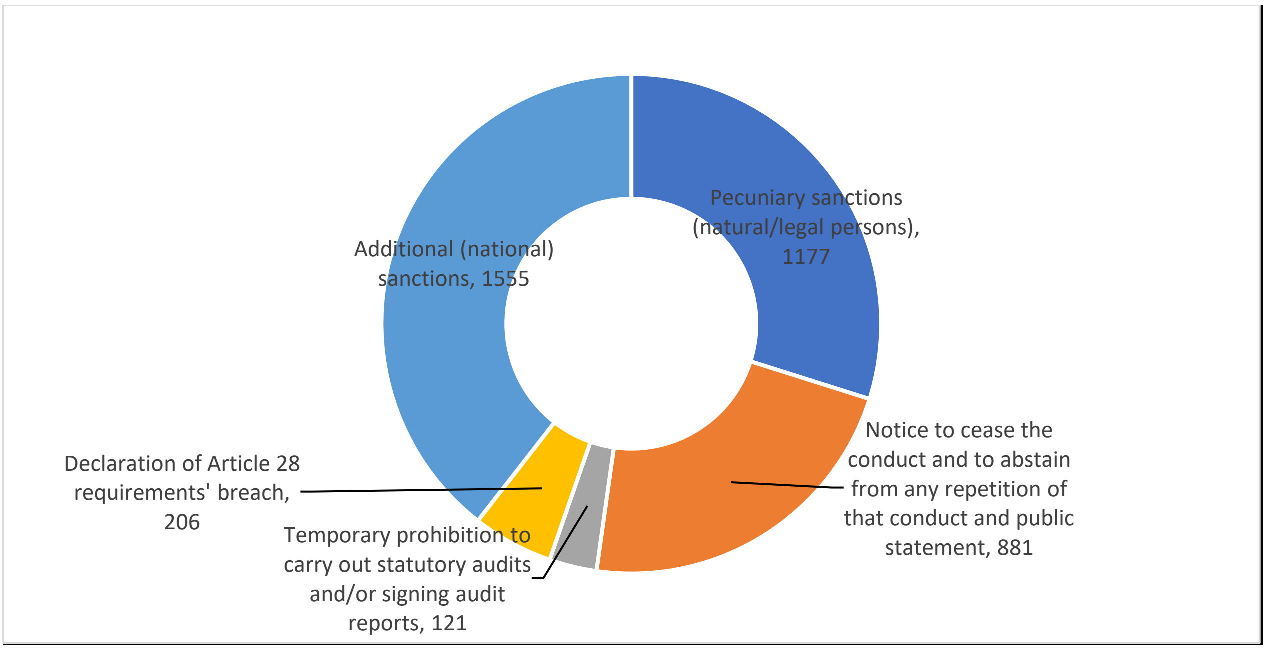
In Belgium, Bulgaria, Czechia, France, Germany, Hungary, Ireland, Lithuania, Luxembourg, the Netherlands, Romania and Slovakia, the power to issue sanctions was delegated to national associations of auditors. Not all of the audit oversight authorities gather data on sanctions from the national associations of auditors. NCAs in Czechia, Lithuania, Luxembourg and Slovakia only provided data on the sanctions they issued. By contrast, France, Germany, Hungary, Ireland, the Netherlands and Romania submitted all sanctions issued by the audit supervisor and by national auditors' associations. Croatian data also include sanctions issued by the professional body up to 2018.

In the Netherlands, only six pecuniary sanctions were issued by the audit supervisor, with 54 temporary prohibitions and one withdrawal of authorisation issued by the Disciplinary Board of Auditors.

For Belgium, it is not possible to distinguish between the sanctions issued by the FSMA Sanctioning Commission and those issued by the Sanctions Commission within the Belgian Institute of Statutory Auditors. Indeed, the latter formerly had competence to issue warnings and reprimands, temporary prohibitions and suspension, and administrative fines, but its delegation of sanctioning powers was withdrawn with the creation of the new Audit Oversight Board. These types of sanctions are now centralised within the FSMA Sanctioning Commission (since the entry into force of the transposing measure of the EU audit reform), but the Belgian Institute of Statutory Auditors remains in place for the purpose of treating files that were under its remit before the entry into force of the Auditor's Law.

Many countries had no data on sanctions issued against PIE board members, as these sanctions are issued by PIE supervisors. Only Poland indicated that its NCA had issued two pecuniary sanctions against PIE members.

Most of the sanctions (39%) issued are additional sanctions not set under the Audit Directive (see Figure below). Pecuniary sanctions are also commonly used (30%) to sanction breaches of the European audit regulatory framework. Notices to cease a conduct and public statement were the third most common type of sanction (22%).



The types of additional sanctions imposed include, in decreasing order of use:

- Mandatory participation in advanced training;
- Withdrawal of approval;
- Reprimand/admonition;
- Call to order;
- Warning;
- Referral to an additional professional examination.

3.2.2. Types of non-compliance issues

When completing the study questionnaire, NCAs reported encountering different types of non-compliance issues during inspections:

- 11 countries (BG, EL, ES, FI, LT, LU, NL, PT, RO, SI, SK) identified breaches of internal control and quality systems;
- Eight countries (BE, CZ, EL, HU, IE, IT, LU, MT, SI) identified breaches of auditing standards (e.g. ISAs, code of ethics);
- Seven countries (AT, BG, DE, DK, EL, LT, SK) identified breaches linked to the requirements of the audit report;
- Four countries (AT, DE, NL, SE) identified breaches linked to independence and objectivity requirements;
- Six countries (AT, BG, CZ, DK, PT, SI) identified breaches of the provisions on rotation;
- Poland and Portugal identified breaches linked to the transparency report;
- Only Slovakia identified breaches of provisions on NAS.

The following paragraphs describe the main types of breaches identified by NCAs during inspections between 2017 and 2020. Some countries are not covered, or only partially covered (e.g. 2020 in BE), as information was missing from the questionnaire and NCA websites.

The most frequent infringements by auditors and audit firms related to internal control and quality systems.

In Austria, the most frequent breaches concerned non-compliance with the audit report, the requirement on independence and objectivity, and rotation.

In Belgium in 2020, the three main compliance issues with respect to ISAs in PIE files were: (i) unsuitable or insufficient audit documentation; (ii) insufficient review of the risk of a material misstatement as a consequence of fraud; (iii) late, insufficient or lack of written communication with those charged with governance. The three main non-conformities relating to ISAs in non-PIE files were: (i) insufficient understanding of the entity and its environment, including its internal control; (ii) insufficient checks of the entries in the general ledger; (iii) insufficient documentation on the response to estimated risks.

In Czechia, sanctions were mostly levied for non-compliance with ISAs or the Code of Ethics (rotation of key audit partner).

In Germany, APAS is responsible for professional oversight investigations and inspections of PIEs, while the Chamber of Public Accountants (WPK), which is supervised by APAS, is responsible for professional oversight and inspections of non-PIEs (termed ‘quality controls’ in non-PIEs). In the area of APAS' event-related professional supervision, the most frequently sanctioned violations were the non-detection (non-objection) to accounting errors in the financial statements. Those accounting errors related to incorrect disclosures in the notes and the incorrect valuation of balance sheet items. Findings at the audit firm level related to independence, internal review, engagement quality assurance and lack of effectiveness of the quality assurance system regulations. Findings at the audit engagement level related to inadequate implementation of the risk-based audit approach with respect to the audit of revenue, the audit of intangible and tangible assets, the audit of goodwill, the audit of interest and commission income, the audit of related party transactions, the audit of the provision for outstanding claims, and the audit of insurance claims. There were an increasing number of findings in the audit of financial statements involving the use of information technology (IT).

In Greece, the most frequent sanctions identified related to: (i) non-compliance with the requirements on the audit report; (ii) accounting estimates; (iii) EQCR failures; (iv) audit sampling; (v) intangible assets recognition/subsequent measurement; (vi) revenue recognition; (vii) group audits.

In Spain, in addition to breaches of the internal control and quality system frequently found during inspections, investigations (which are mostly based on complaints) often revealed breaches of the application of the ISAs.

In Finland, the most common breaches were: (i) poor audit documentation; and (ii) non-compliance with the requirements in internal control and quality systems.

In France, the main breaches were non-compliance with:

- audit processes standards, (e.g. non-compliance with audit sampling for testing procedures, absence of tests of the reliability of the information provided by the entity, accounting estimate);
- the internal quality control system of the audited firms (e.g. lack of continuing professional development, both in terms of its duration and its link to the specificities of the mandates, as well as the maintenance of the knowledge of the employees involved in the audit; lack of independent review of PIE mandates, which is the main and final safeguard against the risks presented by PIE mandates before the audit report is issued).

Certain additional topics emerged, such as shortcomings in the internal quality control system of the audited firms relating to:

- Rotation of audit firms and audit partner signing the audit report;
- Analysis of the risks of conflicts of interest and impairment of independence.

In Hungary, the requirements of ISAs, ISQC1 and national add-ons (Hungarian Standard on Auditing) were most frequently breached by auditors and audit firms.

In Ireland, most breaches related to auditing standards, not breaches of law.

In Italy, the most frequent breaches concerned non-compliance with the auditing standards, while breaches of the requirements of the Audit Directive or Audit Regulation were less frequent.

In Malta, the most frequently breached requirements included: (i) letters of representation; (ii) communications with those charged with governance; (iii) various ethical requirements; (iv) the wording of the audit report.

Portugal's annual report presenting the overall results of the quality assurance system[72] noted that, with respect to the Audit Directive or Audit Regulation provisions, the main breaches by auditors and audit firms related to the internal control and quality system, provisions on prohibited NAS, rotation, transparency report, archive and engagement quality control reviews.

In Romania, the results of the quality inspections carried out by ASPAAS Romania showed that the requirements most frequently breached by auditors and audit firms were those related to the internal control and quality systems.

In Slovakia, the most frequently breached requirements by auditors were: (i) non-compliance with the requirements on the audit report; (ii) internal control and quality system; (iii) breaches of the provisions on prohibited NAS; (iv) non-compliance with ISA; (v) failure to fulfil requirements of continuing professional education; (vi) not following recommendations from prior inspections.

No inspections were carried out in Norway since the new legislation entered into force (new requirements applicable for the audit of financial years starting on or later than February 2021).

3.2.3. Application of the breach reporting mechanism

This section provides an overview of the main cases of non-compliance reported to the national authorities through the report of breaches mechanism under Article 30e of the Audit Directive. This article requires countries to establish effective mechanisms to encourage reporting of breaches under the Audit Directive and Audit Regulation to the competent authorities.

The non-compliance issues most frequently reported through the reporting of breaches mechanisms were:

- Non-compliance with technical standards (e.g. ISAs) (BG, EL, ES, FI, IE, IT, LU, PL, RO, SK);
- Non-compliance regarding audit evidence and professional skepticism (FI, IE, PL). The Polish NCA specified, for example, that one of the main compliance issues related to the correct preparation of the audited financial statements, including (but not limited to) the completeness of disclosures, the value of estimates, and the continuity of operations of the audited entity;
- Breaches of ethical rules (e.g. independence and objectivity principle, due care,) (AT, BE, BG, DK, FI, NL, PL, RO, SK);
- Deficiencies in internal quality control (BE, DK, EL, IT, PL, NL). Italy specified that the majority of the reports received by CONSOB related to the way the audit was carried out and insufficient internal control system in the audited entity, potentially leading to breaches of auditing standards;

[72] CMVM, Relatório de Supervisão de Auditoria_2019_2020.pdf

- Non-compliance with the requirements on the audit report (DE, EL, FI, PL, RO, SK). Poland specified that the main issues related to the completeness and correctness of the audit report, including the type of opinion expressed. Other types of non-compliance with the audit report requirements were linked to accounting errors suspected on the basis of publicly available information and incorrect/missing information in audit reports (DE, EL) or inconsistency between the audit reports and the financial statements (RO). In Greece, the most frequently reported non-compliance cases related to the auditor's duty to identify and assess the risks of material mis-statement of the entity's (or where relevant, the consolidated) financial statements and evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures relate to group audits, in particular recognition and subsequent measurement of intangible assets and accounting estimates errors (bad debt provisions);
- Breaches of the provisions on prohibited NAS (LT, RO, SK);
- Non-compliance for poor quality or late report (BE, DE).

Less frequently reported were fraud cases (BE, MT, NL). In Belgium, the auditor allegedly helped or abetted accounting or tax fraud, while in Malta, there were instances of withholding documentation from clients and falsely misrepresenting themselves as practising auditors). The Dutch authorities received reports alleging fraud, corruption and money laundering.

Some Member States reported specific cases of non-compliance reported to their NCAs. Malta reported cases of late submission of returns to the Maltese Financial Services Authority. The Polish authorities received reports for cases related to the correctness of the preparation of audited financial statements.

The main cases of non-compliance reported to the national authorities through the reporting of breaches mechanism were breaches of the provisions on prohibited NAS.

Member States set up the reporting mechanism provided for in Article 30e of the Audit Directive, but the small number of reports received to date do not yet allow the main violations to be characterised (CZ, FR, HU, LT, LV, SE and NO). In Czechia, the NCA has received few reports, referring to general non-compliance issues with the auditor's procedures, without further specification from the reporting party. There were no reports on alleged breaches in Hungary, Latvia or Norway, and one in Lithuania, relating to suspicion of breaches of the provisions on prohibited NAS.

3.3. Analysis of the effectiveness of the existing investigation and sanction regimes by NCAs

The analysis of the effectiveness of the existing investigations and sanctions regimes covers 13 countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO).

This analysis relies on the responses to a set of specific questions by NCAs[73] on:

- Cooperation of statutory auditors and audit firms during NCA investigations;
- Cross-border cooperation between NCAs during investigations;
- Guidelines and risk criteria to identify auditors and audit firms that will be subject to an investigation;
- Investigations launched since 2017;
- NCAs' views on the current supervisory framework in their countries and at EU level.

[73] All NCAs provided responses to the questionnaire, except CY, EE, HR. CY was the only country in the sample that did not respond.

Main findings on the analysis of the effectiveness of the existing investigation and sanctions regimes by NCAs

The selected countries did not raise significant concerns about cooperation with statutory auditors and audit firms during investigations.

No major challenges were identified in cross-border cooperation between NCAs during investigations. It was proposed to set-up a simplified procedure for comprehensive exchange with third country auditors, to change the status of CEAOB to become a European supervisory authority with appropriate power and resources. Article 47 of the Audit Directive is considered to hinder the cooperation and exchange of relevant information with regulators outside of the EU.

All selected countries treat cross-border information confidentially, with secured email addresses, complying with the duty of professional secrecy established under national law. Most, however, do not seem to have specific channels in place to exchange confidential information.

Overall, no specific guidelines or risk criteria to identify auditors and audit firms that will be subject to an investigation were identified. However, Poland has developed and applies risk criteria to target the PIE auditors for inspection. The Spanish authorities are currently developing the methodology to select the auditors and engagements to be investigated, based on a risk approach.

The majority of NCAs believe that the enforcement of the audit reform increased the need for experienced human resources and more financial resources. Several NCAs flagged having recruited experienced – and thus more expensive – legal and auditing staff, and noted difficulties in recruiting such profiles.

All NCAs consider the existing investigations and sanctioning system appropriate for the proper implementation of the audit reform and the measures/sanctions in place sufficient deterrent to pursue the objectives of the reform. Not all countries made full use of all sanctions available.

Several NCAs indicated possible changes needed to improve the existing investigation and sanctioning regime (e.g., a need for rebalance between sanctions imposed on audit firms and sanctions imposed on their partners, harmonising and strengthening the investigation powers of audit regulators, more precise identification of the types of sanctions to be applied with respect to the nature and severity of the breaches detected).

3.3.1. Cooperation with statutory auditors and audit firms during investigations

Six countries (DE, ES, IE, IT, RO and NO) considered there to be a high level and quality of cooperation with statutory auditors and audit firms during investigations, while five (CZ, FR, LT, NL, PL) rated that cooperation as medium.

Similarly, seven countries (ES, IE, IT, PL, RO, SE and NO) did not identify any major issues in this respect. However, five countries (CZ, DE, FR, LT, NL) encountered delays, mainly related to the submission of the requested documents within a reasonable timeframe, and lack of exhaustive answers or explanations (see Table 36 in the Annex for feedback from NCAs).

3.3.2. Cross-border cooperation between NCAs during investigations

No major challenges were identified in Czechia, France, Ireland, Italy, Lithuania, Poland, Romania and Norway regarding cross-border cooperation between the NCAs of the Member States and those of third countries. The Swedish authorities noted their limited experience in their response.

The German authorities suggested that a simplified procedure for comprehensive exchange would aid cooperation with third-country auditors. To date, there are considerable limits, such as adequacy decisions, or the requirement for cooperation agreements and data protection agreements. The interaction of Article 47 of the Audit Directive and Article 36 of the Audit Regulation appears unclear.

According to the Spanish authorities, cross-border cooperation should be strengthened by giving to the CEAOB the status of European supervisory authority, with the associated power and resources.

According to the Dutch authorities, cooperation, and exchange of relevant information with regulators outside the EU is subject to the limitations of Article 47 of the Audit Directive. Cooperation is hindered by the fact that few adequacy decisions are taken, and the focus has been on equivalence decisions, which do not allow for exchange of confidential information from the audit file. It may also be difficult to hold information on breaches of a component auditor against the group auditor in the Netherlands, since ISA600 and the provisions in the Directive do not provide a clear framework for what the group auditor must do to rely on the work of component auditors.

All selected countries treat cross-border information confidentially, with secured email addresses, complying with the duty of professional secrecy established under national law. Most countries do not seem to have specific channels in place to exchange such confidential information, however.

3.3.3. Guidelines/risk criteria to identify auditors and audit firms that will be subject to an investigation

Overall, no specific guidelines or risk criteria to identify auditors and audit firms that will be subject to an investigation were identified. However, Poland has developed risk criteria so as to have more efficient and targeted inspections. The Spanish authorities are currently developing a methodology to select the auditors and engagements to be investigated, based on a risk approach.

In Ireland, referrals mainly follow unsatisfactory inspections and cases that satisfy a public interest test.

According to the Lithuanian authorities, the basis for investigation is a complaint about a poor-quality audit or audit review results.

In Germany, as soon as there are concrete indications of breaches of professional duty, investigations are initiated on an ad hoc basis. Such indications may arise from inspections, notifications by the German Financial Reporting Enforcement Panel and Federal Financial Supervisory Authority (BaFin) and other circumstances, such as complaints or press reports.

In Romania, ASPAAS initiates investigations because of notifications, but also self-notification.

In France, the H3C's general rapporteur cannot initiate an investigation on their own. Rather, the matter must be referred by a third party, i.e. either the first president of the Court of Auditors or the president of a regional audit chamber, the public prosecutor at the competent court of appeal; the president of the financial market authority; the President of the Prudential Control and Resolution Authority; the President of the High Council of Statutory Auditors; the President of the National Association of Statutory Auditors, or the President of a regional association; or following a whistle-blower report. There are no guidelines as such. Nevertheless, as the H3C chair is one of those who may refer a matter to the rapporteur general, they determine whether a matter should be referred for investigation, particularly in light of current events and the findings of periodic inspections of activities.

In Italy, the inputs that determine the opening of investigations derive from internal reports (by other CONSOB departments, or in the context of quality assurance reviews) or external reports (by other authorities, public news, complaints) regarding breaches or suspected breaches of the law.

According to Dutch authorities, the opening of an investigation is based on certain criteria, followed by a decision of the management. This includes carefully weighing the severity of the potential breach, other relevant signals regarding the audit firm, and public interest.

In Poland, the following risk criteria apply to inspections:

- Features, size of the audit firm's operations;
- Number of statutory audits carried out in PIEs and audits of entities that are issuers of securities introduced to the alternative trading system;
- Activities of entities for which the audit firm has performed statutory audits;
- Findings of previous inspections of the audit firm;
- Monitoring of previous penalties imposed on the audit firm;
- Information on penalties imposed on statutory auditors performing services within the framework of the audit firm;
- Information on terminated audit contracts, other available information.

3.3.4. Investigations since 2017[74]

All national authorities (except CY and NO) provided clear information on the numbers of investigations launched for PIEs and non-PIEs. Table 3 presents the quantitative data on investigations.

Table 3: Number of investigations launched for PIEs and non-PIEs

	CY[75]	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
Number of investigations launched - PIEs													
2017		0	58	78	6	N/A	3	0	5	85[76]	0	2	N/A[77]
2018		0	113	150	8	N/A	1	0	1	52	0	3	N/A
2019		0	99	136	5	2	5	1	0	26	0	4	N/A
2020		0	83	170	3	2	7	0	2[78]	13	0	4	N/A
Number of investigations launched - non-PIEs													
2017		0	48	25	212	185	0	4	0	208[79]	0	107	N/A
2018		0	80	51	43	187	0	4	0	203	2	94	N/A
2019		0	72	45	29	235	0	4	1	230	3	82	N/A
2020		0	66	57	20	88	1	1	2	111	2	103	N/A
Percentage of investigations leading to an administrative sanction													
		0	35% for PIEs/ 17% for non-PIEs	30%	15%[80]	100% for PIEs	-	80%	30%	67%	40% (non-PIEs)	100%[81] (PIEs)	N/A

74 'Investigations' refers to the extended control and check of an alleged non-compliance issue, following either an inspection that highlighted potential issues or a report from a third party (other national authorities or whistle-blowers).

75 No questionnaire available.

76 2017: audit firms – 25, statutory auditors – 60; 2018: audit firms – 39, statutory auditors – 13; 2019: audit firms – 24, statutory auditors – 2; 2020: audit firms – 5, statutory auditors – 8.

77 According to the questionnaire: N/A - new legislation implemented 2021.

78 The numbers above include investigations of PIE firms for non-PIE engagements.

79 2017: audit firms – 149, statutory auditors – 59 (in addition, in the case of compulsory in-service training, 414 statutory auditors were deleted); 2018: audit firms – 186, statutory auditors – 17 (37 statutory auditors were deleted because of non-payment of fees); 2019: audit firms – 146, statutory auditors – 84 (211 statutory auditors were deleted because of non-payment of fees, and 545 statutory auditors were deleted for lack of compulsory in-service training); 2020: audit firms – 95, statutory auditors – 16.

80 Many ongoing investigation files that did not contain any failings were forwarded to the rapporteur general when the audit reform came into force. The rapporteur general is obliged to open an investigation for each file, thus the rate of closure of cases is significant.

81 Of the investigations opened against PIE auditors, almost 100% led to sanctions.

	CY[75]	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
Number of investigations leading to criminal sanctions													
		0	0[82]	0	3	0[83]	-	0	0	3	0	0	N/A

In Czechia, the Public Audit Oversight Board (PAOB[84]) has launched no investigations against PIE and non-PIE auditors and audit firms. PAOB does not have the authority to lead a special investigation against non-PIE auditors. For administrative proceedings based on inspections, around 80% of petitions led to a sanction (at least for some breaches).

In Germany, the reported number of investigations against non-PIE auditors (in the questionnaire) corresponded to the number of proceedings initiated for (possible) infringements in statutory audits against individual auditors/natural person. To date, the Chamber of Auditors has not initiated any proceedings against audit firms. Section 71(2) on the Act on the Profession of Auditor was amended by the newly adopted Act to Strengthen Financial Market Integrity (FISG), so that proceedings against audit firms can be expected in the future. APAS[85] imposed a final sanction in around 35% of the procedures concluded between 2017 and 2020.

Italy did not provide an approximate percentage of investigations leading to a sanction, nor the number of investigations leading to criminal prosecutions. However, CONSOB[86] noted that the results of the investigations carried out on the auditors were communicated to the judicial authority in the following cases: (i) when possible elements of a criminal nature were found; (ii) upon request of the judicial authority itself; and (iii) or by CONSOB, in cases where it is aware of an ongoing criminal case.

In Poland, investigations are administrative proceedings related to the imposition of administrative sanctions (post-inspection proceedings, other administrative proceedings, excluding rectification or record-keeping proceedings), regardless of the legal basis for the initiation of these proceedings by the competent authority overseeing statutory auditors and statutory auditors' self-government bodies. The data concerned investigations initiated by the professional self-government of the Polish Chamber of Statutory Auditors (the National Disciplinary Spokesman, the National Disciplinary Court, the National Council of Statutory Auditors), and the supervisory body (previously the Audit Oversight Commission and, from 1 January 2020, the Polish Audit Oversight Agency, PANA). Due to shared tasks and administrative reform, these data are estimates. The general data do not include deletions from the register of statutory auditors due to obligations resulting from membership of the self-government of statutory auditors (obligatory professional development and payment of a membership fee). Disciplinary proceedings under the data are proceedings concerning violations of the provision of financial audit assurance services and additional services (professional activities of a statutory auditor). In 2017-2020, proceedings initiated in previous years were also conducted. Taking into account only the investigations against auditors and audit firms for potential violations of professional duty (provision of financial audit assurance services and additional services), 67% of the investigations initiated by either PANA or the Polish Chamber of Statutory Auditors led to an administrative sanction (i.e. 57% for audit firms and 89% for statutory auditors).

France and Poland are the only two countries to have had three investigations leading to criminal sanctions. In 2020 in Poland, in the case of three disciplinary investigations, PANA filed motions for penalties with the common courts. Prosecution cases initiated in 2020 concerned the suspicion that statutory auditors had committed crimes under Article 78 of the Accounting Act (three cases), under

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82 Chamber of Auditors: the feedback relates to the number of measures imposed and the number of final measures in proceedings initiated as of the entry into force of the APAReG. There have been no criminal convictions to date. In the case of audits of annual financial statements without the auditor's authorisation, the WPK can report the matter to the public prosecutor's office. There have been criminal investigations in this case, but no convictions to date.

83 A separate system in Ireland deals with criminal matters (Office of Director of Corporate Enforcement, ODCE). No cases investigated to date by the ISAAA resulted in criminal conviction.

84 https://www.rvda.cz/en

85 https://www.apasbafa.bund.de/APAS/DE/Home/home_node.html

86 https://www.consob.it/

Article 271 of the Penal Code (one case) and Article 296 of the Penal Code (one case). At the same time, PANA participated in the prosecutor's investigations initiated by the Audit Oversight Commission concerning suspicion that statutory auditors had committed crimes in connection with the audit of financial statements - six cases under Article 78 of the Accounting Act. Information on the results of criminal or penal fiscal proceedings is beyond the competence of the supervisory authority (PANA).

3.4. NCAs' views on the supervisory framework at national level

3.4.1. Impacts of the reform on financial and human resources

The majority of NCAs believe that the enforcement of the audit reform increased the need for experienced human resources and more financial resources. Several NCAs flagged having to recruit experienced – thus more expensive – legal and auditing staff, which proved difficult (see Table 38 in Annex 1 for details).

3.4.2. Appropriateness of the investigation and sanctioning systems for the implementation of the audit reform

All countries consider the existing investigation and sanctioning system appropriate for the proper implementation of the audit reform, while the measures/sanctions in place are sufficient deterrent to pursue the objectives of the reform. Not all countries made full use of all sanctions available.

According to the Swedish authorities, the only sanction still not used is the possibility for temporary suspension.

According to the German authorities, the existing investigation and sanction system is an appropriate implementation of the audit reform. The FISG, which applies from 1 July 2021, strengthens implementation of the audit reform, in part by increasing the sanction framework for imposing fines on audit firms to EUR 1 million. Until the adjustment by the FISG, the requirement to consider the frequency and uniformity of breaches of duty as a prerequisite for imposing measures on audit firms represented a relatively high hurdle when imposing measures on audit firms. Under the FISG, however, it should also be possible to sanction audit firms more effectively. Against the background of the constitutionally protected freedom to exercise one's profession (Article 12 Constitution), there are high requirements of case-law for the imposition of measures such as activity and professional bans. These measures are only routinely considered in particularly serious breaches of professional duty and are therefore only possible in exceptional cases.

In the opinion of the Spanish authorities, the scheme of inspections and investigations is appropriate for the proper implementation of the audit reform. However, this supervisory approach should be complemented with other powers over the audit market and corporate audit commissions. The ICAC noted that the measures and sanctions in place are sufficiently dissuasive, in particular the additional sanction provided for in Article 78 of the Audit Act. This sanction, applicable in case of very serious or serious offences committed in the course of an audit engagement with a particular entity, entails the prohibition of the individual auditor or audit firm and the lead auditors responsible for the engagement from carrying out further audits of the entity in question for the first three financial years starting after the date on which the sanction becomes final in the administrative jurisdiction. The publication of the sanction also has a 'reputational loss effect' that is also detrimental to auditors (in particular the publication of sanctions in the Official State Gazette, in the case of PIE auditors).

The French audit supervisor, H3C, considers the existing investigations and sanctioning system appropriate, even if their investigative powers do not include any coercive measures against the persons concerned by the investigation to avoid the risk of loss of evidence or longer investigation times in the face of uncooperative statutory auditors. The H3C's general rapporteur has a department of investigators responsible for carrying out investigations under the operational direction of a director with the assistance of a legal supervisor. They may also appoint professionals, active auditors registered on a list drawn up by the H3C, to carry out certain investigative acts. It ensures the independence of each investigator in the course of their investigations. The complexity of the investigations may also result in the appointment of an expert to work alongside the investigators to provide additional expertise. Article L824-5 of the Commercial Code vests investigators with several powers:

- Obtain from the statutory auditor, without the latter being able to invoke professional secrecy, any document or information, in any form whatsoever; they may demand a copy;
- Obtain from any person any document or information useful to the investigation; they may demand a copy;
- Summon and hear any person likely to provide them with information;
- Access the premises used for professional purposes;
- Ask auditors registered on a list drawn up by the High Council, after consultation with the national company of auditors, to carry out verifications or perform investigative acts under their supervision;
- Call upon experts.

Any person heard for the purposes of the investigation may be assisted by a lawyer.

Nevertheless, neither the investigators nor the rapporteur have the power to seize documents directly and can only require the transmission of copies of documents. Failure to cooperate with the auditors can lead to delays in the investigation process and even to the destruction of evidence.

According to the Polish authorities, the current system of investigation and imposition of sanctions correctly implements the Audit Directive. The catalogue of administrative violations defines more than 30 cases for which an audit firm may be punished.

3.4.3. Changes needed to improve the existing investigation and sanctioning regime

Several countries (ES, FR, IT, NL and NO) indicated possible changes needed to improve the existing investigation and sanctioning regime.

Spain considers that, at national level, there should be a rebalance between sanctions imposed on audit firms and sanctions imposed on their partners.

France has identified the following priority areas where changes would be desirable to improve the quality of audit work[87]:

3.4.3.1. Strengthening the role and powers of the CEAOB

The current rules allow the CEAOB to issue non-binding guidelines and provide expert advice to the Commission and to the NCAs, at their request. In order to contribute to greater harmonisation of audit oversight arrangements, the CEAOB should be entrusted with the task of establishing common guidelines applicable to its members, or obliging them to communicate the reasons they do not apply them. Considering the new challenges facing statutory auditors (importance of the use of large amounts of data in auditing, increasing risk of cyber-attacks, assurance work to be carried out in the near future on sustainability information), the CEAOB and NCAs should, without delay, be provided with extended powers and additional means to adapt supervision. The implementation of these proposals would require regulatory changes (in particular with respect to CEAOB's powers), as well as financial efforts from its members. The pooling of financial resources by CEAOB members would allow the creation of a central team and tools to complement those made available by the Commission and would limit the funding sought from the Commission.

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87 H3C, 'Open letter to the Commissioner for financial services, financial stability and Capital Markets Union, preserving and improving financial stability', 23 July 2021, https://www.h3c.org/wp-content/uploads/2021/07/2021-07-23-Courrier-McGuinness-FR.pdf

3.4.3.2. Increased transparency of audit results by audit regulators

Given the wide disparity in practices among national audit authorities in respect of the transparency of the results of quality controls carried out on statutory auditors, H3C proposes to strengthen this transparency by introducing a European-level obligation to systematically communicate the results of individual controls carried out by the NCAs on statutory auditors, both legal entities and individuals, to the audit committees concerned, and even on the mandate, where relevant. As this information is particularly useful for the shareholders of the audited entities, as well as for their audit committees, greater transparency on the results of these audits would contribute to better application of the regulatory framework by audit firms and thus to the reinforcement of audit quality.

3.4.3.3. Harmonising and strengthening the investigation powers of audit regulators

Article 23(2) of the Audit Regulation states that ‘Member States shall ensure that the competent authorities have all the supervisory and investigative powers necessary to carry out their duties under this Regulation. These should be harmonised and strengthened by providing for enforcement action where a firm limits the supervisor's access to information or, in the case of investigations, where there is a lack of cooperation. The improvement of the system of sanctions (in particular financial sanctions) should be studied further in the context of the revision of the texts of the Audit Directive and the Audit Regulation, particularly in view of recent situations that seem to indicate negligence in the application of regulations, standards, or provisions on professional ethics by statutory auditors. Faced with large networks present in all Member States, harmonisation of sanction ceilings would reinforce the credibility of the European system. It would also be useful to broaden the range of sanctions, for example by drawing inspiration from the provisions adopted by certain Member States to temporarily prohibit a statutory auditor from operating in a given sector of activity.

Italy noted that Article 30(a) of the Audit Directive could increase the harmonisation of sanctions through a more precise identification of the types of sanctions to be applied with respect to the nature and severity of the breaches detected.

The Netherlands is of the view that, under the current framework, the NCA cannot impose sanctions on an audit firm for non-compliance at engagement level. For findings in one or more specific files to be addressed at firm level, either failures in the firm’s quality control or failures in the firm’s compliance with its duty of care need to be substantiated. They emphasised the preparation underway to hold the firm responsible for breaches at engagement level.

3.5. Statutory auditors’ views on the investigation and sanctioning regime as a result of the audit reform

In order to gather feedback from statutory auditors on the investigation and sanctioning regime as a result of the audit reform in these 13 countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO), their representatives at EU level were contacted (i.e. Accountancy Europe, the European Federation of Accountants and Auditors for SMEs and the European Contact Group (ECG) representing Deloitte, Ernst and Young, KPMG, BDO, Grant Thornton and PwC). Feedback was received from Accountancy Europe and their members in 12 countries, and from a representative of one of the Big Four. No feedback was received from auditors in Poland.

Main findings on statutory auditors’ views on the investigation and sanctioning regime brought forward by the audit reform

- Associations of auditors identified a series of areas for improvement related to the implementation of the supervisory and sanctioning regime (e.g. formalistic approach not focusing on material questions, issues linked to the quality of the inspection reports, significant cost and administrative burden, difficulties for small audit companies to be compliant, potential conflicts of interest linked to the competence of the national oversight authorities (lack of experienced inspection staff);

Main findings on statutory auditors' views on the investigation and sanctioning regime brought forward by the audit reform

- Associations of auditors proposed some changes to the EU requirements related to the supervisory and sanctioning regime. They suggested more clarification on the role of the different actors during the supervision and sanctioning procedure, more cooperation between the different actors, more harmonisation at EU level, more procedural rights for auditors during investigation and sanction procedures, more detailed description of the cases of non-compliance, a more efficient sanctioning regime, limitation of the civil liability of auditors, adequate resources and funding for oversight bodies, and a more robust role for the CEAOB, with reinforced and adequate powers.

3.5.1. Areas for improvements on the supervisory and sanctioning regimes in place at national level

Some members of Accountancy Europe reported a series of areas for improvements related to the implementation of the supervisory and sanctioning regime in France, Germany, Ireland, Italy, Lithuania, Romania and Spain.

The German member of Accountancy Europe noted a perception within the profession that supervision does not always concentrate on material issues, but can appear quite formalistic. It stresses that a focus on material questions from supervisory authorities could help to improve audit quality.

The French member of Accountancy Europe raised several concerns:

- Inspection reports typically do not include recommendations on what should have been done. They therefore miss the learning dimension that could be expected from a quality assurance system;
- Inspection reports are often issued very late after the inspection and it is unclear whether the contradictory phase where the auditor can respond to the inspectors' findings has been properly conducted;
- Inspectors have their own interpretations of the auditing standards, and those interpretations are not always harmonised, creating different rules.

The Irish member of Accountancy Europe highlighted that, while accepting that independent oversight of statutory audit is necessary and in the public interest, this comes at considerable cost and significant administrative burden. It stressed that it received comments from audit firms considering that the level of oversight by the NCA was excessively intrusive and ever-increasing (e.g. significant number of surveys at the request of the CEAOB; increasing number of audits subject to inspection, year on year; certain inspection activity taking place during peak reporting season, with a potential detrimental impact on audit quality).

The Lithuanian member of Accountancy Europe noted that small audit companies at the start of the implementation of the supervisory regime had difficulties in complying and requested stronger methodological guidance. The situation has improved but small audit companies still experience a lack of human resources and IT-related competencies to properly comply with the rules.

The Spanish member of Accountancy Europe reported several concerns:

- Sanctioning system has had consequences for the auditors' civil liability regime (sanctions are often used to claim different kinds of damage), leading to an increase in costs of the insurance policies and/or a significant reduction of coverage by insurers;
- There are problems linked to the proportionality of sanctions, as they are calculated on the basis of the annual audit turnover of the firm rather on the relevance of the breaches or on the audit fees. The same breach may therefore be subject to different sanctions;

- Sanctions are enforced and published before the final judicial judgment is issued, generating reputational impacts and loss of clients as irreparable damage in cases where the sanction is finally dismissed.

The Italian member of Accountancy Europe considers that:

- Inspection procedures are long, with tight deadlines to address requests, including in the most intense busy seasons;
- Sanctioning procedures on the audit carried out overlap with other forms of verification and control under the NCA jurisdiction, as well as other authorities (e.g. the Bank of Italy). This affects auditors' current activities as it creates overlapping investigations, risking an accumulation of sanctions based on the same audit activity;
- The NCA can have a potential conflict of interest in ascertaining negligence in the auditor's activity since it is responsible for the supervision of listed companies and financial markets, as well as statutory audit activities for PIEs/entities subject to an intermediate regime. In practice, claims for damages are sometimes raised against CONSOB in relation to cases in which auditors under their supervision and oversight are also named as defendants.

The Romanian member of Accountancy Europe indicated that the law transposing the Audit Directive requires that the quality control reviewers must have at least seven years' experience as statutory auditors, of which at least three years must be PIE audit work, making it very difficult for the supervisory body to find experienced inspection staff.

No concerns were raised by the other members of Accountancy Europe in the selected countries[88].

A representative of one of the Big Four stated that, in general, the procedures in place are operating well and the information requests have been reasonable. It stressed the following areas of improvements:

- Inspection process can be lengthy and certain requests have been excessive, including immaterial items;
- Audit reform is interpreted differently by regulators in the respective EU territories, leading to potential financial burden without providing better safeguards or reducing threats to auditor independence or enhancing the quality of the audit;
- Communications with inspectors have been more difficult in a remote environment;
- Certain firms have raised concerns about the commensurability of sanctions (e.g. sanctions are calculated based on the annual audit turnover of the firm rather than on the nature and impact of the breaches or on the audited entity's audit fees, resulting in the same breach being subject to different sanctions);
- Publication and enforcement of sanctions in certain jurisdictions before a final judicial decision is made generates reputational damage in cases where the sanction is ultimately dismissed.

3.5.2. Statutory auditors' views on the supervisory and sanctioning framework at EU level

Several members of Accountancy Europe (CY, DE, FR, IE, LT, NL, SE) and a representative of one of the Big Four identified areas for improvement related to the EU supervisory and sanctioning regime set as a result of the audit reform.

3.5.2.1. More clarification on the role of the different actors during the supervision and sanctioning procedure

The Audit Directive does not differentiate between PIEs and other companies. All sizes of company are treated in the same manner, independent of the extent of public interest exposure, systemic importance and size of the statutory audit firms.

88 Accountancy Europe does not have members in PL and the Polish association representing auditors did not respond to the questionnaire.

There should be a clear distinction between national regulators[89] and recognised bodies of auditors with respect to their obligations, jurisdiction and tasks, to facilitate a more robust, timely and appropriate (proportional) sanctioning system.

The oversight bodies can be, to some extent, 'judge and jury'. A clear separation between those who make the rules (standard setters), those who control their application (inspectors) and those who 'sanction' breaches (disciplinary courts) would enhance the overall control of audit quality.

The EU audit legislation should clarify the difference and the necessary separation between quality control, and the enforcement activity carried out by national authorities.

The Audit Directive could provide greater clarity on the respective roles of the host and home Member States regarding sanctions and investigations where Member State auditors/firms perform audits in a host Member State. Article 34(1) of the Audit Directive draws a distinction between 'quality assurance review' and 'oversight' but there is no further elaboration on what is meant by those two expressions. 'Oversight' in the host state is confined to oversight of audits carried out there, but its meaning in the context of investigations and sanctions is not clear, in particular whether this extends only to investigations relating to matters pertinent to the host Member State (e.g. involving requirements arising under local law), or whether it is broader and applies to any investigations that relate to the audits undertaken in the host Member State, including broader audit matters.

3.5.2.2. More cooperation between the different actors

There should be enhanced cooperation and consultation between different actors (i.e. the European Commission, CEAOB, national oversight boards and national recognised bodies of auditors).

3.5.2.3. More harmonisation

A more harmonised approach would be helpful for minor violations of professional duties that do not threaten professional independence.

The EU audit legislation should guarantee a level playing field for investigation and sanction regimes within the EEA. At the same time, investigations should recognise that quality systems are risk-based and cannot guarantee 100% compliance.

Assigning an increased mandate to the CEAOB would increase the necessary harmonisation within the EU.

Harmonisation of the interpretation of the Audit Regulation between the Member States, including a consistent framework for determining sanctions, would reduce the administrative burden of complying with the regime and provide an enhanced focus on audit quality.

3.5.2.4. More procedural rights

The EU legislation should encourage Member States to set up rules on the opposition to sanctions before a third and impartial court, with full powers to re-examine the facts.

The EU audit legislation should ensure that the person charged with sanctioning proceedings is able to be formally heard by the body imposing the sanction.

3.5.2.5. More detailed description of cases of non-compliance

References such as 'non-compliance with the ISAs and the code of ethics' are too general and could be interpreted in a very narrow manner, converting minor weaknesses into serious disciplinary offences. This could complicate the disciplinary process and cause bottlenecks due to excessive disciplinary actions.

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[89] National regulators are the authorities in charge of developing the national legal framework through technical standards, ethical norms, interpretative guidelines.

3.5.2.6. Limitation of civil liability of auditors

Limitation of civil liability of auditors would avoid the excessive increase of insurance costs and/or reduced coverage by insurers.

3.5.2.7. CEAOB with reinforced and adequate powers

A more robust regulator at EU level, with reinforced and adequate powers given to the CEAOB.

3.5.2.8. Adequate resources for oversight bodies

Currently, there are divergencies among countries in respect of the resources and funding of public oversight of audits. Ensuring adequate resources and funding would reduce those discrepancies.

4. Data analysis of reporting requirements for statutory auditors/audit firms

This chapter assesses the level of compliance of auditors and audit firms of PIEs and non-PIEs with the current requirements for audit reports. The assessment is based on a large sample of audit reports, almost exclusively from the financial years 2019 or 2020 for both PIE and non-PIE entities in 13 selected countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO).

The PIE and non-PIE audit reports were analysed based on an assessment grid template designed to reflect the relevant legal requirements and a pilot phase on a sample of reports. The grid allowed all audit reports to be assessed against the same criteria, giving consistent qualitative and quantitative results.

This chapter first describes the selection of the sample of audit reports for analysis, then presents the result of the assessment of compliance with the various legal requirements for audit reports set out in the Audit Directive and Audit Regulation.

Main findings on the data analysis on reporting requirements on audit reports for statutory auditors/audit firms

The audit reports were assessed based on random samples of PIEs and non-PIEs at country level, ownership, type of sector, size of company, and type of listing. The total sample covered 869 audit reports (500 for PIEs; 369 for non-PIEs) published with the annual financial statements for the years 2018 to 2020.

The audit reports for most of PIEs and non-PIEs appear to be compliant.

- The majority of the audit reports for PIEs and non-PIEs appear to comply with statutory requirements under Article 28(2) points (a) to (c) of the Audit Directive. The large majority of the audit reports include an unqualified opinion (98% PIEs; 97% non-PIEs), indicate the applicable reporting framework (99% PIEs; 99% non-PIEs), indicate that the annual financial statements gave a true and/or fair view (99% PIEs; 90% non-PIEs). This means that about one-tenth of the audit reports for non-PIEs does not include a true and/or fair opinion. Unlike the PIEs, the majority of the audit reports for non-PIEs does not cover the work undertaken;
- The majority of the audit reports for PIEs appear compliant with the nomination requirements under Articles 10 and 17 of the Audit Regulation. The large majority indicate who is responsible for the appointment of the statutory auditor (89% PIEs) and date of appointment (89% PIEs). The date is indicated in different formats (date, number of years, etc.). About one-quarter of the PIEs had an audit engagement with the same audit firm for more than seven years, which is the applicable maximum period for rotation after the transition arrangements;
- On most of the other Article 10 requirements, the audit reports are largely compliant (between 84% and 94% PIEs), including supporting information on the audit opinion, considered capability of detecting irregularities, confirmation of consistency with additional report to audit committee, and declaration that NAS were not provided. The only exceptions are the capability to detect irregularities of PIEs, which are indicated in the audit reports for nearly all PIEs (99%). In turn, the additional services provided are only indicated for a minority of PIEs (12%);
- The PIEs (83% or more compliance depending on the element) are slightly more compliant than non-PIEs (62% or more, depending on the element) with the requirements related to the opinion on the management report under Article 34 of the Accounting Directive. The consistency of management report with the financial statements is explicitly mentioned in the large minority of the management reports (43% PIEs; 39% non-PIEs), for most of the others there is an indication about the equivalent ot the management report and implicit indication as part of the other information. Most of the audit reports indicate whether the management report is in accordance with the legal requirements (94% PIEs; 84% non-PIEs) and material mis-statements (83% PIEs; 62% non-PIEs);

Main findings on the data analysis on reporting requirements on audit reports for statutory auditors/audit firms

- The reference to corporate governance of listed PIEs is often not included in the audit report as defined under Article 20(3) of the Accounting Directive (29% PIEs);
- The analysed audit reports do not appear to go beyond the legal requirements;
- The audit reports are largely comparable across Member States. There are several more substantial differences, including the wording on whether the annual financial statements give a true and fair view, indication of any material mis-statements in the management report, statement about auditor's work undertaken in audit report by country (non-PIEs only), and total uninterrupted engagement of statutory auditor of PIEs across countries.

4.1. Description of the sample

For the audit report assessment, random samples were selected for PIEs and non-PIEs at country level. Where necessary, these random samples were extended with additional random selections to ensure adequate representativeness (ownership, type of sector, size of company, type of listing).

The samples were selected from among PIEs and non-PIEs. The PIEs were identified from the information obtained from the lists of PIEs included in the transparency reports published by audit firms. The lists of PIEs included in the transparency reports were compiled by Audit Analytics. To identify the different types of PIEs, the lists of regulated shares and corporate bonds were obtained from the regulated markets as listed by ESMA, the credit institutions were identified based on the official list from the ECB, and the insurance undertakings based on the official list published by EIOPA.

The sample of non-PIEs was drawn from the list of non-PIEs derived from the database with limited liability entities developed by CEPS[90]. The PIEs and entities without audit requirements (e.g. micro and small companies) were excluded from the CEPS 2021 database for the sample selection.

The necessary corporate ownership and financial information to establish various characteristics of the entities was obtained from Orbis Europe.

For each of the selected entities the annual report, including the audit reports, were obtained from:

- Audit Analytics;
- Corporate websites;
- National registers.

If the annual report (including the audit report) could not be obtained for a company using any of the three above-listed sources, the entity was replaced in the sample by another randomly selected entity.

In total, 869 audit reports were analysed for the compliance assessment (Figure 2). More than half of the audit reports were for PIEs (500 entities, 58%) and a significant minority for non-PIEs (369 entities, 42%). The non-PIE sample is smaller because fewer sub-categories needed to be covered[91] and due to limited availability of annual reports in the national registries.

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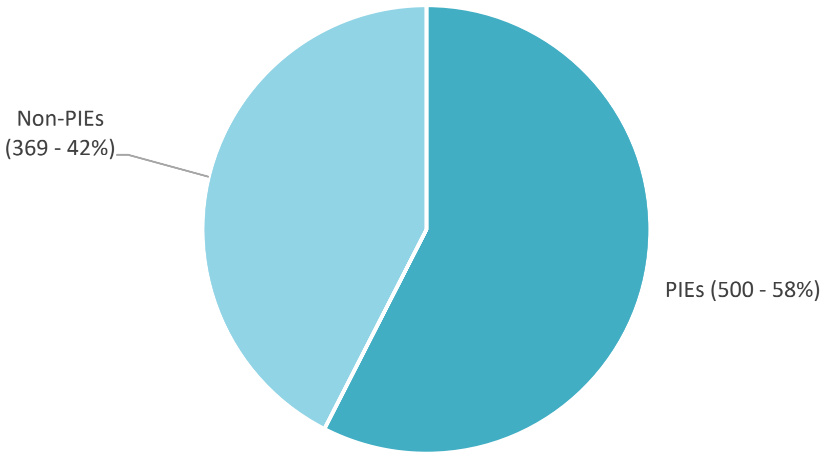
[90] CEPS, *Study on the Non-Financial Reporting Directive*, 2021, European Commission, Brussels, https://op.europa.eu/en/publication-detail/-/publication/1ef8fe0e-98e1-11eb-b85c-01aa75ed71a1/language-en.

[91] The non-PIEs were all in one type of sector and type of listing, as defined in the context of this study. Company size categories were more limited, as only medium and large non-PIEs have an audit requirement.

Figure 2: Distribution of PIEs and non-PIEs in sample (share of sample)



Source: Authors, based on sample analysis, 2021.

Based on this random selection, the results should be within a 15% error margin and a 90% confidence interval for the individual categories.

4.1.1. Country distribution

The sample of countries was selected to ensure geographical balance and cover both smaller and larger Member States in the EU, and Norway.

The final sample consists of 12 Member States and Norway. The sample of Member States was based on geographical location (East [3], West [3], North [3], and South [3]), size of the Member State in terms of GDP (smaller [3], larger [9]), number of PIEs according to Audit Directive scope (smaller [4], larger [8]) and non-PIEs according to the Accounting Directive scope and threshold (smaller [4], larger [8]).

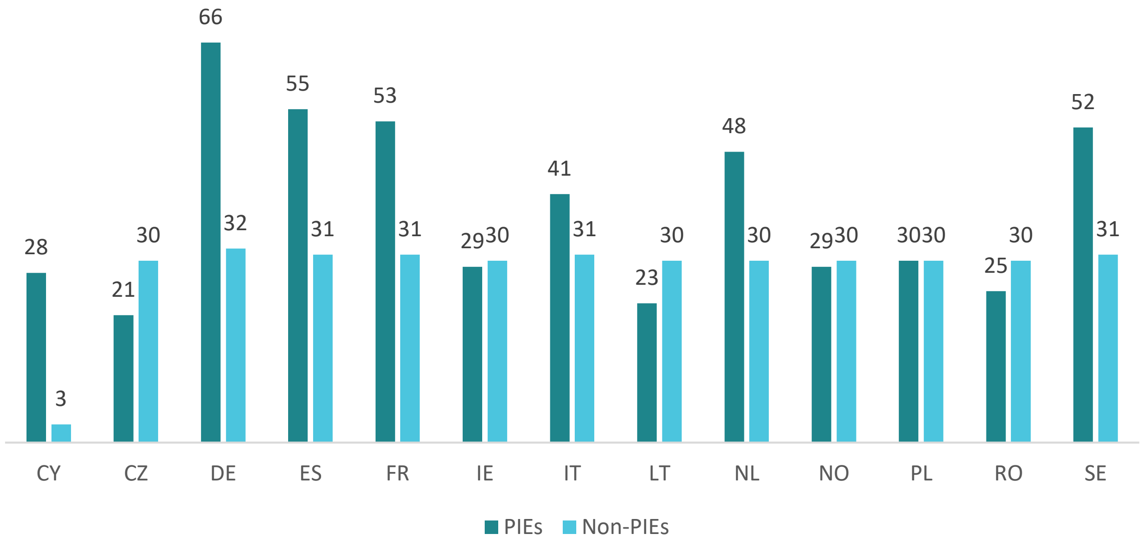
The sample consists of comparatively larger Member States to enhance the representativeness. The countries covered in the analysis represent more than 70% of the EU economies (in terms of GDP) and are host to the majority of European PIEs and non-PIEs.

For a representative sample at country level, the minimum number of PIEs in individual Member States should range between 21 in Czechia and 30 in France, Germany and Poland. Due to the necessary increase of the sample to meet the minimum numbers for representativeness for the various categories, substantially more entities were included from the countries with many PIEs, including Germany (66 entities), Spain (55), France (53), Sweden (52), and the Netherlands (48).

Coverage was more consistent for non-PIEs across the selected countries, in view of the limited need to extend the sample to obtain representative samples for the various sub-categories. The minimum number of non-PIEs in individual Member States for a representative sample range between 30 and 31, depending on the number of non-PIEs in the country (Figure 3). This number is somewhat higher than for PIEs, due to a larger population of non-PIEs than PIEs in the selected countries. The number of non-PIEs covered in all selected countries ranged between 30 and 32, except for Cyprus[92].

[92] For CY, all identified non-PIEs with an audit obligation were checked in the national registry, with only three including digital copies of their annual financial statements, including an audit report for 2018 or later.

Figure 3: Distribution of PIEs and non-PIEs, by country (number of observations)



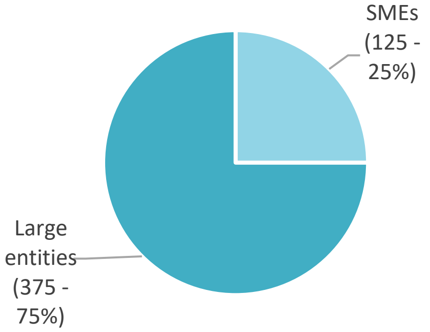
Source: Authors, based on sample analysis, 2021.

4.1.2. Size distribution

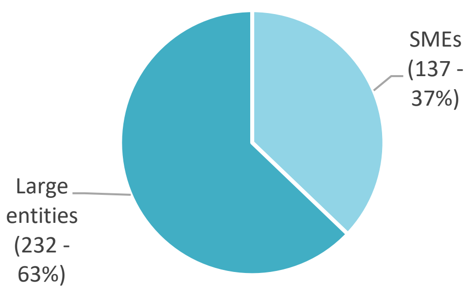
All PIEs have an audit requirement, while only the medium-sized and large non-PIEs are subject to an audit requirement. This is also reflected in the size of the companies in the sample (Figure 4). The sample of PIEs is about three-quarters large entities, as defined in the Accounting Directive[93] (375 entities or 75% of sampled PIEs), while the remainder consists of SMEs (125 entities or 25%). The sample of non-PIEs is nearly two-thirds large entities (232 entities, 63% of sampled non-PIEs) and just over one-third SMEs (137 entities, 37%).

Figure 4: Distribution by entity size (number of observations)

a) PIEs



b) Non-PIEs



Source: Authors, based on sample analysis, 2021.

4.1.3. Type of sector and listing

According to the Audit Directive, at least entities with shares and/or bonds listed at regulated markets, credit institutions and insurance undertakings are classified as PIEs. In addition, Member States can opt to bring other entities within scope. The majority of the PIEs in the sample are listed companies, excluding banks and insurance companies (360 entities, 72% of the sampled PIEs), followed by banks (72 entities, 14%) and insurance companies (68 entities, 14%) (Figure 5).

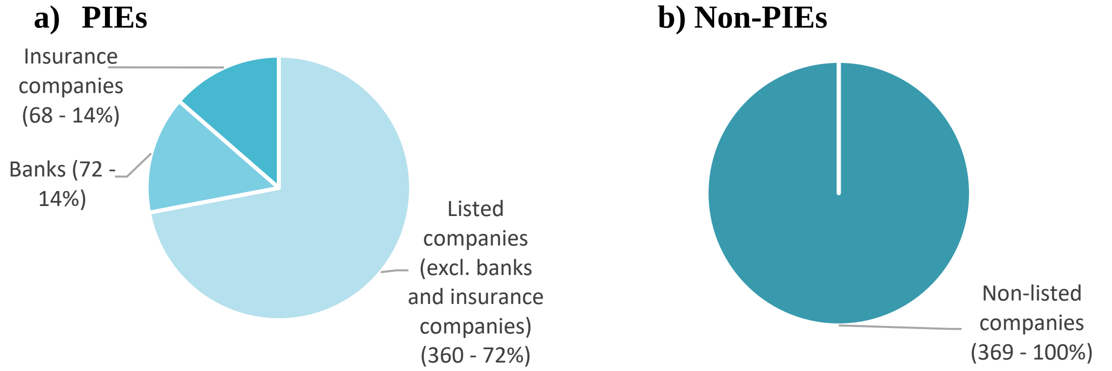
Looking at the type of listing, the majority of the PIEs in the sample have only shares or a combination of shares and bonds listed on EU regulated markets (391 entities, 78% of the sampled PIEs) and 4%

[93] Entities exceeding two out of three criteria, including balance sheet total of EUR 20 million, net turnover of EUR 40 million, or average 250 employees, as specified in Article 3 of the Accounting Directive.

of PIEs have only bonds listed on EU regulated markets (Figure 6). The remaining PIEs (18%) are not listed.

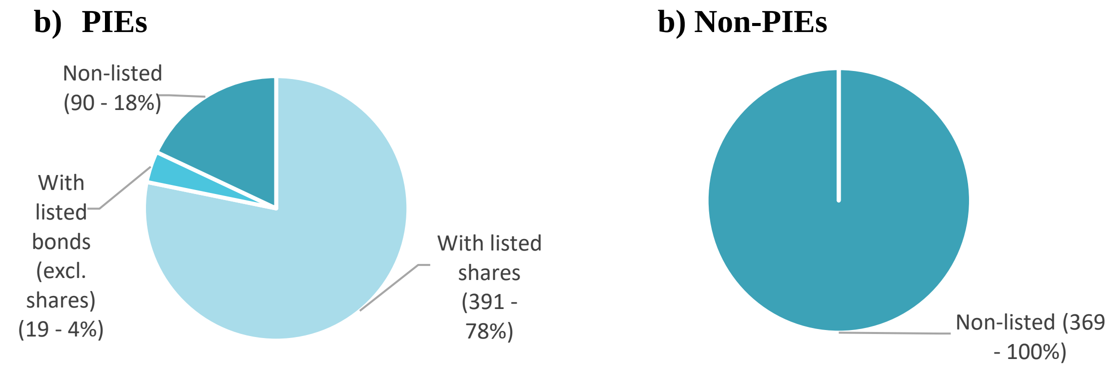
All non-PIEs are not listed, thus the sample does not include any entities listed outside the EEA or alternative markets that could be classified as non-PIE.

Figure 5: Distribution by type of sector (number of observations)



Source: Authors, based on sample analysis, 2021.

Figure 6: Distribution by type of listing (number of observations)



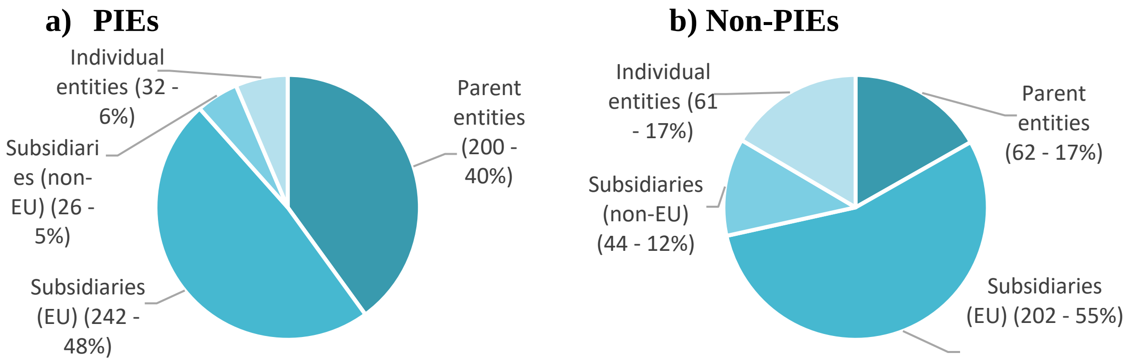
Source: Authors based on sample analysis (2021)

4.1.4. Type of corporate structure

The audit of a corporate group is often performed by the same audit network. To ease the consolidation, companies often prefer their subsidiaries follow the same audit standard.

The sample with PIEs contains many parent undertakings (Figure 7). The parent undertakings (200 entities, 40% of sampled PIEs) and individual entities (32 entities, 6%) account for nearly half of the PIE sample. The other half of the PIE sample forms part of EU or non-EU corporate groups. In turn, among the non-PIEs, the number of parent undertakings (62 entities, 17% sampled non-PIEs) and individual entities (61 entities, 17%) is just over one-third smaller than in the PIE sample. The share of non-EU owned entities is significantly larger (44 entities, 12%). The differences in the sample composition reflect the differences in the population of PIEs and non-PIEs.

Figure 7: Distribution by ownership (number of observations)

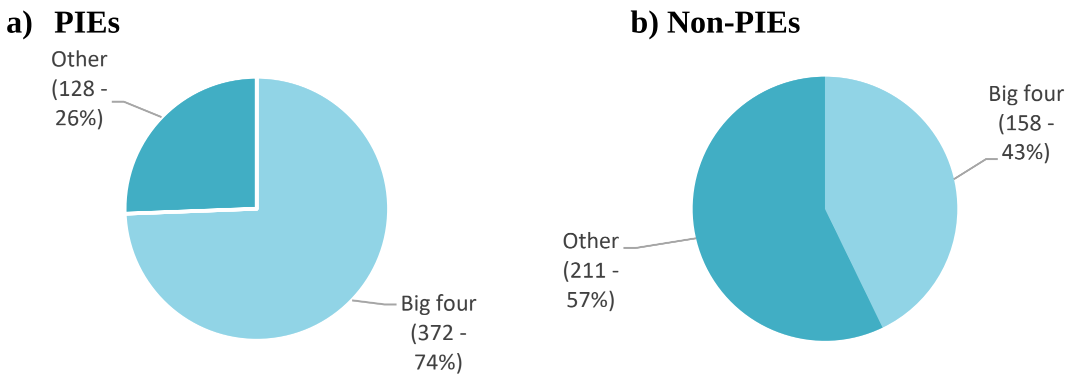


Source: Authors, based on sample analysis, 2021.

4.1.5. Auditor or audit firm responsible for audit

The Big Four lead the audit, with relatively more PIEs than non-PIEs (Figure 8). They were responsible for about three-quarters of the audits of the sampled PIEs (372 entities, 74% of sampled PIEs) and less than half of the audits of the sampled non-PIEs (158 entities, 43% of sampled non-PIEs). The audits of the remaining entities were led by auditors and audit firms that do not belong to one of the Big Four networks.

Figure 8: Big Four vs non-Big Four audit firms (number of observations)

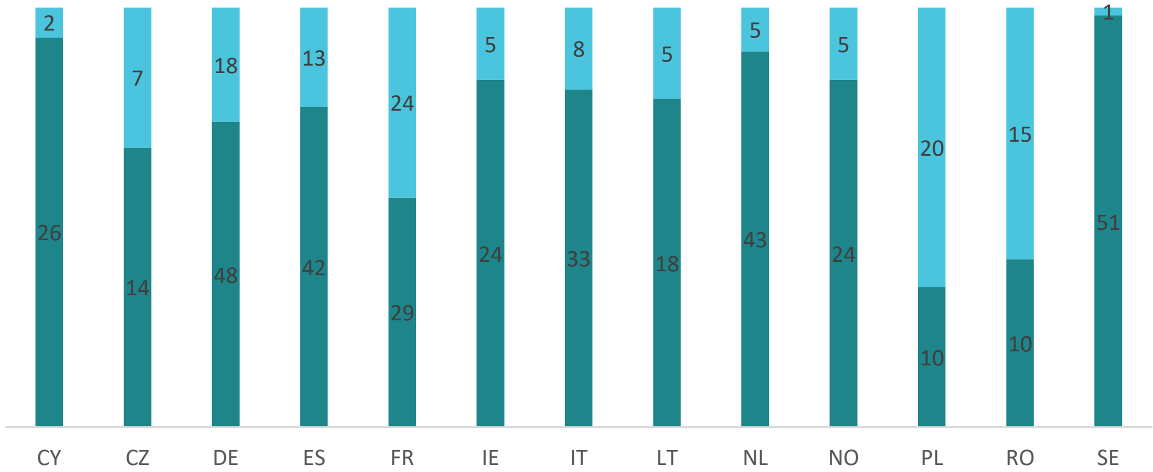


Source: Authors, based on sample analysis, 2021

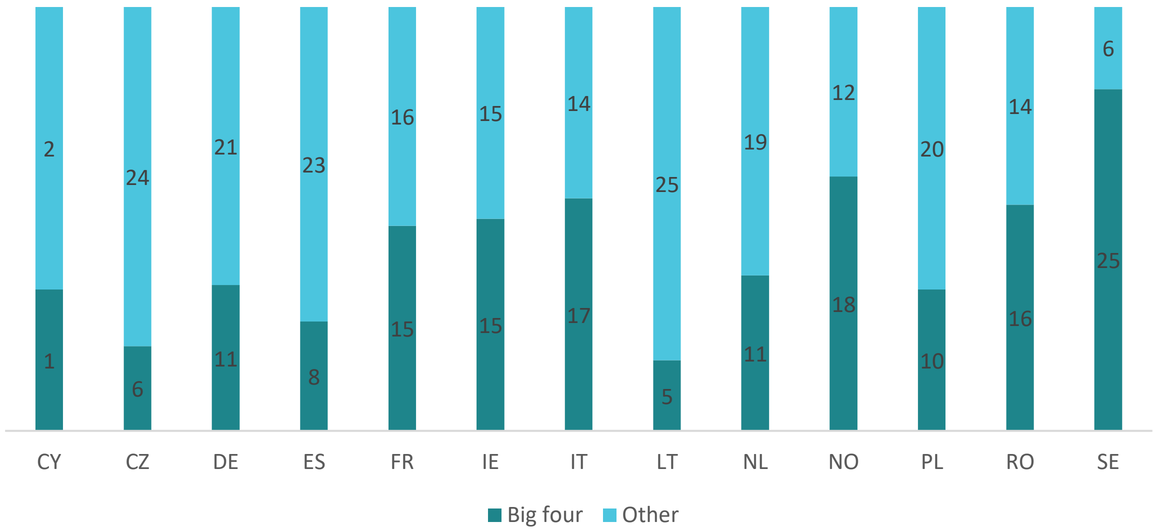
In Italy, Sweden and Norway, the majority of the PIEs and non-PIEs in the sample were audited by one of the Big Four (Figure 9), whereas the majority of the PIEs and non-PIEs in Poland and Romania were audited by auditors/audit firms outside the Big Four.

Figure 9: Distribution across Member States, by auditor type (number of observations)

a) PIEs



b) Non-PIEs



Note: In case of joint audits with multiple auditors involved, the main auditor in terms of audit fees received is considered.
Source: Authors, based on sample analysis, 2021.

4.2. Opinion on financial statements' compliance with statutory requirements

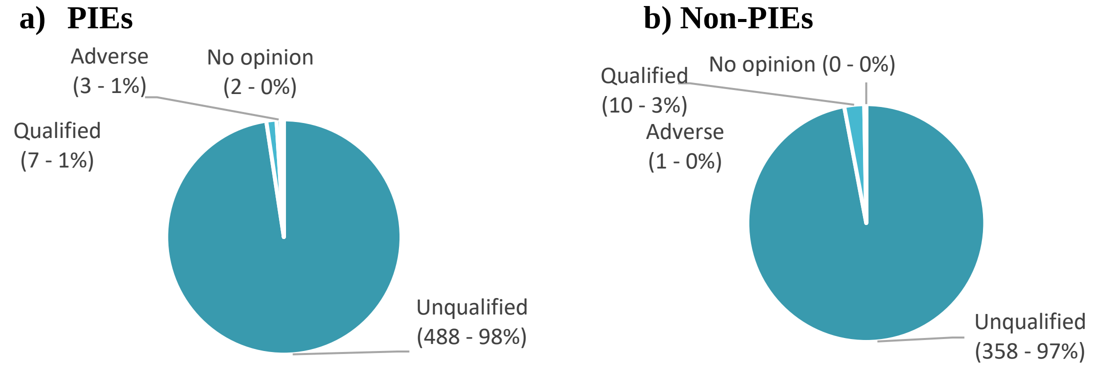
According to Article 28(2) point (c) of the Audit Directive, which applies to both PIEs and non-PIEs, statutory auditors and audit firms are required to:

a) *provide an opinion on financial statements' compliance with statutory requirements, which shall be either unqualified, qualified or an adverse opinion and shall state clearly:*
   i. whether the annual financial statements give a true and fair view in accordance with the relevant financial reporting framework; and,
   ii. where appropriate, whether the annual financial statements comply with statutory requirements.

b) *If the statutory auditor/audit firm is unable to express an audit opinion, the report shall contain a disclaimer of opinion.*

Almost all of the audit reports for both PIEs and non-PIEs provided an opinion on the compliance of financial statements with statutory requirements (Figure 10). In nearly all cases, the audit reports for PIEs provided an unqualified opinion (488 audit reports, 98% for sampled PIEs). There are a few exceptions in which the auditors or audit firm(s) expressed a qualified (7 audit reports, 1% for sampled PIEs) or adverse (3 audit reports, 1%) opinion. The shares of unqualified opinions were slightly lower for non-PIEs than PIEs (358 audit reports, 97% of audit reports for sampled non-PIEs). Those were the auditors or audit firm(s) that expressed a qualified (10 audit reports, 3% for sampled non-PIEs) or adverse (1 audit report, or <0.5% for sampled non-PIEs) opinion.

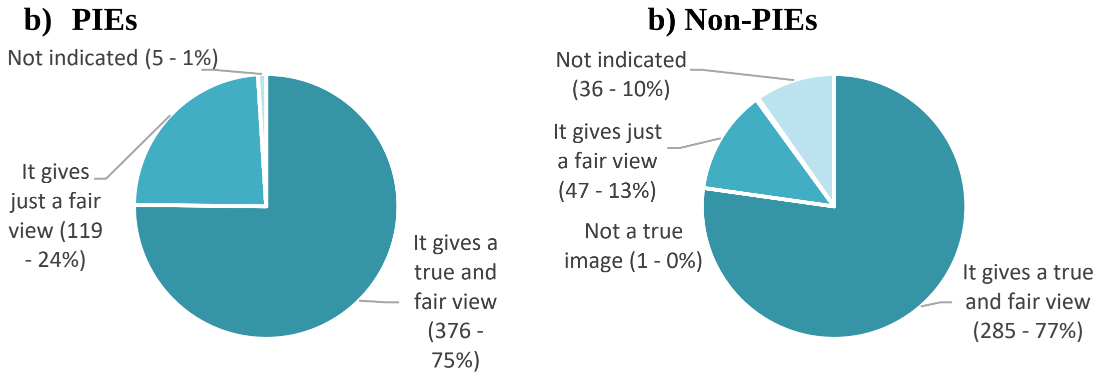
Figure 10: Type of auditor(s) opinion on financial statements' compliance with statutory requirements (number of observations)



Source: Authors, based on sample analysis, 2021.

The obligation to give a 'true and fair view' on the financial statements was not implemented consistently (Figure 11). Three-quarters of the audit reports for PIEs stated that the annual financial statements gave a 'true and fair view' in accordance with the relevant financial reporting framework (376 audit reports, 75% of the sampled PIE reports). Around one-quarter of the audit reports for PIEs expressed only a 'fair view', followed by just 1% that did not indicate any view in the audit reports for PIEs. Similarly, the majority of the audit reports for non-PIEs stated that the annual financial statements gave a 'true and fair view' (285 audit reports, 77% of sampled non-PIE reports). This was followed by over one-tenth expressing only a 'fair view', while the remainder provided no indication. The deviations from 'true and fair view' are partially explained by linguistic issues, as the translation into the national language of some countries (e.g. SE) only considers the true or fair view. One audit report for non-PIEs referred to 'not a true image' regarding the compliance of financial statements with statutory requirements.

Figure 11: True and fair view of annual financial statements (number of observations)



Source: Authors, based on sample analysis, 2021.

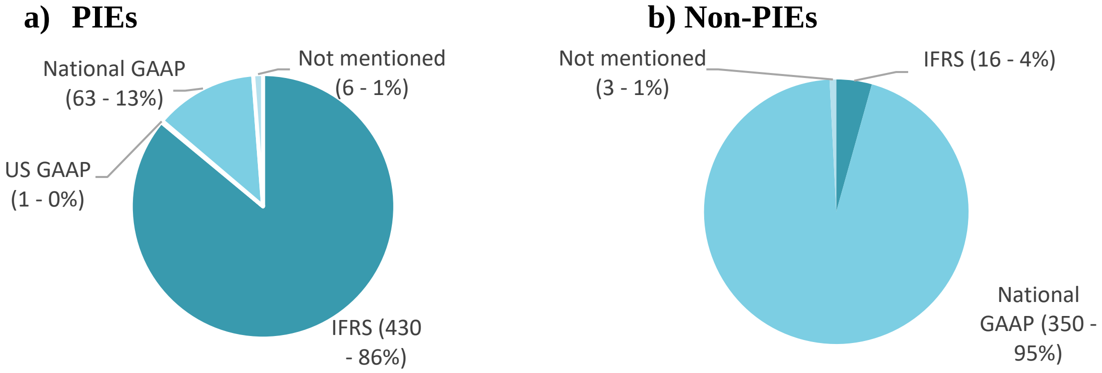
4.3. Additional information to that required under Article 28 of the Audit Directive

In addition to the obligation of the provision of an opinion on financial statements' compliance with statutory requirements[94], Article 28(2) of the Audit Directive states that the statutory auditor/audit firm must:

(a) identify the entity whose annual or consolidated financial statements are the subject of the statutory audit; specify the annual or consolidated financial statements and the date and period they cover; and identify the financial reporting framework that has been applied in their preparation

All the audit reports in the sample provided an identification of the audited entity. The audit reports also all provided the date and the period covered by the financial statement. In case of auditing standards to be followed, most of the audit reports for PIEs identified such standards, with only a small fraction giving no indication (Figure 12). For the majority of PIE entities, statutory audit was conducted in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU (430 entities, 86% of sampled PIEs), and over one-tenth of audit reports for PIEs were conducted in accordance with national generally accepted accounting principles (GAAP). Only one report in the sample for PIEs indicated conducting the audit in accordance with United States (US) GAAP. For non-PIEs, nearly all statutory audits were conducted in accordance with national GAAP (350 reports, 95% of sampled non-PIEs). The remaining audit reports for non-PIEs were conducted in accordance with IFRS (16, 4%) or the reporting framework was not mentioned (3, 1%).

Figure 12: Reporting frameworks indicated in the audit report (number of observations)



Source: Authors, based on sample analysis, 2021.

(b) include a description of the scope of the statutory audit which shall, as a minimum, identify the auditing standards in accordance with which the statutory audit was conducted;

The majority of the audit reports in the sample explicitly stated the scope of the statutory audit and identified the auditing standards (national/international) followed by the audit. In France, Germany, the Netherlands and Spain, the majority of the companies indicated conducting the audit in accordance with national standards. Countries such as Italy, Romania and Sweden referred to the ISA as their audit framework. Finally, companies in Czechia, Ireland, Norway, Poland, Romania and Sweden referred to both ISA and national standards.

(c) refer to any other matters to which the statutory auditor(s) or the audit firm(s) draw(s) attention by way of emphasis without qualifying the audit opinion;

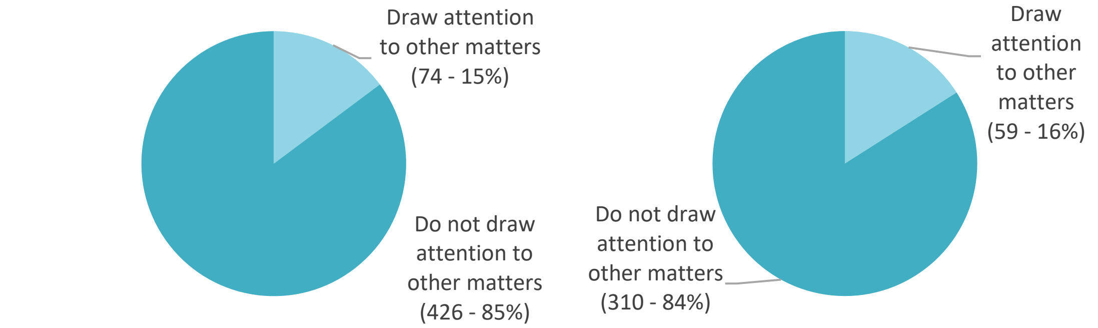
Overall, a small proportion of the audit reports for PIEs included a reference to any other matters to which the statutory auditor or the audit firm must draw attention (Figure 13, 74 audit reports, 15% of for sampled PIEs). Similarly, the majority of the audit reports for non-PIEs did not make reference to any other matters needing attention (310 audit reports, 84% for the sampled non-PIEs). More

[94] Article 28(2) point (c) of the Audit Directive.

specifically, audit reports dating from 2019 and 2020 usually drew attention to the company situation against the COVID-19 crisis, pointing out its impact on the financial statements of the entity. In addition, some others drew attention to company specific matters, usually indicated with a reference to the financial statements.

Figure 13: Indication of any other matters in the audit report (number of observations)

a) PIEs **b) Non-PIEs**



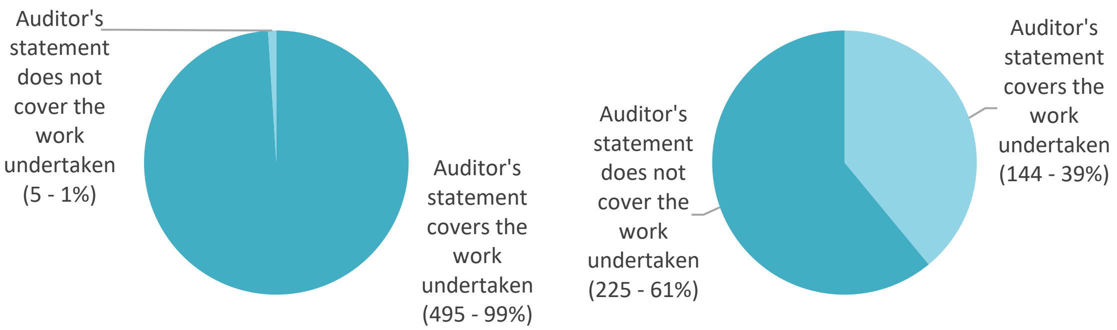
Source: Authors, based on sample analysis, 2021.

(d) *include an opinion and statement, both of which shall be based on the work undertaken in the course of the audit, referred to in the second subparagraph of Article 34(1) of Directive 2013/34/EU;*

The large majority of the audit reports for PIEs included a statement about the work undertaken by the auditor during the stationary audit (495 audit reports, 99% for the sampled PIEs) (Figure 14). For non-PIEs, over one-third of the audit reports provided such a statement (144 audit reports, 39% for the sampled non-PIEs).

Figure 14: Statement about auditor's work undertaken in audit report (number of observations)

a) PIEs **b) Non-PIEs**



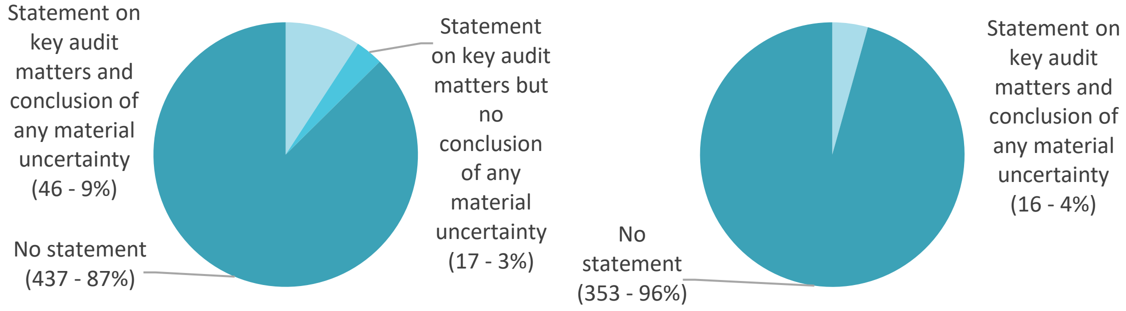
Source: Authors, based on sample analysis, 2021.

(e) *provide a statement on any material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern;*

The vast majority of the audit reports for PIEs did not include any statement on material uncertainty (437 audit reports, 87% for the sampled PIEs) (Figure 15), and several provided a statement on key audit matters that, in the auditor's professional judgement, were the most significance matters detected (46 audit reports, 9% for sampled PIEs). Most of the audit reports that made such a statement, also drew a conclusion on any material uncertainty (very few audit reports made a statement but did not provide a conclusion on material uncertainties). Nearly all of the audit reports for non-PIEs did not include a statement on material uncertainties (353 audit reports, 96%).

Figure 15: Statement on any material uncertainties (number of observations)

a) PIEs **b) Non-PIEs**



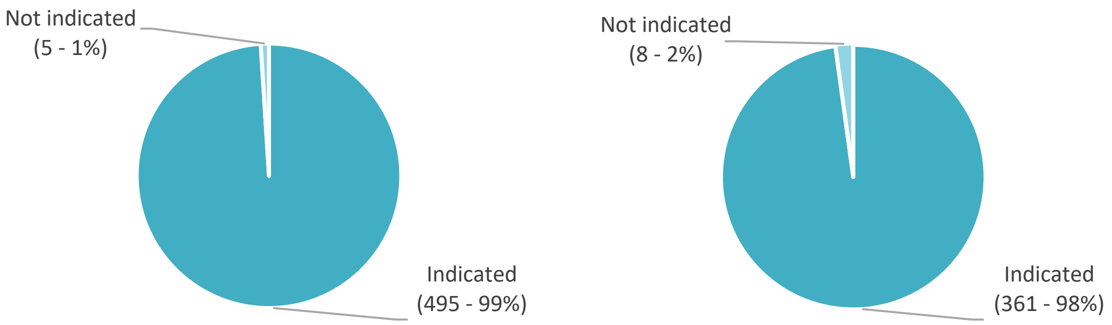
Source: Authors, based on sample analysis, 2021.

(f) <u>identify the place of establishment</u> of the statutory auditor(s) or the audit firm(s).

Nearly all of the audit reports assessed provided an identification of the place of establishment of the audited entity (Figure 16). However, there were differences across Member States in the level of detail given. Some only indicated the country, whereas others also indicated the city or the full address of the audit firm(s). Another observation was where this information is indicated: the majority stated this information next to the signature of the auditor, while some gave it in the header of the audit report.

Figure 16: Identification of place of establishment of the statutory auditor(s) or the audit firm(s) (number of observations)

b) PIEs **b) Non-PIEs**



Based on the sample of audit reports analysed, no further information was detected in addition to that required by Article 28 of the Audit Directive.

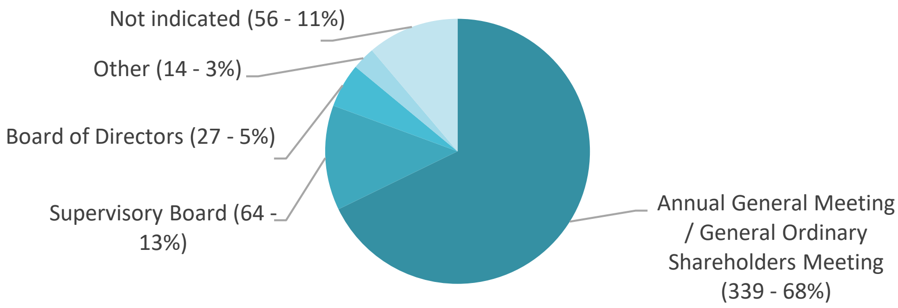
4.4. Additional information to that required under Article 10 of the Audit Regulation

Under Article 10 of the Audit Regulation, which applies only to PIEs, the audit report must provide at least information on:

(a) by whom or by which body the <u>statutory auditor was appointed</u>,

The large majority of audit reports for PIEs stated by whom or by which body the statutory auditor was assigned (Figure 17, 444 audit reports, 89% for the sampled PIEs). Of the audit reports providing that information, about two-thirds stated that ‘Annual General Meeting/General Ordinary Shareholders Meeting’ assigned the auditor/audit firm (339 audit reports, 68% for the sampled PIEs), followed by over one-tenth ascribing the decision to the supervisory board. The remaining audit reports indicated the Board of Directors, audit committee or other bodies.

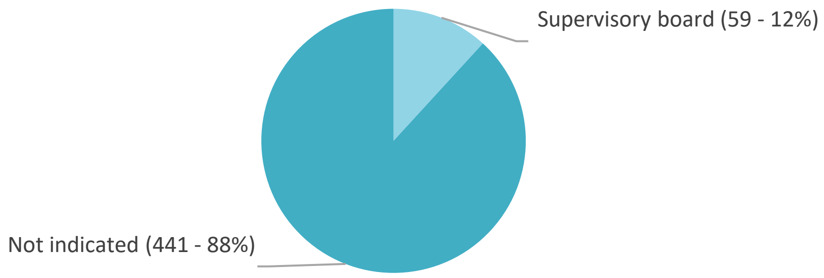
Figure 17: Body responsible for appointment of statutory auditor of PIEs (number of observations)



Source: Authors, based on sample analysis, 2021.

Most of the reports did not refer to approval of the auditor/audit firm (441 audit reports, 88% for the sampled PIEs), with very few stating that the auditor/audit firm was approved by the supervisory board (Figure 18). The only exception was the audit reports of German entities, in which the majority indicated that they had been appointed by the supervisory board.

Figure 18: Indication of who approved the audit firm (number of observations)

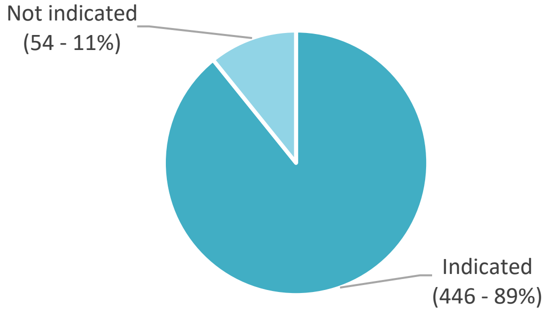


Source: Authors, based on sample analysis, 2021.

(b) *the* <u>*date of the appointment*</u> *and* <u>*the period of total uninterrupted engagement*</u>*, including previous renewals and reappointments of the statutory auditor,*

The vast majority of the audit reports specified the date of the appointment or the period of total uninterrupted engagement of the auditor/audit firm with the PIE (Figure 19). Of those, there was no single way of specifying the uninterrupted period. Some reports expressed it in number of years, while others indicated the starting date of their engagement or the year when they were first engaged to audit the firm's financial statements. Only a small minority of the audit reports did not indicate uninterrupted engagement (54 audit reports, 11% for the sampled PIEs).

Figure 19: Indication of date of appointment of the audit firm(s) (number of observations)



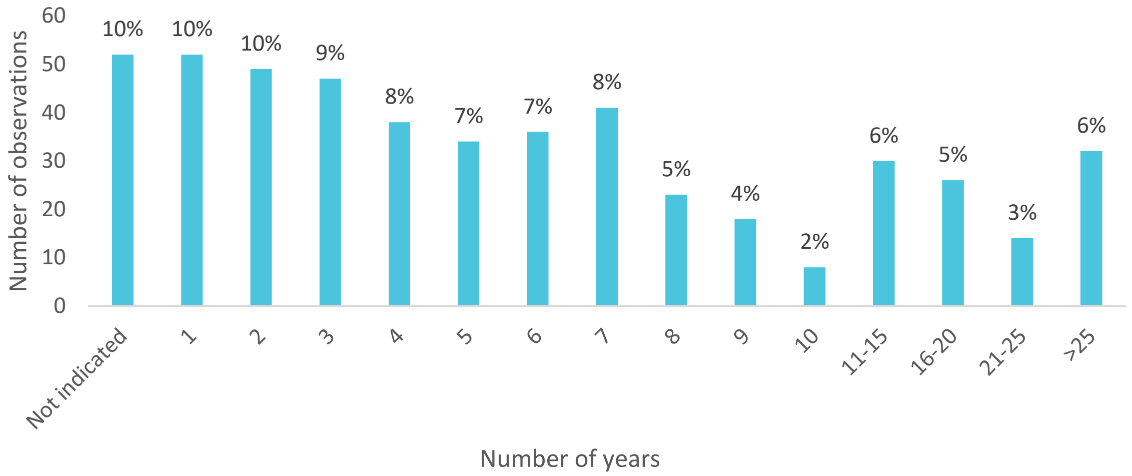
Source: Authors, based on sample analysis, 2021.

According to Article 17(7) of the Audit Regulation:

The key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation.

Based on the sample of PIEs, nearly half of the auditors/audit firms already had an audit engagement at the entity for one to five years (Figure 20, 220 of the engagements, 44% of the sampled PIEs). Just over 15% of the PIEs had an audit engagement of six or seven years. About one-quarter of the sampled PIEs had an uninterrupted audit engagement for eight or more years, which is still possible under the transition arrangements. 10% of the audit reports did not indicate the duration of the audit engagement nor allow the duration to be derived based on the date or year of appointment (52 audit reports, 10% for the sampled PIEs).

Figure 20: Total uninterrupted engagement of statutory auditor of PIEs (number of observations)



Source: Authors, based on sample analysis, 2021.

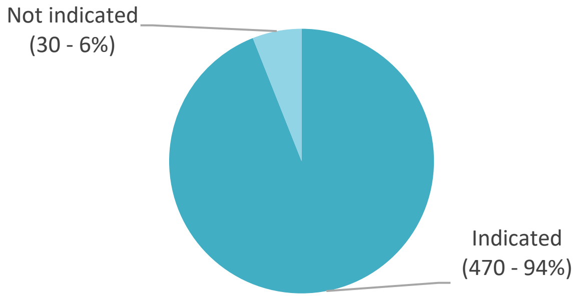
(c) supporting information of the audit opinion, which includes:

i. a description of the most significant assessed risks of material misstatement, including due to fraud;
ii. a summary of the auditor's response to those risks;
iii. where relevant, key observations arising with respect to those risks.

The audit report has to include, for items (i)–(iii) above, a clear reference to the relevant disclosures in the financial statements.

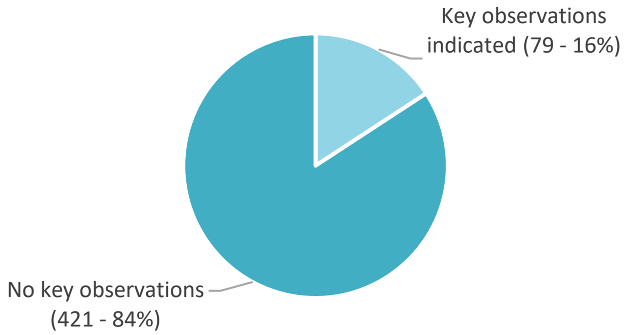
The vast majority of the audit reports for PIEs included a description of the most significant assessed risks of material mis-statement, including due to fraud (470 audit reports, 94% for sampled PIEs) (Figure 21). In addition, they provided a summary of the responses of the auditor to those risks. However, very few of the reports included key observations arising with respect to such risks (Figure 22, 79 audit reports, 16% for sampled PIEs).

Figure 21: Description of the most significant assessed risks of material mis-statement of PIEs (number of observations)



Source: Authors, based on sample analysis, 2021.

Figure 22: Key observations arising with respect to risks of material mis-statement of PIEs (number of observations)

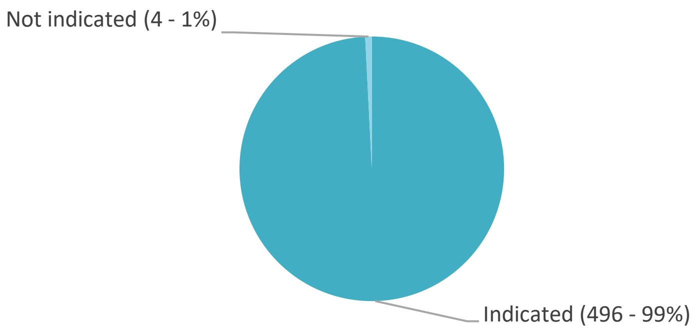


Source: Authors, based on sample analysis, 2021.

(d) explain to what extent the statutory audit <u>was considered capable of detecting irregularities</u>, including fraud;

Nearly all of the auditors/audit firms for PIEs stated that sufficient and appropriate evidence was available for them to detect any irregularities, including fraud (496 entities, 99% of sampled PIEs) (Figure 23) and provided an explanation on the extent to which the statutory audit was considered capable of detecting irregularities.

Figure 23: Capability to detect irregularities of PIEs (number of observations)

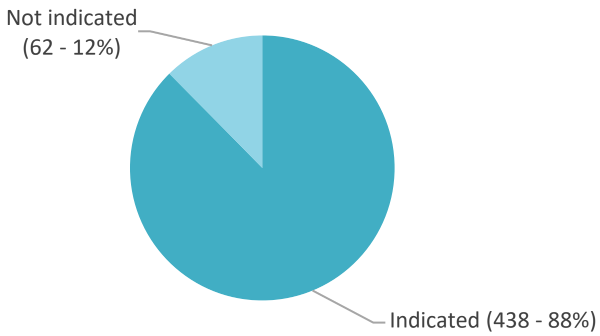


Source: Authors, based on sample analysis, 2021.

(e) confirm that the audit opinion is consistent with the additional report to the audit committee;

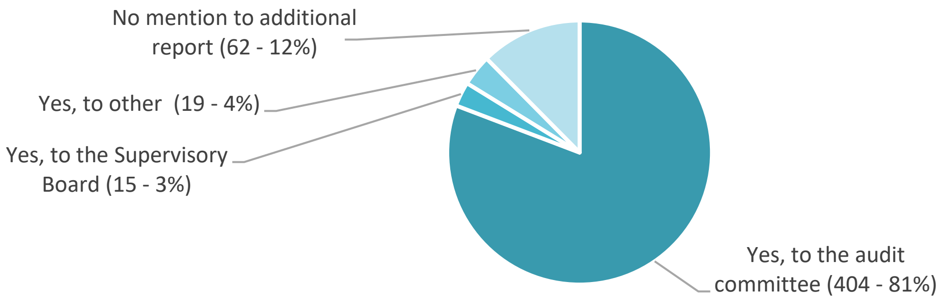
The large majority of the audit reports for PIEs gave an indication of the consistency of the audit opinion with the additional report submitted to the audit committee (438 audit reports, 88% for the sampled PIEs) (Figure 24). In a few cases, the additional reports were not submitted to the audit committee, but to bodies of the entities, such as the entire supervisory board (Figure 25). In some cases, this can be explained by the fact that the audit committee functions were fulfilled by the supervisory board.

Figure 24: Confirmation that the audit opinion is consistent with the audit committee report (number of observations)



Source: Authors, based on sample analysis, 2021.

Figure 25: Confirmation that the audit opinion is consistent with the audit committee report (number of observations)

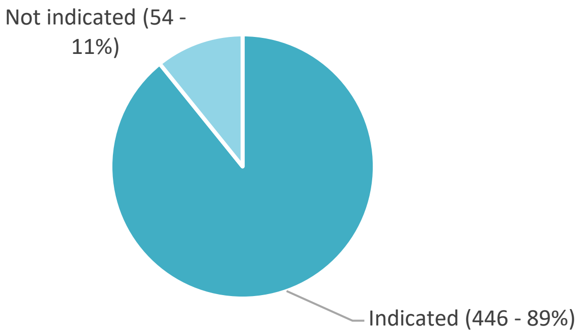


Source: Authors, based on sample analysis, 2021.

(f) *declare that the <u>prohibited non-audit services (NASs)</u> were not provided and that the <u>statutory auditor remained independent</u> of the audited entity in conducting the audit*

Most of the audit reports for PIEs included a reference to the prohibition of the provision of certain NAS (446 audit reports, 89% for the sampled PIEs), including the list of prohibited services and the rules relating to the provision of allowable NAS (Article 5 of the Audit Regulation) (Figure 26). All of the audit reports included a statement on the independence of the audit.

Figure 26: Declaration that the prohibited non-audit services referred to in Article 5(1) were not provided for PIEs (number of observations)

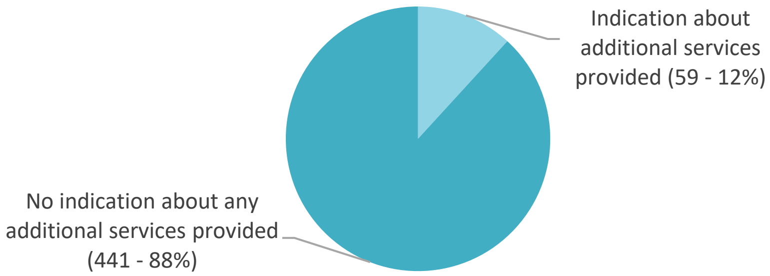


Source: Authors, based on sample analysis, 2021.

(g) *<u>indicate any services, in addition to the statutory audit</u>, that were provided by the statutory auditor to the audited entity and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.*

The vast majority of the audit reports of PIEs made no reference to the additional services provided by the auditor/audit firm (Figure 27) nor did they state that they provided any additional services (441 audit reports, 88% for PIEs). Less than one-fifth of the audit reports for PIEs identified the provision of additional services to the statutory audit. These services included tax and accounting consultation, audits of dependency reports and general advisory services.

Figure 27: Additional services provided to PIEs (number of observations)



Source: Authors, based on sample analysis, 2021.

In the audit reports for PIEs, no additional information was detected other than that required by Article 10 of the Audit Regulation. Although some audit reports were more detailed on some elements than others, all of the information met the legal requirements.

4.5. Opinion and information required by Article 34(1) (a) and (b) of the Accounting Directive

According to Article 34 of the Accounting Directive – which applies to both PIEs and non-PIEs – the statutory auditor/ audit firm is required to:

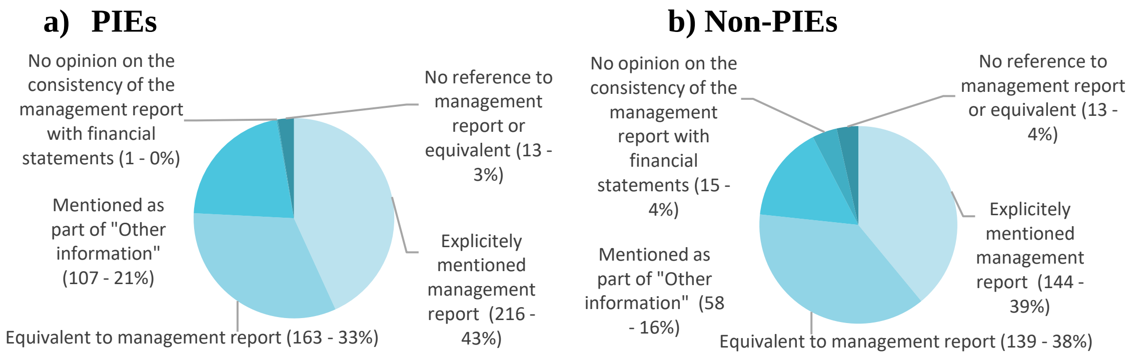
(a) express an opinion on:

- *i. whether the management report is consistent with the financial statements for the same financial year, and*
- *ii. whether the management report has been prepared in accordance with the applicable legal requirements;*

Differences were evident in the implementation of the requirement to express an opinion on the management reports and their consistency with the financial statements for the same financial year (Figure 28). For PIEs, less than half of the audit reports explicitly mentioned the management report (216 audit reports, 43% for the sampled PIEs), whereas about one-third indicated an equivalent to the management report (163, 33%), such as 'report on operations', 'board of director reports', or 'legal regulatory texts'. Only about one-fifth referred to the management report as part of 'other information' (107, 21%). The remaining audit reports did not make any reference or state an opinion on the management report or any equivalent documentation (13, 3%).

For non-PIEs, the majority of the audit reports referred to the management report either explicitly as a management report (144 audit reports, 39% for the sampled non-PIEs) or as an equivalent to the management report (139, 38%). Just over one-tenth of the reports indicated the management report as part of 'other information' (58, 16%). A small number of the audit reports for non-PIEs did not include any opinion on the consistency of the management report with the financial statement (15, 4%), while the remainder made no reference to the management report or an equivalent (13, 4%).

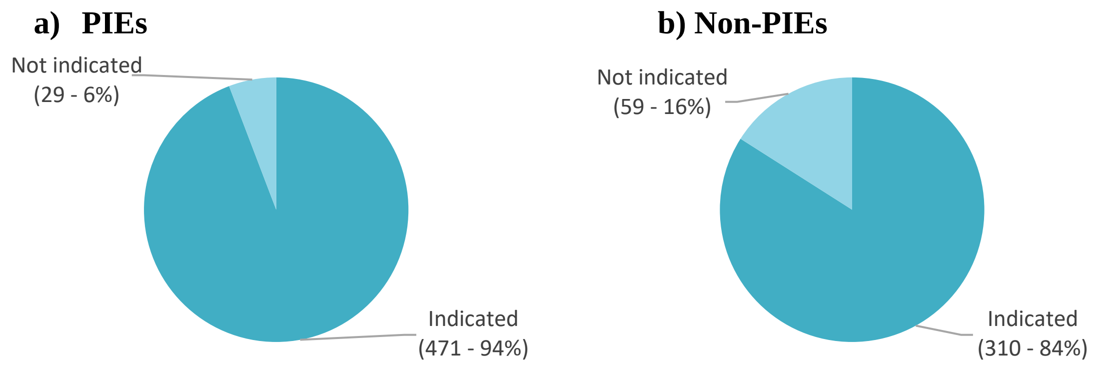
Figure 28: Opinion on consistency of management report with the financial statements (number of observations)



Source: Authors, based on sample analysis, 2021.

The majority of the audit reports for PIEs made reference to the consistency of the management report with legal requirements (471 audit reports, 94% for the sampled PIEs) (Figure 29). Similarly, the majority of the audit reports for non-PIEs referred to the compliance of the management report with legal requirements (310 audit reports, 84% for the sampled non-PIEs).

Figure 29: Management report compliance with legal requirements (number of observations)

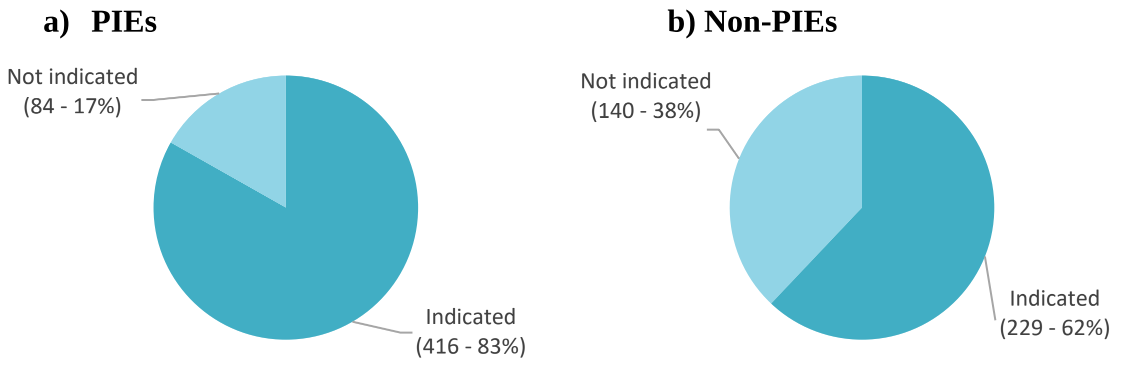


Source: Authors, based on sample analysis, 2021.

(b) state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified <u>material misstatements in the management report</u> and shall give an indication of the nature of any such misstatements.

More than half of the audit reports for PIEs included a statement indicating nothing to report in this regard (416 audit reports, 83% for the sampled PIEs) (Figure 30). Similarly, almost two-thirds of audit reports for non-PIEs included a statement on material mis-statement (229 audit reports, 62% for the sampled non-PIEs). The remaining audit reports for both PIEs and non-PIEs sometimes stated that they would provide an indication of the nature of any material mis-statements in the management report, while not providing any such indication.

Figure 30: Indication of any material mis-statements in the management report (number of observations)



Source: Authors, based on sample analysis, 2021.

4.6. Opinion and information required by Article 20(3) of the Accounting Directive

According to Article 20(3) of the Accounting Directive[95], which applies to companies with listed shares, the statutory auditor/ audit firm is required to check:

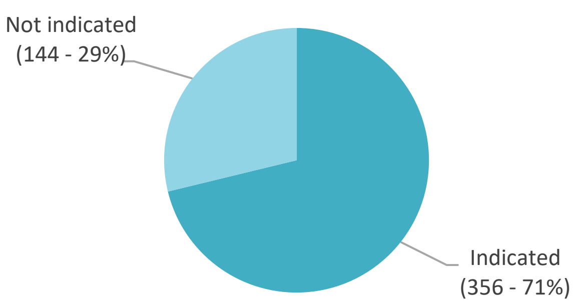
(a) if the audited entity provides a reference to:

i. the corporate governance code to which the undertaking is subject,
ii. the corporate governance code which the undertaking may have voluntarily decided to apply,
iii. all relevant information about the corporate governance practices applied over and above the requirements of national law.

Where reference is made to a corporate governance code referred to in points (i) or (ii), the undertaking shall also indicate where the relevant texts are publicly available. Where reference is made to the information referred to in point (iii), the undertaking shall make details of its corporate governance practices publicly available.

More than half of the audit reports for PIEs referred to the corporate governance statement included in the management report, as well as to the corporate governance code to which the undertaking is subject (356 audit reports, 71% for the sampled PIEs) (Figure 31). There were no further references in the audit reports for PIEs on corporate governance codes applied on a voluntary basis. None of the audit reports sampled included relevant information on the corporate governance practices applied over and above the requirements of national law.

Figure 31: Reference to corporate governance code to which the PIEs are subject (number of observations)



Source: Authors, based on sample analysis, 2021.

95 Article 20(3) is only relevant for companies with securities listed on regulated markets.

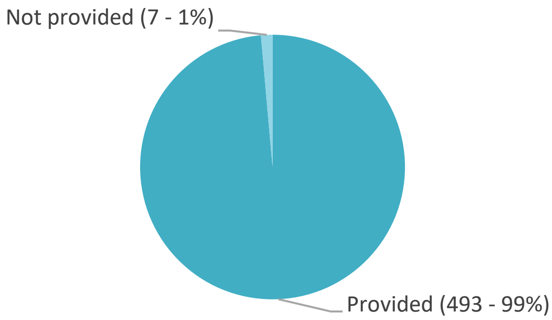
(a) where an undertaking, in accordance with national law, departs from a corporate governance code referred to in points (a)(i) or (ii), an explanation by the undertaking as to which parts of the corporate governance code it departs from and the reasons for doing so; where the undertaking has decided not to refer to any provisions of a corporate governance code referred to in points (a)(i) or (ii), it shall explain its reasons for not doing so;

None of the audit reports for PIEs noted whether the engaged auditor or audit firm checked the extent (if any) to which the firm departed from the corporate governance code, and, if so, its reasons for doing so.

(b) a description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;

Nearly all of the audit reports for PIEs (493 audit reports, 99% for the sampled PIEs) included a description of the main features of the internal control and risk management systems of the audited entity (Figure 32).

Figure 32: Description of internal control and risk management systems (number of observations)



Source: Authors, based on sample analysis, 2021.

Some audit reports referred to national regulation allowing them to only partially review the additional information. However, none of the audit reports for PIEs included information on shareholding structure, or any restrictions/limitations of voting rights. Nor did they include information on the composition and operation of the administrative, management and supervisory bodies, and their committees.

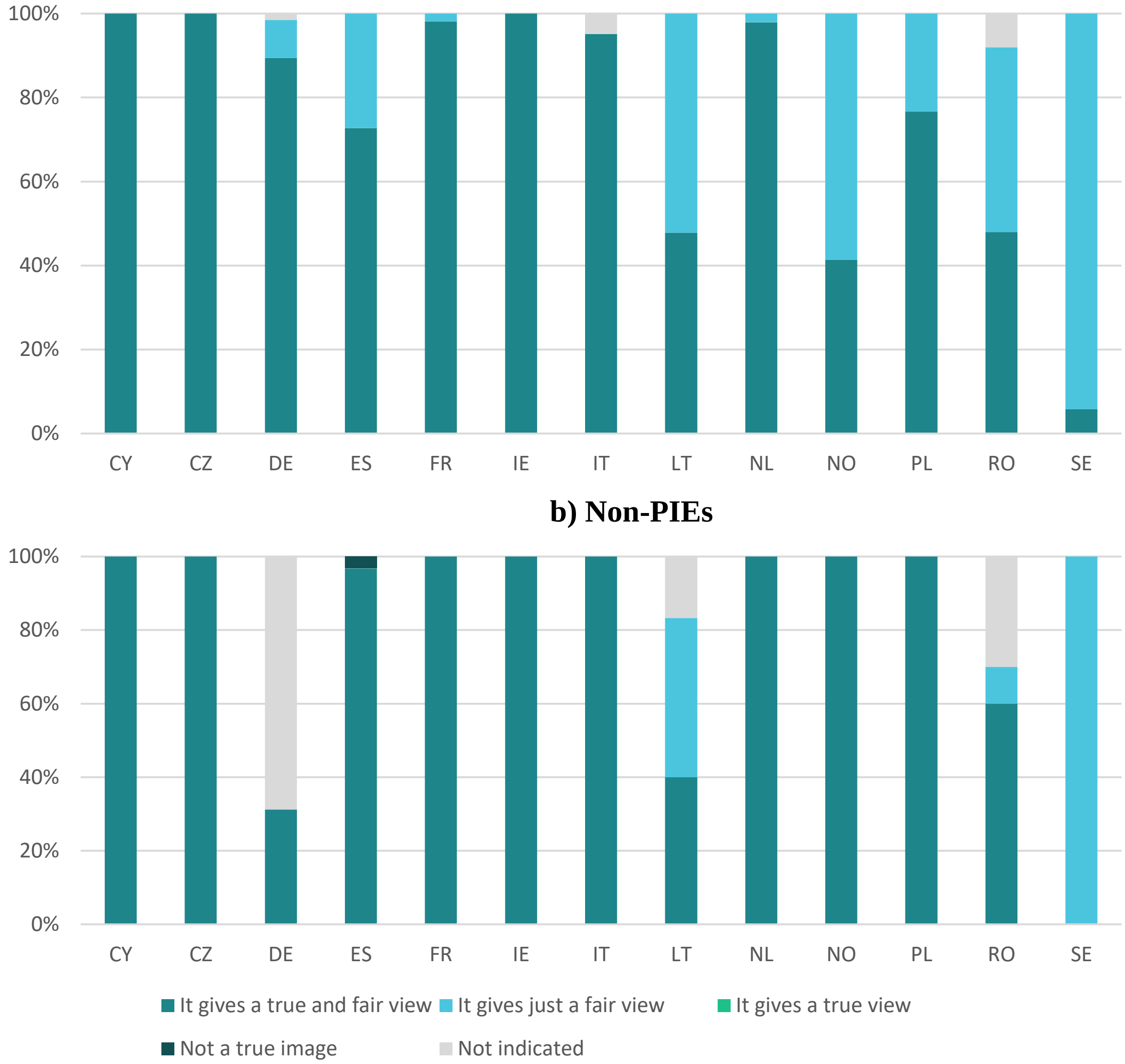
4.7. Significant differences across Member States

Most of the audit reports for PIEs and non-PIEs stated that the annual financial statements of the audited company gave a ‘true and fair view’ in accordance with the relevant financial reporting framework (Figure 33). However, there were differences in the wording of the stated opinion across countries. In some instances, such as Sweden, this was due to a translation issue, where audit reports stated that the annual financial statements of the audited entities gave ‘just a fair view’. In France and Ireland, the audit reports for PIEs generally stated that the annual financial statements gave ‘a true and fair view’, much like most of the audit reports for non-PIEs. In Lithuania, Poland, Romania and Norway, around half of the audit reports for PIEs stated that the annual financial statements gave ‘just a fair view’. In Germany, most of the audit reports of the non-PIEs appeared to indicate an ‘actual picture’ rather than a ‘true and fair view’. Although the references deviated from ‘true and fair view’ as specified in Article 28(c) of the Audit Directive, the terms ‘true and fair’ and ‘fair’ are interchangeable under IFRS.

Figure 33: True and fair view of annual financial statements, by country (share of observations)

a) PIEs

b) Non-PIEs



Source: Authors, based on sample analysis, 2021.

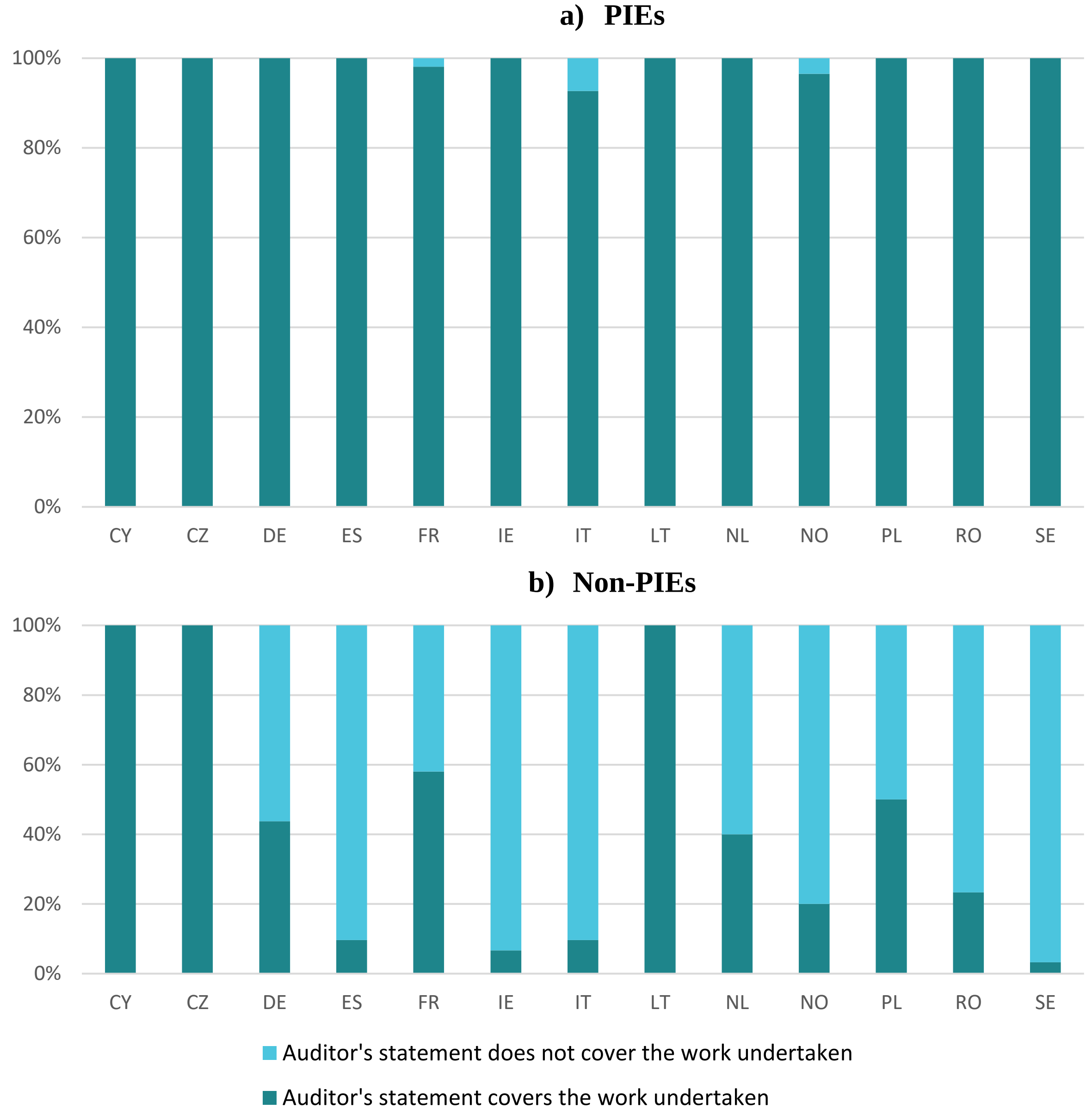
The majority of the audit reports for PIEs and non-PIEs included a statement indicating that if the auditor found any material mis-statement in the management report, they would give an indication of the nature of such mis-statements. In Ireland, all audit reports for PIEs and non-PIEs included this statement. In France, Spain and Sweden, there were very few indications in the audit reports for non-PIEs (Figure 34).

Figure 34: Indication on any material mis-statements in the management report, by country (share of observations)

Source: Authors, based on sample analysis, 2021.

The majority of the audit reports for PIEs provided an indication on the auditor´s statement covering the work undertaken, unlike most audit reports for non-PIEs. The majority of the audit reports for PIEs in Cyprus, Czechia, Ireland, the Netherlands, Spain and Poland provided such information. However, except for Czechia, Cyprus and Lithuania, the proportion of audit reports with an auditor´s statement covering the work undertaken for non-PIEs was less than half of the share for PIEs (Figure 35).

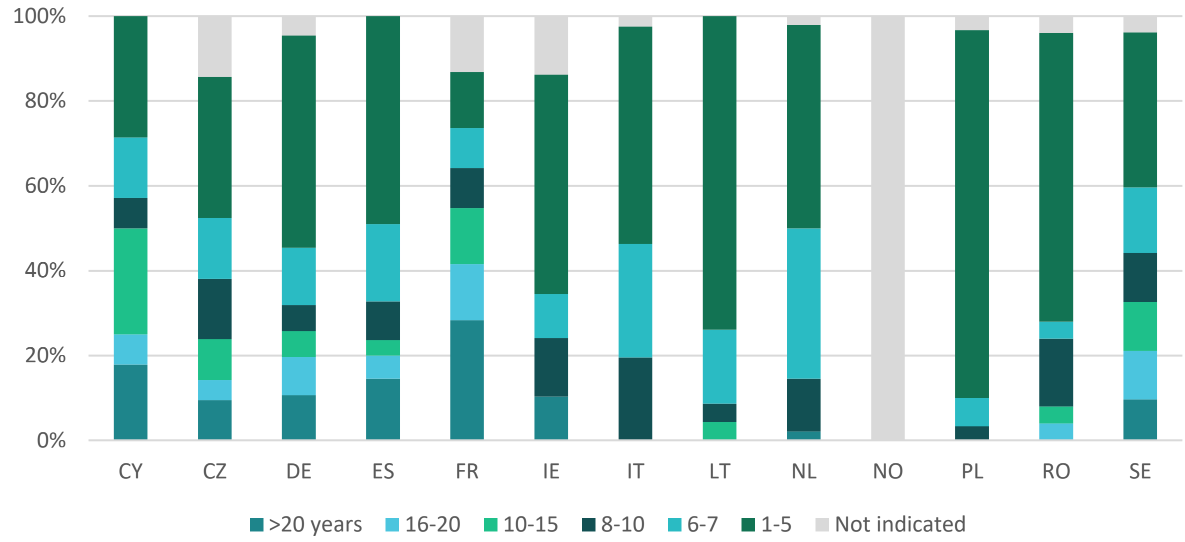
Figure 35: Statement on auditor's work undertaken in audit report, by country (share of observations)



Source: Authors, based on sample analysis, 2021.

In most of the selected countries, the period of uninterrupted engagement with the auditor was between one and five years for the majority of the PIEs (Figure 36). In France, the period of uninterrupted engagement of the auditor was typically above 10 years, and in some cases even over 20 years. For Ireland, Italy, Lithuania and Poland, the engagement of the auditor/audit firm with the audited PIE was within the range of one to seven years. Norway was the only country where the audit reports for PIEs did not indicate the period of uninterrupted engagement or the date on which the engagement started.

Figure 36: Total uninterrupted engagement of statutory auditor of PIEs, by country (number of observations)



Source: Authors, based on sample analysis, 2021.

The vast majority of the audit reports sampled for PIEs included a statement confirming the consistency between the auditors' opinion and the additional report to the audit committee. Lithuania and Romania, in contrast to the other countries, typically did not include such a statement in the audit reports for PIEs.

Finally, the structure of the audit reports was generally similar between Member States for PIEs and non-PIEs. However, there were some notable differences on the degree of information included in different paragraphs of the audit report. For example, audit reports for German entities always mentioned the management report in their opinion statement, while this formed part of 'other reporting' in audit reports for Swedish entities.

4.8. Summary

This chapter assessed the level of compliance of auditors and audit firms of PIEs and non-PIEs with the current requirements for audit reports. The sample consisted of 869 audit reports for both PIEs (500) and non-PIEs (369) in 12 EU Member States and Norway. The vast majority of the financial statements audited for PIEs were prepared in accordance with IFRS, while the majority of the non-PIEs in the sample applied the national GAAP as their financial reporting framework. The majority of the audit reports for PIEs and a large minority of those for non-PIEs were led by members of the Big Four.

The majority of audit reports of PIEs indicated the body responsible for their appointment, but the approval of that appointment was rarely mentioned. The vast majority of audit reports for PIEs included a description of the most significant assessed risks of material mis-statements, including due to fraud. They usually provided a summary of the response of the auditor to those risks. More than half of the audit reports for PIEs referred to the corporate governance code to which the undertaking was subject but did not provide relevant information about the corporate governance practices applied over and above the requirements of national law.

The audit reports of both PIEs and non-PIEs complied with the common legal requirements to a fairly similar extent. The vast majority of audit reports for both PIEs and non-PIEs stated that the audit was conducted in accordance with national or international standards. However, there were a few significant differences based on the sample analysis. The most significant difference was the inclusion of the work undertaken by the statutory auditor, which was identified in a large majority of the audit reports for PIEs but only in a minority of the audit reports for non-PIEs.

Finally, audit reports for PIEs differed between countries in respect of the average years of total uninterrupted engagement of the statutory auditor/audit firm with the audited company, and the references made to that fact. No reference to uninterrupted engagements was identified in the audit reports for Norwegian PIEs.

5. Data analysis of reporting requirements for statutory auditors/audit firms reporting to audit committees

This chapter assesses the implementation of the legal requirements for submitting the additional report to the audit committee by auditors and audit firms of PIEs.

The sample of the additional reports to the audit committee used for the analysis is presented, followed by the assessment of the implementation of the relevant legal requirements specified in the Audit Regulation.

As the additional report from the auditor or audit firm to the audit committee is not public and is treated as confidential, the assessment relied on self-assessment by a member or representative of the audit committee. The views of lead audit partners responsible for the preparation of the audit committee reports were also considered.

For ease of reading, the additional report to the audit committee is referred to as the ‘audit committee report’, and the terms ‘auditor’ and ‘audit firm’ are used interchangeable, except where otherwise specified.

Main findings on the data analysis on reporting requirements for statutory auditors/audit firms reporting to audit committees

The audit committee reports were analysed based on self-assessment by members and representatives of those audit committees. The total sample covered 137 audit committee reports, usually prepared by the statutory auditors/audit firms on the financial year 2020.

Looking at the various legal requirements, the audit committee reports for most of the PIEs were largely in line with the regulatory requirements.

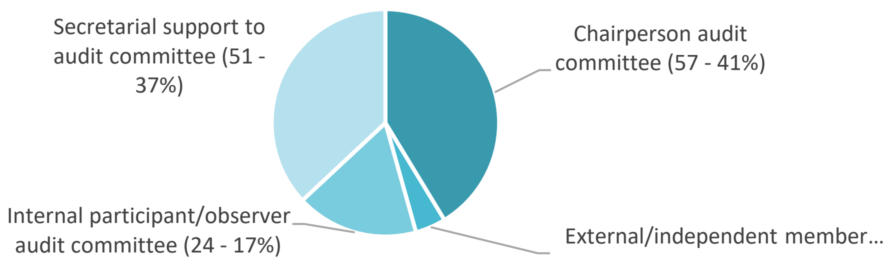
- All of the participating audit committees or equivalent received an audit committee report from their auditor or audit firm. Interestingly, some audit committee representatives found it challenging to identify the audit committee report among the various reports received from their auditor.The audit committee reports were often also submitted to administrative or supervisory bodies of the companies (107, 78% of audit committee reports), and less frequently submitted to third parties (24, 18%);
- The large majority of audit committee reports were in line with the various individual requirements. However, about two-thirds of the audit committee reports had one or more deficiencies (83, 61%);
- Significant deficiencies in the audited financial statements were an exception. Nevertheless, about one-quarter of the audit committee reports indicated significant deficiencies and whether or not they were resolved by the management (36, 26%).
- Both the large majority of the audit committee representatives and auditors consulted considered the audit committee reports in their current form useful and complete, although some of the auditors include additional information;
- Audit committee representatives and auditors were generally not in favour or had no opinion about the application of a standardised digital format, given the report’s complexity, qualitative nature, and limited number of users.

5.1. Sample description

For the purpose of the audit committee report assessment, samples were drawn from the population of PIEs. More than 1,750 PIEs (listed companies, banks and insurance companies) in the EU-27 and Norway were contacted to participate in the study. In total, representatives of 138 audit committees (8%) of those contacted participated.

The role of the representative who conducted the assessment in the audit committee varied (Figure 37). Almost half of the audit committees were represented by an external member. In the vast majority of cases, that external board member was the chairperson (57, 41%), but in some instances the audit committee was represented by an ordinary member of the committee (6, 4%). The other half of the audit committees were represented by representatives of the company involved. This were either internal audit committee participants/observers such as CEOs, CFOs and heads of internal audit departments (24, 17%) or those providing secretarial support and preparing the audit committees (51, 37%).

Figure 37: Role of the participant in the audit committee



Note: Aggregate shares of participants presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

5.1.1. Country distribution

Companies from the EU-27 and Norway were invited to participate in the study. In total, audit committees from 24 countries participated[96], ranging from one in Estonia and Slovenia to 17 in Sweden (Figure 38). The number of participants in individual countries reflects the number of invited countries and the importance attached to corporate governance, audit legislation and past reform.

Looking at the relative sizes of the national economies[97], the majority of the participating audit committees were from companies located in mid-sized EU economies (84, 61%). The remainder were based in small economies (17, 12%) or large economies (37, 27%).

Figure 38: Number of participating audit committees, by country

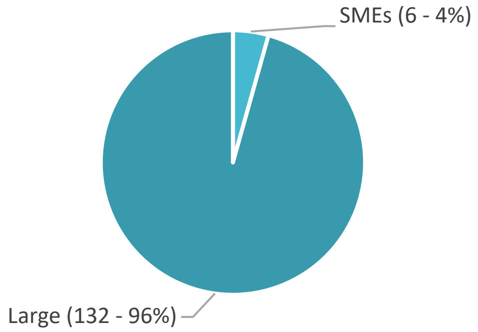
Source: Authors, based on input from audit committees, 2021.

96 There were no participating audit committees from Hungary, Slovakia and Norway.
97 The size of the countries is determined based on annual GDP at market prices in 2020 according to Eurostat. 'Small economies' are those with GDP up to EUR 100 billion, 'mid-sized economies' are those with GDP between EUR 100 billion and EUR 1,000 billion, and 'large economies' are those with GDP above EUR 1,000 billion.

5.1.2. Size distribution

Looking at the size of the companies whose audit committees participated[98], the large majority of the participating audit committees were from large undertakings (132, 96%) (Figure 39). The remainder were the audit committees of SMEs (6, 4%). This suggests that large undertakings are somewhat over-represented, perhaps because there are relatively more large undertakings among PIEs, and large companies were more inclined to participate.

Figure 39: Size of entities



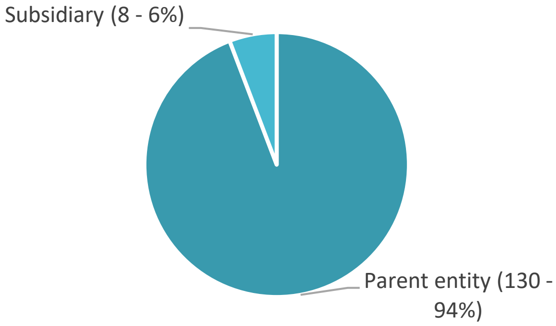
Source: Authors, based on Accounting Directive and input from audit committees and Orbis Europe, 2021.

5.1.3. Type of corporate structure

Looking at the corporate group structure (Figure 40), the large majority of the companies of the participating audit committees were the parent entity of a corporate group (130, 94%).

The other participating audit committees were from subsidiaries in corporate groups, primarily audit committees of banks and insurance companies, which are more likely to have parents than listed companies (8, 6%).

Figure 40: Distribution by place in group structure



Source: Authors, based on input from audit committees, 2021.

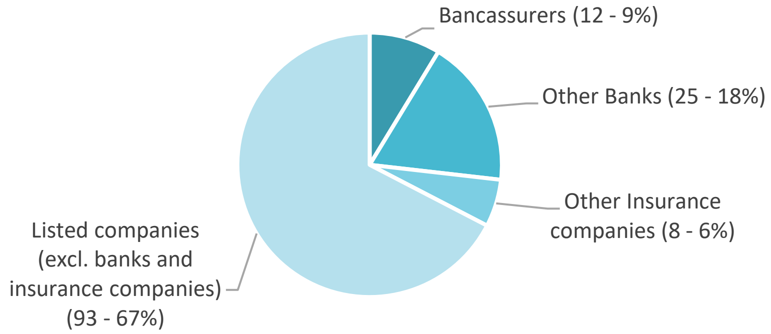
5.1.4. Type of PIE

In line with the PIE definition in the Accounting Directive (excluding additional types defined by Member States), the companies of participating audit committees can be divided into four general categories (Figure 41). First, the largest group – more than two-thirds – of companies in the sample were listed companies, without a bank or insurance licence (93, 67%). Second, 'bancassurance' companies with at least one insurance licence <u>and</u> one banking license within the consolidated group, which represented a small share of the sample (12, 9%). Third, companies holding only a banking

[98] The size category follows the definition in the Accounting Directive. Large undertakings are defined as companies that meet at least two of the following three criteria; i) total assets above EUR 20 million, ii) turnover above EUR 40 million, and/or iii) more than 250 employees. The companies that do not meet at least two of the three criteria are classified as SMEs.

licence, which represented almost one-fifth of the sample (25, 18%). Fourth, companies holding only an insurance licence represented a similar small share to bancassurers (8, 6%).

Figure 41: Distribution by type of sector

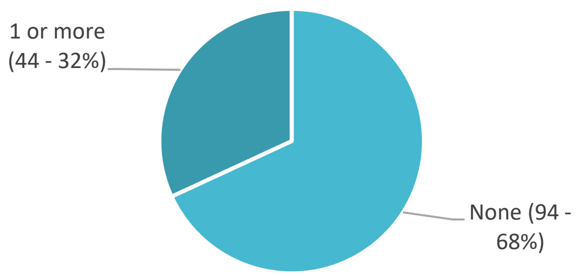


Note: 'Bancassurers' are all companies with both an entity with a bank licence and an insurance licence.

Source: Authors, based on input from audit committees, 2021.

Most of the participating companies were corporate groups of which only the parent qualifies as a PIE (94, 68%) (Figure 42). However, about one-third of the companies had additional PIEs within the group structure (44, 32%). In almost all cases this concerned one or more bank or insurance subsidiaries. There was broad variety in the number of additional PIEs, which ranged from 1-50+ within the corporate group.

Figure 42: Number of other PIEs in the corporate group

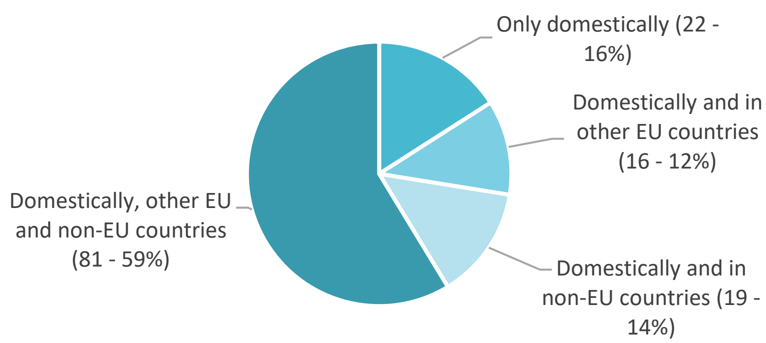


Source: Source: Authors, based on input from audit committees and Orbis Europe, 2021.

5.1.5. Internationalisation

The large majority of the companies whose audit committee participated were internationally active through foreign subsidiaries (Figure 43). Less than one-fifth of the companies were solely domestically active (22, 16%). Almost one-third of the companies were active domestically and either just in other EU countries (16, 12%) or non-EU countries (19, 14%). The remainder were active domestically, in other EU and non-EU countries (81, 59%).

Figure 43: Region where companies were active

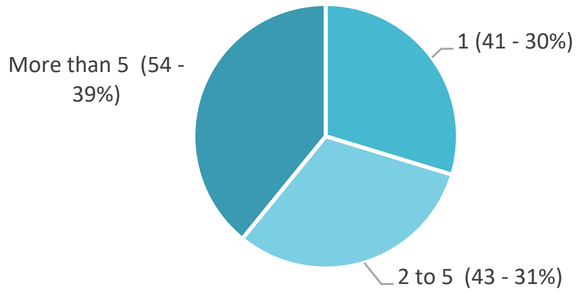


Note: Aggregate shares of companies presented between parenthesis on the labels can deviate from 100% due to rounding.

Source: Authors, based on input from audit committees and Orbis Europe, 2021.

Looking at EU activity alone (Figure 44), about one-third of the companies whose audit committee participated were active in just one Member State (41, 30%). About one-third were active with subsidiaries in two to five Member States (43, 31%), and the remainder were active in more than five Member States (54, 39%).

Figure 44: Number of EU Member States where the entities were active



Note: Number of EU-27 Member States in which the company was active, based on location of parent entity and subsidiaries.
Source: Authors, based on input from audit committees and Orbis Europe, 2021.

5.2. Compliance with statutory requirements on reporting to the audit committee

The following sections assess the implementation of the Audit Regulation applicable to audit committee reports. The information is drawn from standardised questionnaires completed by the representative. This leaves more room for interpretation than the audit report review.

A total of 137 audit committee reports were assessed. In several instances, only part of the reports were assessed, explaining potential differences in the total number of observations. In most cases, the audit committee reports covered the financial year ending in 2020 (128, 93%), but some reports covered the financial years ending in 2019 (2, 1%) or 2021 (7, 5%).

5.2.1. Auditor submissions of reports

According to Article 11(1) of the Audit Regulation, the s*tatutory auditors or audit firms carrying out statutory audits of public-interest entities shall:*

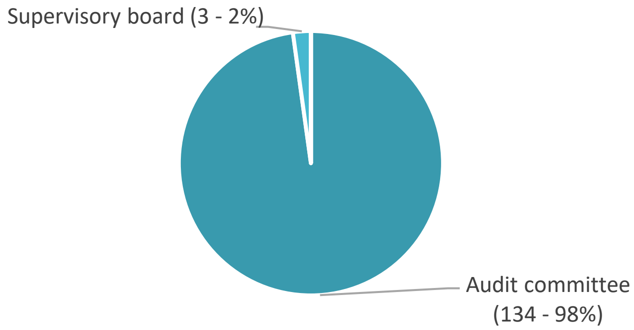
- submit an additional report to the audit committee of the audited entity not later than the date of submission of the audit report referred to in Article 10.

All of the participating audit committees or equivalent received an audit committee report from their auditor or audit firm (Figure 45). In the absence of a separate audit committee, the audit committee report was submitted to the entire supervisory board (3, 2%), in line with Article 11(1)(b) of the Audit Regulation. The remaining large majority submitted their report to the audit committee (134, 98%).

Although all of the audit committees in the sample received the audit committee report, some found it challenging to identify the report. Many often receive two or four reports from their auditor each year. These are either for each reporting period (quarterly or biannual) or for the preparation of the annual audit (during the second half of the financial year) and close to completion of the annual audit (after financial year).

This assessment asked the representatives of the audit committees to consider only the auditor's report to the audit committee on the annual financial statement, which is subject to Article 11 of the Audit Regulation.

Figure 45: Principal body to which the audit committee report was submitted



Source: Authors, based on input from audit committees, 2021.

5.2.2. Date of submission

Nearly all of the audit committee reports were submitted on time to the audit committees (Figure 46). Almost half of all representatives of the audit committees indicated that the submission of the additional report to the audit committee was prior to the submission of the audit report (63, 46%). Almost the same share of the audit committee reports were submitted together with the audit report (69, 50%).

The difference in the timing of the submission of the audit committee report largely depended on the meeting schedule of the audit committee, as well as the treatment of the audit committee report by the audit committee.

Some of the representatives indicated that their meeting schedule did not allow discussion of the audit committee report before the audit report, while others indicated that they discuss the audit committee report in a meeting before the audit report.

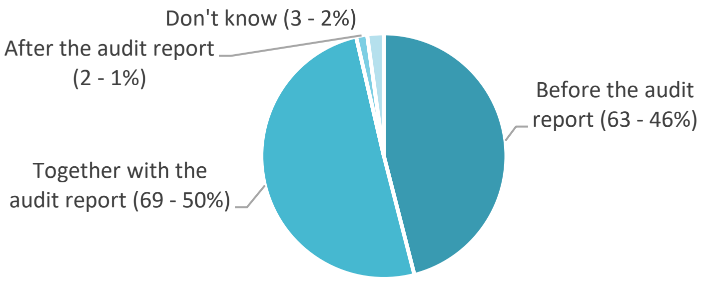
Turning to the treatment of the audit committee report, three broad approaches were evident:

- The auditor first submits the draft of the audit committee report to the audit committee, the report is discussed in the audit committee, potentially revised by the auditor, and then submitted as final to the audit committee. The final report submission sometimes coincides with the submission of the audit report. Interviews suggested that this was the most common approach when the audit committee reports are submitted before the audit report.
- The auditor first submits the draft of the audit committee report to the executive board members or internal audit function for an initial review. If necessary, the report is revised by the auditor and submitted as draft or final to the audit committee. Similarly, the final report submission can coincide with the submission of the audit report. This appeared a much less common approach and one that was chiefly followed by very large corporate groups with a strong internal audit department.
- The auditor submits only one – thus final – version of the audit committee report to the audit committee. Here, the audit committee report is often treated as a more intermediate documents towards the completion of the annual audit and submitted before the audit report. The interviews suggest that this is the most common approach when the audit committee reports are submitted together with the audit report.

Two audit committees from Spain indicated receiving the audit committee report after the audit report (2, 1%).

The two remaining participants did not know whether they received the audit committee report before, at the same time, or after the audit report (3, 2%).

Figure 46: Timing of submission of the audit committee report



Note: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

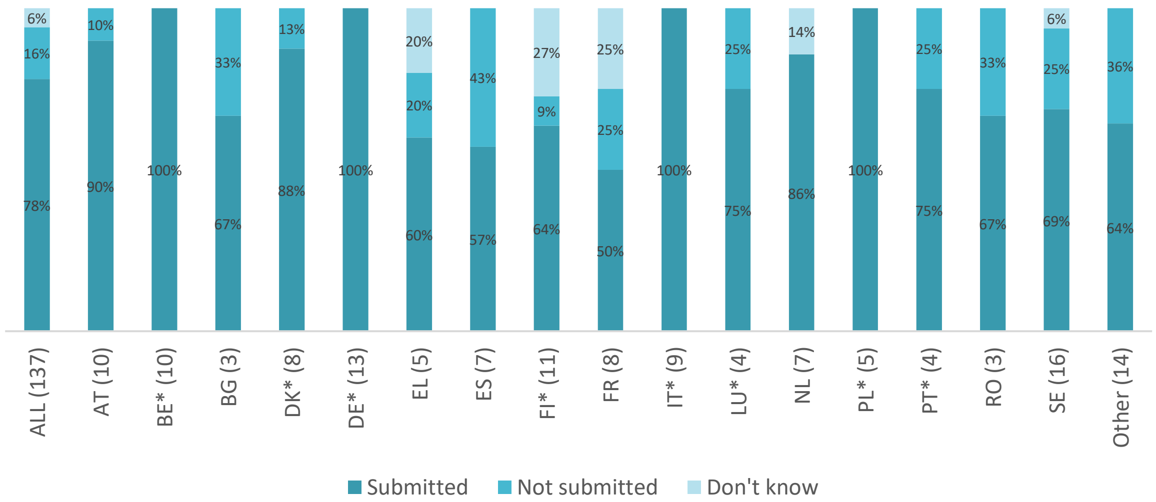
5.2.3. Disclosure to related bodies

Member States may additionally require that this additional report be submitted to the administrative or supervisory body of the audited entity.

The majority of the audit committee reports were shared with the administrative and supervisory board, whether the Member State requires this or not (Figure 47). Three-quarters of the audit committee reports were also submitted to the administrative or supervisory body (107, 78%). Almost one-fifth of the entities did not submit their additional report to any administrative or supervisory body (22, 16%). The remaining few representatives of the audit committee were not aware of the audit committee reports being shared with the administrative or supervisory body of the company (8, 6%).

Almost half of the Member States require the audit committee report to be submitted to the administrative or supervisory body. In Belgium, Germany, Italy and Poland, all the audit committee reports were shared with the administrative or supervisory body as required, whereas in Denmark, Finland, Luxembourg and Portugal, one participant indicated that the report was not submitted to the administrative or supervisory body despite the legal requirement. Other than France, in the Member States without a legal requirement, half or more of the audit committee reports were nevertheless shared with the administrative or supervisory body.

Figure 47: Submission of the audit committee report to the administrative or supervisory body



Note: Only countries with three or more participating audit committees are presented individually, to preserve the anonymity of individual participating audit committees. The countries (BE, CZ, DE, DK, FI, HR, HU, IT, LT, LU, PL, PT and NO) that used the option under Article 11(1), first sub-paragraph, of the Audit Regulation are indicated with an asterisk "*".
Source: Authors, based on input from audit committees, 2021.

5.2.4. Disclosure to third parties

- Member States may allow the audit committee to disclose that additional report to such third parties as are provided for in their national law.

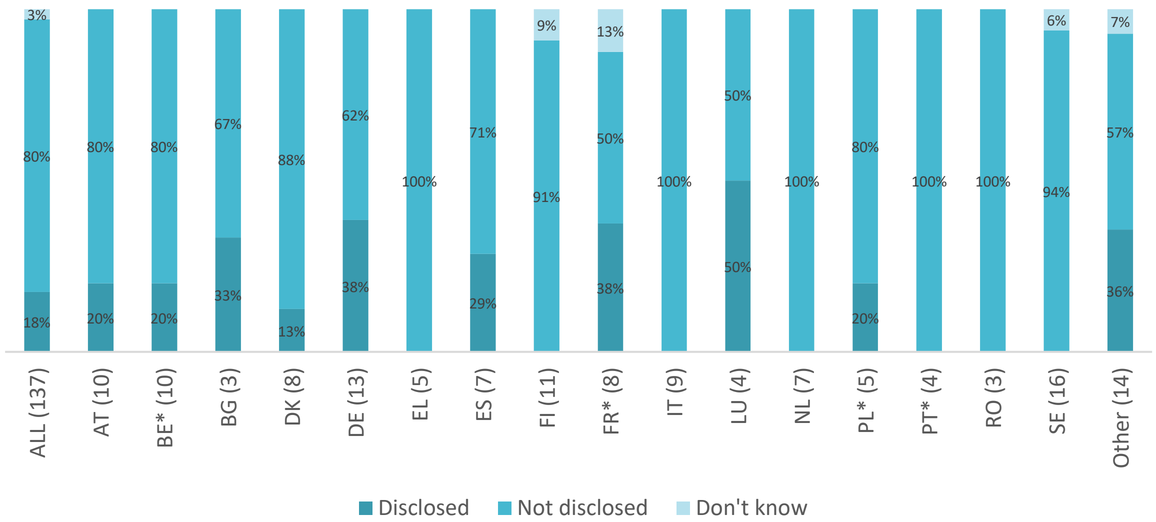
In addition to the administrative or supervisory body, audit committee reports can also be disclosed to third parties (Figure 48). This was far less common than disclosure to administrative or supervisory bodies. Less than one-fifth of the participants indicated that the audit committee report was disclosed to third parties (24, 18%). The large majority of the audit committee representatives indicated that they did not disclose the audit committee report to any third party (109, 80%). The remaining representatives did not know (4, 3%).

The third parties receiving the audit committee reports were typically the supervisory bodies. In some instances, the report was also shared with external legal counsel, banks (to comply with covenant requirements), industry associations and institutional protection schemes of stakeholder value banks.

There is no clear difference between participants in Member States with and without a national requirement for this disclosure. The findings suggest that supervisory authorities in countries with the provision in national legislation were not more likely to request the audit committee reports.

The authorities in Austria, Germany, Luxembourg and Spain receive audit committee reports without the implementation of the provision in the national legislation. This finding might be explained by the overlap with Article 11(5) of the Audit Regulation, which requires the disclosure of audit committee reports – on request - to the competent authorities.

Figure 48: Disclosure of the additional report to any other third party



Note: Only the countries with three or more participating audit committees are presented individually, to preserve the anonymity of individual participating audit committees. Countries (BE, CZ, FR, HU, IE, LV, PL, and PT) that used the option under Article 11(1), second sub-paragraph of the Audit Regulation are indicated with an asterisk "*". In most cases the report needs to be submitted at the request of the surveillance authority, except Latvia, where the exchange is automatic, and Poland, where the report needs to be made available to the general meeting, partners and owners.

Source: Authors, based on input from audit committees, 2021.

5.3. Results of the statutory audit

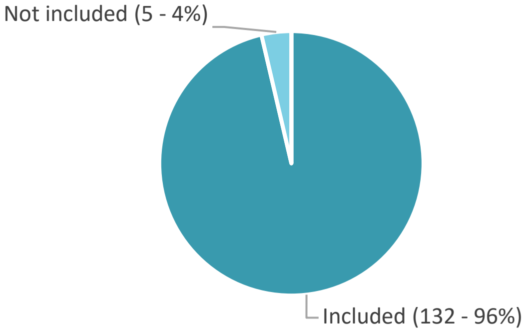
The audit committee report must explain the results of the statutory audit carried out under Article 11(2) of the Audit Regulation. The audit committee reports are required to cover up to 16 aspects. The key requirements related to the content are assessed in this section.

5.3.1. Declaration of independence

2(a) Include the declaration of independence referred to in point (a) of Article 6(2);

Almost all audit committee reports included a declaration of independence (132,96%) (Figure 49). The declaration of independence referenced in point (a) of Article 6(2) of the Audit Regulation should state that a statutory auditor discussed the threats to the auditor's independence, and the safeguards applied, with the audit committee. Several participants indicated that there was no declaration of independence included in the audit committee report they received (5,4%).

Figure 49: Inclusion of a declaration of independence in the audit committee report



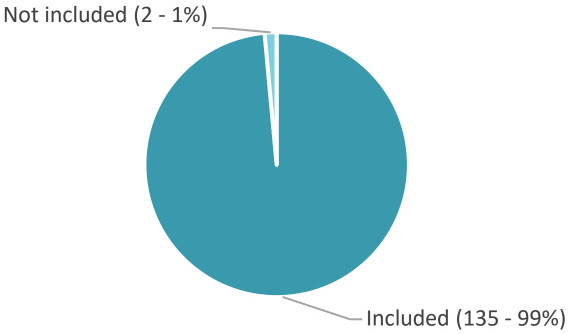
Source: Authors, based on input from audit committees, 2021.

5.3.2. Key audit partner

2(b) where the statutory audit was carried out by an audit firm, the report shall identify each key audit partner involved in the audit;

Similarly, nearly all audit committee reports identified the key audit partner involved in the audit (135,99%) (Figure 50). Only two audit committee reports did not identify all the audit partners involved in the audit (1%). In one of the cases, the name was not included as the audit committee report was prepared by an auditor rather than an audit firm. Indeed, this requirement only applies when the statutory audit was carried out by an audit firm.

Figure 50: Identification of key audit partner(s) in the audit committee report



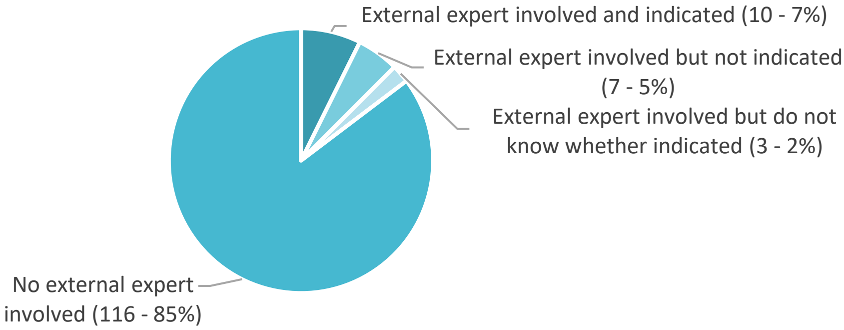
Source: Authors, based on input from audit committees, 2021.

5.3.3. Proportion of external experts used for the statutory audit

2(c) where the statutory auditor or the audit firm has made arrangements for any of his, her or its activities to be conducted by another statutory auditor or audit firm that is not a member of the same network, or has used the work of external experts, the report shall indicate that fact and shall confirm that the statutory auditor or the audit firm received a confirmation from the other statutory auditor or audit firm and/or the external expert regarding their independence;

The large majority of the auditors did not delegate any of their activities in the statutory audit of the consolidated financial statements to auditors or other experts outside their audit network (116,85%) (Figure 51). This means that external experts were involved in nearly one-eighth of the statutory audits. In most cases, a declaration of independence of the external experts involved was indicated in the audit committee report (10,7%). Nevertheless, some reports did not indicate the independence of these experts (7,5%), or the audit committee representative did not know whether or not it was indicated (3,2%).

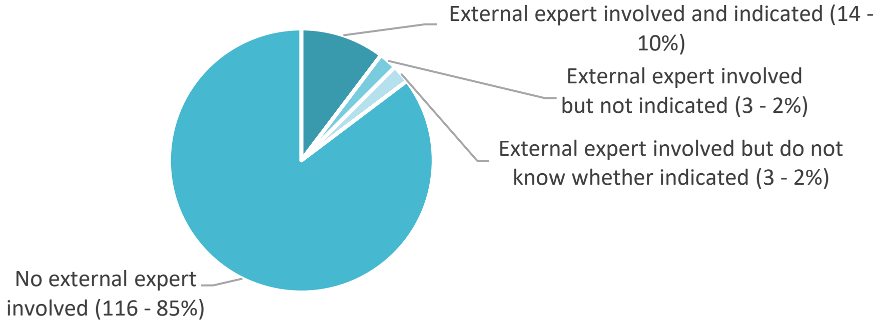
Figure 51: Indication of the independence of other experts involved in the statutory audit



Note: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

The work performed was more frequently indicated (Figure 52). Focusing just on those external audits involving external experts (20,14%), according to the audit committee representatives, the work performed was indicated in more than half of the cases (14,10%). Nevertheless, some of the work was not indicated (3,2%), or the representative did not know whether such indication was provided (3,2%).

Figure 52: Indication of work performed by other experts involved in the statutory audit



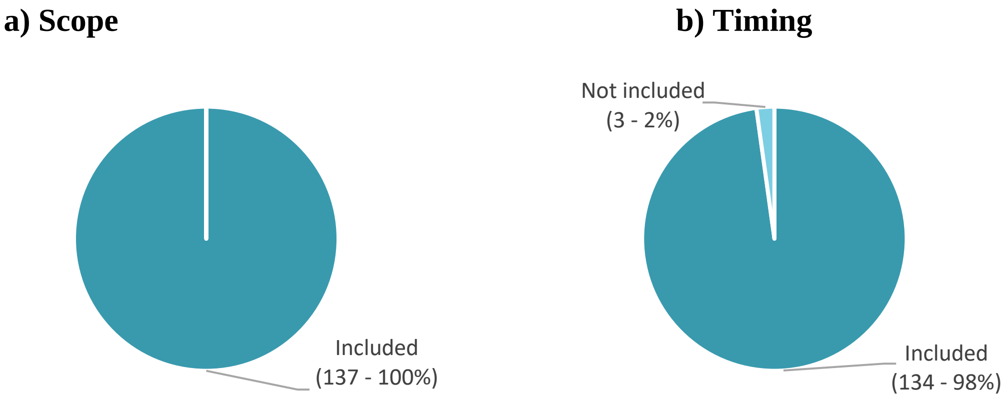
Note: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

5.3.4. Scope and timing

2(e) include a description of the scope and timing of the audit;

The timing and scope of the statutory audit were indicated in nearly all audit committee reports (Figure 53). All audit committee reports included a description of the scope of the audit (137 audit reports, 100%). The timing of the audit was indicated in nearly all the audit committee reports (134, 98%). In the remainder, the timing of the audit was not included (3, 2% of the entities). Those that did not include the timing had different characteristics.

Figure 53: Inclusion of scope and timing of the statutory audit



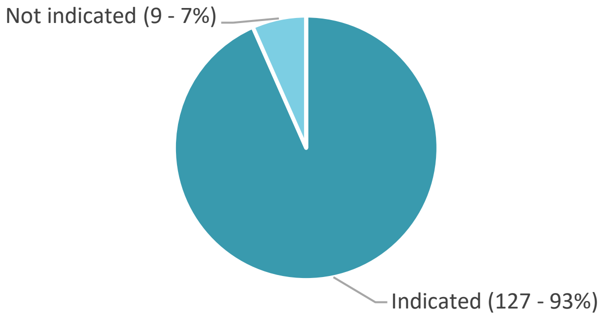
Source: Authors, based on input from audit committees, 2021.

5.3.5. Methodology

2(g) describe the methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variation in the weighting of system and compliance testing when compared to the previous year, even if the previous year's statutory audit was carried out by other statutory auditor(s) or audit firm(s)

The vast majority of the respondents indicated that the audit committee report described the methodology used, including the categories of the balance sheet directly verified based on system and compliance testing (127,93%) (Figure 54). For the remainder, the report did not indicate the methodology (9,7%). The responses to related questions (see below) suggest that some more audit committee reports may have contained information on the methodology.

Figure 54: Indication that the categories of the balance sheet were directly verified based on system and compliance testing

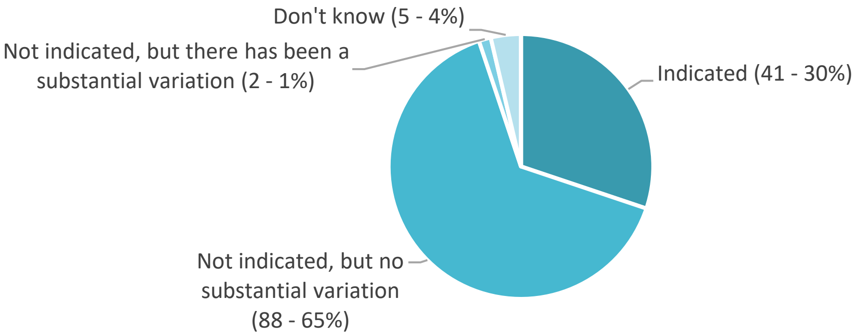


Source: Authors, based on input from audit committees, 2021.

The verification and testing of the balance sheet items of most companies did not change in the assessed period compared to the preceding period (Figure 55) and the majority of the audit committee reports did not indicate substantial differences in comparison to previous years (88, 65%). Nevertheless, according to the representatives of the audit committees, about one-third of the audit committee reports indicated variation in the verification/testing method compared to the preceding year. In nearly all instances these were indicated in the audit committee report (41, 30%), with two not indicating the substantial variations in their report (1%).

The few remaining representatives of the audit committees did not know whether there were any significant variations in the valuation methods or whether these were indicated in the audit committee report (5, 4%).

Figure 55: Indication of any substantial variation in the report to the audit committee



Source: Authors, based on input from audit committees, 2021.

5.3.6. Going concerns

2(i) report and explain judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment;

Most of the audit committee reports indicated that there were no events or conditions identified during the course of the audit that cast significant doubt about the viability of the company as a going concern (129,95%) (Figure 56).

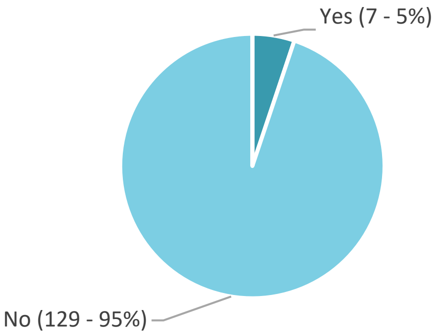
Nevertheless, almost one in 20 audit committee reports indicated doubt about the ability to continue as a going concern (7,5%). The COVID-19 pandemic was the main reason for that concern, as most of the audit committee reports covered 2020 and the period shortly after. According to the information received from auditors, COVID-19 related concerns were sector and country-specific. For example, the hotel and leisure sectors were heavily affected, while grocery chains and others benefited. In many countries, governments took measures to counter the negative impacts of the pandemic on the economy.

The judgement on the going concern was particularly difficult during the COVID-19 pandemic due to the high uncertainty about the assumptions behind management's assessment of the financial situation in at least the next 12 months. Most of the auditors indicated their reliance on the assessment of the liquidity position of the company, breach of debt covenants, and the ability to service debt liability in determining whether there were doubts about viability. Others considered additional issues, such as the loss of a major market, key customers, declining revenue, labour shortages, disruption of supply chains, delays in the launch of new products or services, counterparty credit risk, availability of government support, etc.

In this context, in relation to statutory audits performed during the COVID-19 pandemic, several circumstances cast significant doubts about certain companies as a going concern, including: i) companies' access to credit and debt markets, ii) breaches of covenants in existing financing contracts; iii) potential foreclosures on companies' assets; and iv) rapid changes in companies' debt maturity structures.

The number of companies with significant doubt about the ability to continue as a going concern could have been higher, as some countries (e.g. IT) allowed temporary relief from the going concern assessment under the national GAAP during the COVID-19 pandemic.

Figure 56: Events or conditions identified that cast significant doubt on the entity's ability to continue as a going concern



Source: Authors, based on input from audit committees, 2021.

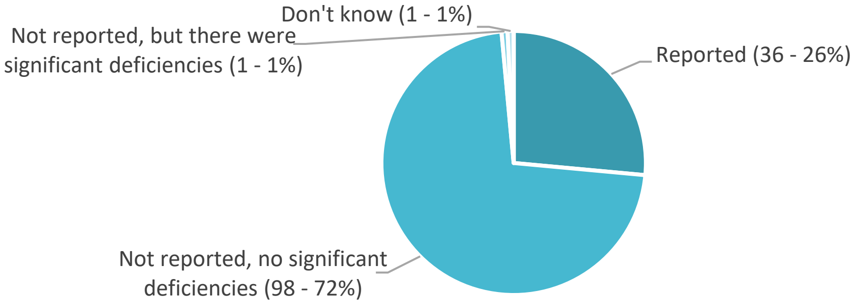
Looking more closely at the small number of audit committee reports doubting the ability of the company to continue as a going concern, it is evident that they all indicated the particular events or conditions creating the doubt, a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures taken into account in the assessment. Two audit committee representatives mentioned there was no indication of whether it constituted a material uncertainty.

5.3.7. Deficiencies

2(j) report on any significant deficiencies in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management;

Significant deficiencies in the audited financial statements were the exception (Figure 57). The large majority of the audit committee reports did not report any significant deficiencies in the internal financial control system or in the accounting system (98,72%). Nevertheless, about one-quarter of the audit committee reports reported significant deficiencies and indicated whether or not they were resolved by the management (36,26%). This included deficiencies flagged in the information received from auditors, such as: deficiencies in internal controls, adjusted/unadjusted financial statement errors, and significant estimates used by management. Only one audit committee representative did not report the significant deficiencies or whether they were resolved (1%). The representative of the last audit committee report did not know whether there were any significant deficiencies that potentially would have to be reported (1%).

Figure 57: Reporting significant deficiencies and whether they were resolved



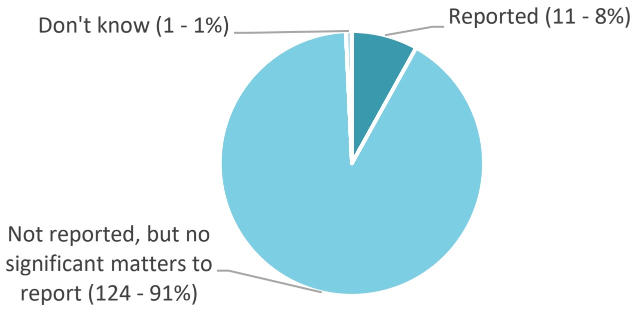
Source: Authors, based on input from audit committees, 2021.

5.3.8. Emergence of compliance issues

2(k) report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks:

The requirement to report any significant matters involving actual or suspected non-compliance with legislation or articles of association was not relevant for most audit committee reports (Figure 58). Most of the audit committee reports indicated that there were no significant deficiencies to report as no deficiencies were identified during the audit (124,91%). Less than one-tenth of the committee members indicated that all significant matters identified were included in the audit committee report (11,8%). According to information received from auditors, this could cover matters such as non-compliance with non-financial reporting requirements and anti-money laundering requirements, as well as breaches of prudential requirements. One representative did not know whether there were any significant matters identified that would have to be reported (1%).

Figure 58: Reporting of actual or suspected non-compliance



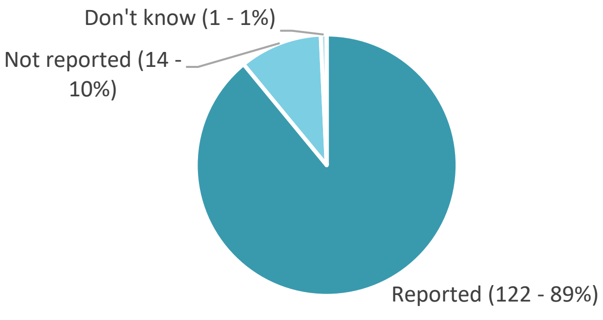
Source: Authors, based on input from audit committees, 2021.

5.3.9. Valuation methods

2(l) report and assess the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods;

The vast majority of the audit committee reports indicated and assessed the valuation methods applied to the various items in the financial statements (122, 89%) (Figure 59). However, a significant minority of the representatives of the audit committee indicated that the methods used for valuation in the annual or consolidated financial statements were not indicated (14, 10%), and they were unaware of the reason for its exclusion. It was not a major concern for them, however, as they could obtain this information from other sources, such as the company's finance department, and the valuation method often remained the same. One representative did not know whether the assessment of the valuation methods was included (1%).

Figure 59: Reporting of the assessment of the valuation methods

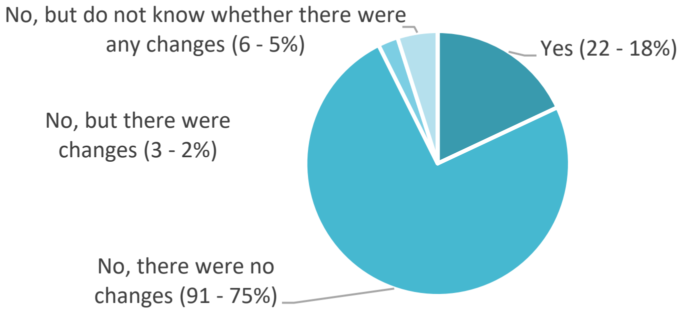


Source: Authors, based on input from audit committees, 2021.

Three-quarters of the audit reports that included an assessment of valuation methods reported no changes in the valuation method (91, 75%) (see Figure 60). Almost one-fifth of the representatives indicated that there were changes in the valuation methods, most of whom also reported the impact of the changes (22, 18%). This group were twice as likely (compared to the average) to report deficiencies in the audit committee report, with about half reporting deficiencies. Several audit committee reports did not have an assessment impact but had changes in the valuation methods (3, 2%).

Several representatives of audit committees did not know whether there were any changes in the valuation methods included in the audit committee reports (6, 5%).

Figure 60: Impact of changes of assessment of valuation methods (number of audit committee reports including valuation methods)



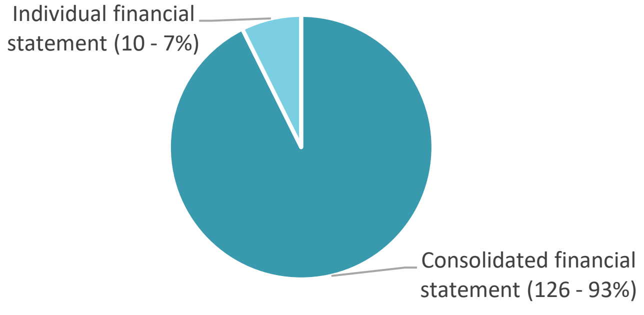
Source: Authors, based on input from audit committees, 2021.

5.3.10. Consolidation

2(m) in the case of a statutory audit of consolidated financial statements, explain the scope of consolidation and the exclusion criteria applied by the audited entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the financial reporting framework;

Audit committee reports can cover the consolidated financial statements of the company or the individual financial statements of the parent or subsidiary (Figure 61). The large majority of the audits covered in the sample concerned audits of consolidated financial statements (126, 93%). Less than one-tenth of the audit committee reports covered individual financial statements (10, 7%).

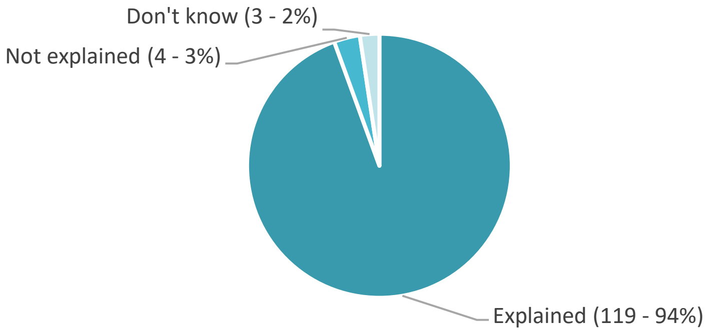
Figure 61: Types of financial statement subject to audit



Source: Authors, based on input from audit committees, 2021.

The majority of the audit committee reports covering consolidated financial statements explained the scope of the consolidation (119, 94%) (see Figure 62). Several representatives indicated that explanation of the scope of the consolidation was not included (4, 3%), while several others did not know whether the consolidation was explained in the audit committee report (3, 2%).

Figure 62: Explanation of scope of the consolidation (number of audit committee reports covering consolidated financial statements)

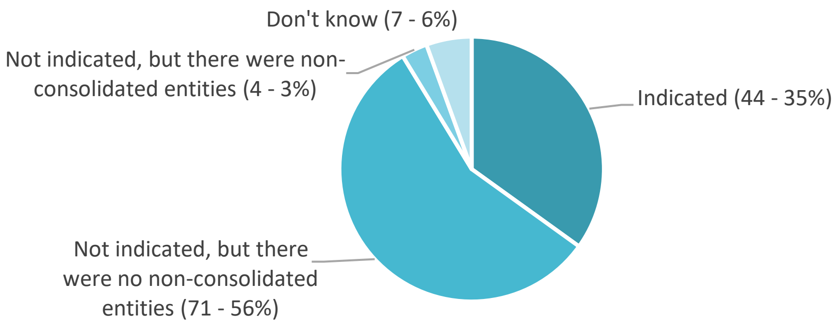


Note: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

In some instances, different criteria were applied that permitted exclusion of some entities from the consolidation (Figure 63). Looking again at the audit committee reports covering consolidated financial statements, almost two-thirds did not have non-consolidated entities (71, 56%). The remainder excluded particular companies from the consolidation. In the large majority of cases, the exclusion criteria applied to non-consolidated entities was indicated in the report (44, 35%), but some audit committee reports did not indicate this information (4, 3%).

Several audit committee representatives did not know whether the exclusion criterion was applied to the non-consolidated entities, or how this was indicated in the audit committee report (7, 6%).

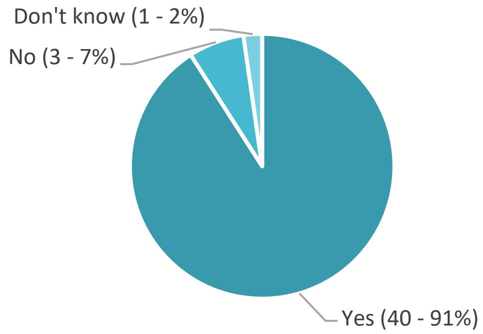
Figure 63: Indication of the exclusion criteria applied by the audited entity to the non-consolidated entities (number of audit committee reports covering consolidated financial statements)



Source: Authors, based on input from audit committees, 2021.

Of the audit committee reports that provided the exclusion criteria, most indicated whether those criteria were applied in accordance with the financial reporting framework (40, 91%) (Figure 64). The remainder did not indicate whether the criteria were applied in accordance with the financial reporting framework (3, 7%) or did not know (1, 2%).

Figure 64: Indication of the exclusion criteria applied by the audited entity to the non-consolidated entities (number of audit committee reports specifying non-consolidation criteria)



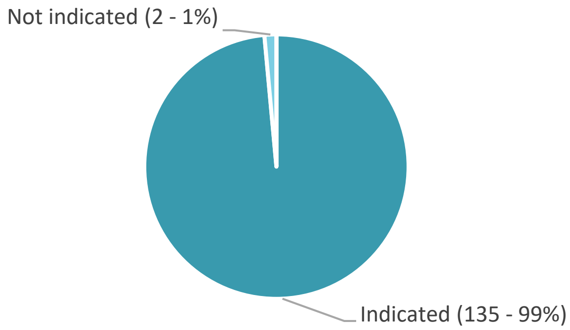
Source: Authors, based on input from audit committees, 2021.

5.3.11. Provision of all explanatory documents

2(o) indicate whether all requested explanations and documents were provided by the audited entity;

The audit committee report should also indicate whether all requested explanations and documents have been provided by the company (Figure 65). In practice, nearly all of the audit committee reports indicated whether all requested documents and explanations were provided (135, 99% of the audit committee reports in the sample). Two reports did not indicate whether all requested explanations and documents were provided (1%).

Figure 65: Indication of whether all requested documents and explanations were provided



Source: Authors, based on input from audit committees, 2021.

5.3.12. Matters of interest

2(p) The additional report to the audit committee shall report:

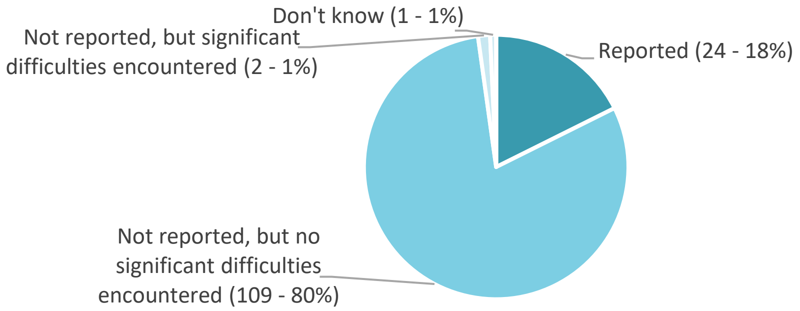
- *i any significant difficulties encountered in the course of the statutory audit;*
- *ii any significant matters arising from the statutory audit that were discussed or were the subject of correspondence with management; and*
- *iii any other matters arising from the statutory audit that in the auditor's professional judgement, are significant to the oversight of the financial reporting process.*

Starting with the difficulties encountered during the statutory audit, the requirement seems relevant only to the minority of the audit committee reports (Figure 66). According to the participating audit committees, significant difficulties were encountered in about one-fifth of cases, most of which were reported in the audit committee report (24, 18%). Only two audit committee reports did not include this information (1%).

However, most of the audit committee reports did not include any indication of the difficulties encountered, as there were none (109, 80%).

The remaining representative was not aware if significant difficulties were encountered (1%).

Figure 66: Reporting of difficulties encountered during the audit



Source: Authors, based on input from audit committees, 2021.

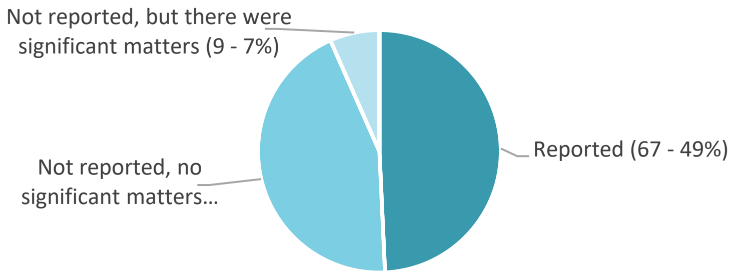
More commonly, significant matters arose from the statutory audit that needed to be communicated with the management (Figure 67). For more than half of the statutory audits, significant matters emerged from the statutory audit, most of which were included in the audit committee report (67, 49%). Some representatives indicated that the audit committee report did not report the significant matters discussed with the management in the audit committee report (9, 7%).

The remaining audit committee reports did not report any significant matters communicated with the management, because no such matters arose (60, 44%).

According to the input received from auditors, most indicated that they typically do not encounter significant difficulties/matters to be included in the audit committee reports. However, some examples of difficulties included in the audit committee report are:

- Delays in provision of information or quality of information provided and impact on timeline;
- Inability to carry out planned audit procedures due to special circumstances; need to obtain audit evidence through alternative audit procedures or when the auditor has to perform additional audit procedures due to indications of fraud;
- Discussions with management related to economic turbulence (e.g. COVID-19) and the impact on the company as a going concern;
- Impact on certain disclosures, particularly those relating to significant judgements and sources of estimation uncertainty (e.g. impairment, asset fair values, financial instruments and going concern);
- Inadequacy of training and knowledge of the audit function.

Figure 67: Reporting of any significant matters emerging from the statutory audit



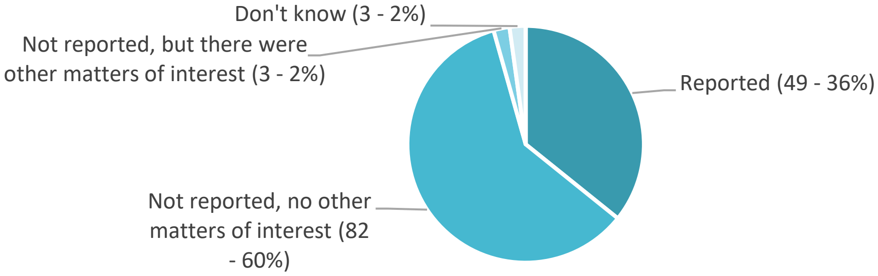
Source: Authors, based on input from audit committees, 2021.

In about two-fifths of the audits, other matters arose that the auditor deemed significant to the oversight of the financial reporting process (Figure 68). The majority of these were reported in the audit committee report (49, 36%). Additionally, several audit committee reports did not report other matters that arose during the statutory audit (3, 2%).

Nearly all of the remaining audit committee reports did not report any other matters, as none arose during the statutory audit (82, 60%).

Three audit committee representatives did not know whether or not other matters of interest arose during the statutory audit (2%).

Figure 68: Reporting of other matters of interest emerging from the statutory audit



Source: Authors, based on input from audit committees, 2021.

5.4. Joint audits

According to Article 11(3) of the Audit Regulation:

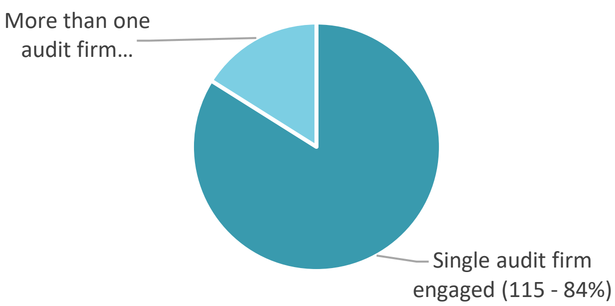
> *3. Where more than one statutory auditor or audit firm have been engaged simultaneously, and any disagreement has arisen between them on auditing procedures, accounting rules or any other issue regarding the conduct of the statutory audit, the reasons for such disagreement shall be explained in the additional report to the audit committee.*

Only a minority of the companies covered by the audit committee reports in the sample were subject to a statutory audit by more than one audit firm (Figure 69). In total, more than one-tenth of the audit committee representatives indicated that more than one audit firm was engaged for their statutory audit (22, 16%), typically concerning joint audits.

Joint audits are obligatory in Croatia and France. Most of the statutory audits for which more than one audit firms was engaged were of companies based in those two countries. In some cases, one or two companies in other Member States indicated engaging more than one auditor (AT, DE, DK, EL, FI, RO, SE).

The remaining representatives engaged just a single audit firm for the statutory audit (115, 84%).

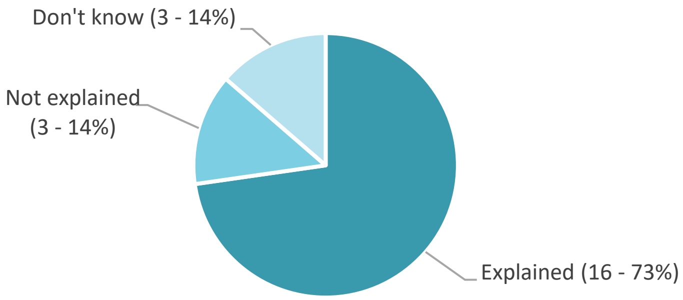
Figure 69: Indication of whether more than one auditor or audit firm was engaged to conduct the statutory audit



Source: Authors, based on input from audit committees, 2021.

A mixed picture emerges for audit committee reports covering statutory audits using two or more audit firms (Figure 70). Almost three-quarters of the audit committee reports explained the distribution of the tasks between the auditors (16, 73%). About one-fifth of the audit committee reports in the sample did not explain the distribution of tasks (3, 14%), all of which related to companies in countries where engaging multiple audit firms is the exception rather than the rule. Three representatives of audit committee reports did not know whether the distribution of the tasks was indicated (14%).

Figure 70: Explanation of distribution of tasks among the statutory auditors



Note: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

According to the representatives, there was no disagreement between the audit firms engaged (19, 86%), or they were unaware of any disagreement (3, 14%).

5.5. Signage and dating

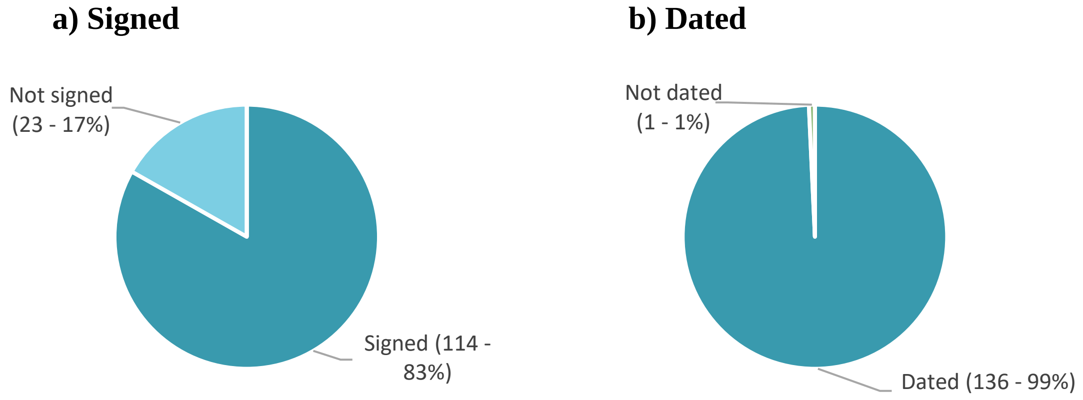
According to Article 11(4) of the Audit Regulation:

> *4. The additional report to the audit committee shall be signed and dated. Where an audit firm carries out the statutory audit, the additional report to the audit committee shall be signed by the statutory auditors carrying out the statutory audit on behalf of the audit firm.*

The audit committee report must be signed and dated by the statutory auditor (Figure 71). Nearly all of the audit committee reports indicated the date of completion or submission of the report (136, 99%). Only one of the audit committee reports was not dated, according to the participating representatives of the audit committee (1%).

Although the majority of the audit committee reports were signed (114, 83%), a significant minority were not signed (23, 17%). The respective participating audit committees did not indicate particular reasons why the audit committee report was not signed. The non-signage of a minority of the audit committee report was confirmed by the input received from auditors, a minority of whom indicated not signing the audit committee report.

Figure 71: Audit committee reports signed and dated



Source: Authors, based on input from audit committees, 2021.

5.6. Other information

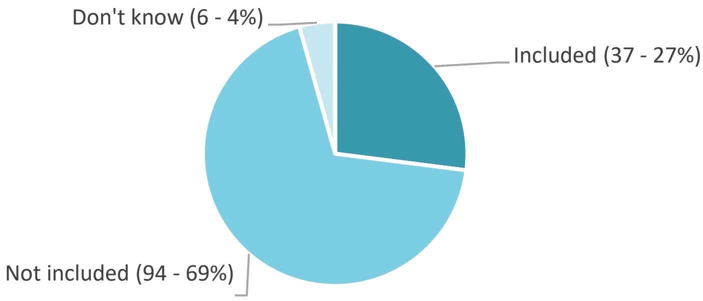
In addition to the information legally required under national and EU law, some audit committees requested the auditors to include additional information in the audit committee report (Figure 72). More than two-thirds of the audit committee representatives indicated that no additional information was included (94, 69%).

According to the audit committee representatives and auditors, one-third of the audit committee reports included additional information (37, 27% of the entities). That additional information included:

- Findings from the internal control department, including deficiencies;
- Recommendations to improve the internal control procedures;
- Determination of materiality thresholds;
- Fraud identification or suspects;
- Information on compliance with Sarbanes-Oxley Act (SOX);
- Communications required by ISA 260 ‘Communication with those charged with governance’;
- Information on the audit of non-financial information, including sustainability information, tax audits, loan covenants, transfer price arrangements, etc.;
- Audit fees and NAS obtained;
- Listing (digital) tools used in the audit;
- Draft audit report;
- Summary of the changes to audit standards and regulations;
- Summary of the audit firm’s annual quality assessment conducted by the supervisory authority;
- Indication of the responsibility of the audit committee;
- Auditor's view on the legal representatives' assessment of the situation of the company as presented in the financial statements and management report.

Finally, several audit committee representative did not know if additional information was included in the audit committee report.

Figure 72: Additional information in the audit committee report



Source: Authors, based on input from audit committees, 2021.

Some of the audit committees asked the auditors to provide additional information separately to the audit committee report, such as recommendations on how the internal audit procedures can be made more effective and efficient.

5.7. Feedback on audit committee report

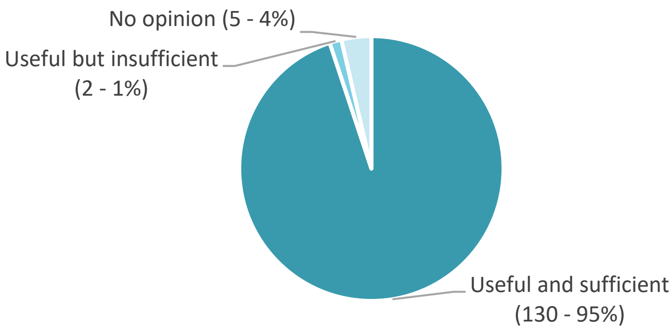
The representatives of the audit committees were asked for their views on the form and content of the audit committee reports received from their auditor.

5.7.1. Usefulness and completeness of information

Nearly all of the audit committee representatives considered the current audit committee report useful and sufficient for decision-making by the audit committee (Figure 73). More specifically, 95% of all respondents deemed the current audit committee report useful and sufficient (130, 95%). Most of the remaining participants had no opinion.

Only two representatives deemed the report useful, but not sufficient for decision-making (1%). According to the first representative, the frequency of once a year is insufficient. This view might be shared by others, as many audit committees already receive two or more reports per year (see section on Auditor's submission of report). For the second representative, the information in the audit committee report insufficiently covers the risks and internal control procedures, increasing reliance on the internal audit department.

Figure 73: Opinions on usefulness and completeness of information included in the audit committee report



Source: Authors, based on input from audit committees, 2021.

The representatives of the audit committee indicated that, in addition to the audit committee report, good decision-making depends on the competence of the audit committee members, internal audit processes, dialogue with executive board members, external auditors, etc.

Similarly, the auditors consulted almost universally considered the audit committee reports a useful means of providing the audit committee with mandatory information and data. Some indicated that they allow for sound dialogue with the audit committee on the responsibilities of each party and the independence of the auditor.

Some of the auditors in countries where similar reports previously existed noted that the reports improved after the audit reform. More specifically, they indicated that the reform resulted in more consistent and detailed reports that are more comparable between audit firms. According to the auditors, this is useful for the audit committees, but also for the incoming auditors after rotation. Nevertheless, some would like to see more standardised reports.

5.7.2. Standardisation and digitalisation

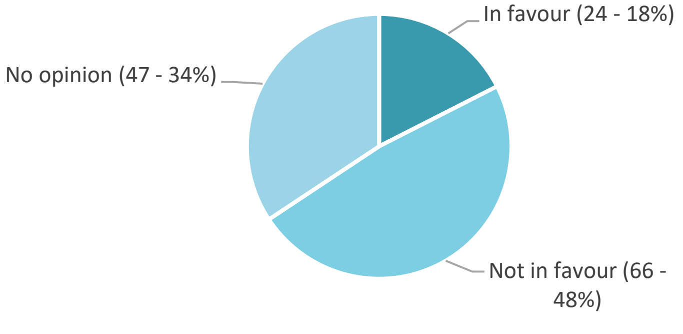
Two options for changing the audit committee report are standardisation of the report (e.g. using a template) and digitalisation of the report (e.g. XBRL). Almost half of the representatives of the audit committees were not in favour of standardisation or digitalisation of the audit committee report (66, 48%) (Figure 74).

They indicated that the use of a standard digital reporting format would not contribute to the usefulness and added value of the audit committee report because of the company-specific nature of the report and qualitative manner of reporting. They argued that the audit committee report needs to cover many different aspects that depend on the specificities of the company (sector, viability, internal processes, organisational structure, etc.) and organisation of the audit. Many aspects are qualitative, which are more difficult to capture in comparable digital formats.

About one-fifth of the representatives of the audit committees were in favour of a digital reporting format (24, 18%). They argued that standardisation could enhance comparability across years and organisations for those members of several boards. A standard digital format would also ease the analysis of the audit committee report.

More than one-third of the representatives had no opinion on the use of a standard digital reporting format for the audit committee report.

Figure 74: Opinion on standard digital reporting format for audit committee report



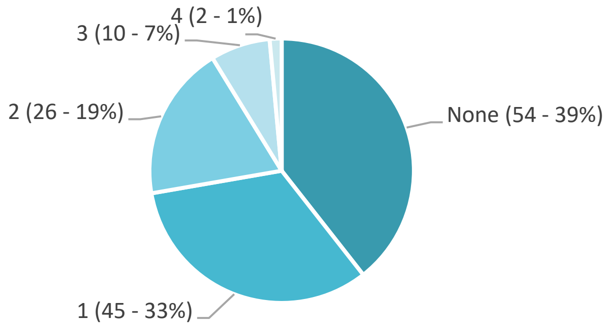
Source: Authors, based on input from audit committees, 2021.

The auditors consulted were almost all opposed to standardisation and digitalisation of the audit committee report. Although some argued that a standard digital reporting format might be more efficient and aid comparability, many were concerned about the degree to which it would contribute to the usefulness and added value of the audit committee report. Several auditors added that digitalisation might not be very cost-efficient for the limited group of users.

5.8. Summary

Overall, the audit committee reports in the sample were largely in line with the requirements specified under Article 11 of the Audit Regulation. According to representatives of the audit committees, more than one-third of audit committee reports covered all of the required information (54, 39%), while about two-thirds of the audit committee reports had one or more deficiencies (Figure 75).

Figure 75: Number of observed deficiencies in audit committee reports



Notes: Aggregate shares of audit committee reports presented between parenthesis on the labels can deviate from 100% due to rounding. Number of deficiencies based on non-compliance with the legislation as observed in the assessment above. The aspects on which the representatives were uncertain or unaware are not considered a deficiency.

Source: Authors, based on input from audit committees, 2021.

In general, the audit committee reports were largely in line with the requirements applicable to all audit committee reports in the relevant Member State (except signature of the audit committee report). For example, there was full compliance with the requirement to confirm the independence of external experts involved in the statutory audit in countries where joint audits are standard, with only limited compliance in other countries.

The vast majority of the audit committee representatives and auditors would like to keep the audit committee reports as they are. They consider the current information included in the audit committee report to be useful and sufficient for their decision-making. The majority of the audit committee representatives and auditors were not in favour (or had no opinion) about the application of a standardised digital format, in view of the complexity and qualitative nature of the report.

6. Data analysis of appointment of statutory auditor

This chapter assesses the compliance and experience with the process of appointment of the statutory auditor or audit firm, particularly the rotation requirement, tender procedure, and restrictions on NAS introduced as part of the audit reform.

The results in this section are based on the input received from 138 audit committees during the second half of 2021 and early 2022 on their experiences after the required implementation of the audit reform in 2016. The sample of representatives of audit committees was the same as that used for the assessment of the compliance with the audit committee report requirements (see Chapter 5 on Data analysis on reporting requirements for statutory auditors/audit firms reporting to audit committees).

For ease of reading, ‘auditor’ and ‘audit firm’ are used interchangeable, except where otherwise specified.

The full impact of some of the revisions is not yet evident, as some of the requirements have not reached the maximum duration.

Main findings of the data analysis on the appointment of a statutory auditor

The analysis of the appointment of a statutory auditor is based on the input received from representatives of 138 audit committees. The analysis covers the period between June 2016 and second half of 2021/early 2022.

- More than half of the companies in the sample (79, 58%) changed their audit firm or statutory auditor in the period between 2016 and 2020. Not all companies changed their audit firm as they had not reached the maximum duration of the engagement;
- The large majority of the companies in the sample prefer to have the same audit firm for the companies in their corporate group, with some exceptions. The rotation is often more complicated for corporate groups with subsidiaries that qualify as PIEs, which are required to conduct their own tender procedures. Most of the relevant groups coordinate the work centrally from the parent entity or set up a working group with the various entities represented;
- The majority of the tender procedures invited only Big Four (52%) and participating (64%) audit firms. The Big Four audit firms were more likely to participate when invited. This phenomenon was more apparent where the structure of the company was more complex (multiple PIEs in group, activities outside the EU, etc.);
- In the remaining tender procedures, only one audit firm participated (5, 6%), meaning that the companies did not meet the requirement to propose two audit firms;
- The impact on the audit costs varied widely, from a reduction of 40% to an increase of 25%. On average, the audit committee representatives indicated that audit costs decreased by about 3%;
- The non-audit fee cap was not binding for most of the companies in the sample, with only a minority reaching the audit fee cap (6, 4%).

6.1. Rotation requirement

Under Article 17 of the Audit Regulation, PIEs are, in principle, required to appoint an audit firm for a minimum duration of one year, with the possibility of renewal. The maximum duration of the engagement is further limited to a maximum of 10 years. Afterwards, the audit firm is prohibited from working with the company – for the statutory audit - for a period of four years. Member States have the option to extend the maximum period to 20 years for engagement involving one audit firm and 24 years for joint audits, as long as the public tender requirements are fulfilled.

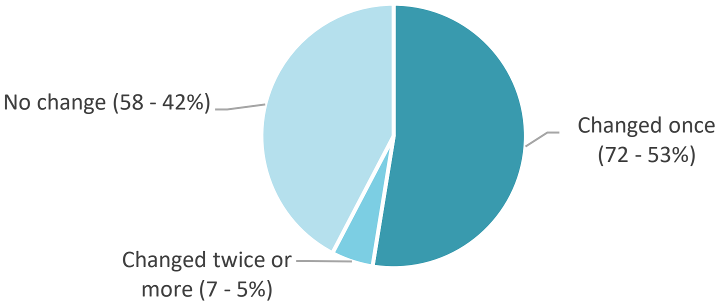
In practice, the majority of the audit committees indicated that the audit firm engaged had changed since the implementation of the audit reform (Figure 76). More specifically, the auditors of about half of the companies changed once between 2016 and 2020 (72, 53%). Several companies changed auditor more than once during this period (7, 5%).

Several reasons were indicated for changing the audit firm, including:

- Introduction of the rotation requirement;
- General practice or good corporate governance;
- Streamlining audit firms engaged with the entities within the corporate group, e.g. after a merger or acquisition;
- Company becoming a PIE (e.g. through initial public offering);
- Dissatisfaction with the auditor (e.g. concerns about the quality of the audit work and deterioration of reputation of the audit firm).

A considerable number of companies did not change audit firm since the implementation of the audit reform (58, 42%). The representatives of the audit committee provided several reasons for not changing the engaged audit firm, including: satisfaction with the current auditor; limits defined in legislation, by general practice and/or corporate governance codes were not reached; and change of audit firm just before the implementation of the audit reform.

Figure 76: Change of statutory auditor or audit firm after implementation of audit reform



Note: Rotation after the implementation of audit reform in national legislation is proxied by changes in statutory auditor or audit firm after 2016.

Source: Authors, based on input from audit committees, 2021.

Of the companies that changed their audit firm, most changed auditor for the entire corporate group at once (58, 73%) (Figure 77).

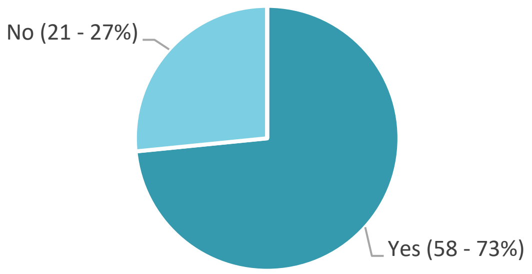
The audit committee representatives interviewed noted that having a single auditor for the entire group is less burdensome, both for the audit network and the company, i.e. the audit network needs less additional work to be able to rely on the audit work of the other auditor firm, while the administration and supervisory body of the company only needs to work with a single audit network. These benefits are greater for centrally organised companies. For example, some companies with majority holdings in independently-run companies often engage different audit firms. In other instances, not having the same auditor for the entire group is a legacy issue, with acquired subsidiaries continuing to running their own audit engagements.

Although there was no noticeable difference in the rotation to a single audit firm between groups that contain the parent entity and one or more subsidiaries qualifying as PIEs and those where only the parent entity qualifies as a PIE, the change to the same audit firm was nevertheless considered more difficult. Indeed, each of the PIEs is expected to meet the rotation and tender requirements. In fact, more than 90% of the companies covered in the sample with one or more PIEs inside the group engaged a single audit firm for the entire group. Most of these groups coordinated the work either centrally from the parent entity or by setting up a working group of the various entities. For example, one large international finance group prepared the tender specifications and other documents at group level and shared these with the various PIEs in the group, which then adapted the tender specifications to the national requirements and launched the tender at around the same time. They further facilitated selection by including an evaluation criterion of ability to use the audit for the entire group. The audit committee of the parent entity shared a recommendation for the preferred auditor with the audit committees of the PIEs, although the official appointment remained the responsibility of each of the relevant bodies of the PIEs.

The remainder indicated that rotation within the group was not done simultaneously (21, 27%). In most instances, this concerned groups with 'independently' operating entities (e.g. joint ventures, recently acquired entities, activities that are about to be sold) within their group, or subsidiaries operating in countries not covered by the audit network.

For companies with joint auditors, the rotation of both auditors does not necessarily happen simultaneously. In various instances, the audit committee representatives indicated that the overlapping engagement periods were intentional, to facilitate continuity.

Figure 77: Simultaneous rotation for all entities in the group (number of rotating companies)



Source: Authors, based on input from audit committees, 2021.

6.2. Tender procedure

Large PIEs[99] fall under Article 16(3) of the Audit Regulation and are obliged to go through a tender procedure for the appointment of the audit firm, except in the case of renewal. The documentation shared with potential audit firms must be sufficient to understand the business of the entity and the type of audit that will have to be carried out, as well as providing information on compliance with quality standards, and being transparent and non-discriminatory.

For the tender procedure, the audit firms can be freely chosen from among the qualifying firms. The audited company is free to determine the procedure used to select the audit firm and has the right to conduct direct discussions with those submitting a tender proposal. The audited company must be able to show that the procedure was conducted fairly.

The company organising the tendering procedure must evaluate the proposals received from audit firms. It must prepare a report on the conclusions from the tender procedure, to be validated by the audit committee.

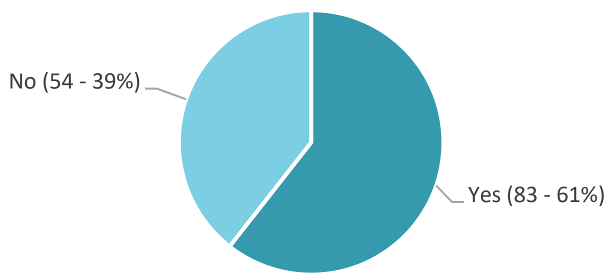
At least half of the companies in the sample went through a tender procedure (83, 61%), which does not necessarily mean that they changed audit firm. In the interviews, audit committee representatives indicated that the selection process often starts at least two years before the audit firm is replaced. The procedure is started relatively early to have sufficient time for the evaluation and nomination process and to allow the audit firm to prepare the engagement (especially for large and complex organisations). In one instance, the representative of the audit committee indicated that they will start the tender procedure well before a change of auditor is legally required, in order to get ahead of the

[99] Smaller PIEs are exempt from the tender requirements. This includes the non-listed companies that are not large undertakings, meeting at least two of the following criteria: i) less than 250 employees; ii) total assets not exceeding EUR 43 million; and, iii) turnover not exceeding EUR 50 million. Additionally, micro caps are exempt, i.e. companies with a market capitalization of less than EUR 200 million.

potential wave of changes in audit firms around the time the maximum duration for rotation is reached.

Up to one-third of the companies in the sample had yet to conduct a tender to select an audit firm (54, 39%), as not all companies were obliged to change audit firm.

Figure 78: Use of tender procedure for change of auditor or audit firm



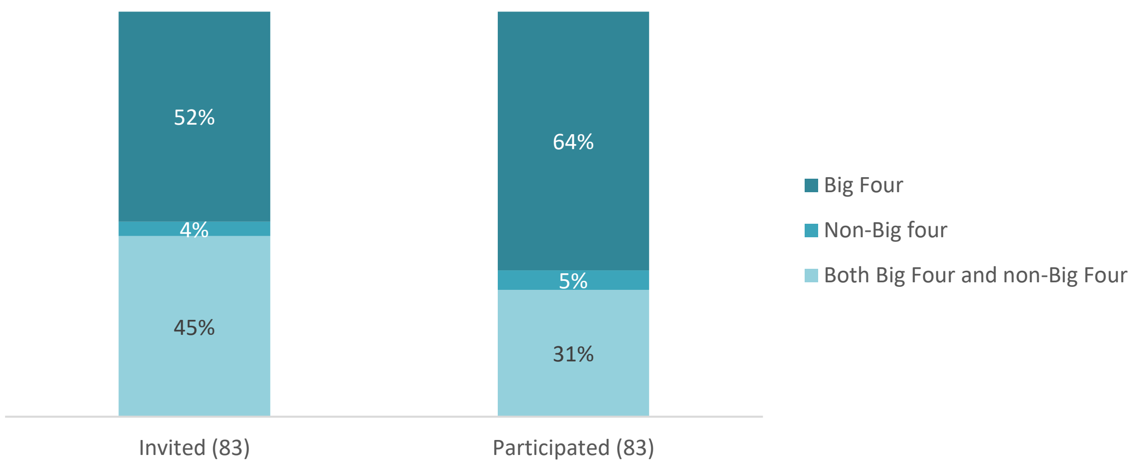
Source: Authors, based on input from audit committees, 2021.

Companies are free to choose the audit firms that can participate in the tender procedure, and the invited audit firms are likewise free to choose whether or not to participate in the tender procedure. For this analysis, the audit firms were divided into two broad groups; Big Four audit networks (i.e. Deloitte, EY, KPMG, PWC) and non-Big Four audit firms/networks.

About half of the companies invited exclusively Big Four audit networks to the tender procedure (43, 52%) (Figure 79). Slightly fewer invited both Big Four and non-Big Four audit firms (37, 45%). Three companies only invited non-Big Four audit firms (4%).

Of the audit firms that actually participated, the Big Four audit networks represented a comparatively larger share. In about three-fifths of the tender procedures, only Big Four audit networks participated (53, 64%). An additional one-third of the tender procedures saw both Big Four and non-Big Four audit firms participate (26, 31%). Four tender procedures had only non-Big Four audit firms participating (4, 5%).

Figure 79: Type of auditor(s) in the tender procedure (number of companies that conducted tender procedure)



Note: Indicates the type of auditors invited to and participating in tender procedures. Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

Representatives of the audit committees indicated that the invitees depended on the needs of the company and the ability and availability of audit firms/networks. Some of the audit committees organised an open call, others did a first selection and invited only those audit firms considered capable of conducting the audit, while still others held an open call but approached those audit firms they wished to see participating.

The needs of the company depended on the type of activity (e.g. listed, bank licence, insurance, etc.), complexity, size, internationalisation, and stage of business life. For example, one audit committee member of a fast-growing company indicated that they were in need of a more senior audit team to ensure that the audit was diligent, noting the increased financial and operational risks when a company is expanding rapidly.

The audit firms/networks available for the audit differed between countries. There are differences in the number of audit firms permitted to audit PIEs, but they also need to have the size, technical and operational capacity to conduct the audit and engage in the tender procedure. According to the audit committee representatives, the Big Four audit firms increasingly struggle to attract and maintain sufficient talent to conduct the audits. In Northern and Eastern European countries, in particular, the audit firms are not always able to participate in the tender process because of a lack of human resources.

The audit firms also considered the NAS they might have to discontinue after being awarded the audit. This means considering the NAS limitations and company practice. Many of the audit committee representatives indicated that they apply tighter caps than those in the legislation.

NAS had an ambiguous impact on participation in the tender procedures. On the one hand, the audit firms are in some instances not inclined to participate in the tender procedure so as to be able to continue the often more lucrative NAS. On the other hand, the audit firms risk losing these NAS by not participating in the tender procedure for audit services. For example, one of the companies discontinued the tax services from one of the Big Four auditors after the audit firm did not participate in the tender procedure for audit.

Another factor that plays a role in the invitation of audit firms to tender procedures is the protection of business secrets. Some companies do not want to have an audit firm, lead audit partner and/or engagement team if they are also involved in the audit of a competitor. This is to avoid transmission of key information on the company to competitors. For most of the companies considering the competition aspect, it was sufficient when the audit partner and engagement team were distinct, but in at least one instance the entire audit firm needed to be distinct in order to rule out exchanges between the audit teams engaged within the same firm.

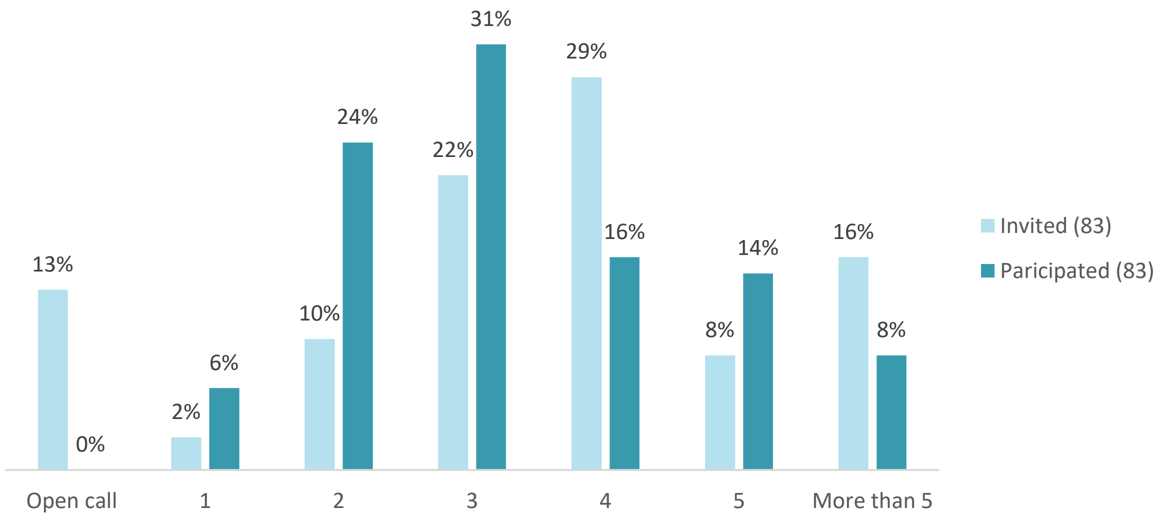
The audit committees considered various aspects in relation to preferred numbers of invitees and participants in general. They favoured having many participants in the procedure, for greater choice, yet tried to avoid an overly burdensome process with too many participants with little chance of getting the engagement. Article 16(2) of the Audit Regulation requires the audit committees to choose at least two audit firms for potential selection by the shareholders meeting. This means that the audited company would have to invite at least two audit firms to participate in the tender procedure and meet the requirements.

In practice, nearly all of the companies invited two or more audit firms to the tender procedure (Figure 80). A minority organised a public tender (11, 13%). In some countries, such as Lithuania, a public tender is mandatory when appointing a new auditor. Some companies combined a public tender and invitations, with some inviting a specific number of audit firms. About one-tenth of the companies invited two firms to participate in the tender procedure (8, 10%). Most companies commonly invited three or four firms to participate in the tender procedure (42, 51%). About one-quarter invited five or more audit firms to participate (20, 24%). Only two companies invited just one audit firm (2%), making them non-compliant.

The audit firms tended to participate in the tender procedure when invited. More than 80% of the audit firms invited to the tender procedure subsequently participated. In fact, in almost two-thirds of the cases, all of the invited audit firms participated. However, the more audit firms were invited, the higher the likelihood that one or more audit firms did not participate. Interestingly, the average number of audit firms that participated in the tender procedure – three – was more or less the same irrespective of whether the company invited audit firms or organised a public tender. This might be explained by increased awareness about the procedure when the audit firm receives an explicit invitation, or the fact that companies are likely to invite (nearly) all audit firms that might be interested in participating.

Overall, most of the procedures attracted two or three auditors or audit firms, both representing more than one-quarter of the entire sample (46, 55%). In addition, many companies received proposals from four or five auditors (25, 30%). Some companies had five or more audit firms participating in the tender procedure (7, 8%). In the remainder, only one audit firm participated (5, 6%), meaning that these companies were unable to meet the requirement to propose two audit firms.

Figure 80: Number of audit firms involved in the tender procedure (number of companies conducted tender procedure)



Notes: Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding. Figures based on 83 companies that conducted a tender procedure since June 2016.

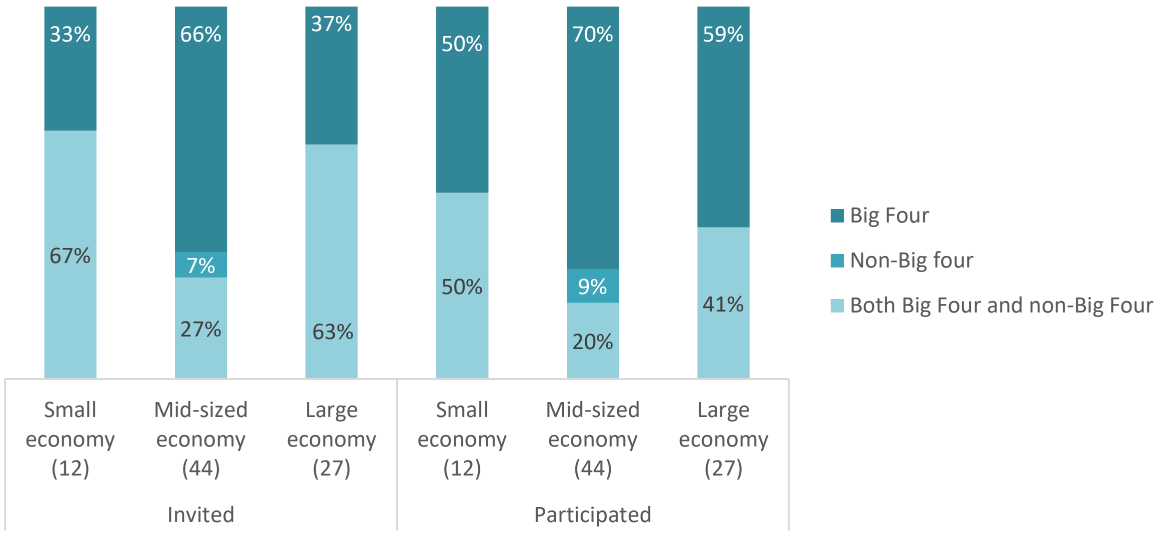
Source: Authors, based on input from audit committees, 2021.

6.2.1. Country distribution

The participation of non-Big Four audit firms in tender procedures of PIEs vary depending on the economic size of the country (Figure 81).

In small economies, the large majority of audit firms invited to tender were a combination of Big Four firms and non-Big Four (8, 67%), with the remainder inviting only Big Four firms. Companies in mid-sized economies demonstrated the most variety, with most inviting only Big Four firms (29, 66%), one-third inviting both Big Four and non-Big Four firms (12, 27%), and the remainder inviting only non-Big Four firms (3, 7%). The companies in large economies typically invited both Big Four and non-Big Four firms to tender (17, 63%), with the remainder inviting only Big Four firms (10, 37%). The distribution of participation is fairly similar in each case, with a larger share of Big Four-only participation in all economies.

Figure 81: Type of audit firm involved in tender procedure, by size of economy (number of companies that conducted tender procedure)

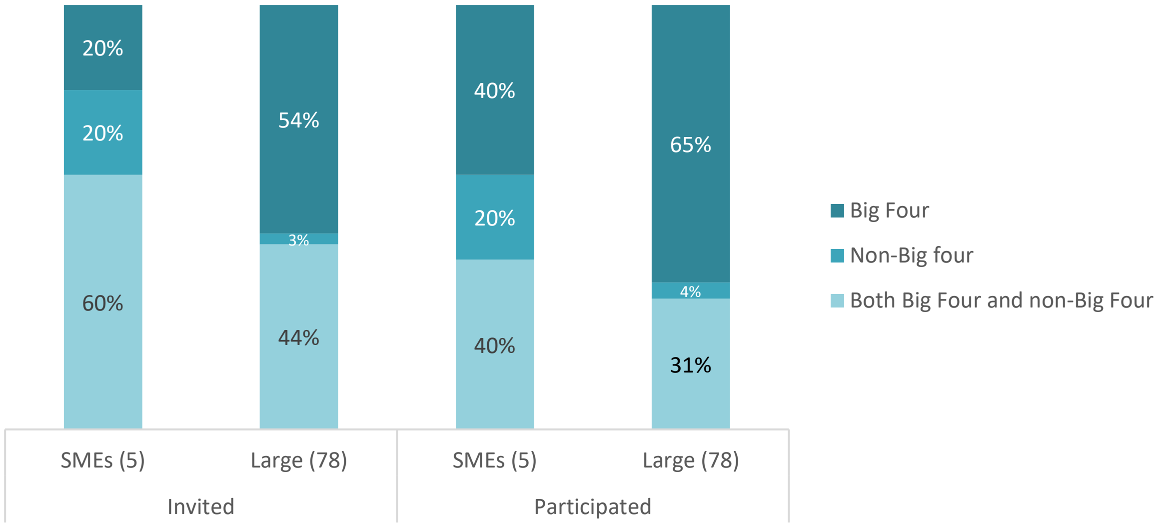


Note: Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

6.2.2. Size distribution

The audit firms varied by company size. Based on the limited number of observations for SMEs, they were more likely to invite non-Big Four audit firms (Figure 82). They were also more likely to have non-Big Four audit firms participating in the tender. This might be explained by the lower complexity of audit engagements in terms of size, activities, and geographical scope, making it a more attractive proposition for smaller, non-Big Four audit firms.

Figure 82: Type of audit firm invited, by size of entity (number of companies that conducted tender procedure)



Note: Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

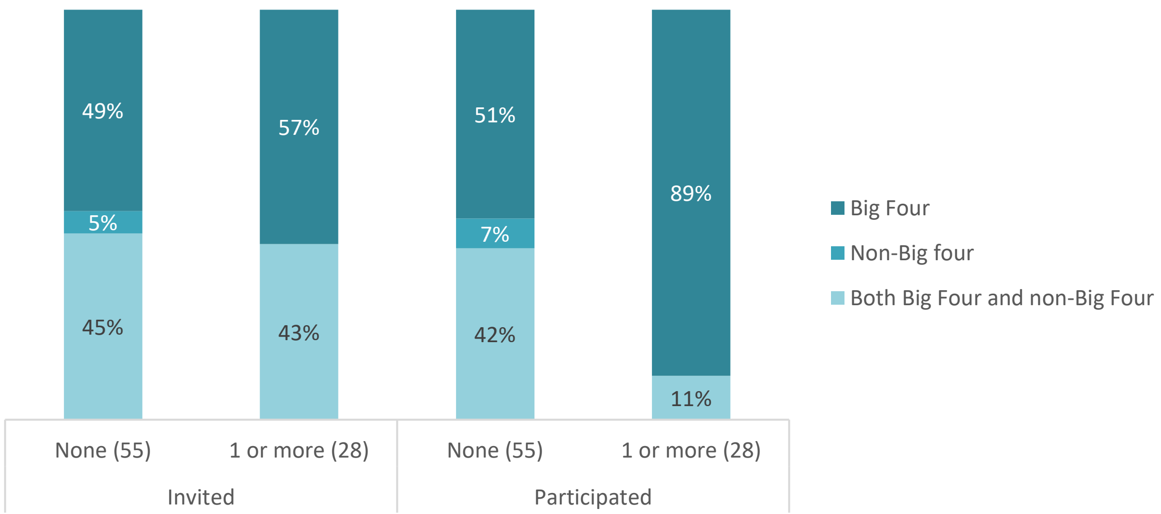
6.2.3. Type of corporate structure

The Audit Regulation allows a common tender to be prepared for all entities, provided that all audit committees are involved in the appointment procedure for both the parent company and subsidiaries. This does not remove the necessity for each PIE to be involved in the tender procedure.

The inclusion of one or more PIEs within the corporate group had an impact on participating audit firms (Figure 83). The companies with PIEs as subsidiaries always invited Big Four audit firms, while only some of the companies without PIEs as subsidiaries invited non-Big Four audit firms (3, 5%). More than two-fifths of the corporate groups with and without PIEs as subsidiaries invited both Big Four and non-Big Four audit firms.

While the participation of non-Big Four audit firms was fairly similar for corporate groups without PIEs as subsidiaries, the large majority of corporate groups with one or more PIEs as subsidiaries only had Big Four audit firms as participants in the tender (25, 89%).

Figure 83: Audit firms involved in tender procedure, by number of subsidiaries that qualify as a PIE (number of companies that conducted tender procedure)



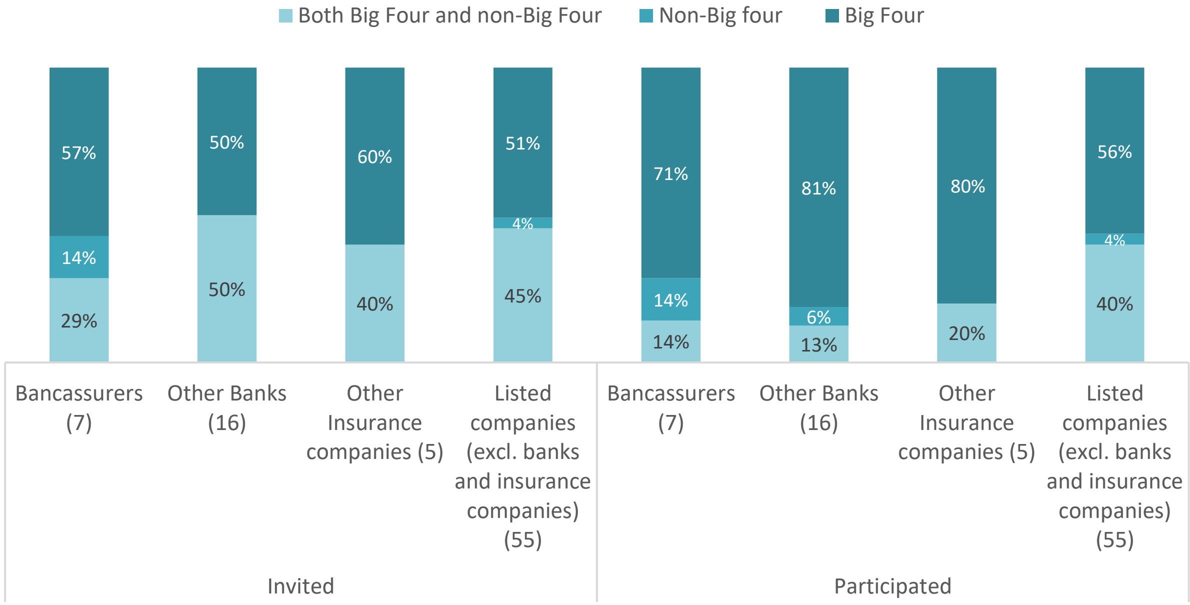
Note: Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

6.2.4. Type of PIE

The types of audit firms invited and participating was broadly similar across different types of PIEs. The bancassurers, other banks, other insurance companies and listed companies (excluding banks and insurance companies) in the sample almost always invited Big Four audit firms, with Big Four audit firms alone being more common than the combination of Big Four audit firms and non-Big Four audit firms (Figure 84). Bancassurers and listed companies (excluding banks and insurance companies) were the only two categories in the sample that sometimes invited non-Big Four audit firms only.

Bancassurers, other banks and other insurance companies were more likely to only have Big Four audit firms participating in the tender. These types of PIEs include most of the PIEs with PIEs as subsidiaries, which are more complex to audit. Among the remaining bancassurers and other banks were institutions that just involved non-Big Four audit firms in their tender. Listed companies (excluding banks and insurance companies) were the only category that showed a (limited) difference between invitees and participants in the tender. This means that non-Big Four audit firms participated relatively more frequently.

Figure 84: Type of auditor involved, by type of entity (number of companies that conducted tender procedure)



Note: Aggregate shares of audit firms presented on the labels can deviate from 100% due to rounding.

Source: Authors, based on input from audit committees, 2021.

6.2.5. Internationalisation

The internationalisation of companies seemed to have a limited impact on the composition of the participating audit firms (

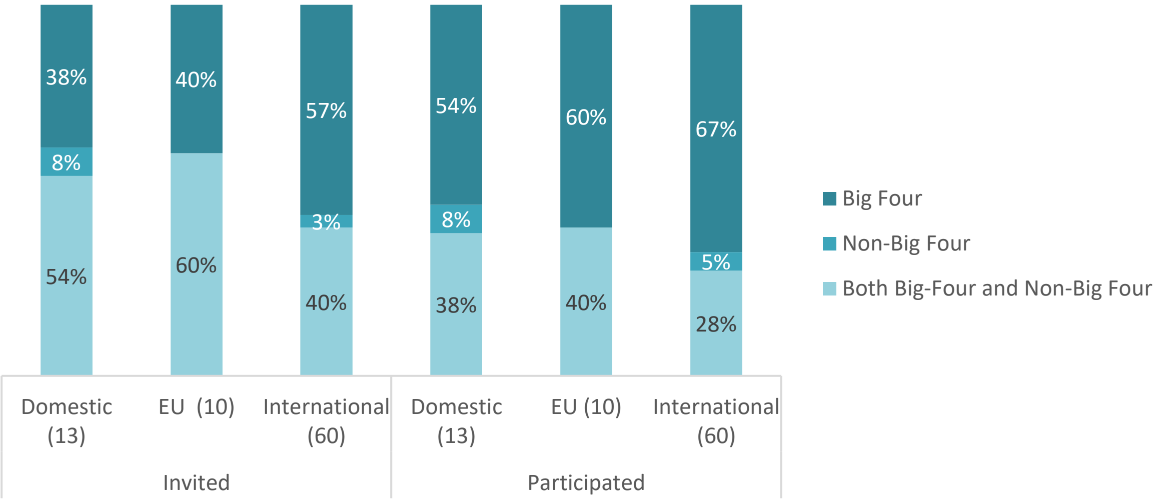
Figure 85). In general, the role of non-Big Four audit firms appeared to become more limited when the level of internationalisation increased.

More specifically, in the majority of cases, non-Big Four audit firms were invited by companies solely active domestically or in the EU, compared to a minority of cases among the companies also active outside the EU through a subsidiary.

Similarly, the share of tender procedures involving non-Big Four audit firms decreased with the level of internationalisation of the company. The share of non-Big Four audit firms participating was highest for companies that were solely active domestically, lower for those companies solely active in the EU, and lowest among companies also active in countries outside the EU.

The greater importance of Big Four audit firms in tender procedures for more internationally active companies might be explained by the higher geographical coverage and depth of the Big Four audit firms. Indeed, companies and audit firms prefer to have their audit engagement with a single audit network. Big Four audit firms have a broad geographical coverage compared to the non-Big Four audit firms.

Figure 85: Impact of location of company or group activity on type of auditor invited



Source: Authors, based on input from audit committees, 2021.

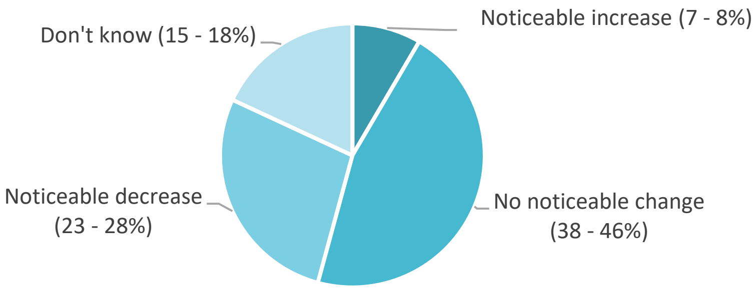
6.2.6. Impact on audit costs

In general, the tender procedures left the audit costs unchanged or reduced the audit costs for the large majority of the companies that conducted a tender procedure (Figure 86). The largest group of companies in the sample indicated no change in their costs following the rotation requirements (38, 46%). One-quarter of the representatives of the audit committees reported a decrease in costs after the introduction of the mandatory rotation requirement (23, 28%), while around one-tenth of the companies in the sample experienced an increase in costs (7, 8%). The remainder were unaware of any impact on costs as a result of the rotation requirement (15, 18%).

The change in audit costs depended on whether or not companies previously conducted tender procedures, as well as competition. Companies without regular tender procedures in place were more likely to experience a decrease in audit costs. In addition, if more audit firms were able to take the audit engagement, invited by the companies and participating in the tender procedure, this generally lowered audit costs. Similarly, fewer audit firms available was more likely to lead to higher audit costs.

According to some of the audit committee representatives, the initial reduction in the audit costs due to the introduction of tender procedures was often either partially or entirely offset by higher price increases during the audit engagement and higher extra charges for additional (unforeseen) work. In addition, audit costs were only one of the selection criteria, with many of the audit committees indicating that quality of the audit was a more important selection criterion than cost.

Figure 86: Impact of mandatory rotation requirement on audit costs



Source: Authors, based on input from audit committees, 2021.

The impact on audit costs differed significantly across companies (Figure 87). Those that provided indications of a noticeable increase in costs due to the mandatory rotation requirement indicated a cost increase of between 8% and 25%. In turn, those companies experiencing a noticeable decrease in costs typically reported decreases of between 10% and 25%, with some individual companies reporting a decrease in costs of up to 40%. Across all companies that provided information, audit costs decreased by 3% on average after the introduction of the mandatory rotation requirement.

Some audit committees struggled to indicate the impact of the rotation requirement, as it coincided with changes in the activities of the company or scope of the audit engagement.

Figure 87: Impact of tendering process on audit costs

Note: Impact of mandatory audit rotation introduced after the audit reform based on 68 observations of audit committee representatives who reporting holding a tender procedure and providing the percentage of increase/decrease/no change in costs.

Source: Authors, based on input from audit committees, 2021.

6.3. Restrictions on NAS

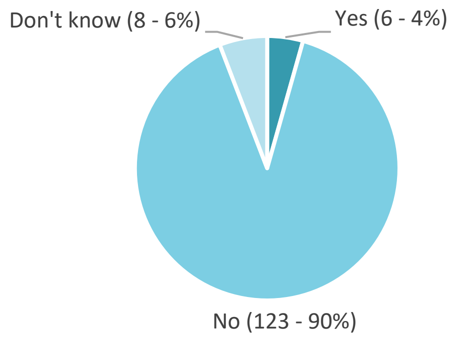
The audit reform restricted the provision of NAS by the statutory auditor or audit firm. Article 5(1) of the Audit Regulation contains a list of prohibited NAS. According to Article 4 of the Audit Regulation, an audit firm providing allowed NAS to the same entity for more than three years should limit the total fee for these services to 70% of the average of the fees paid in the last three consecutive financial years. These NAS have to be reported by the statutory auditor or audit firm to the competent authority for all PIEs to which these services have been provided. The most common NAS are either audit related or tax related.

The large majority of audit committee representatives reported that they did not reach the NAS fee caps (123, 90%) (Figure 88). Most of the companies did not have an issue with the NAS limitations as they do not obtain sufficient NAS or they usually obtain the main NAS (usually tax advisory services) from other audit firms or consultancy companies (see Chapter 7 for audit committee representatives' views on the appropriateness of the limitations on NAS).

Nevertheless, a small minority of the audit committee representatives indicated reaching the caps (6, 4%). These were mostly companies that require substantial audit-related services, such as due diligence and security issuance-related audit services. According to the representatives of the audit committees concerned, these services can be more efficiently and effectively executed by the statutory auditor and there are no real concerns about conflict of interest.

The remaining few audit committee representatives did not know whether the cap levels on non-audit services were reached (8, 6%).

Figure 88: Opinion on whether any of the cap requirements on auditor's fees were reached



Source: Authors, based on input from audit committees, 2021.

6.4. Summary

Although the transition period is still ongoing, the majority of the companies had already followed a tender procedure for a new auditor or audit firm. For about half of those tender procedures, only Big Four audit firms were invited, while the other half mostly invited both Big Four and non-Big Four audit firms.

The actual participation of non-Big Four audit firms in the tender procedures was less common. The more complex the company (size, corporate structure, geographical coverage, etc.), the more dominant the Big Four audit firms in the tender. In addition, companies typically prefer to work with a single audit firm for the entire corporate group. The use of public tenders rather than invitation-based tender procedures made a small difference, suggesting that most potentially interested audit firms were invited.

The mandatory rotation requirement lowered audit costs for most of the companies that were not used to regularly conducting tender procedures to select their auditor. One clear exception was companies for which only a limited number of audit firms could conduct the audit.

The NAS limitations affected only a small minority of the PIEs that require services closely related to audit services.

7. Stakeholders' experiences of the audit reform

This section describes the experiences and views of the representatives of audit committees, auditors and users with the audit reform. It focuses on the perceived impact of the audit reform on the quality of statutory audits, auditor independence, and competition among the audit firms.

Stakeholders were asked about their need to take additional measures to enhance transparency, redefine the scope of the assurance work, and other measures in the context of the audit reform. They were also asked about their challenges in implementing the audit reform.

The results are based on the input received from 138 audit committees, 37 auditors (Big Four and non-Big Four) and 21 users (investors, supervisors, non-governmental organisations (NGOs)) during the second half of 2021 and 2022 on their experiences after the audit reform in 2016. The sample of representatives of audit committees was the same as that used for the assessment of the implementation of the audit committee report requirements (see Chapter 5 5on data analysis on reporting requirements for statutory auditors/audit firms reporting to audit committees). For ease of reading, the terms 'auditor' and 'audit firm' are used interchangeably, except where otherwise specified.

Main findings on the experiences of stakeholders with the audit reform

The analysis of the appointment of the statutory auditor was based on the input received from representatives of 138 audit committees, 37 auditors, and 21 users.

- Overall, the large majority of the audit committee representatives (more than 97%), auditors (more than 89%) and users (about 75%) considered the audit reform to have improved or left unchanged the quality of the statutory audit work. Audit committee representatives believed that mandatory rotation and the rules for the appointment of auditors had particularly contributed to improved quality, with the restrictions on the delivery of NAS and the cap on fees for non-audit services contributing to a lesser extent. The NAS restrictions were also deemed important by the auditors;
- About one-third of the audit committee representatives and about half of the auditors believed that the independence of audit firms increased after the reform;
- The reported impact on the level of competition between audit firms was more mixed. The rotation requirement – and to a lesser extent the tender procedure requirements – contributed to increased competition in countries with no rotation or tender requirements in place prior to the introduction of the audit reform. The requirements related to NAS were perceived to have a more ambigious impact;
- The rotation requirements and the NAS restrictions formed the main challenges when implementing reform requirements, according to both the audit committees and the audit firms;
- The level of transparency for investors was deemed generally sufficient by most of the audit committee representatives, auditors and users (including investors). Nevertheless, there were some suggestions to enhance transparency for investors about the work of the statutory auditor;
- In general, nearly all auditors argued for changes to the requirements, while audit committee representatives and users saw less need for change. Most of the suggested changes related to measures to increase competition, harmonise the audit rotation requirements, and definition of NAS.

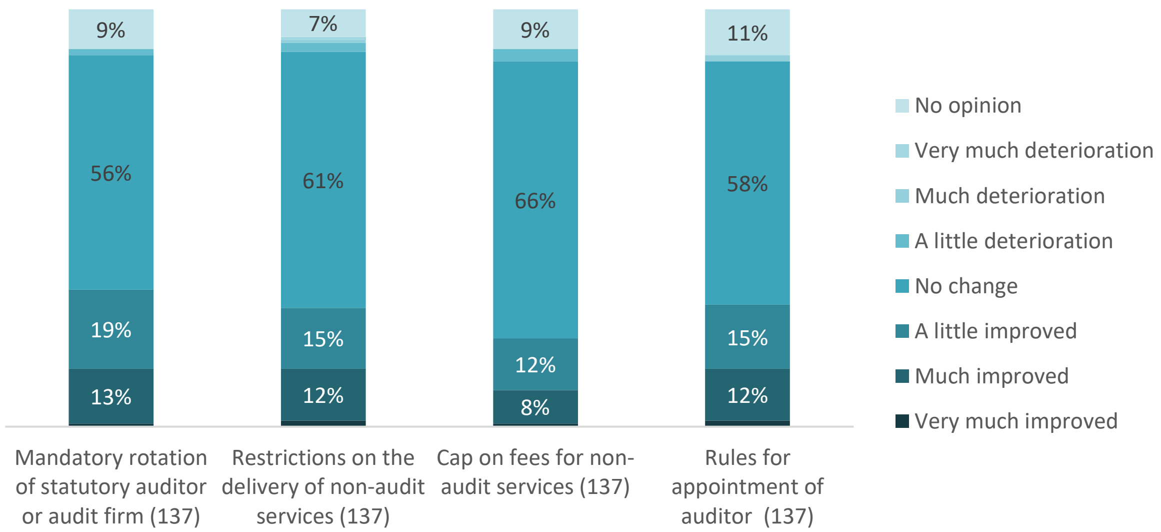
7.1. Quality

The audit reform introduced four revisions that should be applied to the statutory audit of PIEs to reinforce the independence and quality of the audit firms:

- Mandatory rotation of statutory auditors and audit firms;
- Restrictions on the delivery of NAS;
- Cap on fees for NAS;
- Rules for the appointment of statutory auditor or audit firm.

The majority of the audit committee representatives did not experience a change in audit quality following the audit reform (Figure 89). The share that indicated no change in quality ranged from 56% for mandatory rotation and 66% for the cap on fees for NAS. A substantial minority reported an improvement in quality (between 20% and 32% of companies in the sample), while a good number had no opinion on the impact on the quality of the audit (between 7% and 11%). Finally, several audit committee representatives reported that the various measures reduced the quality of the audit.

Figure 89: Changes in the quality of the statutory audit following the audit reform



Source: Authors, based on input from audit committees, 2021.

Results for the auditors were broadly similar, with a bigger majority experiencing no change in audit quality and noting that the four aspects relate to independence issues rather than to quality (between 68% and 86%).

The users tended to have more mixed views on the impact of the different requirements on quality. Most indicated that the rules for appointment of statutory auditors had a positive impact on quality and a large minority indicated that the mandatory rotation had a positive effect. About half perceived the restrictions on the delivery of audit services and caps on fees to have had no effect on quality.

Stakeholders' opinions on each of these revisions are discussed in turn below.

7.1.1. Mandatory rotation

Around one-third of the audit committee representatives reported that the mandatory rotation of both the audit firm and key audit partner had a positive impact on the quality of the statutory audit. About one-eighth indicated that the mandatory rotation prompted a substantial improvement (18, 13%), while a further one-fifth considered it a small improvement (26, 19%). They argued that having a change in the audit firm and key audit partner regularly contributes to the quality of the audit. The engagement of another audit firm and key audit partner can lead to additional audit activities to obtain the required level of assurance, as well as potential fresh views on previous financial reporting decisions.

According to the majority of the audit committee representatives, the mandatory rotation of both the audit firm and key audit partner did not change the quality of the statutory audit (77, 56%). Some indicated that this was because the company was already required to rotate the auditor, under national law, or did this as a matter of its own practice.

Two audit committee representatives indicated that the mandatory rotation reduced the audit quality (1%). They reported difficulties in finding a new audit firm that could conduct high-quality audits.

The remainder of the representatives did not express an opinion (13, 9%), with some noting that they were not familiar with the situation before the audit reform.

Similarly, over one-fifth of auditors (8, 22%) indicated a positive improvement in the quality of the statutory audit due to mandatory rotation, citing a new vision from an audit and accounting perspective. Most indicated that the improvement was not significant. The vast majority of auditors (25, 68%) did not notice any change in quality due to mandatory rotation. They saw no difference in audit quality results based on tenure of the audit firm, with several noting that similar requirements already existed in their countries. Three of the auditors (8%) believed that mandatory rotation reduced the quality of statutory audits a little. They were representatives of large audit firms and were concerned about induction and adjustment periods impacting first-time audits, as well as the quality of audits carried out by smaller firms.

Users had more mixed perceptions of the impact of the mandatory rotation in quality. Some indicated that quality had improved somewhat, while others saw no change. Several noted a deterioration in quality as a result of mandatory rotation, citing the need for more resources to change auditor, fewer audit firms participating in the tender, and greater complexity for larger groups forcing subsidiaries to rotate their audit firms even if the parent company is not required to rotate, harming the unified audit process. These statements were only partially supported by the results of the analysis of the appointment of the statutory auditor (see Chapter 6).

7.1.2. Restrictions on NAS

More than one-quarter of the audit committee representatives indicated some improvement in the quality of the statutory audit (39, 28%). They reported that the restrictions on NAS enhanced the independence of the auditor, which contributed to the quality of the audit.

The majority of the audit committee representatives did not experience a change after the introduction of the restrictions (84, 61%), usually because national legislation already prohibited the companies from obtaining these services, or they had already made that decision themselves as part of their corporate governance code or general business practice.

Several representatives reported that the restrictions on NAS reduced the quality of the statutory audit (5, 4%). While recognising the potential for improved audit quality, the representatives indicated that the changes had caused problems in their organisation. The remainder did not have an opinion about the impact of the restrictions on NAS on audit quality (9, 7%).

Less than one-fifth of the auditors (7, 19%) believed that the restrictions in the delivery of NAS improved the quality of statutory audits by allowing firms to concentrate solely on the audit. Three-quarters (28, 76%) saw no change, primarily because the measure targets independence rather than quality. Two auditors (5%) reported that the restrictions had reduced the quality of statutory audits, as they affected the development of the specialist skills needed to perform high-quality audits (providing NAS allows audit firms to gain a better understanding of business matters, thus improving the quality of statutory audits).

Similarly, some users believed that the restrictions on NAS improved the quality of the statutory audit. The largest group saw no change, while a minority reported reduced quality. This was due to the divergence in interpretation of this requirement across Member States and the impact on administrative costs rather than on quality. Some users noticed that the restriction meant that audit firms too often opted for a more lucrative NAS mandate rather than being engaged for statutory audit.

7.1.3. Cap on NAS

According to the audit committee representatives, capping NAS at 70% had a somewhat similar impact on the quality of the statutory audit as the restriction on NAS.

About one-fifth of the audit committee representatives indicated a positive impact on audit quality from the cap on fees, ranging from a small improvement (17, 12%) to a substantial improvement (11, 8%). They indicated that the cap on NAS contributed to the independence of the audit firms, which were less likely to seek to provide additional audit-related and non-related services, such as tax advice. In some instances, the representatives indicated that the cap had an indirect impact on NAS, such as a more stringent procedure to obtain NAS from the audit firm (e.g. requiring approval by the audit committee). In the past, some of the companies had obtained additional services from their audit firm, exceeding the cap. The audit reform prompted them to implement tighter internal caps, limiting the NAS obtained from the audit firm in practice.

The majority of the representatives indicated that the cap on NAS did not change the quality of the statutory audit (91, 66%). Most of the representatives obtained fewer services than allowed under the requirement, primarily because of general business practice, but in some instances because of similar or tighter national legislation and corporate governance codes that were already in place before the audit reform.

Several representatives reported that the limit cap on NAS reduced the quality of statutory audits (4, 3%), arguing that the cap on NAS (audit-related services) limited the number of participants in the tender procedures and, in exceptional instances, made it impossible to obtain an audit firm. The remainder had no opinion (13, 9%).

Auditors believed that the cap on fees for NAS had an even more limited impact on the quality of statutory audits. About one-tenth (4, 11%) considered it to have improved the quality of the audits, while almost all of the others (32, 86%) indicated that it had no impact because it targeted independence rather than quality. They pointed out that the quality of the assurance engagement is more dependent on factors such as expertise, capacity, process and involvement of the audit committee.

Users had a more mixed view, with one-quarter reporting that the cap on fees improved quality, one-quarter that it reduced quality, and almost half experiencing no impact.

7.1.4. Tender procedure

When asked about the perceived impact of the rules on the appointment of the auditor, more than one-quarter of the audit committee representatives stated that the quality had improved to some degree following introduction of the rules (40, 29%)[100]. That effect was due to more comprehensive scrutiny of the auditor in the tender procedure. The tender itself contributes to the selection of a better auditor for the company, while also requiring the auditor to get a better understanding of the company and its processes.

The majority of the audit committee representatives reported that the tender procedure had yet to lead to a change in audit quality (80, 58%). A significant proportion had yet to conduct a tender. Many companies already used a tender or equivalent procedure to select the audit firm before the audit reform.

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[100] More than one-tenth indicated a small improvement in quality (21, 15%), whereas some indicated considerable improvement (17, 12%) and a minority declared significant improvement (2, 1%).

In some exceptional instances, the audit committee representatives reported a deterioration in audit quality after the implementation of the new rules on appointment of auditors (2, 1%). They noted that the cost for the audit firm to participate discouraged smaller non-Big Four audit firms from participating in tenders, and highlighted that the competition on price can have a negative impact on the audit quality, with fewer resources allocated to the audit. They noted, however, that this was the exception. Finally, one-tenth of the audit committee representatives expressed no opinion (15, 11%).

Auditors were even less enthusiastic about the impact of the tender procedure on the quality of the audit. One-fifth (7, 19%) stated that the rules on appointment of auditors improved the quality of statutory audit. However, three-quarters (27, 73%) did not think it had an influence on quality, with several noting that the practice was already common, if not mandatory, in their home countries. Three (8%) stated that it had reduced audit quality somewhat. Mirroring the concerns expressed by some audit committee representatives, they stated that the high cost of tendering diverts resources from other processes, impacting the final quality of the audit.

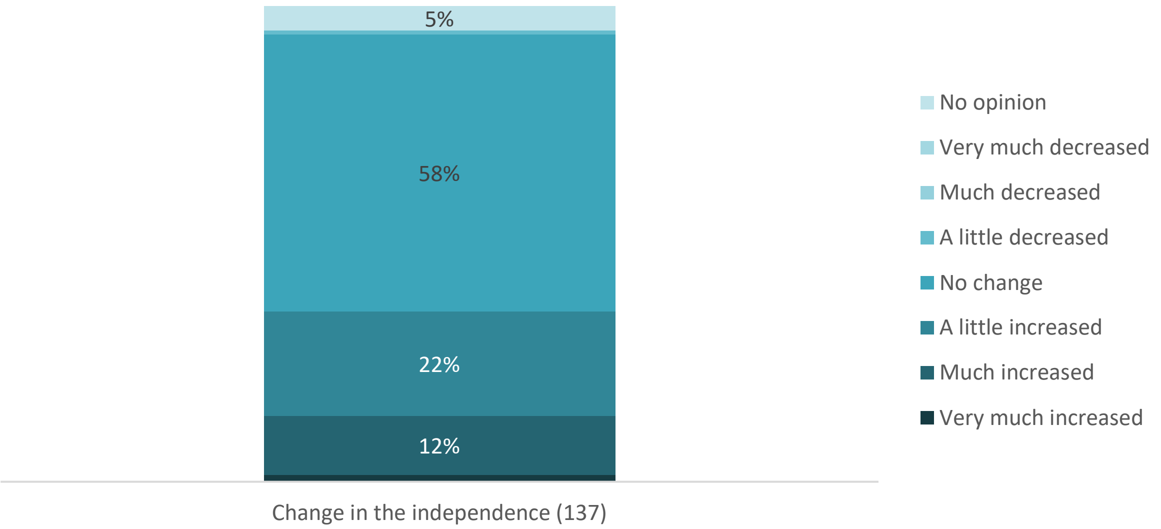
Users reported that the tendering procedure was the most effective in improving quality of the statutory audit. Half of the users believed it had a positive effect, with almost one-third citing a small improvement and one-fifth pointing to a much-improved audit. One-quarter of users indicated no impact, while the small remainder perceived a deterioration in audit quality.

7.2. Independence

The audit reform introduced stronger requirements on auditor independence by improving the organisational requirements and limiting the ability to provide NAS.

According to most audit committee representatives, the implementation of independence requirements either had no impact or increased independence (Figure 90). The majority indicated that the requirements did not change the independence of the auditor (80, 58%), primarily because the requirements were already in place in many countries before the audit reform. Additionally, audit committee representatives indicated that the NAS limitations had a limited effect on independence, as the thresholds were too high to be a real constraint.

Figure 90: Change in independence of statutory audit firm



Source: Authors, based on input from audit committees, 2021.

Around one-third of the audit committee representatives believed there had been an increase in the independence of the audit firm (49, 36%)[101]. According to about two-thirds, independence was best

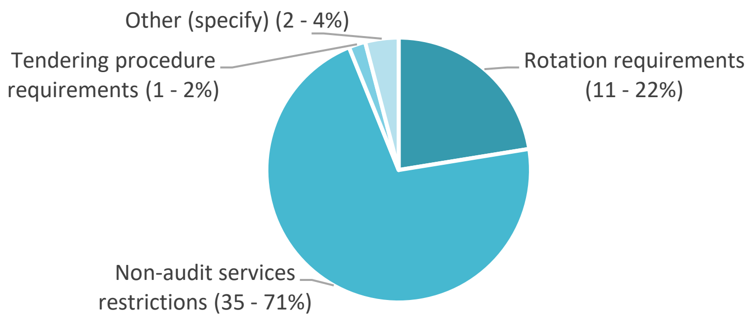
[101] The perceived increase in independence ranged from a small increase (30, 22%), to a large increase (17, 12%) or very small minority (2, 1%).

served by the restrictions on NAS (35, 71%) (Figure 91). They stated that the restrictions directly and indirectly contributed to the independence of the audit firm. The limitations and cap limit the possibility to offer additional NAS directly, but also indirectly through more strict internal requirements that many companies set to ensure that the NAS remain well below the legal limits.

About one-quarter of the audit committee representatives considered the rotation requirements to best contribute to the increase in independence (11, 22%). They argued that the rotation requirement makes it more important for audit firms to have a good reputation as they can no longer rely on a certain set of clients and are less dependent on the relationship with the current management.

The remainder indicated that the tendering procedure requirements (1, 2%) and other reasons (2, 4%) were the main contributors to the increase in independence.

Figure 91: Main reason for increased independence of statutory audit firm



Note: Aggregate shares of companies presented on the labels can deviate from 100% due to rounding.
Source: Authors, based on input from audit committees, 2021.

Finally, only one representative of the audit committees (1%) indicated that independence of the auditor had decreased because the audit firm was more reliant on the management of the organisation in the early years of an audit engagement, thus more frequent changes mean greater management reliance.

The auditors were evenly divided between those who believed that the audit reform had no impact on auditor independence (17, 50%) and those that reported improved independence (17, 50%). No auditors that indicated that the rules had reduced their independence.

The auditors who believed there were no changes in auditor independence referred to the similar rules already applicable in many Member States. They also mentioned inefficiencies due to inconsistent implementation of the EU framework. Several highlighted that while external stakeholders might perceive more independence as a consequence of the new rules, there was no real change in practice.

Looking at the main measure driving the change in independence, most auditors (11, 65%) pointed to the restrictions on NAS. Several highlighted that previous independence rules and corporate governance codes had already brought in limited use of NAS and the new rules merely enhanced an existing trend. The second most-mentioned measure contributing to auditor independence was the rotation requirement (6, 35%). Putting auditor independence on the agenda of audit committees through the establishment of new policies and constant reporting on independence was also noted as a contributor to increased auditor independence. Some auditors stated that the tender procedure could play a more significative role in improving independence if it was driven by the audit committee, with less influence from the purchasing department.

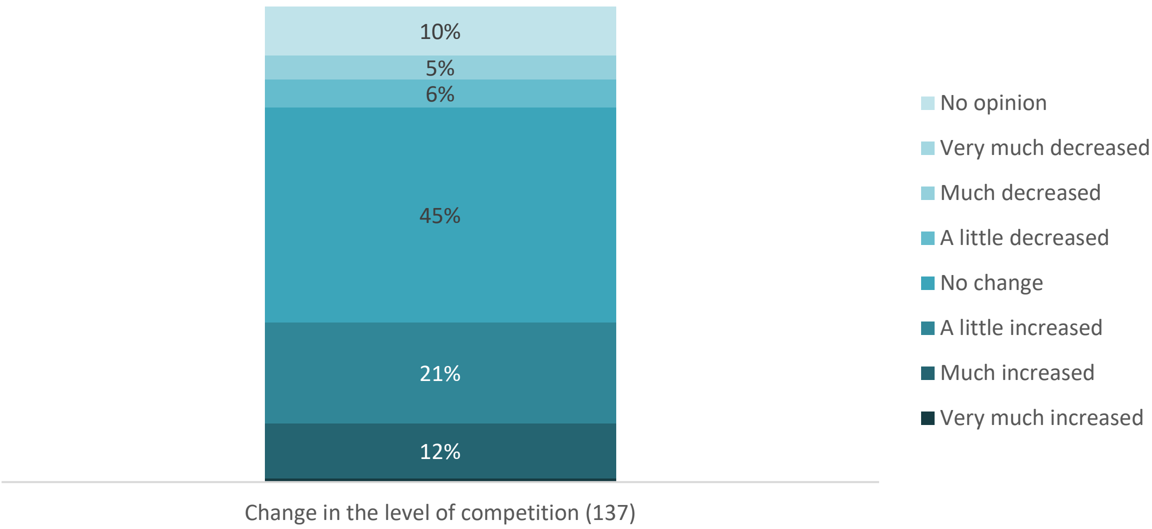
The users considered that the audit reform either increased auditor independence or left it unchanged, with very few stating that it had decreased. More than two-fifths of users perceived that auditor independence had improved, more than half of whom cited rotation requirements as the main contributor. The other half mentioned the restriction on NAS, which reduced the likelihood of conflict of interest.

Almost half of the users stated that there was no change in independence. Some, however, indicated that auditor independence had deteriorated. They argued that there was increasing risk in NAS, with companies shifting away from the statutory auditor to other auditors and NAS no longer included in annual reports (and thus no longer visible to investors). This was particularly significant as investors wanted to know whether the auditors in charge of statutory audits had previously performed NAS for the company, and that was hard to determine.

7.3. Competition

Most of the audit committee representatives did not consider the measures to have had an impact on competition or increased competition among audit firms (Figure 92).

Figure 92: Change in competition following audit reform



Source: Authors, based on input from audit committees, 2021.

According to almost half of the audit committee representatives, the audit reform had no impact on the competition level (62, 45%). This included representatives in countries where the requirements were similar to existing requirements, as well as countries where the elements of the audit reform that increased competition were offset by other elements (e.g. rotation requirement vs NAS restrictions).

According to about one-third of audit committee representatives, the level of competition among audit firms increased (46, 34%)[102]. The implementation of the rotation requirements was considered to deliver the main contribution to the level of competition among audit firms (Figure 93). The rotation requirement was closely linked to the tender procedure requirement, cited by one-quarter of representatives as the main driver behind the increase in competition. The remainder indicated that the fee caps, other service restrictions, or other drivers were the main drivers, or had no opinion (4, 9%).

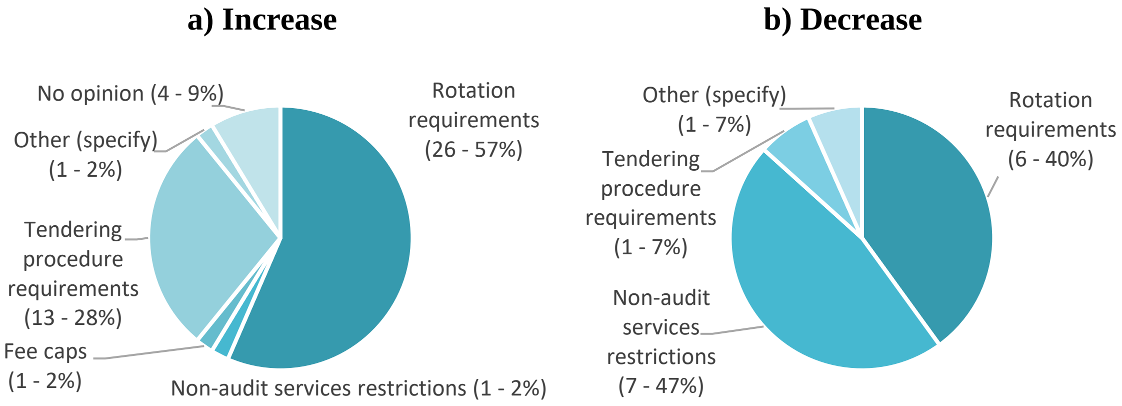
Some audit committee representatives considered the audit reform to have decreased competition among audit firms (15, 11%). Interestingly, almost two-fifths pointed to the rotation requirements as the main driver reducing competition. This was almost equal to the restrictions on NAS. The remaining respondents indicated that tendering procedures or other reasons were the main drivers behind the decrease in competition.

According to the audit committee representatives, the rotation requirement had a predominantly positive impact on competition among audit firms, but could also reduce competition. More

[102] Of those that experienced an increase, the majority expressed a small increase (29, 21%), while a minority cited a larger increase (16, 12%).

specifically, the mandatory rotation - in combination with tender procedures – could open up the audit engagement to other audit firms than the incumbent. At the same time, the competition was in some instances restricted through the rotation when there were only a few audit firms that could take the assignment and the current engaged audit firm needed to be excluded. The number of participating audit firms or audit firms with an attractive offer was sometimes reduced by the NAS limitations. In some cases, audit firms did not participate in the tender procedures or submitted an unattractive offer in order to maintain financially attractive NAS.

Figure 93: Main reason for change in level of competition of statutory audit firm



Note: Figures only consider audit committee representatives indicating that the level of competition between statutory auditors and audit firms had either increased or decreased.

Source: Authors, based on input from audit committees, 2021.

Finally, the remaining audit committee representatives had no opinion on the impact on the level of competition (14, 10%).

By contrast, the majority of the auditors (18, 53%) stated that the audit reform had a positive effect on competition, largely due to the rotation requirements, followed by tendering procedure requirements. For these auditors, the requirements resulted in more open competition and movement in the market. Several noted that this had been good for smaller firms, but others pointed to the counter-productive effect of costly tender applications for smaller firms. Some respondents mentioned that the new rules created a situation where there was a lack of competition for certain tenders, particularly complex tenders.

One-third of the auditors (12, 35%) saw no change in competition. They stated that the audit reform was insufficient to ease smaller firms' access to highly concentrated markets such as Germany, Italy, the Netherlands, Spain and Sweden.

One in eight auditors (4, 12%) believed that competition deteriorated, with increased requirements forcing smaller auditors out of the market, resulting in heavier reliance of the market on the Big Four.

Results for users fell somewhere between those for audit committee representatives and auditors. About one-quarter indicated that competition had increased due to mandatory rotation and tender procedures. About half argued that competition remained unchanged, with only a limited number of audit firms available to perform the audits of (internationally active) PIEs. The remaining quarter were split between reduction in competition and no opinion. Those indicating decreased competition pointed to the limited number of international audit firms available, some of which were more interested in the more profitable NAS.

7.4. Transparency

One of the main objectives of the audit reform was to enhance transparency for investors. According to the audit committee representatives, it improved transparency, notably through the transparency reports prepared by the audit firms and more granular audit reports.

Nevertheless, several audit committee representatives expressed their concerns about the general low level of understanding of the work performed by audit firms among investors. In some instances, they also expressed doubts about the utility of the current audit report format for investors, as it presents a lot of different aspects in a technical manner.

When asked, very few audit committee representatives suggested ways to improve transparency. The few suggestions received included:

- More detailed description of the work performed and services provided by the statutory auditor;
- Inclusion of the audit report in a single EU database in a comparable format;
- Increased frequency of reporting by the audit firm to the audit committee to quarterly, along with the financial publications of the companies;
- Allow investors to ask the auditor questions at the annual general meeting (AGM).

Some of the audit committee members remarked that additional disclosures might add little value to investors, but could add costs and complexity to the audit engagement.

Many of the auditors considered the current requirements sufficient to ensure transparency for investors. Others provided some suggestions to enhance transparency:

- Give the management/board of PIEs an explicit responsibility to establish effective internal controls over financial reporting, including related to risk of fraud and going concern;
- Introduce harmonised transparency requirements for audit committees on assessment and oversight of management/board internal control design and effectiveness, independence from executive management, relationship with statutory auditors, process of auditor selection, and audit committee members' competence and expertise;
- Articulate audit quality measures across the EU, including audit quality indicators (AQIs);
- Promote the use of 'common language' on financial and audit reports as they normally include very technical language that is difficult for investors to understand;
- Establish a user-friendly rating system for the quality of financial statements.

Several auditors from non-Big Four firms mentioned that investor confidence could be enhanced by implementing the 'four eyes principle' through joint audits.

About half of the users provided suggestions to enhance transparency:

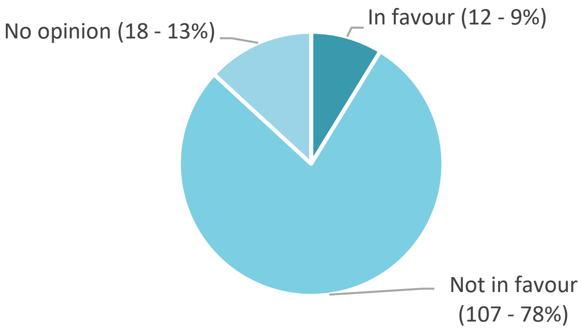
- Enhance the user friendliness of the existing reports - plain language, standardised format, available in various forms;
- Additional transparency on results from other reports undertaken by the statutory auditor, such as the compensation report and dependency report prepared by the management;
- More accountability of auditors towards shareholders, e.g. giving shareholders the possibility to ask the auditor questions at the annual shareholders' meeting or enhancing the liability of auditors towards shareholders;
- More strict controls from the competent authorities to increase the quality of audits and adherence with the legal requirements and international standards.

7.5. Scope of assurance services

The audit committee representatives, auditors and users gave their views on the need to extend and reduce certain elements of audit engagements.

The large majority of the audit committee representatives saw no need for audit firms to provide additional assurance services on financial information compared to those already included in EU and national law (107, 78%) (Figure 94). One-tenth of the audit committee members were in favour of the provision of additional services (12, 9%), while more than one-tenth expressed no opinion (18, 13%). The audit committee representatives referred primarily to potential additional assurance services provided on sustainability indicators, such as remuneration information (including gender pay gap, Chief Executive Officer (CEO) receiving above-average pay, etc.). One audit committee representative suggested that press releases to investors could be assured.

Figure 94: Opinion on <u>additional</u> assurance services on financial information



Source: Authors, based on input from audit committees, 2021.

Unlike audit committee representatives, most of the auditors (21, 64%) believed that statutory auditors and audit firms should provide additional assurance services on financial information. They pointed to: increased assurance on the proper design, implementation, and operating effectiveness of relevant internal control systems, including those related to fraud and going concern; sustainability risks that impact financial risks; specific regulatory information in some industries, such as banking and insurance; and expanding the assurance in the front half of the annual report and the financial information contained within it. By contrast, over one-third of auditors (12, 36%) did not think further assurance was needed.

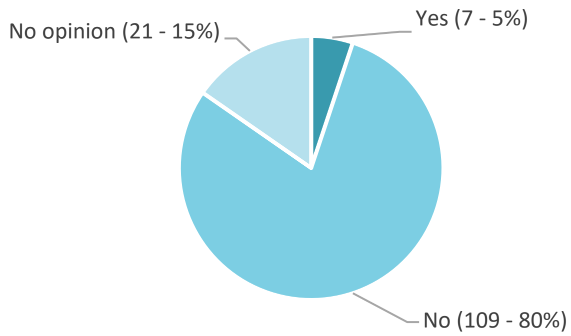
Users did not indicate the need for additional assurance services on financial information, except for sustainability-related reporting affecting financial performance.

The audit committee representatives were also asked to indicate whether fewer assurance services on financial information should be provided by the statutory auditor (Figure 95). Most indicated that the statutory auditor should not provide fewer assurance services (109, 80%).

Only a small minority indicated that the assurance services should be reduced (7, 5%). They noted that some information (e.g. in the audit committee report) that was not used, causing an information overload or providing limited insights. The time spend on fulfilling the legal obligations reduced the focus on the main audit work. They did not pinpoint any specific elements of the assurance services.

Just over one-sixth of the representatives did not express any opinion (21, 15%).

Figure 95: Opinion on providing <u>fewer</u> assurance services on financial information



Source: Authors, based on input from audit committees, 2021.

Most auditors (29, 88%) were against the idea of reducing assurance services. Only one (3%) was in favour, noting that very small PIEs should not be audited. Three auditors had no opinion (9%).

Similarly, the large majority of users saw no need to reduce assurance services on financial information, or had no opinion. One, however, argued that there was no need to assure the ESEF report.

Overall, the large majority of the stakeholders indicated that the assurance services should remain unchanged, with auditors alone in favour of expanding assurance services.

7.6. Challenges in implementation

The implementation of the requirements under the audit reform presented various challenges for the companies subject to the requirements (Figure 96).

According to the audit committee representatives, the most significant challenge was associated with the mandatory rotation requirement (44, 32%), often closely linked to the tender procedure requirements (9, 7%). This might be higher in practice, as some of the companies remained in the transition period. The main challenges related to the rotation and tender procedure were:

- Familiarisation with the legal requirements across countries of operations;
- Coordinating the rotation so that the same audit firm could be engaged for the entire corporate group;
- Attracting sufficient audit firms in the tender procedure;
- Administrative costs related to the tender procedure;
- Organisational costs related to the engagement of a new audit firm.

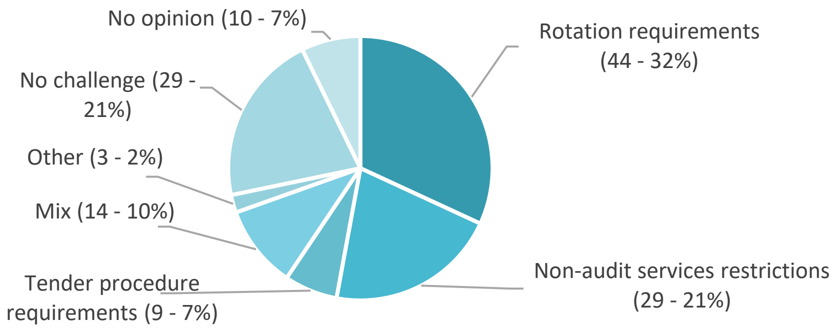
Another important challenge was the implementation of the NAS requirements (29, 21%). Audit committee representatives pointed to several challenges related to the restriction and cap on NAS:

- Clarification of the exact definition of NAS;
- Setting up decision structures within the company to ensure that the NAS would not surpass the legal limits;
- Finding other audit firms or consultancies to take on the excess NAS.

Of the remaining audit committee representatives, less than one-tenth indicated a mix of the previous challenges (14, 10%). Three of the audit committee representatives indicated other challenges (2%), including arranging joint-audits.

The remaining quarter of audit committee representatives did not encounter challenges in implementing the audit reform, i.e. about one-fifth of the companies did not incur any challenges (29, 21%) and less than one-tenth did not have any opinion on the challenges (10, 7%).

Figure 96: Biggest challenges in implementing the audit reform



Source: Authors, based on input from audit committees, 2021.

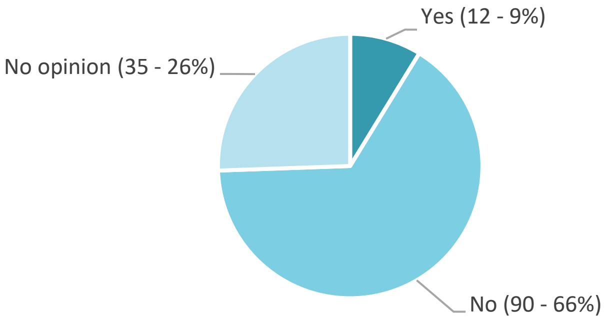
Auditors mentioned Member States' variable implementation of the mandatory rotation term and NAS lists (21, 57%). This created complexity and compliance risks that affected audits of international companies operating cross-border, in particular. Different rotational periods led in some instances to 'double' audits and increased their costs, with limited benefits. In addition, the absence of harmonisation of EU rules on prohibited NAS and related exemptions resulted in difficulties in offering professional services to multinational groups, especially across different geographies.

Another significant challenge for auditors was the constant tendering and induction of new clients. This has had the unintended consequence of insufficient firms tendering for specific audits. Equally problematic was the difficulty in some cases of interpreting what constituted an NAS. Several auditors mentioned that certain genuine audit services were considered NAS, such as comfort letter-related work during a public listing of securities. Some of the non-Big Four firms argued that in countries like Italy, Ireland, Poland and Spain, there were insufficient incentives to appoint more than one auditor, reducing opportunities for smaller audit firms.

According to about two-thirds of the audit committee representatives, there was no impact due to the interconnection and simultaneous implementation of the requirements (90, 66%) (Figure 97). For many companies, only part of the requirements was restrictive, they were already required under national legislation, corporate governance code or general business practice, or there were sufficient audit firms and other consultancies available. The rotation requirement and tender procedure requirements, as well as the restrictions and cap on NAS, were considered complementary, i.e. the mandatory rotation required a tender procedure and the NAS restrictions covered services other than the fee cap.

Nevertheless, audit committee representatives noted that the interaction between the limitations of NAS and rotation requirements had an impact during implementation (12, 9%). These companies – mostly active in small or mid-sized economies – often relied on audit firms for their NAS because there were no real alternatives. The limitations of NAS required these companies to work with at least two audit firms, one for the statutory audit and one for NAS. Implementation was further complicated if only a limited share of the audit firms had the capacity to take the assignment. For example, an audit committee representative from a large group in Scandinavia indicated that there were very few audit firms that could take on an assignment for a global company, thus rotation rules, grace periods and prohibited NAS creates a situation where the number of eligible audit firms becomes very limited, affecting competition and generating difficulties for the company. The remaining one quarter of the audit committee representatives had no opinion (35, 26%).

Figure 97: Opinion on impacts due to interconnection between the requirements and their simultaneous implementation



Note: Aggregate shares of audit committee representatives presented between parenthesis on the labels can deviate from 100% due to rounding.

Source: Authors, based on input from audit committees, 2021.

By contrast, most auditors (21, 62%) reported impacts due to the interconnection between the audit requirements and their simultaneous implementation. First, the lack of harmonisation in the EU on the implementation and interpretation of the different requirements made the provision of audit services more complex. Second, the high concentration of the market, combined with the introduction of the new requirements, further reduced choice. The remainder (10, 29%) did not observe any resulting impact.

7.7. Need for changes to the requirements

The audit committee representatives provided their views on whether any changes to the requirements (mandatory rotation, restrictions on the delivery of NAS, cap on fees for NAS and rules on appointing an auditor) were needed to achieve the objectives of the audit reform (Figure 98).

About two-thirds of the of the audit committee representatives indicated no need to make any changes to the current requirements to improve audit quality and restore investor confidence in financial information (89, 65%). This included representatives in countries such as Germany, which already has more stringent national rules. Respondents from Northern European countries argued that additional formalities and standardisation were unlikely to bring much added value to investors, while ensuring professionalism and the ‘right mentality’ of audit committee members were hard to ensure by hard rules.

Almost one-fifth of the audit committee representatives believed that changes are needed (26, 19%). Some common changes were recommended, primarily the need to revise the NAS definition and harmonise the rotation rules and tender requirements. The allowed NAS definition should be narrowed, they suggested. More specifically, much of the audit-related services should not be considered NAS, particularly areas for which the statutory auditor is often best placed to carry out the work and where there is limited potential for interference with their independence. Those services could include the half-year/quarterly reviews, prospectus, comfort letters, review of corporate governance report, evaluation of risk management systems, etc. This broadening of the audit services definition should then be linked to further tightening of the NAS restrictions – or even further prohibitions – to foster the independence of the audit firms.

Some of the audit committee representatives indicating a need for changes to the audit legislation emphasised the need to further harmonise the rules. In particular, the maximum duration of audit engagements for the lead partner and audit firms, which currently differ across countries, complicated the coordination of the audit engagement, especially for bank and insurance groups with multiple PIEs. These companies often created a template for the tender procedure at group level, which was then adjusted to the national requirements by each of the subsidiary PIEs. The harmonisation of the rotation and tender requirements could ease the rotation and reduce their administrative burden.

Alternatives to harmonisation could be an exemption to the rotation and tender requirements for those subsidiary PIEs that are fully consolidated by parent PIEs. Some audit committee representatives from listed companies in countries that allow longer rotation periods argued for shortening the maximum tenure for the audit firm.

Some of the audit committee representatives – mostly from companies struggling to find good quality auditors - argued that relaxing the mandatory rotation requirements could enhance the quality of their audits. These might be offset by tighter requirements on NAS to reduce the potential for conflicts of interest.

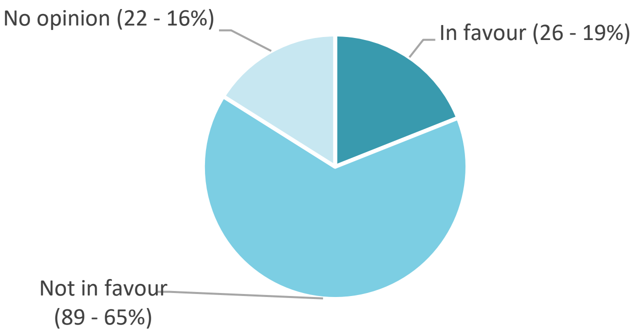
A small number of audit committee representatives argued in favour of proposing just one instead of two audit firms to the AGM. They stated that they are better placed to select the preferred audit firm, as they have far more information than individual shareholders. The proposal of a single audit firm with full support from the supervisory board and accompanied by a detailed description of the selection would, they believed, enhance the quality of the audit.

The remaining audit committee members did not express any opinion on changes to the requirements for achieving audit reform objectives (22, 16%).

By contrast, almost nine-tenths of auditors (30, 88%) stated that changes are needed to the requirements, while only one in eight (4, 12%) stated that the requirements should stay as they are. Many auditors asked for EU-wide harmonisation in mandatory rotation timings and the definitions of audit, assurance and NAS, in particular the blacklist. The current diverse regimes create complexity, additional compliance costs and practical and operational difficulties in the market. There should also be harmonisation of supervisory approaches for certification services requested by Member States. Another common request was to extend the minimum term of audit mandate to at least two or three years in order to increase the independence of the auditor. Many suggested progressively introducing the ‘four-eyes principle’ in the form of mandatory joint audit for large, listed PIEs so as to enhance audit quality and give more opportunities to smaller audit firms.

About half of the users indicated the need for changes to the existing requirements. They argued in favour of: i) strengthening and clarifying the liability and accountability of auditors and auditing firms and its enforcement; ii) harmonising the mandatory rotation rules across the EU, or allowing the application of the rules of in the country of the parent to the entire group; iii) stimulating and improving competition in the market for auditors (including potential break-up); iv) improving the quality of auditors’ work; v) introducing shared or joint audits for certain companies; vi) strengthening auditors’ oversight and supervision.

Figure 98: Opinion on the need for changes to the requirements to achieve audit reform objectives



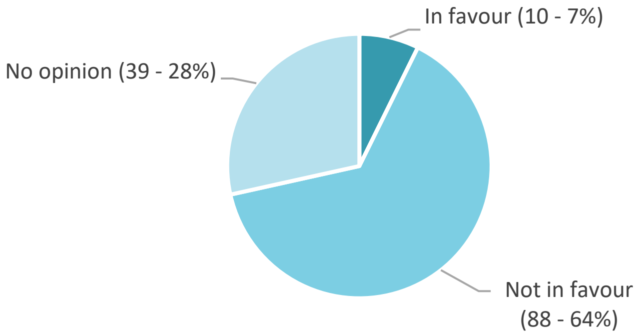
Source: Authors, based on input from audit committees, 2021.

The audit committee representatives were explicitly asked for their views on the need to change the interplay between the various revisions under the audit reform so as to achieve the objectives to improve audit quality and restore investor confidence in financial information (Figure 99).

About two-thirds of the audit committee representatives declared that no changes were needed in the interplay of the requirements so as to achieve audit reform objectives (88, 64%). This included all of the audit committee representatives indicating other impacts due to interconnection and their simultaneous implementation of revisions.

Some of the audit committee representatives pointed to the need for changes (10, 7%), with all but one indicating the need for general changes. These changes focused on the interaction between NAS and mandatory rotation. A small number of the audit committee representatives of companies that only considered the Big Four realistic options for both the audit and NAS argued in favour of breaking-up the Big Four audit firms to allow for more competition. The remainder of the audit committee representatives did not express any opinion (39, 28%).

Figure 99: Opinion on the need for changes in the interplay of these requirements to achieve audit reform objectives



Note: Aggregate shares of audit committee representatives presented between parenthesis on the labels can deviate from 100% due to rounding.

Source: Authors, based on input from audit committees, 2021.

The majority of auditors (21, 62%) believed that there should be changes in the interplay of these requirements. They referred to the interaction between the mandatory firm rotation and the NAS restrictions, which, despite increasing independence, might exacerbate the concentration in the market. The combination of a concentrated market (the Big Four), many restrictions on the provision of services and the need to rotate, and stronger requirements on audit firms leads to further concentrated and limits the choice of auditors. This has consequences for independence and the quality of auditor reports. Several recommended reducing the list of NAS, along with other measures to ease competition and facilitate the entry of new actors (e.g. joint audits).

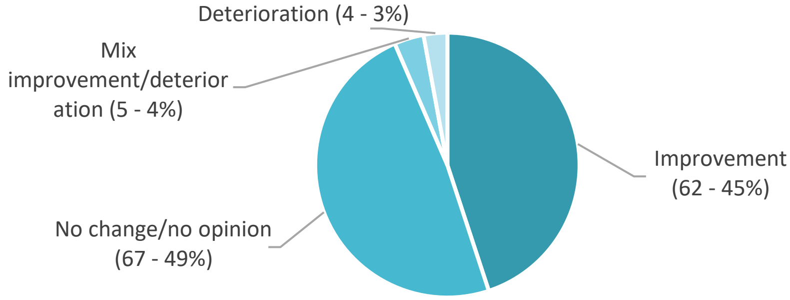
One-quarter of auditors (9, 26%) stated that there should be no change in the interplay of the requirements, while one in eight did not express an opinion (4, 12%).

7.8. Summary

Overall, the audit committee representatives believed that the audit reform improved the quality of the statutory audit work (45%) or had no opinion and/or considered that it did not lead to changes (49%) ((Figure 100).

Almost half of the audit committee representatives indicated that at least one of the main revisions under the audit reform had improved the quality of the statutory audits to some extent (62, 45%). Mandatory rotation and the rules for the appointment of auditor made a particularly strong contribution, with the restrictions on the delivery of NAS and the cap on fees for NAS having a somewhat lesser impact. Almost half of the audit committee representatives did not have any view on the impact on the quality or considered it unchanged (67, 49%), particularly those in countries that already had similar provisions, or in companies that were not restricted by the reform. The remainder deemed the audit reform to have had a mix of positive and negative impacts on quality (5, 4%) or a solely negative impact (4, 3%). These were primarily representatives of audit committees from companies for which there were only a limited number of audit firms to choose from, or just their existing statutory audit firm would qualify.

Figure 100: Audit committees' views on the quality of the audit work following the audit reform



Notes: The general view of the audit committee representatives on the quality of the audit work following the audit reform is derived from Figure 89Figure 89, covering the four main revisions under the reform. If the audit committee representative indicated at least one of the quality aspects to be improved and none to have deteriorated, the quality was considered improved, and vice versa for deterioration. If some aspects contributed to an improvement and some to deterioration, the audit committee representative was assumed to have a mixed view on the impact on audit quality. If the audit committee representative indicated only no change or no opinion to all four quality aspects, they were considered to have no opinion or to consider it unchanged. Aggregate shares of audit committee representatives presented between parenthesis on the labels can deviate from 100% due to rounding.

Source: Authors, based on input from audit committees, 2021.

Similarly, a large minority of the audit committee representatives believed that the independence of audit firms had increased since the reform (49, 36%). The restrictions on NAS contributed most to increased independence, followed by the introduction of rotation requirements.

The impact on the level of competition between audit firms was more mixed. About one-third pointed to increased competition due to the rotation requirement and, to a lesser extent, the tender requirements. However, about one-tenth indicated that the restrictions on NAS and the rotation requirements (particularly where few audit firms were qualified for the work) in fact reduced competition.

The level of transparency for investors was generally deemed sufficient, with audit committee representatives providing some suggestions for improvements. The scope of the assurance services provided on financial information was considered generally appropriate, with some suggestions for the addition of sustainability information, or to reduce the scope of the assurance somewhat.

About three-quarters of the audit committee representatives had experienced one or more challenges in implementing the requirements introduced by the audit reform, chiefly the rotation requirements and NAS restrictions. Challenges included familiarisation with the requirements, set-up of a decision process to ensure compliance with NAS restrictions, rotation to a single audit firm at the right time for an entire group, and sufficient competition in the tender. In some cases these challenges interacted, especially the limitations on NAS where there were insufficient qualified audit firms to provide services.

The vast majority of audit committee representatives is not in favour or had no opinion on changing the requirements to improve audit quality and restoring investor confidence in financial information. Those in favour of revisions suggested expanding the audit-related services associated with audit fees, with a corresponding reduction in the thresholds for NAS. Audit committee representatives from PIEs with PIEs as subsidiaries would like to see more harmonisation of the mandatory rotation and tender requirements, or an exemption for consolidated subsidiary PIEs. Finally, companies that had difficulties in finding or attracting qualified audit firms proposed lengthening the rotation period and further restricting or prohibiting NAS provision.

One-quarter of the auditors believed that quality of the statutory audit had improved (9, 24%), but most considered the audit reform to have had no impact on quality (24, 65%). Three stated that the quality had deteriorated (8%) and one showed mixed results (3%). The results on independence were more mixed, with half of the auditors pointing to improvements, largely due to NAS restrictions and mandatory rotation, while the other half stated that there was no change. Most auditors indicated that competition was improved by the introduction of rotation and tendering requirements, while one-tenth believed that competition had deteriorated.

Almost two-thirds of the auditors indicated that the scope of assurance services should increase, mentioning multiple suggestions to enhance the assurance of internal control systems.

More than half of the auditors encountered challenges in implementing the new measures, primarily related to the lack of EU-wide harmonisation of the mandatory rotation term and NAS lists, which increase the complexity, costs and risks of performing audits, particularly for bigger companies.

Almost all of the auditors indicated a need to change the requirements, mostly to increase EU-wide harmonisation. Many felt that the new requirements exacerbated market concentration issues, with mandatory rotation and NAS restrictions further limiting options for PIEs and impacting independence and quality. Several suggested introducing the ‘four-eyes principle’ in the form of mandatory joint audits for large listed PIEs as a way of integrating smaller firms in the market.

Almost half of the users consulted believed that the audit reform improved the quality of statutory audits, while one-quarter stated that there was no change. The remaining third noted either a mixed impact or reduced audit quality. Most of the users indicated that independence had not changed, although mandatory rotation without disclosure of previous provision of NAS risked reducing independence. A significant proportion of users argued in favor of further measures to enhance competition, harmonise mandatory rotation, and strengthen supervision.

8. Analysis of requirements related to mandatory rotation, use of joint audits, and fee caps

8.1. Introduction

This part of the study assesses the impacts of various requirements under the Audit Regulation on the auditors market. Three requirements are assessed: (a) the rotation requirement; (b) the use of joint audits; and (c) the fee cap calculation requirement.

The analysis used a sample of PIEs compiled from a mix of Audit Analytics and PIE report data.

- **Audit Analytics:** contains audit information on PIE companies listed in stock exchanges from the EU-27 and Norway. The database has three categories of variables: company-specific factors (sector, country of exchange, revenue, market capitalisation); auditors' information (names of the different auditors used by companies); and fees paid (audit and non-audit fees). It used companies with complete information for the analysis period (2015 and 2018);
- **PIE report data:** data on non-listed PIEs collected for this study.

The time scope of the analysis was limited to the period 2015-2018. It assesses the differences in a range of market indicators calculated between 2015 and 2018 (covering both before and after 2016, when the regulatory requirements were introduced). As regards the calculations performed on the fee cap, one limitation to be taken into account is the fact that, given the timing of the work and the limited availability of information, it includes a period prior to the introduction of the audit reform regulatory requirements. This might lead to a higher numbers of entities reaching the cap than it actually happened in the market following the introduction of these new rules. An additional limitation needs to be considered for the analysis of the audit firm rotation. The transitional provisions in the Audit Regulation have not been taken into account in the calculations, therefore the rotation rate presented might lead to the conclusion that the reform had very limited impact in this area. One reason behind this outcome is the existence of these transitional requirements brought in by the reform.

Two types of quantitative analyses are presented. First, an aggregate analysis for the EU-27 and Norway, showing different metrics assessing the effects of the requirements on the market for auditors (Section 8.2). The second analysis focused on a sample of 12 countries (CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO and NO), providing more details on the different markets and on implementation of the requirements across the countries (Section 8.30).

The chapter is complemented by the views of national authorities (Section 8.4), which qualify important issues in relation to independence, quality, competition, the interplay of the simultaneous implementation of all measures and any potential impact on competition and independence, and views on the appointment of different auditors for entities within a group (and the impact on quality).

Several questions informed the analysis:

- What are the views of stakeholders in relation to the achievement of the objectives of: independence, quality, and appointment of different auditors for entities within a group?
- How have PIEs switched to a different statutory auditor or audit firm (from a Big Four to a non-Big Four, from a non-Big Four to a Big Four, from a Big Four to a Big Four, or from a non-Big Four to a non-Big Four)?
- Have the selected PIEs rotated from a single auditor (statutory auditor or audit firm) to a joint audit?
- How was the implementation of the rotation requirement for PIEs that had joint audits?
- Have any of the PIEs in the sample reached any of the fee cap requirements?
- How have the requirements changed the composition of the market?

- Is there evidence of differences in market outputs depending on the implementation in different countries?

Main findings of the impacts of the requirements on mandatory rotation, use of joint audits, and fee caps

- Audit regulations were effective in increasing levels of independence among audit firms, according to the national authorities. They recognised that this might be related to an improvement in the quality of audits;
- There is no evidence on the quality of audits provided by a group audit, but authorities often believed that it should not be impaired, given the professional practice standards envisaged;
- Switching between different types of auditors was limited: only 15% of PIEs changed their single audit provider between 2015 and 2018. Of those that changed, as many as 360 (10%) remained with a Big Four auditor;
- The authorities noted persistently high market shares for the Big Four, but there was evidence of a switch between Big Four providers;
- The engagement of joint audits from 2015 to 2018 was limited to only 141 additional companies (4% of the firms in the sample);
- 234 single-audited firms exceeded the 70% NAS fee cap in 2015 (around 25% of firms that were subject to the fee cap). Of those, 147 reduced their NAS fees to below the limit in 2018. The findings might be explained by exceptions and divergences in the way countries implemented the Audit Regulation;
- There was a lack of consistency in the way outputs of the Regulation were measured: not all countries provided indicators measuring different audit requirements (rotations, the prohibition of NAS and the fee cap) and those that did were inconsistent. More analysis should be undertaken to ascertain whether competition among the large companies (Big Four) can be determined and whether this is enough to guarantee a competitive market (especially in some segments of the auditing market);
- Finally, some of the authorities warned about the availability of firms capable of undertaking audit assignments, and how these might be reduced if auditors need to fulfil different requirements in different Member States. This reinforces the importance of assessing the strength and quality of the competition in different markets, particularly among the segment of large firms (Big Four).

8.2. Changes in the market: aggregate analysis EU-27 and Norway

The first part of the analysis used different indicators based on firms and their auditors in the EU-27 and Norway. The analysis is presented across time and across the EU-27 + Norway market as a whole.

The following measures were used:

- **Rotation of auditors:** number of firms that discontinued auditor-client engagements, changing to another firm, by type of auditor (Big Four or other);
- **Single to joint audits:** number of firms that changed from using one auditor in 2015 to a joint audit in 2018;
- **Fee-cap reached:** number of firms that paid above the limit for NAS in 2015 and 2018;
- **Market composition:** change in concentration of the market between 2015 and 2018, by type of audit (single and joint) and type of auditor (Big Four and non-Big Four).

8.2.1. Rotation of auditors

Article 17 of the Audit Regulation (mandatory rotation of audit firms and statutory auditors) imposes a maximum duration for the audit service, although this can be prolonged under certain circumstances (in particular, in the case of joint audits).

The analysis of the rotation of auditors focused on those firms that had one auditor in 2015 and whether their audit arrangements had changed by 2018, i.e. the movement from a single auditor to another single auditor. Of the 2,782 PIEs that were single-audited in 2015 and 2018, only 549 replaced their auditor[103]. This means that 80.27% of single-audited firms did not rotate their auditors during the period under review (Table 4).

Table 4: Rotation from single-to-single auditors, EU-27 and Norway

Rotation (from 2015 to 2018)	PIEs (#)	PIEs (%)
No rotation	2,233	80.27
One or more rotation	549	19.73
Total	**2,782**	**100**

Source: Europe Economics Analysis

To assess the mobility between groups of auditors, their origin and destination before and after the change in regulations were examined. Of the 549 PIEs that changed auditor once, as many as 360 remained with a Big Four auditor (i.e. changed their original Big Four auditor for another Big Four auditor), 13% of all single-audited firms (in both 2015 and 2018). Only 103 of the firms with a single auditor moved from a Big Four to another auditor (4%). Big Four Firms also managed to enter the market originally serviced by other firms, albeit only marginally: in 86 cases (3%), PIEs replaced a single non-Big Four auditor for a Big Four firm (Table 5).

Table 5: Rotation from single-to-single auditors, by auditor group, EU-27 and Norway

Rotation (from 2015 to 2018)	PIEs (#)	PIEs (%)
Big Four to Big Four	360	13%
Big Four to non-Big Four	103	4%
Non-Big Four to Big Four	86	3%
Non-Big Four to non-Big Four	0	0%
No change	2,233	80%
Total	**2,782**	**100%**

Source: Europe Economics Analysis

8.2.2. Joint audits

The maximum duration for the audit service imposed by Article 17 of the Audit Regulation can be prolonged in case of joint audits. In addition, joint audits are obligatory in Croatia and France.

The analysis focused on firms that had only one auditor in 2015 and examined if their audit arrangements had changed by 2018. A total 2,923 firms had a single auditor in 2015, of which 2,782 stayed with a single auditor. Only 141 engaged in joint audits in 2018. In other words, 95% of those single-audited firms were still with a single auditor in 2018 (Table 6).

[103] Further analysis indicates that around 18 single-audited PIEs changed their auditor twice and 1 three times during the period under review.

Table 6: Switch from single audit, EU-27 and Norway

Single audit	2015 (Single)(#)	2018 (Single/joint)(#)	2015-2018 Change (#)
Single to single	2,923	2,782	-141
Single to joint		141	141
Total	**2,923**	**2,923**	**0**

Source: Europe Economics Analysis

For completeness, it is useful to note that 138 firms started as a joint audit and moved to a single audit (the remaining 715 continued to use joint audit in 2018, Table 7).

Table 7: Switch from joint audit, EU-27 and Norway

Joint audit	2015 (Joint)(#)	2018 (Single/joint)(#)	2015-2018 Change (#)
Joint to single	853	138	138
Joint to joint		715	-138
Total	**853**	**853**	**0**

Source: Europe Economics Analysis

To assess how joint audits took place between groups of auditors, the analysis looked at the origin of such joint audits. Of the 141 PIEs that switched from a single to a joint engagement by 2018, 114 changed from a single Big Four audit to a joint audit, while 27 PIEs swapped a single non-Big Four auditor for a joint audit (Table 8).

Table 8: Switch from single to joint audit, EU-27 and Norway

Single/joint audit	2015 (Single)(#)	2018 (Joint)(#)	2015-2018 Change(#)
Big Four	114	141	114
Non-Big Four	27		27
Total	**141**	**141**	**141**

Source: Europe Economics Analysis

8.2.3. Rotation and joint audits

The results showed that, of the 3,776 public-listed PIEs from Audit Analytics (Table 9):

- As many as 2,233 firms (59% of total firms in the sample) did not change the single auditor that audited them in 2015;
- Only 549 PIEs (15%) swapped their auditor, with most (360, 66%) changing from one Big Four auditor to another Big Four auditor. Only 103 (19%) changed from a Big Four to a non-Big Four auditor;
- In 141 cases (4% of all firms), there was a change from a single auditor to a joint audit: 114 Big Four (81%) and 27 non-Big Four (19%) single auditors were changed for a joint audit.

Table 9: Summary of audits, 2015-2018

Single/joint	Auditor type	PIEs (#)	PIEs (%)
Single no change	Big Four	1,245	33%
	Non-Big Four	988	26%
	Total	2,233	59%
Single to single	Big Four-Big Four	360	10%
	Big Four-non-Big Four	103	3%

Single/joint	Auditor type	PIEs (#)	PIEs (%)
	Non-Big Four-Big Four	86	2%
	Total	549	15%
Single to joint	Big Four-joint	114	3%
	Non-Big Four-joint	27	1%
	Total	141	4%
Joint to single	Total	138	4%
Joint to joint	Total	715	19%
Total		**3,776**	**100%**

Source: Europe Economics Analysis

8.2.3.1. Fee cap reached

Article 4 of the Audit Regulation limits the fees from permitted NAS provided to the audited entity to 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit (exemptions might be allowed on an exceptional basis).

To assess the impact of Article 4 on NAS, the analysis looked at the total amount of audit services provided to each firm in the sample, and per year, by each of its auditors. It then calculated an average of those amounts for each of the previous three years (for firms that had three consecutive years with the same auditor). Finally, it calculated, for each auditor, the NAS as a proportion of the audit services previous three-year means.

The impact of Article 4 of the Audit Regulation can be assessed by looking at the difference in the number of firms that were above the 70% limit in 2015, compared to 2018. There were 234 single-audited firms that exceeded the non-audit fee cap in 2015 (25% of the 952 firms that were subject to the fee cap requirements). Of those, 147 reduced their NAS fees to below the limit in 2018 (63% of the firms exceeding the limit in 2015). However, some 87 PIEs still had NAS fees above the 70% threshold in 2018 (37% of firms that exceeded the threshold in 2015). An additional 84 firms exceeded the 70% threshold in 2018, having been below the fee cap in 2015 (12% of the firms that were below the non-audit cap in 2015, Table 10). The number of firms above the limit reflected the various exceptions available, as well as implementation of Article 4 (see Section 5.30).

Table 10: NAS fees for single-audited firms, 2015 and 2018

Above/below 70% in 2015	Total 2015 (#)	Less than 70% 2018 (#)	More than 70% 2018 (#)
Less than 70% in 2015	718	634	84
More than 70% in 2015	234	147	87
Total	**952**	**952**	

Source: Europe Economics Analysis

Of the 234 PIEs with NAS fees above the 70% threshold in 2015, 213 involved Big Four auditors (91%). Of those, 138 reduced their NAS fees below 70% in 2018 (65% of the firms above the 70% threshold in 2015). An additional 21 firms with non-Big Four auditors had NAS fees above the 70% threshold in 2015. Of those, nine PIEs reduced the fees to below 70% in 2018 (43% of the 21 firms above the 70% threshold in 2015, Table 11).

Table 11: NAS fees, by auditor type, 2018 (firms that exceeded NAS fees in 2015)

Auditor type	Total above 70% 2015 (#)	Less than 70% 2018 (#)	More than 70% 2018 (#)
Big Four	213	138	75
Non-Big Four	21	9	12
Total	**234**	**147**	**87**

Source: Europe Economics Analysis

8.2.3.2. Market shares

The analysis looked at the change in the composition of the PIE market since 2015 and following the audit reform. It calculated the market values and shares of different types of audits (single or joint) and separated between auditor groups (Big Four/non-Big Four) for those with single audits (2015 and 2018). Market values were constructed by adding all audit fees by type of audit and auditor group; shares were constructed as a proportion of the total year-value. The results showed very small changes: joint audits increased slightly between 2015 and 2018 (both in absolute values and as a share of the total) but by a very small amount (2 percentage point (p.p.) increase in market share). Single Big Four audits reduced their share, but by the same small amount (2%). The change in single non-Big Four audits was imperceptible (their market share was 2% in both 2015 and 2018, Table 12).

Table 12: Market value (EUR million) and shares (%), by type of audit and audit group, 2015 and 2018

Joint/single	Total audit fees (2015)	Total audit fees (2018)	Total audit fees (2015) (%)	Total audit fees (2018) (%)
Joint	1,553	1,860	47%	49%
Single (Big Four)	1,673	1,868	51%	49%
Single (non-Big Four)	53	65	2%	2%
Total	**3,279**	**3,793**	**100%**	**100%**

Source: Europe Economics Analysis

8.3. Analysis of countries

This part of the analysis used a sample of PIEs from 12 countries where the different requirements have already taken effect. It aimed to investigate whether there were any observable differences in the implementation of measures across countries that could explain the differences in market outcomes. These were assessed in relation to rotation requirements, joint audits, and the cap on the fees generated by allowed NAS.

8.3.1. Rotation and joint audits

Article 17 of the Audit Regulation imposes mandatory rotation of audit firms and statutory auditors (by limiting the maximum duration for the audit service), although this can be prolonged under certain circumstances (e.g., joint audits). Article 16 of the Audit Regulation requires the audit committee to submit a recommendation to the administrative or supervisory body of the audited entity for the appointment of the statutory auditor or audit firm. The recommendation of the audit committee shall be prepared following a tender procedure organised by the audited entity. The procedure must respect several criteria on invitations, tender documentation, tender procedure etc.

Both Articles 16 and 17 of the Audit Regulation aim to increase the rotation of auditors in the EU. Table 13 presents an overview of the status of implementation of these provisions. All 12 countries implemented these measures on 17 June 2016, with the exception of Article 17 in Cyprus, Lithuania and Norway, and Article 16 in Norway. Some other countries imposed additional conditions at later dates (Article 17: CZ, IE, NL, PL, RO; Article 16: IE) (Table 13). Norway implemented the Audit Regulation in 2021 (after the last year of this analysis, 2018), showing the evolution of the rotation and joint audit measures in a country where the Regulation was not implemented. Prior to the audit reform, Italy, the Netherlands and Spain already had national legal provisions on mandatory rotation.

Table 13: Overview of implementation of Articles 16 and 17 of the Audit Regulation

	Article 17		Article 16	
Country	**Implementation**	**Second date (other options)**	**Implementation**	**Second date (other options)**
DE	17-Jun-16		17-Jun-16	
ES*	17-Jun-16		17-Jun-16	
FR	17-Jun-16		17-Jun-16	
PL	17-Jun-16	05-Aug-16 (1)	17-Jun-16	
IT*	17-Jun-16		17-Jun-16	
CZ	17-Jun-16	01-Oct-16 (3)	17-Jun-16	
NL*	17-Jun-16	01-Jan-17 (4)	17-Jun-16	
RO	17-Jun-16	16-Jul-17 (5)	17-Jun-16	
IE	17-Jun-16	21-Sep-18 (4)	17-Jun-16	21-Sep-18 (7)
LT	01-Mar-17		17-Jun-16	
CY	02-Jun-17	02-Jun-17 (6)	17-Jun-16	
NO	01-Jan-21		01-Jan-21	

*Notes: * Rotation obligation existed prior to the Regulation. Spain: applicable to PIEs and entities with net turnover greater than EUR 50 million, engaged for seven consecutive years with the same auditor or audit firm for the provision of audit services, including a cooling-off period of two years. Italy: rotation obligation since 2010. (1) Measures on max. durations; (2) cooling-off period changed from three to four years; (3) national law specifies additional 20 years for engagements through a public tender (Article 17(4)(a) Audit Regulation); (4) key audit partners rotation every five years max.; (5) extension in case of public tender; (6) lower max. duration for credit institutions + 20 and 24 additional years in case of public tender and joint audit; (7) options under Article 16(8) of the Audit Regulation.*

It is useful to investigate whether the outcomes of rotation and joint audits might differ in these countries depending on the dates of implementation of such articles (and the dates on additional conditions imposed).

The results showed a huge disparity in the rotations across all countries: following the adoption of the Regulation, between 4.9% and 38.9% of single-audited PIEs rotated their auditors between 2015 and 2018 (Table 14). In all countries, as many as 375 single-audited PIEs switched their auditor by 2018 (20.6% of all single-audited PIEs in 2015). PIEs in Romania had the highest percentage of rotations by 2018, at 38.9%. France and Lithuania had a relatively low percentage of rotations among single-audited PIEs by 2018, at around 4.9% and 8.3%, respectively. It is difficult to establish any relationship between the dates of implementation of the relevant articles of the Audit Regulation and the rotation observed because the rotation did not exhibit a clear pattern in places where the Regulation was implemented earlier (Table 13) (e.g. DE and FR, with 15.9% and 4.9% of rotations in the PIEs with single auditors). However, some correlation – albeit weak – was identified between the rotations and the implementation dates of the Audit Regulation in the 12 countries: countries at the top of rotations were those where Articles 16 and 17 had already been implemented (ES, IT, NL), and countries where these were implemented later appeared to coincide with fewer rotations (e.g. CY, LT and NO, all with implementation dating 2017 or later, as well as FR, which had an early implementation date).

Table 14: Rotations from single-to-single auditors, by country

Rotations (from 2015 to 2018)	PIEs (#)	PIEs (%)
RO	7	38.9
ES	29	31.9
NL	31	30.7
IT	64	27.6
IE	13	26.0
CY	15	25.4
PL	111	20.5
DE	81	15.9
NO	19	14.6
CZ	1	9.1
LT	1	8.3
FR	3	4.9
Total	**375**	**20.6**

Source: Europe Economics Analysis

The rotations were calculated using a sample of non-listed PIEs (between 2015 and 2018, and for the 12 different countries plus SE). The sample was collected manually as part of the research for this study and was thus limited to 99 companies. The small size made it difficult to draw robust conclusions, but for all countries aggregated, as many as 17 single-audited non-listed PIEs switched auditor by 2018 (17.2% of all single-audited non-listed PIEs in 2015). This is illustrative, as it shows that the rotations for that group were broadly similar to those for listed companies (20.6%) (Table 15).

Table 15: Rotations from single-to-single auditors

Rotations (from 2015 to 2018)	PIEs (#)	PIEs (%)
Listed	375	20.6
Non-listed	17	17.2

Source: Europe Economics Analysis

Between 0% and 15.4% of single-audited PIEs changed to joint audits by 2018 (Table 16). In aggregate, as many as 59 single-audited PIEs switched to joint audits by 2018 (3.1% of all single-audited PIEs in 2015). PIEs in Czechia had the highest percentage of rotations to joint audits by 2018 (approx. 15.4%), whereas Lithuania and Romania saw no single-audited PIE switch to joint audits. Again, it was difficult to establish a relationship between the observed share of joint audits and implementation of the articles, although two of the countries with a later implementation date showed low use of joint audits (this was not true of NO, which had the latest implementation date). There was little evidence of higher changes to joint audits in countries that implemented Articles 16 and 17 earlier (ES, IT, NL).

Table 16: Joint audit PIEs that had single auditors in 2015, by country

Single to joint (from 2015 to 2018)	PIEs (#)	PIEs (%)
CZ	2	15.4
ES	14	13.3
FR	7	10.3
NO	8	5.8
NL	6	5.6
IT	5	2.1
IE	1	2.0
PL	10	1.8
CY	1	1.7
DE	5	1.0
LT	0	0.0
RO	0	0.0
Total	**59**	**3.1**

Source: Europe Economics Analysis

8.3.2. Impacts on NAS fees

Article 4 of the Audit Regulation limits the fees from permitted NAS provided to the audited entity to 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit (exemptions might be allowed on an exceptional basis). To assess the impact of Article 4, the analysis used a summary of its implementation (date and derogations allowed) for each of the 12 countries. All countries except Norway implemented Article 4 on 17 June 2016, albeit in different ways. Four countries (CZ, LT, NL, RO) implemented Article 4 in 2016 without any derogation. The remaining countries allowed some form of derogation, ranging from one year and a maximum threshold of 140% of the audit fees (DE) or two years without imposing any precise threshold (with different dates, in CY, ES, FR, IE, PL) (Table 17).

Table 17: Overview of implementation of Article 4 of the Audit Regulation

Country	Implementation date	Temporary derogation	Details
CZ	17-Jun-16		
LT	17-Jun-16		
NL	17-Jun-16		
RO	17-Jun-16		
IT	17-Jun-16		
DE	17-Jun-16	Yes	1 year (MAX: 140%)
PL	17-Jun-16	Yes	2 years, from June 2017 (no max)
ES	17-Jun-16	Yes	2 years, from 2016 (no max)
IE	17-Jun-16	Yes	2 years, from 2018 (no max)
FR	17-Jun-16	Yes	2 years, from June 2016 (no max)
CY	17-Jun-16	Yes	2 years, from June 2017 (no max)
NO	01-Jan-21	Yes	2 years, from 2021 (no max)

Source: Europe Economics Analysis

The analysis of NAS fees compared to the threshold in each country shows the impact of the differences in implementation (their dates and several derogations) (Table 18). With the exception of Czechia, instances above the 70% threshold were identified in all countries. In Lithuania, the

Netherlands and Romania – all countries that implemented Article 4 without derogation – only one or two companies were in that situation. However, it is difficult to infer causality from this comparison: although implementation without derogation seemed to correlate with fewer firms above the fee caps, the characteristics of the countries involved suggest that it could also be that the smaller number of firms meant that the regulation on fee caps was easier to implement.

Table 18: NAS fees above the 70% threshold, 2018

NAS fees above 70% threshold	PIEs (#)	PIEs (%)
IE	9	25.0
ES	15	23.8
DE	51	14.2
CY	5	12.5
RO	1	10.0
LT	1	9.1
FR	5	8.5
PL	14	7.0
NL	2	3.1
CZ	0	0.0
Total	**153**	**13.5**

Source: Europe Economics Analysis

8.4. Analysis of stakeholders' views

The EU audit rules pursued a number of measures to improve audit quality and restore investor confidence in financial information. These included an important set of measures providing PIE auditors with a strong mandate to be independent. For PIE auditors, this included mandatory rotation of audit firms and statutory auditors, prohibiting auditors from providing certain NAS, and imposing a cap on the fees generated by allowed NAS to 70% of the average of the fees paid over the last three years. More generally for auditors, this included several general provisions on governance of the internal organisation of audit firms, the independence of the audited entity, and assessing threats to independence.

This section looks at the performance of several of these measures to determine if they achieved their objective. The analysis was based on questionnaire responses received from 11 national oversight authorities[104], giving their views on various qualitative aspects of the different provisions. These were grouped into:

- Independence;
- Quality;
- Competition;
- Interplay of different provisions;
- Quality of group audit (when different auditors are appointed);
- Metrics of measurement.

[104] CY did not provide a complete response.

8.4.1. Independence[105]

All respondents welcomed the achievements in improving the independence of auditors resulting from the Audit Regulation. The responses differed slightly in identifying the most influential provisions (rotation, joint audits, prohibition of services, fee caps). In some instances, the authorities pointed to more than one provision as having influenced the independence of auditors.

- **Rotation:** five of the respondents related the independence achieved, mainly or in part, to the rotation measures (FR, IT, LT, NL, PL). These provisions were described as effective in 'preventing abuses of independence by audit firms' (PL) and as 'an important tool in limiting familiarity threats due to a change of firm and/or signing partners' (FR);
- **Rotation and other:** Of these five authorities, three identified other influential provisions. The rotation of audit firms and the prohibition of NAS were said to have 'increased the perception of the auditors' independence' (NL), while 'these dispositions are effective in protecting auditors' independence' (IT). Rotation of audit firms and the joint auditor mechanism were also considered influential: 'beyond rotation, the independence of the statutory auditor is also reinforced by the joint audit mechanism' (FR);
- **Non-audit and fee caps:** three countries noted the influence of the prohibition of NAS (CZ, ES and NO), which had the 'biggest effect' on independence, according to Czechia. Fee caps and the prohibition of NAS were indicated to be 'directly related to independence' (ES) and 'seem to have been the most influential' (NO).

8.4.2. Quality[106]

The responses all welcomed the Audit Regulation as a way to increase the quality of audits (CZ, IE, LT, NL, RO were unable to comment as they did not have enough information). The authorities recognised that the improvement in quality worked indirectly: it was the impact of the provisions on certain aspects of the market that then affected the ultimate quality of the reports. Two were key features that aided better regulatory outputs: the independence of auditors (ES, DE, IT and NO) and the potential changes in the structure of the market (through the rotation requirement and the joint audit requirement: FR, IT). On the basis of a quality review undertaken, Poland claimed that the provisions worked to 'improving the quality' (of audit work), but did not differentiate between provisions.

Higher independence is crucial to enhance the quality of reports and break any close relationship ('familiarity') between auditors and audited firms, according to four authorities:

- Spain reported that greater independence might 'enhance the confidence in the audit reports', indirectly increasing the quality of audits;
- Germany claimed that 'the Audit Regulation could counteract excessive familiarity between the auditor and the audited company and promote a critical attitude on the part of the auditor';
- Italy stated that it will 'reduce the familiarity and self-review threats during the performance of the statutory audit';
- Norway stated that 'the auditor will look at the entity with more objective eyes and challenge management more freely'.

The rotations and joint audits can affect the structure of the market, which will help to improve the quality of the audits, in different ways:

- French authorities stated that rotations 'encourage [audit] firms to improve the quality of the audit given that the renewal is no longer taken for granted'. In addition, the appointment of a

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[105] This section summarises the responses of national authorities to the question: *II. 3) In your view, have the requirements affected the independence of the audit firm, and if so which requirement was most influential?*

[106] This section summarises the responses of national authorities to the question: *II. 2) In your view, have the requirements (rotation, non-audit services, fee cap and appointment of auditor) affected the quality of statutory audit work? [Please provide views in relation to the overall quality of the report, accuracy, detail, completeness, presentation, credibility, reliability etc.].*

new statutory auditor makes it possible to implement a 'new perspective' that can improve the quality of the audit. The quality of the audit work is reinforced in the joint audit by having more than one auditor reviewing the report;
- Italy stated that the mandatory rotations (established since 1975) affect quality by impacting the statutory audit market.

In summary, quality is likely to have improved, according to the different responses received. It seems certain that there is no evidence of reduced quality as a result of the Audit Regulation. The achievement of better outcomes seems to work indirectly by improving the independence of auditors and enhancing competition in the market (rotation and joint audit provisions).

8.4.3. Competition[107]

It was difficult to clearly establish the effect of the Audit Regulation on competition. The heterogeneity observed in the analyses and monitoring reports undertaken by the relevant authorities in the sample of countries presented an important limitation in analysing this market. Some countries reported on the evolution of market shares for different companies or group of companies (DE, IE, IT, PL), while others only provided qualitative views. However, even in cases where the information was provided in the form of indicators, the comparison was complicated by the variety of metrics and period of analysis (in many cases, only indications of market shares are provided, but not any measures to assess the intensity of competition among firms).

The level of competition achieved (measured with different metrics) seemed to differ by country. In some countries, competition did not increase substantially, with authorities claiming that the market is still dominated by the Big Four. In Germany, the concentration for audit services of PIEs 'remains high' (the share of fees 'going to the Big Four remains at over 95%'). In Italy, the Big 4 maintained a significant market share of the statutory audit market for listed companies, averaging about 90% over the past five years. In Ireland, the Big Four share was also high, at 90% (despite a steady decline in Big Four statutory audit fee income, from 98% in 2016 to 90% in 2020). However, for two additional countries, the level of concentration was believed to be lower. In Poland, the Big Four share of revenue was 63.97%. In France, the levels of concentration in the statutory audit market were lower than in other countries and are 'evolving at a much slower pace than in other countries' (data were not provided). The authority pointed to the obligation of a joint audit for certain entities as the underlying reason.

The analysis of competition should also consider a dynamic approach and look, where possible, at the variation of market shares, particularly among the largest players in the markets. According to this type of analysis, in many countries, there was movement in the shares for those at the top end of the market (in particular for the Big Four).

- Germany: the requirements on external rotation led to a change of auditor in just under 10% of PIEs in 2019, but the majority of auditor changes took place among the Big Four and not audit firms of a different size (more than 50% of rotations were among the Big Four);
- Poland: the share moved between the auditors: the share of large auditors (those with more than 15% market share) was reduced by 19.33% between 2019 and 2020 (again, this shows some movement but only among the largest firms);
- Italy: the distribution of audit market shares among the large audit firms was considered 'quite balanced' (it was difficult to establish a causality with the reforms because mandatory rotation of audit firms was established in 1975);
- the Netherlands: there has recently been 'a contraction' of the audit market (reducing competition), but this was recognised to be due to the requirements of national law.

[107] This section summarises the responses of national authorities to the question: *II. 4) In your view, have the requirements affected the level of competition in the statutory audit market. If so, which requirement was most influential?*

Authorities' responses pointed to some unexpected effects as a result of the Audit Regulation, related to a reduction in the number of auditors in some markets. In Czechia, 'the number of market participants decreased, and smaller auditors left the market of PIE audits'. In Poland it was reported that the number of audit firms reduced from 93 in 2016 to 70 in 2020. In Ireland, one auditor 'has declared an intention to resign from the audit market' (following a reduction in PIEs). Thus while consolidation might be taking place in some markets, whether it is beneficial overall (strengthening competition) or simply reflects a reduction in the overall number of players was unclear. Ireland, for example, reported that 'firms leaving the market have reported that the additional regulatory burden arising from auditing PIEs is a disincentive to remaining in the market'.

Overall, the authorities believed that the impacts of the Audit Regulation on competition were modest. This was evident in some survey responses: 'The requirements of the statutory Audit Regulation on rotation, non-audit services, fee cap and appointment of auditors did not have a significant impact on the level of competition for audit mandates for audit services at PIEs' (DE); 'The introduction of the Regulation did not have an impact on the concentration' (IT). These findings were in relation to the prevailing large shares of the Big Four in different markets. A dynamic analysis was not undertaken in different countries, but there were indications of the movement in the shares of the largest auditors in the market (showing signs of competition between firms in the Big Four group). The extent of the competition was reported by some authorities, but no detailed analysis was provided. On the other hand, some authorities welcomed certain provisions as a way of easing entry into the market, in particular the joint audits. The French authority claimed that these types of audits result in a lower level of concentration in the statutory audit market.

An important limitation is the fact that a number of the interviewed countries reported that some of the provisions were already in place under pre-existing legislation (ES, IT, NL) and some of the findings should also be attributed to those pre-existing provisions. It might also be too early to draw conclusions, as the German authority said, 'it is to be expected that the requirements for rotation in particular will have an even greater impact in the future due to the expiry of the transitional periods under Article 41 of the Regulation'. However, the same authority warned about the expected impact, noting that 'it remains to be seen whether this will also lead to increased competition'.

8.4.4. Interplay[108]

When evaluating the interplay of the different requirements, a number of authorities indicated difficulties in measuring 'these interactions in practice' (FR) and in assessing how the 'combination of the requirements adopted' affected auditors' independence and competition of the market (IT). Most authorities agreed on the impact of the interplay of these requirements, noting that the requirements led to improvements in both competition and independence (IT, LT, RO), or had an impact on independence, at least (ES and NO).

Two authorities warned about the potential for the different requirements to have a negative effect on competition. For Germany, the combination of the various requirements can lead to a 'sometimes significantly limited selection of audit firms' (particularly with large firms wanting auditors with certain qualifications and experience). Similarly, the authorities in Czechia indicated that 'competition decreased'.

[108] This section summarises the responses of national authorities to the question: *II. 8) In your view, has the interplay (combination) of the requirements led to improvements in competition or independence in the audit market?*

8.4.5. Quality of the group audit (when different auditors are appointed)[109]

The authorities did not have specific evidence on the quality of the group audit. However, many believed that the quality should not be impaired by the activities of different auditors, i.e. as a result of different professional practice standards:

- Germany: it ‘should not affect the quality whether the subordinate subsidiaries are audited by a different auditor than the parent company’. Moreover, within the scope of the inspections undertaken ‘there are no obvious indications that the audit quality has been impaired by the audit activities of different auditors’;
- Spain: no impact is expected, as the group auditor reviews the work of the other auditors, regardless of whether or not they belong to its network. The fact that rotation dates differ does not affect the quality of the audit if the group auditor properly revises the work of the component auditors;
- France: the appointment of different statutory auditors (belonging to different firms of the same network or to different networks) in entities of the same group does not in itself have an impact on the quality of the audit of the group. European provisions on auditing guarantee that statutory auditors are subject to the same requirements relating to compliance with ethical and audit rules, ensuring the quality of the audit. In addition, both the professional practice standard relating to the audit of consolidated accounts and ISA 600 provide for quality control standards;
- the Netherlands: having different auditors for various entities within the group does not create any unsurmountable problems due to the codification through NV COS 600;
- Poland: group auditors are required to establish communication and audit procedures with the auditors auditing individual statements.

However, many authorities were aware of coordination problems when auditing a group of entities. They noted that this creates: ‘information disadvantages for an auditor who only audits a single PIE subsidiary in a group’ (DE); ‘problems of coordination and can often result in additional audit fees’ (IE); negative effects on the market if large networks are favoured (IT); advantages for audits performed by the one auditor only (LT); and when too many auditors are used in a large and international group, it may ‘increase the coordination needs and generate more complexity’ and additional risks for the auditors (FR). These disadvantages are not perceived as unsurmountable by the different respondents. Perhaps the best conclusion is that provided by the authority in the Netherlands, which recognised that there are both advantages (e.g. different outlooks provided by auditors and, potentially, better oversight) and disadvantages (e.g. higher coordination costs).

8.4.6. Metrics of measurement

National authorities provided different metrics on audit requirements (for measuring rotations, the prohibition of NAS and the fee cap). These indicators were scattered and, in many cases, defined differently. Authorities had no detail on the way in which tender procedures were used:

- **Rotations[110]:** All countries reported rotations taking place (except NO, due to late implementation). However, the metrics and timeframe of the data provided differed between countries. Italy, the Netherlands and Spain all had pre-existing rotation requirements for PIEs and listed companies;
- **Prohibition of NAS[111]:** Authorities stated a high level of compliance with the prohibition of certain NAS (no response from IE). Countries estimated compliance at between 90% and 100%

[109] This section summarises the responses of national authorities to the question: *II. 1) In your view, does the appointment of different auditors for the entities within a group have an impact on the quality of the group audit? (e.g. if entities in different Member States face different rotation dates).*
[110] The paragraphs summarise the responses of national authorities to the question: *III. 1) Have there been rotations already in your Member State?*
[111] The paragraphs summarise the responses of national authorities to the question: *IV. 1) In your view, what is the level of compliance with the requirements on appointment of auditors and rotation of audit firms and key audit partners in your Member State among audit firms and audited entities?*

on prohibition of certain NAS. The Netherlands had established a similar but stricter national legislation for NAS prior to the Audit Regulation;

- **Fee cap[112]:** Five countries (CZ, DE, IE, LT, NL, RO) provided an estimate of the compliance level, placing compliance at more than 90%. Some acknowledged that certain exceptions meant there was incomplete compliance with the fee cap requirement. Germany was the only country to provide a response on the number of firms that reached the fee cap limit in their jurisdiction;
- **Tender procedures:** The national authorities indicated that tender procedures were adopted pursuant to Article 16 of the Audit Regulation, but had no further details or data on the competitive aspects of the tender procedure. Two authorities indicated that this can 'sometimes significantly limit the selection of audit firms that are seriously considered for the audit', on the basis of their experience and qualifications, especially for large, listed companies (DE) or that coordination issues may arise for group audits, particularly 'in the case of a group with multiple PIEs' (IT).

8.4.7. Conclusions on stakeholders' views

Audit regulations have been effective in increasing levels of independence among audit firms, according to the different responses received. The authorities also recognised an improvement in quality, achieved indirectly via increased independence of auditors and increased competition in the market. However, they did not have any specific evidence on the quality of audits provided in a group audit. In many cases, they believed that quality should not be impaired by the audit activities provided by different auditors, i.e. because of different professional practice standards applied.

National authorities reported that competition has not increased substantially in different countries, with the markets still dominated by the Big Four. There were, however, some indications of competition among the Big Four, with evidence of movement in their market shares. Given these two different findings, any future conclusion on the state of competition should, where possible, consider aspects related to the dynamic and quality of the competition in each of the relevant markets. The analysis should ascertain whether competition is evident among the Big Four and whether this is sufficient to guarantee a competitive market (i.e. if the turnaround in these companies might already prevent them from sustaining dominant positions for long periods of time).

Czechia and Germany showed evidence of the potential negative effect of the interplay of the different requirements on competition. For the German authority, these might limit the availability of firms capable of undertaking the assignment, while for the Czech authority, competition decreased due to a reduction in the number of auditors. Although mentioned in only two cases, the consequences could have severe implications, including a lessening of competition in the market. As a central issue potentially impacting the central objective of the Audit Regulation (to increase competition), it warrants further investigation. It is difficult to draw conclusions, given the lack of detailed information or analysis from the authorities interviewed. However, the information gathered seems to indicate that the differences in the suppliers' side of the market (between large and smaller firms) might also correspond to different type of services required by firms needing auditors (i.e. the specific qualifications and experience required, which might not be fulfilled by the whole pool of available competitors). The contestability of the markets (i.e. whether other potential entrants can enter and challenge existing large firms), according to the different type of services required (market segmentation) also warrants proper examination.

Finally, some countries provided indicators measuring different audit requirements (rotations, the prohibition of NAS and the fee cap). There was no consistent or homogenous approach to those measurements, with indicators often diverging or referring to different timeframes).

[112] The paragraphs summarise the responses of national authorities to the question: *V. 2) In your view, what is the level of compliance with the cap on fees generated by allowed non-audit services in your Member State among audit firms and audited entities?*

8.5. Conclusion

This chapter looked at market data containing audit information on PIE companies listed in stock exchanges from the EU-27 and Norway for the period 2015 to 2018. It presented an analysis of the impacts of different requirements of the Audit Regulation on the auditor market, in particular the rotation requirement, joint audits and the fee cap calculation requirement. It also gathered stakeholders' views of the various objectives of the Regulation.

Several key questions informed the analysis of the market dynamics. These questions are used to summarise the findings below.

What are the views of stakeholders in relation to the achievement of the objectives of independence, quality, and appointment of different auditors for entities within a group?

Audit regulations have been effective in increasing levels of independence among audit firms, according to the different national authorities. They recognised an improvement in quality, typically achieved indirectly via the increased independence of auditors and increased competition in the market. The different authorities did not have specific evidence on the quality of the group audit, but many noted that the quality should not be impaired by the audit activities of different auditors, i.e. because different professional practice standards are applied.

How have PIEs switched to a different statutory auditor or audit firm (i.e. from a Big Four to a non-Big Four, from a non-Big Four to a Big Four, from a Big Four to a Big Four, or from a non-Big Four to a non-Big Four)?

The switch between types of auditors was limited to 549 PIEs, i.e. 15% of PIEs in the sample changed their single audit provider between 2015 and 2018. Of those, as many as 360 (10%) changed to a different Big Four auditor (only 103, or 3%, changed a Big Four for a non-Big Four provider).

The authorities corroborated this finding, with many responses identifying persistent high market shares for the Big Four. In some cases, respondents referred to the switch between Big Four providers. A deeper analysis of competition in the different markets, taking into account the dynamic effects of competition and also the potential competition within the firms in the Big Four group, could help to better understand the actual situation.

Have the selected PIEs rotated from one single auditor (statutory auditor or audit firm) to a joint audit?

The engagement of joint audits from 2015 to 2018 was limited to 141 additional companies (4% of the firms in the sample). Of those, 114 originated from a single Big Four, while another 27 originated from a single non-Big Four, and ended in a joint audit.

How was the rotation requirement implemented for PIEs that had joint audits?

Of the 853 PIEs with joint audits in 2015, 138 switched to single audits by 2018 (16.2%) and 715 still used a joint audit in 2018. The French authorities described the use of joint audits as frequent and a very successful way of promoting entry into this market.

Have any of the PIEs in the sample reached any of the 70% NAS fee cap requirements?

Of the 952 single-audited firms that were subject to the fee cap requirements, 234 exceeded the NAS fee cap in 2015. Of those, 147 reduced their NAS fees to below the limit in 2018. However, an additional 84 firms exceeded the 70% threshold in 2018, having been below the NAS fee cap in 2015. The findings might be explained by exceptions and divergences in the way countries implement the Audit Regulation.

How have the requirements changed the composition of the market?

The composition of the market changed little between 2015 and 2018: the market share of joint audits increased by 2%, at the expense of Big Four single audits (2% decrease). The change in single non-Big Four was imperceptible (market share of 2% in both 2015 and 2018).

The different authorities interviewed corroborated these findings: competition was weak, but there were signs that switches are occurring among the largest auditors (in particular among those in the Big Four group).

The analysis identified a weakness in the way the outputs of the Regulation are measured, as not all countries provide indicators measuring different audit requirements (rotations, the prohibition of NAS and the fee cap) and those that do, provide inconsistent measures.

Is there evidence of differences in market outputs depending on the implementation in different countries?

It is difficult to establish a relationship between the dates of implementation of Articles 16 and 17 of the Audit Regulation and the share of single-audited rotations or joint audits. In countries where the Audit Regulation was implemented earlier, the rotations did not exhibit a clear pattern. However, some correlation seems to be underlying the rotations and implementation dates of some of the 12 countries analysed. For joint audits, there was little evidence of higher shares in countries with earlier implementation of the Audit Regulation. Finally, although all countries implemented Article 4 of the Audit Regulation, on fee caps, in 2016 (except IT and NO), there was some evidence of PIEs exceeding the 70% fee cap limit in 2018. This was probably due to allowed derogations to Article 4, or other exceptional circumstances.

Additional issues stemming from the research

Firms in the Big Four group still have a significant share of the market. However, the analysis also found several indications of competition among the Big Four. More analysis should be undertaken to ascertain whether competition among the Big Four can be determined, and whether it is sufficient to guarantee a competitive market, especially in some segments. Currently, indicators of competition are not routinely collected or are presented in a very heterogeneous way across countries.

Some authorities warned about the availability of firms capable of undertaking audit assignments, noting that that pool might be reduced if auditors needed to fulfil multiple requirements. Although raised by only two authorities, the point nevertheless reinforces the importance of assessing the strength and quality of competition in different markets, particularly among the Big Four.

Finally, the various information gathered for the analysis appears to indicate that the differences in the suppliers' side of the market (between large and smaller firms) might also correspond to different type of services required by firms requiring auditors (i.e., the specific qualifications and experience required by firms, which might not be fulfilled by the whole pool of available competitors). The contestability of the markets (whether other potential entrants can enter and challenge the existing large firms), according to the different type of services required (market segmentation), also warrants proper examination to understand the areas where competition is most lacking.

9. Analysis of audit fees

9.1. Introduction

Chapter 8 analysed the impacts of different requirements of the Audit Regulation on the audit market. It presented the number of single-audited firms changing auditor between 2015 and 2018, the number of single-audited that switched to a joint audit, and the number of PIEs that reached the fee cap requirements. It concluded that the switches from single-audited firms (to another single auditor or a joint audit) was low, at 15% and 4% of the total sample, respectively.

This chapter reports on the costs of audits according to various dimensions (country, sector). It then examines whether any changes in line with Audit Regulation requirements might help to explain any differences in the audit fees paid, and in particular whether any differences in the fees was evident following the rotation requirement and the use of joint audits. The analysis used the same data as that used in Chapter 8, i.e. information on PIE companies listed in stock exchanges from the EU-27 and Norway, as reported by Audit Analytics. Analysis was also undertaken for a limited number of non-PIEs for comparison purposes.

Main findings of the analysis of audit fees

This chapter reports on the different costs of audits for 2018, across countries, sectors and for different size categories. In brief, it found:

- There is a huge disparity in the costs: as much as 25% of firms reported audits under EUR 33,555, but as many as 10% of firms reported audit costs in excess of EUR 1.7 million;
- The median costs by country showed important differences: the statistical median of fees was under (or close below) EUR 100,000 in Bulgaria, Poland, Latvia, Slovakia, Hungary, Lithuania, Romania, Croatia, Estonia, Slovenia, Cyprus and Greece; between EUR 100,000 and EUR 300,000 in Denmark, Malta, Belgium, Portugal, Norway, Germany, Finland, Austria, Spain, Italy, France and Ireland; and above EUR 500,000 in the Netherlands and Luxembourg;
- Of the 20 sectors classified, the median cost was below EUR 100,000 in 10 sectors; between EUR 100,000 and EUR 200,000 in nine sectors; and above EUR 200,000 in the 'Transportation and Warehousing' sector;
- The median fees by group size found that: firms with revenue higher than EUR 1 billion had median audit fees of EUR 1,600,000; firms with revenue between EUR 100 million and EUR 1 billion had a median fee of EUR 245,000; and firms with revenue below EUR 100 million had a median fee of EUR 45,000;
- Median costs were calculated for a sample of non-PIEs and were significantly lower than those for PIEs in most countries;
- An analysis of the percentage change in fees from 2015 to 2018 and their relationship with rotation outcomes found some small indications of changes in audit fees as a result of the rotations, depending on the type of firm and audit examined. There was some evidence that companies that changed from a single auditor to another experienced a decrease in the audit fees, but only for those that spent over EUR 100,000 in 2015;
- The analysis cautions against univocal causality as a result of the Audit Regulation, as some countries had pre-existing rotation provisions and PIEs could have changed even without any regulation.

9.2. Costs of audits

The costs of audits showed a very disperse picture across the PIEs analysed. Values from 2018 ranged from minimum values of several hundred euro to a maximum of EUR 267 million. The implication of this huge variety are evident in the large average (EUR 1 million), compared to a median of just EUR 121,000 (Table 19)[113].

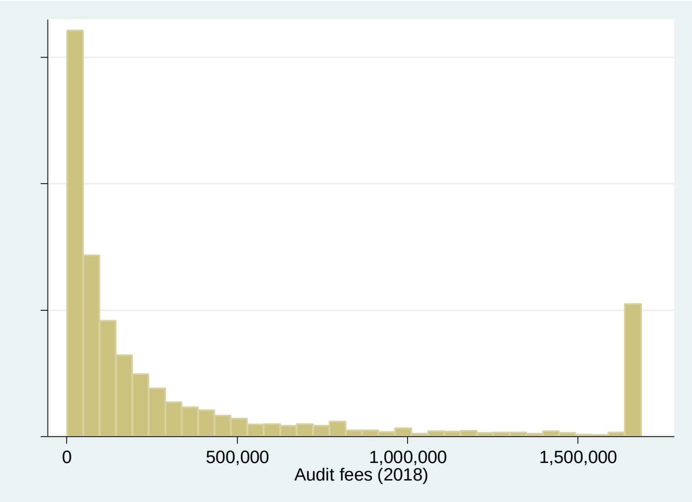
Table 19: Distribution of audit fees, EUR, 2018

Statistics		Observations
Percentiles		**Four smallest observations**
1%	1,304	300
5%	3,494	475
10%	8,385	511
25%	33,555	699
50%	121,000	**Four largest observations**
75%	429,500	50,600,000
90%	1,686,000	54,000,000
95%	3,802,000	60,000,000
99%	18 million	267,800,000
Average:	1,004,516	**Total observations:** 3,776
Median:	121,000	
Std. Dev.:	5,542,331	

Source: Europe Economics Analysis

The distribution of the audit fees can be usefully illustrated in a histogram[114]. This shows highest frequencies among the low amounts of audit fees and lower frequencies in the higher amounts. As many as 25% of the firms reported audits costing under EUR 33,555, and half of the observations paid fees below EUR 121,000 (see median in Table 19). However, as many as 10% of the firms reported audit costs in excess of EUR 1.7 million (top category in the horizontal axis in Figure 101).

Figure 101: Distribution of audit fees, 2018



Note: Density refers to the frequency of firms for each interval (bin) of audit fees. Values above 90% percentile aggregated into one single category.

Source: Europe Economics Analysis

[113] The median is a statistic that is less influenced by extreme observations, as the order of observations it is not affected by the size of the observations in the extreme of the distribution.

[114] A histogram shows the frequencies, or counts, of the values of the variable into different intervals ('bins').

The disparity of audit fee values was also substantial within each country and sector. The huge dispersion in the data will likely affect any averages, thus the analysis also routinely presents the median.

9.2.1. Costs of audits, by country

The costs of audits differed significantly across countries and the PIEs analysed. The median cost of audits ranged between EUR 4,475 (BG) and EUR 568,000 (LU). Four countries accounted for 500 or more firms in the sample (SE, FR, DE, PL). Three countries (FR, DE, ES) accumulated around EUR 500 billion in fees or more (EUR 1.118 billion in FR), some others had between EUR 100 billion and EUR 300 billion in fees (NL, IT, SE, FI), and remainder had total fees below EUR 100 billion. Latvia, Lithuania and Estonia were at the bottom of the group, each with fees below EUR 500,000 (Table 20).

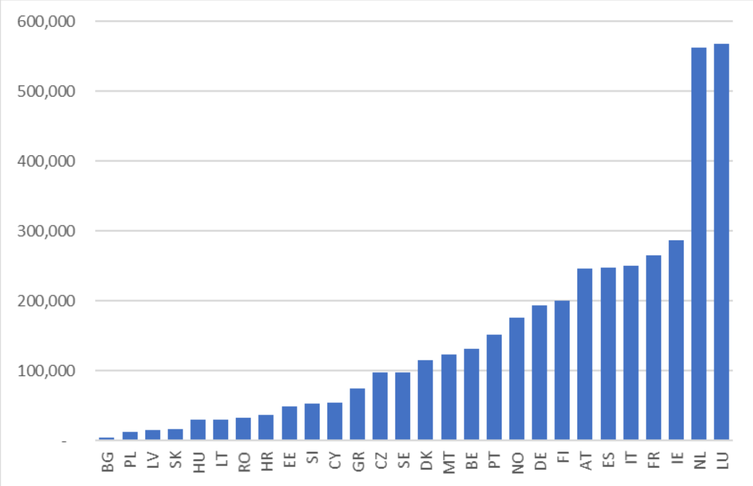
Table 20: Statistics on cost of audits, by country, EUR, 2018

Country	Number of firms	Audit fees (sum)	Audit fees (average)	Audit fees (median)
LU	41	66,732,345	1,627,618	568,000
NL	112	332,755,469	2,971,031	562,000
IE	54	61,008,318	1,129,784	287,500
FR	524	1,117,688,498	2,132,993	265,500
IT	256	262,078,942	1,023,746	249,881
ES	163	494,927,636	3,036,366	247,000
AT	63	41,039,422	651,419	245,900
FI	131	102,876,385	785,316	200,000
DE	524	747,766,006	1,427,034	193,500
NO	162	79,621,201	491,489	175,910
PT	48	20,586,934	428,894	151,101
BE	117	77,179,673	659,655	132,000
MT	32	5,628,154	175,880	123,000
EU	3,776	3,793,053,215	1,004,516	121,000
DK	133	63,483,923	477,323	115,714
SE	497	236,936,638	476,734	98,084
CZ	14	5,478,776	391,341	97,961
EL	41	19,708,897	480,705	75,000
CY	63	9,884,797	156,902	55,000
SI	22	2,528,052	114,911	53,334
EE	6	274,420	45,737	48,850
HR	29	2,822,397	97,324	37,017
RO	20	1,640,196	82,010	32,508
LT	12	456,980	38,082	30,500
HU	12	4,032,876	336,073	29,711
SK	28	2,679,170	95,685	16,243
LV	14	495,996	35,428	14,875
PL	568	30,888,482	54,381	11,840
BG	90	1,852,632	20,585	4,475

Source: Europe Economics Analysis

For 12 countries, the median of audit fees was under (or almost) EUR 100,000 (BG, PL, LV, SK, HU, LT, RO, HR, EE, SI, CY, EL); for another 12, the median was between EUR 100,000 and EUR 300,000 (DK, MT, BE, PT, NO, DE, FI, AT, ES, IT, FR, IE); and for two countries the median was above EUR 500,000 (NL, LU) (Figure 102).

Figure 102: Audit fees, by country, EUR, 2018



Source: Europe Economics Analysis

9.2.2. Costs of audits, by sector

The costs of audits differed significantly across sectors, ranging between EUR 21,283 ('Other services') to EUR 213,600 ('Transportation and Warehousing'). The sector was missing for a significant number of firms (350, shown as 'missing' in Table 21), with this category showing the highest median. 'Manufacturing', 'Finance and Insurance" and 'Professional, Scientific, and Technical Services' (the sectors with most firms) showed median values of EUR 120,000, EUR 97,750 and EUR 82,000, respectively. All other sectors had less than 300 firms, with frequency in some cases as low as four ('Educational Services') and seven ('Public Administration') (Table 21).

Table 21: Costs of audits, by sector, 2018

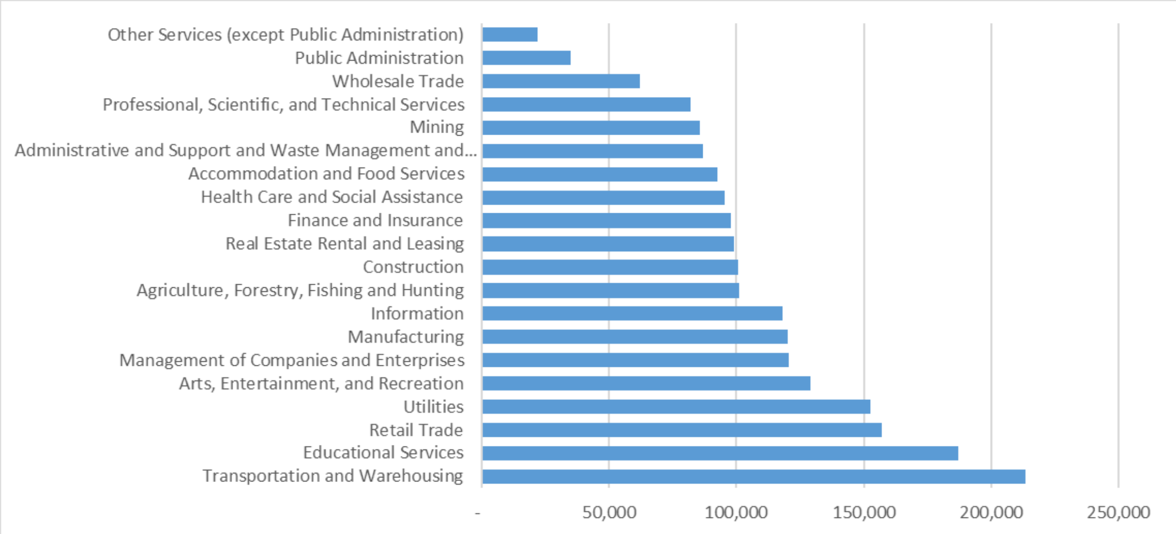
Sector	Number of firms	Audit fees (sum)	Audit fees (average)	Audit fees (median)
Missing	350	1,159,281,530	3,312,233	427,324
Transportation and Warehousing	93	74,395,149	799,948	213,670
Educational Services	4	1,151,281	287,820	187,181
Retail Trade	137	86,060,902	628,182	156,934
Utilities	84	100,415,234	1,195,420	152,500
Arts, Entertainment, and Recreation	45	13,785,661	306,348	129,000
Management of Companies and Enterprises	81	96,525,126	1,191,668	120,640
Manufacturing	1,038	830,157,628	799,767	120,000
Information	266	179,171,268	673,576	117,964
Agriculture, Forestry, Fishing and Hunting	44	10,968,663	249,288	101,198
Construction	156	123,715,775	793,050	100,500
Real Estate Rental and Leasing	259	73,203,627	282,640	98,993
Finance and Insurance	460	729,771,761	1,586,460	97,750
Healthcare and Social Assistance	36	13,658,329	379,398	95,169
Accommodation and Food Services	52	17,849,600	343,262	92,597
Administrative and Support and Waste Management and Remediation Services	89	38,869,355	436,734	86,990
Mining	78	71,785,776	920,330	85,548
Professional, Scientific and Technical Services	335	111,293,225	332,219	82,000

Sector	Number of firms	Audit fees (sum)	Audit fees (average)	Audit fees (median)
Wholesale Trade	148	43,364,101	293,001	62,095
Public Administration	7	15,399,211	2,199,887	34,674
Other Services (except Public Administration)	14	2,230,013	159,287	21,823

Source: Europe Economics Analysis

The median was under EUR 100,000 in 10 sectors, and between EUR 100,000 and EUR 200,000 for another nine sectors. For 'Transportation and warehousing', the median was above EUR 200,000, significantly above the other sectors (Figure 103).

Figure 103: Audit fees, median by sector, EUR, 2018



Source: Europe Economics Analysis

9.2.3. Costs of audits, by revenue group

Firms were classified into three groups according to their annual revenue in 2018: 0 to EUR 100 million; EUR 100 million to EUR 1 billion; and more than EUR 1 billion. These accounted for 1,665 (50%), 1,039 (32%) and 592 (18%) firms, respectively. The medians for these different groups showed large differences: firms with revenue higher than EUR 1 billion had median audit fees of EUR 1,600,000, firms with revenue between EUR 100 million and EUR 1 billion had a median fee of EUR 245,000, and firms with revenue below EUR 100 million had a median fee of EUR 45,000 (Table 22). Large differences were evident between the median and average audit fees, especially for firms with revenues higher than EUR 1 billion (median and mean of EUR 1.6 billion and EUR 4.4 billion, respectively): this reflected the significant disparity in fees within that group. For a large number of firms, the revenue was missing (480 firms, shown as 'Missing' in Table 22).

Table 22: Costs of audits, by revenue group, EUR, 2018

Revenue group	Number of firms	Audit fees (sum)	Audit fees (average)	Audit fees (median)
EUR 0-100 million	1,665	140,618,003	84,455	45,000
EUR 100 million-1 billion	1,039	359,063,373	345,586	245,000
>EUR 1 billion	592	2,617,488,312	4,421,433	1,600,000
Missing	480	675,883,527	1,408,091	80,490

Source: Europe Economics Analysis

9.2.4. Costs of audits for non-PIEs

The median costs were calculated for a sample of non-PIEs. Data were collected manually as part of the research for this study and were limited to 272 non-PIEs in 13 countries (CZ, DE, IT, DK, ES, FR, IE, LT, NL, NO, RO, SE, SK). The median cost of audits differed by country, ranging from EUR 5,831 (CZ) to EUR 50,000 (NL). The number of non-PIEs in the sample was relatively low and the frequency was in some cases as low as two (DK, SK). For three countries, the median audit fees were over EUR 20,000 (NL, RO, DK), for another seven, the median was between EUR 10,000 and EUR 20,000 (DE, IE, SE, IT, FR, NO, SK), and for three countries the median was below EUR 10,000 (ES, LT, CZ) (Table 23).

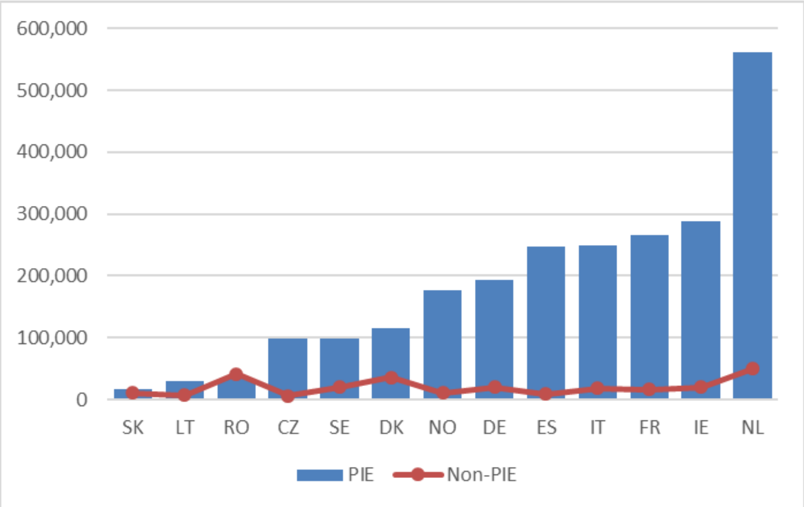
Table 23: Costs of audits for non-PIEs, by country, EUR, 2018

Country	Number of firms	Audit fees (average)	Audit fees (median)
NL	11	84,376	50,000
RO	10	65,330	41,676
DK	2	35,603	35,603
DE	29	26,854	20,000
IE	23	50,613	20,000
SE	28	30,175	19,576
IT	32	26,393	18,160
FR	10	20,652	15,990
NO	87	16,197	10,896
SK	2	10,750	10,750
ES	18	45,161	8,997
LT	9	7,361	6,600
CZ	11	9,108	5,831

Source: Europe Economics Analysis

The audit fees for non-PIEs were significantly lower in most countries (Figure 104). The largest difference was in the Netherlands (EUR 50,000 for non-PIEs, compared to EUR 562,000 for PIEs). In Romania, by contrast, the audit fees for non-PIEs were higher than the fees for PIEs.

Figure 104: Audit fees, median by country, EUR, 2018



Source: Europe Economics Analysis

9.3. Explaining the changes in audit fees

The time scope of analysis was limited to the period 2015-2018. The aim was to assess the differences before and after the Audit Regulation, thus the analysis used the percentage change of audit fees from 2015 to 2018. As all Member States implemented the mandatory rotation (Article 17 of the Audit Regulation) in 2016, the chosen dates were adequate to obtain a measure of the difference before and after the implementation of the Audit Regulation. The analysis excluded Norway, which implemented the requirements in 2021.

To investigate the impact of different provisions, D_AFEES was used as the main variable of analysis, defined as the percentage change in audit fees from 2015 to 2018[115]. Preliminary analysis revealed considerable disparity in this variable, ranging from a minimum value of -98% to a maximum of 19.9%. 1% of the observations were below -68% and 1% above 678% (see Annex II).

The disparity can be attributed to some PIEs with very small audit fees in 2015 and corresponding high fees in 2018 (very few entities with audit fees in the order of thousands or tens of thousands of euro in 2015 incurred fees in the order of hundreds of thousands of euro in 2018). Although these are all potentially legitimate values, it is likely that they would severely influence the results of the analysis. Accordingly, separate analyses were undertaken, excluding those PIEs in the top and bottom of the distribution of D_AFEES.

Significant differences were evident, depending on the size of the audit fee amounts incurred in 2015. Again, separate analyses were undertaken for three groups of PIEs: group 1 contained PIEs that paid fees under EUR 100,000 in 2015 (49% of the sample); group 2 those that paid between EUR 100,000 (30%) and EUR 500,000 (21%) (see Annex II for details).

The different analyses used D_AFEES as the dependent variable and controlled for different types of rotations undertaken by firms. The following categories were particularly relevant:

- Category 0 No change: PIEs that did not change auditor;
- Category 1 Change-Single-Single: PIEs that changed from a single auditor to another single auditor;
- Category 2 Change-Single-Joint: PIEs that changed from a single to a joint auditor;
- Category 3 Other change: PIEs that switched from a joint to a single audit or from a joint audit to a different joint audit.

The change in audit fees (D_AFEES) according to the different categories showed an average increase of 42% for those PIEs that did not change their auditor (category 0) between 2015 and 2018, lower than any other categories in the sample (an average change of fees of 79.7% was observed for those who changed auditor 'Change-Single-Single' and 125.6 for those that used a joint auditor 'Change-Single-Joint', see Annex II). It seems that those firms that changed their auditor paid higher fees than those that did not change their auditors. However, the averages were significantly influenced by the dispersion in the data (in particular, the inclusion/exclusion of the extreme observations in the sample), and by distribution across the type of fee group – significant differences were observed for PIEs in group 1 and groups 2 and 3 (see detail in Annex II).

To account for such findings and differences, the analysis used a regression model to capture the interaction of different variables. The proposed model included D_AFEES as a dependent variable, and dummy variables to account for each of the category changes to be tested. Given the differences in the sample, two separate models are presented: for PIEs in group 1 (spending between EUR 0 and EUR 100,000 audit fees in 2015) and PIEs in groups 2 and 3 (spending more than EUR 100,000 in 2015).

[115] For each PIE *i* and audit fees paid in 2015 and 2018 (respectively denoted as $AUDIT_{i,2015}$ and $AUDIT_{i,2018}$), the percentage 2015-2018 difference was defined as $D\_AFEES_i = 100 * [(AUDIT_{i,2018} - AUDIT_{i,2015}) / AUDIT_{i,2015}]$. The use of a variable in percentages significantly simplified the model significantly (time-invariant fixed effects could be ignored).

PIEs in group 1 (spending between EUR 0 and EUR 100,000 on audit fees in 2015)

The results showed a significant coefficient for the variable capturing the change from single-to-single (‘Change single-single’) in the model using the whole sample. The coefficient was positive, indicating that the increase in audit fees (2015-2018) was higher for those firms that changed from a single to another single auditor, compared to those that did not change. This was a surprising result. However, when estimated for other models that exclude extreme values, the variable was no longer significant (in statistical terms), i.e. there were no differences in the increase of audit fees for those firms that rotated their single auditors. The dummy coefficient for those that changed from a single to a joint audit (‘Change single-joint’) was positive and significant in all specifications, except for the one estimated using the whole sample (Table 24, top rows). This indicated an increase in audit costs for those firms moving to joint audits.

PIEs in group 2 or 3 (spending more than EUR 100,000 on audit fees in 2015)

The results for groups 2 and 3 showed significant coefficients for all dummy variables capturing the following changes: ‘Change single-joint’, ‘Change single-single’ and ‘Change other’ (and the constant term). The significance of the coefficients was robust to different specifications, although their magnitude reduced with the sample used. The results show the following (Table 25, bottom rows):

- PIEs that did not change their auditors experienced, on average, a 22.59% increase in audit fees from 2015 to 2018 (indicated by the constant term);
- Those PIEs that changed a single auditor for another single auditor experienced a 10.77% increase in fees over the same period (-11.82% compared to those that did not change, as indicated by the ‘Change single-single’ dummy);
- PIEs that moved from a single to a joint audit experienced an increase in audit fees. On average, this was 49.37% more than those that did not change. The coefficient for this variable changed significantly across specifications, thus while it was very likely that those joint audits resulted in higher fees, the magnitude was less certain (different specifications were subjected to a great disparity in the samples used and gave coefficients in the range of 49.37% to 22.73% higher than the constant term);
- The coefficient capturing the differences in groups that changed their auditors in other ways also showed a negative coefficient. This was consistent across different specifications.

Table 24: Estimates for different categories and groups (different samples)

	All sample	Excluding top-bot 1%	Excluding top-bot 5%	Excluding top-bot 10%
Group 1 (EUR 0-EUR 100,000 audit fees in 2015)				
Change single-joint (dummy)	125.2	67.91***	45.35***	30.82***
Change single-single (dummy)	107.0*	9.629	-0.159	-0.49
Change other (dummy)	232.0***	8.714	0.363	0.46
Constant	59.95***	49.18***	32.40***	24.28***
Groups 2 or 3 (>EUR 100,000 audit fees in 2015)				
Change single-joint (dummy)	49.37***	38.75***	27.05*** -	22.73***
Change single-single (dummy)	-11.82*	-11.51**	9.293***	-6.459**
Change other (dummy)	-15.11**	-11.15**	-5.904*	-4.737*
Constant	22.59***	21.44***	19.08***	17.25***

Note: * p<0.05, ** p<0.01, *** p<0.001.
Source: Europe Economics Analysis

9.4. Conclusions and caveats

This chapter presented the different costs of audits for 2018, across countries, sectors and for different size categories (based on revenue). A huge dispersion was evident in the costs in the data – as many as 25% of the firms reported audits costing under EUR 33,555, and half paid fees below EUR 121,000 (median). However, as many as 10% of firms reported audit costs in excess of EUR 1.7 million.

- The median fee was less than (or close to) EUR 100,000 in Bulgaria, Poland, Latvia, Slovakia, Hungary, Lithuania, Romania, Croatia, Estonia, Slovenia, Cyprus and Greece; between EUR 100,000 and EUR 300,000 in Denmark, Malta, Belgium, Portugal, Norway, Germany, Finland, Austria, Spain, Italy, France and Ireland; and above EUR 500,000 in the Netherlands and Luxembourg;
- Of the 20 sectors classified, the median cost was below EUR 100,000 in 10 sectors; between EUR 100,000 and EUR 200,000 in nine sectors; and above EUR 200,000 in the 'Transportation and Warehousing' sector. The sectors with highest frequencies were 'Manufacturing', 'Finance and Insurance' and 'Professional, Scientific, and Technical Services' and showed median values of EUR 120,000, EUR 97,750 and EUR 82,000, respectively
- Firms with revenue higher than EUR 1 billion had median audit fees of EUR 1,600,000, firms with revenue between EUR 100 million and EUR 1 billion had median fees of EUR 245,000, and firms with revenue below EUR 100 million had median fees of EUR 45,000;
- The median costs of non-PIEs were significantly lower than PIEs in most countries (results limited to the small sample used for non-PIEs).

This chapter investigated the percent changes of audit fees from 2015 to 2018 and their relationship with rotation outcomes. It presented the differences across a range of PIEs that changed from a single auditor to another single auditor, from a single auditor to a joint auditor, compared to those that did not change their auditor.

The results showed:

- A substantial dispersion in the percentual changes of auditors' fees paid by PIEs between 2015 and 2018. Taking the sample across all Member States, it was difficult to identify any relevant pattern, given some very extreme values in the distribution;
- Analysing the audit fees for groups of PIEs separately showed some differences in the way audit fees evolved across the period and according to different rotations. For PIEs involved in large audits (spent more than EUR 100,000 in audit fees in 2015), a rotation of single auditors was identified, with a reduction in the average audit fees paid in 2018 (compared to PIEs that did not change auditor). The magnitude of the coefficient was influenced by the extreme observations in the distribution, estimated to be in the range of 7-12% lower for those that switched a single auditor. The use of joint audits resulted in an increase of the fees (between 23% and 49%, depending on different specifications);
- For PIEs involved in smaller audits (spent less than EUR 100,000 in audit fees in 2015), the huge dispersion in the data made it difficult to observe any significant pattern among those firms that changed one auditor for another. Some results suggested higher fees for those PIEs that used joint audits (compared to those that did not change auditor), but were not consistent across different model specifications.

An important caveat is that the indications of significant changes in audit fees as a result of the rotations were weak and heavily dependent on the type of firm and audit examined. There was some evidence that firms that changed one single auditor for another experienced a decrease in audit fees, but this was found for firms that spent above EUR 100,000 in 2015 and is thus not generalisable.

Although the analysis found differences in the results in the audit fees across different rotation categories, it would be inappropriate to attribute any changes to the Audit Regulation. Firstly, some of the countries had pre-existing rotation provisions (ES, IT, NL). Secondly, the results simply reported findings for firms that changed auditors, but could not distinguish how many rotations were directly the result of the Audit Regulation (some might have rotated, even without the Regulation). The potential mix of those effects made it difficult to extend the findings or draw conclusions on an unequivocal causality of the implementation of the rotation requirements.

10. Annexes

10.1. Annex I: tables on the mapping of legal requirements in the Member States and Norway

Table 25: Overview of undertakings covered by audit requirements

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
AT	For companies above at least one of the thresholds: EUR 10 million turnover, EUR 5 million balance sheet and 50 employees	Y, with full exemption under Article 20(4)	Y, for small limited liability companies[117]	Y, if designated as such via federal law	Y[118]
BE	For all listed small undertakings and for companies above at least two of the thresholds: EUR 9 million turnover, EUR 4.5 million balance sheet and 50 employees	Y, with partial exemptions[119] under Article 20(4)	Y, for small undertakings (unless PIEs) and some partnerships, limited partnerships and European economic partnerships[120]	Y, clearing institutions	N
BG	For small companies above two of the thresholds: EUR 1 million balance sheet, EUR 2 million turnover and/or 50 employees. Full exemption below these thresholds, except for small PIEs and joint-stock companies and limited partnerships with shares, that are not micro companies	Y, and stricter (applies to credit institutions, insurers and reinsurers). Partial exemption under Article 20(4) and exemption for small and medium PIEs (Article 20(5))	Y, for micro and small undertakings, unless they are investment companies and financial holding companies	Y, companies with significant public relevance and due to their size (e.g. State railway, electricity, gas, water supply and sewerage operators), asset management companies that are large undertakings, and pension funds	N

116 Small undertakings and small and medium-sized groups.
117 Unless required by law to have a supervisory board.
118 Exempt from Articles 4, 5, 8, 16 and 17 of the Audit Regulation.
119 Corporate governance statement on diversity policy of the undertaking is not required for small and medium-sized PIEs (under EUR 34 million of turnover and EUR 17 million of balance sheet).
120 If all partners with unlimited liability are natural persons, and/or agricultural enterprises subject to personal income tax.

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
CY	No audit exemption	Y, with exemption under Article 20(4)	Y, for small undertakings	N, but possible	N
CZ	For SMEs that are joint stock companies or trust funds and reach one of the thresholds, and for other small undertakings that have reached two of the thresholds: total assets of CZK 40,000,000 (approx. EUR 1.5 million), annual total net turnover of CZK 80,000,000 (approx. EUR 3 million), max 50 employees	Y, with full exemption under Article 20(4)[121]	Y, for small joint stock companies that reach one of the thresholds for small undertakings, and small entities reaching two of the thresholds	Y, pensions undertakings and health insurance undertakings	N
DE	Full exemption (audit required for companies above at least two of the thresholds: balance sheet of EUR 6 million, turnover of EUR 12 million and 50 employees)	Y, with full exemption under Article 20(4)	Y, for small undertakings unless they are credit institutions and insurance undertakings	N	Y, specific audit rules for cooperative and savings banks

121 With some issues to double-check in the verified report.

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
DK	For small undertakings above at least two of the thresholds: balance sheet of EUR 537,000, turnover of EUR 1,075,00 and 12 employees + choice between extended review and audit for companies above for small undertakings below at least two of the thresholds: EUR 6 million balance sheet, EUR 12 million turnover, or 50 employees	Y, with full exemption under Article 20(4)	N	N	N
EE	For companies above the EU thresholds (balance sheet total of EUR 4 million, net turnover of EUR 8 million and 50 employees) and unless specified by law	Y, no exemption	Y, but only for micro undertakings	N	N
EL	For small undertakings above at least two of the thresholds: balance sheet of EUR 4 million, turnover of EUR 8 million and 50 employees	Y, no exemption	Y, for micro undertakings only (under Article 19(3) and (4))	N, but possibility for the Minister of Finance to designate additional PIEs	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
ES	Y, for joint-stock companies if above two of the thresholds of EUR 5.7 million turnover, EUR 2.8 million of total assets or 50 employees + mandatory audit of companies receiving subsidies or aid from the State or EU funds totalling more than EUR 600,000, or from another entity if requested, companies that have carried out works, management of public services, supplies, consulting and assistance or services to public administrations for more than EUR 600,000, foundations exceeding two of the thresholds: turnover of EUR 2.4 million, total assets of EUR 2.4 million and 50 employees, or certain housing cooperatives	Y, without exemption	Y, exemption under Article 19(3) and 19(4)	Y, additional listed PIEs (entities issuing securities listed on the alternative stock market belonging to the growth companies' segment), Additional financial PIEs: investment and collective investment undertakings with at least 5,000 clients or unitholders/shareholders, pension funds, (more than 10,000 members) and their management companies, banking foundations, payment institutions and electronic money institutions	N
FI	For micro and small undertakings above one of the thresholds: balance sheet of EUR 100,000, turnover of EUR 200,000 and above three employees	Y, with exemption under Article 20(4)	Y, for small and micro enterprises	N	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
FR	For small undertakings above at least two of the thresholds: balance sheet of EUR 4 million, turnover of EUR 8 million and 50 employees. Lower thresholds for public training institutions: balance sheet of EUR 230,000, turnover of EUR 153,000 and three employees For undertaking controlling one or several undertakings when the group formed with the companies it controls exceeds two of the three thresholds set by the decree. Exception: if the company is itself controlled by a company that has appointed a statutory auditor	Y, obligation to provide a corporate governance statement only for public limited companies *(sociétés anonymes)* and limited partnerships *(sociétés en commandite par actions)*. No exemption under Article 20(4)	Y, for small companies not exceeding at least two of the thresholds (EUR 4-8 million and 50 employees), unless they belong to credit institutions and funding companies, insurance companies, regulated companies, public fundraising companies, or whose activity consists in managing equity interests or securities	Y, financial holding companies of which one of the subsidiaries is a credit institution; mixed financial holding companies of which one of the subsidiaries is a PIE; insurance group companies; mutual insurance group companies; mutual group unions; and social protection group companies	N
HR	For small undertakings above at least one of the thresholds: EUR 4 million balance sheet, EUR 8 million turnover and 50 employees. Lower thresholds for small undertakings that are joint stock companies, limited partnerships or limited liability companies (mandatory audit if they are	Y, more stringent as applicable to all PIEs. No exemptions	N	Y, electronic money institutions, leasing undertakings, undertakings managing UCITS funds and AIFM, UCITS and AIF, pension companies managing obligatory and voluntary pension funds, obligatory and voluntary pension funds, pension	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
	above at least two of the thresholds: balance sheet of EUR 2 million, turnover of EUR 4 million and 25 employees)			insurance undertakings, factoring undertaking, investment firms, stock exchanges, MTP operators, central clearing depository undertakings, central register operators, settlement system operators and investor protection fund operators, companies and other legal entities of special state interest listed by government decision, except those preparing financial statements on basis of State budget and non-profit accounting laws, companies that solely or with their subsidiaries fulfil one of the conditions: more than 5,000 employees, balance sheet above HRK 5 billion (EUR 667 million)	

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
HU	For small undertakings above at least one of the thresholds: annual net sales below HUF 300 million (around EUR 844,000), or 50 employees; all companies keeping double-entry books, if not exempted by law; mutual savings banks; consolidated companies; Hungarian branches of non-resident companies; companies that are permitted, under special circumstances, to derogate from the provisions of the law for the purposes of true and fair view and PIEs	Y Exemptions under Article 20(4) not used (option provided by Article 20(2) is applied)	N	Y, investment firms, credit institutions acting as investment firms, AIFM and UCITS managers and the government debt management agency	N
IE	Full exemption (for small undertakings and small groups above at least one of the thresholds: balance sheet of EUR 6 million, turnover of EUR 12 million and 50 employees)	Y, with ex-emption under Article 20(4)	No exemption, except for small undertakings exempt from audit obligation	N	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
IT	For small undertakings above at least one of the thresholds: balance sheet of EUR 4 million, turnover of EUR 4 million and 20 employees, for two consecutive years	Y, with exemption under Article 20(4)	Y, for small and micro undertakings under the EU definition, which are allowed to present abridged financial statements	Y, entities subject to an ‘intermediate regulatory regime’, to which numerous provisions from the Audit Regulation apply	N
LT	For small undertakings above at least two of the thresholds: balance sheet of EUR 1.8 million, turnover of EUR 3.5 million and 50 employees	Y, with no exemption	Y	Y, State-owned entities if they fall under the definition of large entities, pension funds, collective investment undertakings and asset management companies, central credit unions, financial brokerage firms and reinsurance undertakings	N
LU	For small undertakings above at least two of the thresholds: balance sheet of EUR 4.4 million, turnover of EUR 8.8 million and 50 employees, for at least two consecutive years	Y, with exemption under Article 20(4)	Y	N	N
LV	For small undertakings above at least two of the thresholds: balance sheet of EUR 800,000, turnover of EUR 1.6 million and 50 employees	Y, without exemption	N, unless small undertakings under the audit thresholds	Y, investment management companies, AIFM and private pension funds	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
MT	For small private undertakings above at least two of the thresholds: balance sheet of EUR 4 million, turnover of EUR 8 million and 50 employees	Y, with exemption under Article 20(4)	Y, for small undertakings (below at least two of the thresholds: balance sheet of EUR 4 million, turnover of EUR 8 million and 50 employees + exemption for medium-sized undertakings insofar as it relates to non-financial information	N, but option retained	N
NL	Full exemption (for small undertakings and small groups above at least one of the thresholds: balance sheet of EUR 6 million, turnover of EUR 12 million and 50 employees)	Y, with exemption under Article 20(4)	Y, for small undertakings exempt from audit obligation	Y, electricity and gas network operators; admitted institutions as referred to in Section 1 of the Housing Act, subsection 1, that own more than 5,000 rental units on two consecutive balance sheet dates, without interruption; institutions for scientific research and pension funds which on two consecutive balance sheet dates, without interruption, qualify as large funds	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
PL	For small undertakings above at least two of the thresholds: balance sheet of EUR 2.5 million, turnover of EUR 5 million and 50 employees	Y, without exemption	Y, for micro and small undertakings below at least two of the thresholds: balance sheet of PLN 25.5 million turnover of PLN 51 million and 50 employees	Y, electronic money institutions and national payment institutions; pension funds; investment funds; large entities conducting mining activities, and local government units	Y, partial exemptions
PT	For small undertakings that do not have a supervisory board and in the last two consecutive years were above two of the thresholds: balance sheet of EUR 1.5 million, turnover of EUR 3 million and 50 employees. No exemption for *sociedades anonimas*	Y, with exemption under Article 20(4)	N (only micro undertakings are exempt from the obligation to compile a management report, therefore undertakings above the thresholds for small undertakings audit exemption are under the obligation to have their management report audited)	Y, investment firms (except investment advice undertakings), collective investment undertakings, venture capital companies and venture capital funds, credit securitisation companies and credit securitisation funds, pension funds and big public companies (turnover exceeding EUR 50 million, or total net assets exceeding EUR 300 million for two consecutive years)	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
RO	For small undertakings above at least two of the thresholds (approx.): balance sheet of EUR 3.6 million, turnover of EUR 7.2 million and 50 employees	Y, without exemption	N, but exemption for small undertakings regarding non-financial information	Y, non-banking financial institutions; payment institutions and institutions issuing electronic money that grant credit in connection to payment services and whose activity is limited to payment services and issuing of electronic money; privately managed pension funds, voluntary pension funds and their management; financial investment companies, investment management companies, undertakings for collective investment, central depositories; clearing houses, central counterparts and market/system operators; national companies, fully or partially held State companies, autonomous undertakings	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
SE	For small undertakings above at least two of the thresholds (for two consecutive years): balance sheet of EUR 150,000, turnover of EUR 300,000 and three employees	Y, with exemption under Article 20(4)	N	N	N
SI	For undertakings above the EU thresholds for small undertakings (balance sheet of EUR 4 million, turnover of EUR 8 million and 50 employees)	Y, without exemption under Article 20(4)	N	Y, companies where the State or municipalities have a majority s hare, in aggregate or separately, directly or indirectly	N
SK	For companies or cooperatives that are above at least two of the thresholds for two consecutive years: total assets of EUR 2 million, turnover of EUR 4 million and 30 employees (in one accounting period)	Y, without exemption under Article 20(4)	Y, for entities whose audit is required under special regulations, i.e. non-profit organisations, foundations and the National Bank of Slovakia	Y, the Export-Import Bank of the Slovak Republic; the Stock Exchange; health insurance companies; asset management companies and branches of a foreign asset management company; pension asset management companies; supplementary pension companies; the railways of the Slovak Republic; accounting entities that prepare consolidated financial statements of the central administration; higher territorial units;	N

Country covered	Audit obligation for small undertakings	Obligation to provide a corporate governance statement and exemptions from Article 20(4) Audit Regulation	Exemptions from the obligation to have the management report audited[116]	Additional PIEs under the Audit Regulation	Exemption for cooperative and savings banks under Article 2(4) Audit Regulation
				accounting entities that are a municipality, town, or town district since the accounting period preceded by at least two consecutive accounting periods in which it met the following conditions: total assets exceeding EUR 100 million; more than 50,000 inhabitants	
NO	For undertakings above the three thresholds (exempt if one is met): operational income of approx., after recalculation from NOK, EUR 0.6 million; balance sheet of approx., after recalculation from NOK, EUR 2.3 million, and 10 employees	Y, with exemption under Article 20(4)	N, but simplified reporting requirements for the annual report of entities that for two consecutive years were below at least two of the thresholds: sales revenues of approx., after recalculation from NOK, EUR 7 million, balance sheet of approx., after recalculation from NOK, EUR 3.5 million and 50 employees	N	N

Table 26: Summary of transposition of the obligation to have an audit committee and related modalities of this committee

Country	Obligation to have an audit committee and modalities of the committee[122]
AT	Obligation to have an audit committee: PIEs operating on a regulated market, or designated as PIEs by a federal law, or very large companies[123] Stand-alone committee: No obligation
BE	Audit committee within the administrative board: all listed companies Stand-alone committee: no obligation Role performed by administrative body (board of directors): SMEs Exemptions from the obligation (Article 39(3) Audit Directive): Some credit institutions, UCITS and alternative funds, and issuer of asset-backed securities
BG	No exemptions All PIEs shall have a stand-alone audit committee
CY	All PIEs shall have an audit committee. No obligation to have a stand-alone committee
CZ	Obligation to have a stand-alone committee: for all PIEs Role performed by administrative body: for small and medium-sized banks, credit unions, insurance and reinsurance undertakings, pension undertakings, under specific conditions

122 Under Article 39 of the Audit Directive.
123 Exceeding five times the threshold for large companies.

Country	Obligation to have an audit committee and modalities of the committee[122]
DE	Use of the Article 39(2) option to allow the administrative or the supervisory board of the PIE to perform the functions of the audit committee for SMEs Use of the option to exclude PIEs which are UCITS and credit institutions that only issue debt securities, the nominal value of which does not exceed EUR 100 million and who are not subject to the obligation to publish a prospectus.
DK	All possible exemptions from the obligation to have an audit committee in Denmark has been chosen
EE	The audit committee is a stand-alone committee of the supervisory board, or of the highest management body. The only option for exclusion used concerns the PIEs that are a subsidiary undertaking
EL	A stand-alone committee or a committee within the administrative body or supervisory body of the audited entity can be feasible PIEs which are subsidiary undertakings (provided that they present the necessary guarantee of independence and respect the relevant requirements of the Audit Regulation), UCITS or alternative investment funds and entities the sole business of which is to act as an issuer of asset backed securities are exempted from the obligation to have an audit committee
ES	Obligation to have an audit committee. However, when PIEs have a body with functions equivalent to those of the Audit Committee, which has been established and operates in accordance with its applicable regulations, the functions of the Audit Committee will be assumed by said body. In the Savings Banks, the functions of the Audit Committee may be assumed by the Control Committee. Exemption for: - PIEs whose sole activity is to act as an issuer of asset-backed securities - PIEs of small and medium-sized, provided that their functions are assumed by the administrative body - PIEs subsidiaries (fully owned, administration not attributed to a board of directors, the Audit Committee of the parent company assumes the functions of such committee)

Country	Obligation to have an audit committee and modalities of the committee[122]
FI	No requirement to have a stand-alone audit committee. PIEs may have an audit committee consisting of members of the Board. If there is no audit committee, the corresponding tasks are the responsibility of the Board as a whole, or they can be carried out by another committee of the Board Credit institutions that are significant for the financial system must have an Audit Committee consisting of Board members. If the credit institution is part of a consolidation group or amalgamation of deposit banks that is significant for the financial system, only the parent company of the consolidation group and the central organisation of the amalgamation of deposit banks must have an Audit Committee. The law recommends the establishment of an audit committee, 'if the extent of the company's business requires that the preparation of the matters pertaining to financial reporting and control be done by a body smaller than the entire board of directors.'
FR	Option to set-up an audit committee under the responsibility of either the administrative body or the supervisory body of the audited entity and not a stand-alone committee. SMEs are de facto exempted to have an audit committee since they are not obliged to be audited. France has made use of the exemptions under Article 39(3) of the Audit Directive
HR	PIEs must have audit committee which may be either stand-alone committee or committee within the supervisory/management board. Exemptions for UCITS and alternative investment funds PIEs
HU	PIEs issuers, investment firms, credit institutions and (re)insurance companies must set up and operate an audit committee. For PIEs which are SMEs with reduced market capitalisation and listed on a regulated market that had an average market capitalization of less than 100 million EUR the functions assigned to the audit committee may be performed by the administrative or supervisory body.
IE	Obligation to have a stand-alone committee for all PIEs. Use of Article 39(2) option to allow the administrative or the supervisory board of the PIE to perform the functions of the audit committee for SMEs including to companies with reduced market capitalization Full use of the exemptions under Article 39(3) No exemptions for SMEs

Country	Obligation to have an audit committee and modalities of the committee[122]
IT	The audit committee may be **the supervisory body of the company** in the "traditional system" (the supervisory council - *collegio sindacale*) or the **supervisory board** (*consiglio di sorveglianza*) in the dualistic system –**or a subcommittee of the administrative body** (the committee for management supervision - *comitato per il controllo sulla gestione*) depending on the corporate governance model of the company No use of the options under Article 39(2)(3)(4) and (5) of Audit Directive
LT	PIEs obligation to set an audit committee except for financial brokerage firms, collective investment undertakings, pension funds, and occupational pension funds. Exemption for subsidiaries. For SMEs with reduced market capitalisation, the functions of an audit committee can be performed by a supervisory body
LU	No obligation under Luxembourg law for certain types of PIEs to have a stand-alone committee All exemptions under Article 39(3) of the Audit Directive
LV	All exemptions under Article 39(2) and Article 39(3) of the Audit Directive
MT	Public-interest entities as defined by the Directive are required to have an audit committee.
NL	An audit committee is composed of members of the Board of Directors or members of the Board that are not responsible for the executive management. Full use of the exemptions under Article 39(3) of the Audit Directive No exemptions for SMEs

Country	Obligation to have an audit committee and modalities of the committee[122]
PL	Stand-alone audit committees shall be established in PIEs with the exception of cooperative banks, local government units that are public interest entities, cooperative savings and credit unions, public interest entities which at the end of a given financial year and at the end of the financial year preceding a given financial year did not exceed at least two of the following three amounts: a) PLN 17,000,000 - for the total assets of the balance sheet at the end of the financial year, b) PLN 34,000,000 - in the case of net revenues from the sale of goods and products for the financial year, c) 50 people - in the case of average annual employment converted into full-time jobs Poland applies the Article 39(3) exemption to undertakings whose sole activity is to act as issuers of securities.
PT	A committee inside the supervisory body of the audited entity provided that they have chosen a specific governance model Small and medium-sized undertakings are exempted from the obligation to have an audit committee, unless they are qualified as a PIE under Article 3, Annex to Law 148/2015
RO	Each PIE must have an audit committee. None of the options set out in Article 39(2) and (3) of the Audit Directive has been used.
SE	No obligation to appoint a stand-alone committee, and the audit committee can also be a committee of the administrative body or supervisory body of the audited entity. No exemption for SMEs undertakings from the obligation to have an audit committee.
SI	The audit committee is a supervisory board body and not a stand-alone body
SK	The audit committee can be established either as a stand-alone committee or a committee of the management body or a committee of the supervisory body. No exemptions for SMEs
NO	PIEs to have an audit committee Exemptions are provided if two of the below three criteria are fulfilled by undertakings: 1. “average number of employees is under 250 2. Balance below 300 million NOK (30 million EUR per exchange rate 15/04/2021) 3. Net turnover below 350 million NOK (35 million EUR per exchange rate 15/04/2021)

Table 27: Summary of use of international standards in the EU-27 and Norway

Under Article 28(1) of the Audit Directive, the audit report shall be prepared in accordance with the requirements of auditing standards, as defined in Article 26 of the Audit Directive. As the European Commission has not adopted any specific audit standards, Member States have the option to either apply international auditing standards or keep national standards. In addition, Article 26(5), first sentence, allows Member States to apply the auditing standards to small undertakings in a way that is proportionate to their scale and complexity

Auditing standards used in the Member States:

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
AT	Y, ISA 200 to ISA 810	Y, international standards are completed by national specifications ISA 210, ISA 250, ISA 700/705/706, ISA 600	N
BE	Y, through revised standard on application of ISA standards in Belgium (2018) ISA 200, ISA 210, ISA 230, ISA 240, ISA 250, ISA 265, ISA 300, ISA 402, ISA 450, ISA 500, ISA 505, ISA 510, ISA 520, ISA 540, ISA 550, ISA 560, ISA 580, ISA 600, ISA 620, ISA 710, ISA 800, ISA 805, ISA 810 Revised: ISA 260, ISA 315, ISA 570, ISA 610, ISA 700, ISA 705, ISA 706, ISA 720 New: ISA 701	Y, additional standard completing ISA standards applicable in Belgium (revised 2020)	Y, proportional application of standards to small undertakings’ audits
BG	Y, all international auditing standards, international quality control standards and other international standards issued by IAASB are applicable	N	N
CY	Y, all international auditing standards applicable on the date of effect of the CY law and International Standard on Quality Control (ISQC 1), and other related standards issued by IAASB	N	N

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
CZ	Y, ISA 200 to 810 and ISQC 1 + ISRE 2400, ISRE 2410, ISAE 3000, ISAE 3400, ISAE 3402, ISAE 3410, ISAE 3420, ISRS 4400, ISRS 4410, IAPN 1000	Y, Auditing Standard No. 52: Review of the management of territorial self-government units (which only applies to territorial self-government units, which are not considered PIEs under Czech law) and Auditing Standard No. 56: Verification of the relationship report (which is generally applicable)	N
DE	Y, ISA and ISAE standards with national 'add-ons'	Y, translation of IAASB international standards, with national 'add-ons'	N
DK	Y, in practice, international standards issued by IAASB are applied	Y	N
EE	Y, all ISA that are applicable for audits on or after 15 December 2016, which includes the new auditor's reporting standard[124]. ISA have to have been translated into Estonian to be legally in force	NS	N
EL	Y, ISA 200 to 810 translated and approved in Greece, and ISAE 3000	N	N
ES	Y, all international auditing standards, the international quality control standard and other international standards issued by the International Federation of Accountants through the International Auditing and Assurance Standards Council ISA 705, ISA 700	Y, international standards adapted to Spanish legislative requirements (ISA-ES) and national technical standards, e.g. a technical standard on auditing, on relationships between auditors (specific provisions for joint audits and succession of auditors); technical standard on auditing, on the requirements for auditors in relation to the financial statements presented in ESEF	N

[124] IFAC, https://www.ifac.org/about-ifac/membership/country/estonia

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
FI	Y, international auditing standards and good auditing practice	N	Y
FR	Y, but unclear which version	Y, CNCC and H3C develop national standards, based on ISAs	N, small undertakings below the EU threshold are no longer required to be audited
HR	Y, ISA, International Auditing Practice Note (IAPN), International Standards on Review Engagements, on Assurance Engagements and on Related Services, and International Standard on Quality Control: 2009 Handbook of International Standards on Auditing and Quality Control; 2008 Handbook of International Standards on Auditing, Assurance and Ethics Pronouncements; ISA 250 (revised 2016-2017); ISA 260 (revised 2015-2016); ISA 315 (revised), edition 2013; ISA 315 (revised 2019); ISA 540 (revised 2018); ISA 570 (revised), edition 2015-2016; ISA 610 (revised), edition 2013; ISA 700 (revised), edition 2015-2016; ISA 701 (revised), edition 2015-2016; ISA 705 (revised), edition 2015-2016; ISA 706 (revised), edition 2015-2016; ISA 720 (revised), edition 2015-2016; ISA 800 (revised), edition 2016-2017; ISA 805 (revised), edition 2016-2017; ISA 810 (revised), edition 2016-2017; ISAE 2400 revised, edition 2013; ISAE 3000 revised, edition 2016-2017; Code of Ethics for Professional Accountants (including International Independence Standards), Edition 2018; Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 (Revised), Edition 2020; International Standard on Related Services (ISRS) 4400 (revised), Edition 2020 (applies to agreed procedures engagements for which the terms of engagement are agreed on or after 1 January 2022)	N	Y, proportionate application of international standards to small undertakings legally subject to audit

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
HU	Y, IAS are adopted by the chamber of auditors. ISA 200, ISA 210, ISA 220, ISA 230, ISA 240, ISA 250, ISA 260, ISA 265, ISA 300, ISA 315, ISA 320, ISA 330, ISA 402, ISA 450, ISA 500, ISA 501, ISA 505, ISA 510, ISA 520, ISA 530, ISA 540, ISA 550, ISA 560, ISA 570, ISA 580, ISA 600, ISA 610, ISA 620, ISA 700, ISA 701, ISA 705, ISA 706, ISA 710, ISA 720, ISA 800, ISA 805, ISA 810 - ISQC1	Y, the Hungarian national audit standard (MNKS), which contains the national requirements on the audit process, the list of IAS applicable, audit report templates	N
IE	Y, Irish standards are based on standards issued by the UK Financial Reporting Council, which are based on international standards ISQC (Ireland) 1 (revised November 2020, ISA (Ireland) 200 (updated December 2018), ISA (Ireland) 210 (revised November 2020), ISA (Ireland) 220 (revised November 2020), ISA (Ireland) 230 (updated December 2018), ISA (Ireland) 240 (updated December 2018), ISA (Ireland) 250A (revised November 2020), ISA (Ireland) 250B (revised November 2020, ISA (Ireland) 260 (revised November 2020), ISA (Ireland) 265, ISA (Ireland) 300, ISA (Ireland) 315 (revised October 2020), ISA (Ireland) 320, ISA (Ireland) 330 (revised August 2018), ISA (Ireland) 402, ISA (Ireland) 450 (updated July 2017), ISA (Ireland) 500 (updated December 2018), ISA (Ireland) 501, ISA (Ireland) 505 (revised August 2018), ISA (Ireland) 510, ISA (Ireland) 520, ISA (Ireland) 530, ISA (Ireland) 540 (revised December 2018), ISA (Ireland) 550, ISA (Ireland) 560, ISA (Ireland) 570 (revised October 2019), ISA (Ireland) 580 (updated December 2018), ISA (Ireland) 600 Special Considerations (revised November 2020), ISA (Ireland) 610, ISA (Ireland) 620 (revised November 2020), ISA (Ireland) 700 (revised November	Y, supplementary requirements and guidance appropriate in the context of Irish legislation and business practice are added to the text of the international standards published in IE in shaded text. Requirements and procedures derived from the Audit Directive are noted D, R when derived from the Regulation And Ethical Standard for Auditors (Ireland) 2020 (based on the UK ethical standards, more restrictive than the IESBA Code)	Y, simplified and proportionate application of auditing standards to small undertakings' audits

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
	2020), ISA (Ireland) 701 (revised November 2020), ISA (Ireland) 705, ISA (Ireland) 706, ISA (Ireland) 710, ISA (Ireland) 720 (revised November 2020), ISA (Ireland) 800 and ISA (Ireland) 805		
IT	Y, Italian standards are based on ISA. The following ISA (Italia) standards have been adopted: ISQC (Italia) 1, ISA (Italia) 200, ISA (Italia)210, ISA (Italia) 220, ISA (Italia) 230, ISA (Italia) 240, ISA (Italia) 250, ISA (Italia) 260, ISA (Italia) 265, ISA (Italia) 300, ISA (Italia)315, ISA (Italia)320, ISA (Italia) 330, ISA (Italia) 402, ISA (Italia) 450, ISA (Italia) 500, ISA (Italia)501, ISA (Italia) 505, ISA (Italia) 510, ISA (Italia) 520, ISA (Italia) 530, ISA (Italia) 540, ISA (Italia) 550, ISA (Italia) 560, ISA (Italia) 570, ISA (Italia) 580, ISA (Italia) 600, ISA (Italia) 610, ISA (Italia) 620, ISA (Italia) 700, ISA (Italia) 701, ISA (Italia) 705, ISA (Italia) 720	Y, national auditing principles are developed, considering international auditing principles, by professional bodies and associations together with MEF and CONSOB. Two specific national standards have been also adopted: SA (Italia) 250B 'The checks on the regular keeping of the accounting books and records' and SA Italia 720B 'The responsibilities of the statutory auditor in relation to the management report and certain specific information contained in the report on corporate governance and ownership structure'	N[125]
LT	Y, all international standards on auditing and quality insurance are directly applicable, once translated by the Audit Authority. All ISA applicable in their 2016 version, and ISA 540 revised version 2018	N	N

[125] See explanations for IT.

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
LU	Y, the part ‘Introduction’, ‘Objective’, ‘Definitions’ and ‘Requirements’ of the ISA, as established by the IAASB, as published in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements - 2018 Edition are applicable, and Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements – 2018 Edition + code of ethics by the IESBA in its 2018 version	Y, in CSSF Regulation No 19-02 of 26 April 2019, Luxembourg adopted the IAASB standards (ISA 200-265, ISA 300-450, ISA 500-580, ISA 600, 610, 620; ISA 701,705, 706, 710 and 720) in an Annex I, and added supplements to auditing standards in Annex II	Y, proportionate application of the standards to the audit of small and medium-sized undertakings
LV	Y, Latvian Association of Certified Auditors has translated the 2016 ISA Handbook and a number of subsequently issued ISAs + ISQC 1	N	N
MT	Y, all international auditing standards are applicable	N	Y, proportionate application of the standards to the audit of small and medium-sized undertakings
NL	Y, 2018 Handbook applicable, including revised ISA 250 and 540 and ISA 800, 805 and 810; International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs) are used as bases for the preparation of the Further Regulations on Auditing and Other Standards	Y, in addition to ISAs, national standards are issued by NBA Netherlands on additional assurance engagements (standard 3810N - Assurance engagements relating to sustainability reports; standard 3850N - Assurance and other assignments relating to prospectuses, standard 4400N - Engagements to perform agreed specific work; and standard 5500N - Transaction-related advisory services)	N

Country	International auditing standards	National auditing standards	Simplified auditing standards for small undertakings or proportionate application of auditing standards
PL	Y, adoption of international standards through national standards drafted by the Polish Chamber of Statutory Auditors and approved by PANA. Last adoption in 2019. 2016-2017 IAASB Handbook adopted and ISA 250 (revised), ISA 260 (revised), ISA 315 (revised), ISA 570 (revised), ISA 610 (revised), ISA 700 (revised), ISA 705 (revised), ISA 706 (revised), ISA 720 (revised), ISA 800 (revised), ISA 805 (revised), ISA 810 (revised)	N	N, but according to the NCA, application of international standards already provides proportionality and scalability
PT	Pending EU adoption, all ISAs (including standards on auditing, quality control and other related standards issued by the IFAC) are directly applicable	N	N
RO	Y, statutory audits are to be carried out in compliance with ISA, as issued by the IAASB and translated by the Statutory Audit Public Oversight Authority	N, but possibility to issue national standards transposed	N
SE	Y, according to IFAC, FAR[126] issued and translated the 2016–2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements; ISAs are routinely translated and issued before the date of entry into force stipulated by IFAC	NS	N
SI	Y, directly applicable as issued by IAASB	N	N
SK	Y, directly applicable as issued by IAASB	N	Y
NO	Y, translated by the Auditing Standards Committee of the Norwegian Institute of Public Accountants without adds-on	N, but guidelines on application of ISAs	N

[126] The Institute for the accountancy profession in Sweden.

Table 28: Transposition and implementation of reporting requirements for audit of PIEs and non-PIEs[127]

MS / Art.	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
Content of the annual audit report for all types of undertakings under an audit obligation																												
Article 28(2) of the Audit Directive																												
28(2) a)	Y	Y	Y	Y	Y	P	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
28(2) b)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
28(2) c)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
28(2) d)	Y	Y	Y	Y	Y	P	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
28(2) e	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
28(2) f)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
28(2) g)	Y	Y	Y	Y	Y	Y	P (m)	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Pm	Y
Implementing measures for Article 28(2), first subparagraph																												
	Y[128]	Y[129]	Y		Y	N	Y	Y	N	Y [130]	N [131]	Y	Y	Y	Y	Y [132]	Y	Y	N	Y	Y	Y	Y	N	N	Y	N	Y
28(2) second sub-paragraph	Y	Y	N	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	N	N	N	N	Y	N	N	Y	N	N	N
Article 28(4) of the Audit Directive																												
28(4)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y
28(4), fourth sentence	N	N	N	Y	N	N	N	N	Y	N	N	N	Y	N	N	N	N	N	N	N	N	N	Y	Y	N	N	Y	N

127 N=not transposed, Y=transposed, N/S=not specified, N/A=not applicable, P=partial, P(m)=partial but minor, NI=information not identified: unclear
128 Austrian GAAPs and the 'Principles of proper reporting for audits of financial statements pursuant to §273 (1) UGB (Austrian Commercial Code)' published by the Institute of Austrian Auditors.
129 International standards
130 NIA-ES standards.
131 However, as clarified by the Finnish contact person, the audit report models issued by the auditors' association (*Suomen Tilintarkastajatry*) are widely followed.
132 International standards.

MS / Art.	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
Audit obligation under the Accounting Directive																												
34(1), second paragraph, a)	**Y**	**Y**	**Y**[133]	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**
34(1), second paragraph, b)	**Y**	**Y**[134]	**Y**	**Y**	**Y**	**N**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**
Type of assurance provided																												
	?[135]	**?**[136]	**?**[137]	**NI**	**L**	**NI**	**?**[138]	**?**[139]	**?**[140]	**?**[141]	**R**	**?**[142]	**NI**	**R**	**?**[143]	**R**	**R**	**?**[144]	**?**[145]	**?**	**?**[147]	**R**	**n/a**	**R**	**R**	**R**	**n/a**	**R**

[133] ISA 720 (revised) applicable.

[134] Transposed in the national standard and in the template report, not in law.

[135] National law requires an opinion and a statement, both of which are based on the work undertaken in the course of the audit, referred to in Article 34(1), second subparagraph, of Directive 2013/34/EU (in particular, opinion on (i) whether the management report is consistent with the financial statements for the same financial year, and (ii) whether the management report has been prepared in accordance with the applicable legal requirements).

[136] An opinion on whether the annual report is consistent with the annual accounts for the same financial year and has been prepared in accordance with Articles 3(5) and 3(6). If the statement of non-financial information required by Article 3(6)(4) is included in a separate report, the report of the auditors shall contain an opinion on whether that separate report contains the required information and is consistent with the financial statements for the same financial year.

[137] In the audit report, the auditors express: 1. whether the activity report corresponds to the financial statements for the same reporting period; 2. whether the activity report has been prepared in accordance with the applicable legal requirements and whether as a result of the auditors' knowledge and understanding of the enterprise's activity and the environment in which it operates, they have identified cases of material mis-statement in the activity report and indicate the nature of the misstatement

[138] As prescribed in Article 34(1), second sub-paragraph.

[139] As specified in international auditing standards.

[140] As specified in international auditing standards.

[141] NIA-ES 720 is applied and a reference is made to additional procedures that the auditor must carry out to issue an opinion on the content of the management report in relation to the legal provisions applicable to its preparation. It is stated in the note included in paragraph 15 of the standard that the auditor shall read the management report, shall contrast it with the requirements on content and presentation foreseen in the application legislation and shall consider the existence, where appropriate, of material mis-statements.

[142] The level of assurance is not the provision of assurance but the issuance of observations or lack of observations. The statutory auditor's duties are specified in the professional standard NEP 9510.

[143] In addition to the requirements set out in ISA 720 (International), ISA 720 (Ireland) requires that the audit firm or auditor obtain an understanding of the entity and its environment. Specifically, the auditor shall obtain an understanding of: (a) The legal and regulatory requirements applicable to the other statutory information; and (b) How the entity is complying with those legal and regulatory requirements. In addition, audit procedures are required to identify: (a) Any material inconsistencies between the other information and the financial statements; (b) Any material inconsistencies between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit; and (c) Whether the other statutory information appears to be materially mis-stated in the context of the auditor's understanding of the legal and regulatory requirements applicable to the that information.

[144] A positive statement in the audit report is required in accordance with Luxembourg accounting law on consistency with the financial statements and on preparation in accordance with applicable legal requirements. This is also stated in Luxembourg supplement to ISA 720 'Other information'.

[145] When providing their services, a sworn auditor is obliged to observe the requirements of professional ethics and independence. There is no specific reservation in the Audit Services Law that would determine the procedure for compliance with the independence requirement directly to provide an opinion on the management report.

[147] The auditor must assess whether the management report was prepared according to the requirements of the relevant parts of the Civil Code, whether it is consistent with the financial statements, and whether the management report, based on the understanding and knowledge of the entity and its environment obtained during the audit, is materially mis-stated. This is neither limited nor reasonable assurance.

MS / Art.	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
																				[146]			[148]				[149]	
Specific Audit obligation for PIEs																												
Audit obligation for the corporate governance statement of listed PIEs.																												
20(3)	P	P	Y [150]	Y	N	Y	P	Y	Y	Y	P	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Additional requirements for the audit report of PIEs																												
10(2), second sub-paragraph	N	N	N	N	Y	N	N	N	N	N	Y	Y	N	Y	N	N	N	N	Y	N	N	N	N	N	N	N	N	Y
Implementing measures on the content of the audit report of PIEs																												
	N	Y[151]	Y	Y	N [152]	Y	Y	Y	N	Y [153]	N	Y	Y	Y	Y	Y	N	Y	N	N	Y	N	Y	N	N	N	N	Y
Additional report to the Audit Committee																												
11(1), first sub-paragraph	N	Y	N	N	Y	Y	Y	N	N	N	Y	N/A	Y	Y	N	Y	Y	Y	N	N	N	Y	Y	N	N	N	N	Y
11(1), second sub-paragraph	N	Y	N	N	Y	N	N	N	N	N	N	Y	N	Y	Y	N	N	N	Y	N	N	Y	Y	N	N	N	N	N
11(2), second sub-paragraph	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	Y	N	Y	N	N	N	N	N	N	N	N	N	N	N

146 The obligations of the auditor on the management report are those required under ISA 720 – The auditor's responsibilities relating to other information.
148 Technically, the auditor does not issue a formal opinion on the management report, but only checks the agreement of the data included in the report.
149 No assurance is given on the management report (auditor only has to confirm that financial and non-financial information are included and consistent with the financial statements).
150 Stricter as applicable to credit institutions and insurers and reinsurers
151 Additional national standard
152 Apart from international standards
153 International and national auditing and technical standards

MS / Art.	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
Implementing measures on the content of the additional report to the audit committee																												
	Y[154]	**Y**[155]	**Y**	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**N/A**	**Y**	**N**	**N**	**N**	**N**	**N**	**Y**	**N**	**N**	**Y**	**N**	**N**	**N**	**N**	**N**	**N**

[154] Chamber of Auditors' expert opinion "Principles and issues regarding the additional report to the audit committee pursuant to Article 11 of Regulation (EU) No 537/2014", applicable since 17 June 2016

[155] Communication of the Belgian Audit Oversight Board "The Companies Code and the supplementary report to the audit committee - Main findings from audits of PIE audit firms and expectations of the College", April 2021

Table 29: Summary of additional requirements and legal missions under national law

Country	Additional reporting requirements		Additional legal missions
	Additional elements in the audit report	Additional audit process requirements	
AT	Y	Y	Y
BE	Y	N	Y
BG	N	Y	Y
CY	N	N	N
CZ	Y	Y	Y
DE	N	Y	Y
DK	Y	N	N
EE	Y	N	N
EL	N	N	Y
ES	Y	Y	Y
FI	Y	N	Y
FR	Y	N	Y
HR	Y	Y	Y
HU	Y	N	Y
IE	Y	Y	Y
IT	N	Y	Y
LT	Y	Y	Y
LU	N	N	N
LV	Y	N	N
MT	N	N	Y
NL	N	Y	N
PL	Y	Y	Y
PT	N	N	Y
RO	N	N	Y
SE	Y	N	Y
SI	N	Y	Y
SK	N	Y	Y
NO	Y	Y	Y

Table 30: Implementation of Article 5 of the Audit Regulation

Country	Prohibited services other than those listed in paragraph 1	Stricter rules in relation to other prohibited NAS (Article 5(4)	Derogation from the prohibition of certain tax services and valuation services						Implementing measures
			(a)(i) preparation of tax forms	(a) (iv) identification of public subsidies and tax incentives	(a) (v) support regarding tax inspections	(a) (vi) calculation of direct and indirect tax and deferred tax	(a) (vii) provision of tax advice	(f) valuative services	
AT	N	N	Y	Y	Y	Y	Y	Y	N
BE	N	N	Y	Y	Y	Y	Y	Y	N
BG	N	N	N	N	N	N	Y	N	N
CY	N	N	Y	Y	Y	Y	Y	Y	N
CZ	N	N	Y	Y	Y	Y	Y	Y	N
DE	N	N	Y	Y	Y	Y	Y	Y	N
DK	N	N	Y	Y	Y	Y	Y	Y	N
EE	N	N	Y	Y	Y	Y	Y	Y	N
EL	N	N	N	N	N	N	N	N	N
ES	N[156]	N	Y	Y	Y	Y	Y	Y	N
FI	N	N	Y	Y	Y	Y	Y	N	N
FR	Y	N	Y	Y	Y	Y	Y	Y	N
HR	N	N	Y	Y	Y	Y	Y	N	N
HU	N	N	Y	Y	Y	Y	Y	Y	N
IE	N	N	N	N	N	N	N	N	N
IT	N	N	N	N	N	N	N	N	N
LT	N	N	Y	Y	Y	Y	Y	Y	N
LU	N	N	Y	Y	Y	Y	Y	Y	N
LV	N	N	Y	Y	N	Y	Y	N	N
MT	N	N	Y	Y	Y	Y	Y	Y	N
NL	Y	Y	N	N	N	N	N	N	Y

156 ES transposition cross-references the Audit Regulation. In addition, the prohibition on NAS referred to in Article 5(1) of the Audit Regulation is extended to the family members of the key partner auditors with the particularities referred to in Article 18(2)(d) of the Law (on incompatibilities derived from situations that occur in relatives of the main responsible auditors), as well as to the persons referred to in Article 19 of the Law (on incompatibilities derived from situations involving persons or entities directly related to the account auditor or audit firm.)

Country	Prohibited services other than those listed in paragraph 1	Stricter rules in relation to other prohibited NAS (Article 5(4)	Derogation from the prohibition of certain tax services and valuation services						Implementing measures
			(a)(i) preparation of tax forms	(a) (iv) identification of public subsidies and tax incentives	(a) (v) support regarding tax inspections	(a) (vi) calculation of direct and indirect tax and deferred tax	(a) (vii) provision of tax advice	(f) valuative services	
PL	Y	N	N	Y	Y	Y	Y	N	N
PT	N	N	N	N	N	N	N	N	N
RO	N	N	Y	Y	Y	Y	Y	Y	N
SE	N	N	N	N	N	N	N	N	N
SI	N	Y	Y	Y	Y	Y	Y	Y	Y
SK	N	N	Y	Y	Y	Y	N	Y	N
NO	N	N	Y	Y	Y	Y	N	N	N

Table 31: Implementation of Article 4 of the Audit Regulation

Country	Exemption from the cap on fees for max. two years (Article 4(2), third paragraph	Stringer requirements for the cap on fees (Article 4(4))		Implementing measures on the cap on fees
		Option used (Y/N)	Implementing measures on stringer requirements	
AT	Y	Y	N	Y
BE	Y	N	N	Y
BG	N	N	N	N
CY	Y	N	N	N
CZ	N	N	N	N
DE	Y	Y[157]	Y	N
DK	Y	Y[158]	N	N
EE	N	N	N	N
EL	N	N	N	N
ES	Y	N	N	N
FI	Y	Y	Y	Y
FR	Y	N	N	N
HR	Y	N	N	N
HU	N	N	N	N
IE	Y	N	N	N
IT	N	N	N	N
LT	N	N	N	N
LU	Y	N	N	N
LV	Y	N	N	N
MT	Y	N	N	N
NL	N	N	N	N
PL	Y	N	N	Y
PT	N	N	N	N
RO	N	N	N	N
SE	Y	N	N	N
SI	N	N	N	N
SK	Y	N	N	N
NO	Y	N	N	N

157 Linked to the exemption: in DE, the exemption can only be granted for one year max and up to 140%.
158 Linked to the exemption: in DK, the exemption can only be granted for one year max.

Table 32: Mapping of requirements on appointment of statutory auditors or audit firms

Country	Alternative appointment procedures (Article 37(2) Audit Directive)	Implementation of Article 16 of the Audit Regulation	
		Mandatory joint audit (Article 16(7) Audit Regulation	nomination committee performing the functions of the audit committee (Article 16(8) Audit Regulation)
AT	N, however, judicial appointment possible[159]	N/A, option not used	N/A, option not used
BE	N, but there is an added requirement[160]	N/A, option not used	N/A, option not used
BG	N	Y, the financial audit must be carried out jointly by two audit firms for certain entities[161]	Y, where the audited entity has a nomination committee[162], such committee should submit the recommendation to the general meeting of shareholders of the audited entity
CY	Y, the statutory auditor or audit firm is appointed in two cases specified in law[163]	N/A, option not used	N/A, option not used
CZ	Y, if an entity has an obligation to have its financial statements audited. However, this does not apply if the entity is a natural person[164]	N/A, option not used	N/A, option not used
DE	N, with possibility to choose[165]	N/A, option not used	N/A, option not used

[159] In case of contestation of the choice of the auditor by shareholders representing at least 5% of the voting rights (or EUR 350,000 in nominal capital), or in case of late appointment, if the auditor has not been elected by the end of the financial year.
[160] The supervisory or administrative body must transmit the recommendation to the works council.
[161] Refers to the annual individual and consolidated statements of banks, insurers, reinsurers, insurance and financial holding companies, pension insurance companies and the funds managed by them.
[162] A nomination committee is a committee in which the shareholders or partners have a considerable influence; the committee has the task of making recommendations on auditor appointment.
[163] The statutory auditor or audit firm is appointed: (i) if the audited company is a partnership, by the majority of general partners, or (ii) if the audited entity is an entity with no shareholders or members, by the majority of the members of the Board of Directors or such other body, as provided for in the law governing the incorporation of the audited entity.
[164] The auditor shall be appointed by the entity's highest body. If it does not have the highest body, the auditor shall be appointed by the supervisory body, provided that the members of the supervisory body are not members of the management body. If an entity without legal personality is obliged to have financial statements verified by an auditor, the auditor shall be appointed by the manager (in case of a mutual fund or a sub-fund, or in case of a trust fund), the pension company (in case of a pension fund), or the person who established it in the case of an entity that is a branch. If none of the above rules apply, the entity shall appoint the auditor in a manner that is independent of the members of the management body of that audited entity.
[165] Companies with limited liability and general partnerships and limited partnerships may decide in their articles of association to choose the auditor differently.

Country	Alternative appointment procedures (Article 37(2) Audit Directive)	Implementation of Article 16 of the Audit Regulation	
		Mandatory joint audit (Article 16(7) Audit Regulation	nomination committee performing the functions of the audit committee (Article 16(8) Audit Regulation)
DK	N	N/A, option not used	Y, the nomination committee is allowed to perform the functions of the audit committee
EE	N	N/A, option not used	N/A, option not used
EL	N	N/A, option not used	N/A, option not used
ES	N	N/A, option not used	N/A, option not used
FI	N	Y, there is a requirement to appoint a deputy auditor, if the primary auditor is not an audit firm. However, specific legislation applying to certain PIEs requires that at least one of the auditors is a KHT auditor or an audit firm	Y, it is not required for limited liability companies to have an audit committee. In such cases, the tasks may be carried out by the Board or by another committee consisting of members of the Board
FR	N	Y, a minimum number of statutory auditors or audit firms is set[166]	N/A, option not used
HR	N	Y, PIEs which on average employ more than 5,000 employees or have assets exceeding HRK 5 billion must appoint at least two independent auditors	Y, an audit firm nomination committee (if it exists) takes the role of the audit committee in the appointment procedure
HU	N	N/A, option not used	N/A, option not used
IE	N	Y, the audit committee will justify and contain at least two choices for the audit engagement, with a preference for one stated in its recommendation to the directors; where the entity is exempt from the requirement for an audit committee, these provisions apply to the directors of the entity	N/A, option not used

166 The joint statutory audit is intended to strengthen the auditor's independence *vis-à-vis* the most important audited entities. The joint statutory auditor is neither a 'double' nor a 'shared' statutory auditor. The work is split between the auditors, but the responsibility is fully shared. Note that mandatory joint audit is not related to an entity being a PIE, but rather to the fact that an entity is legally required to established consolidated financial statements.

Country	Alternative appointment procedures (Article 37(2) Audit Directive)	Implementation of Article 16 of the Audit Regulation	
		Mandatory joint audit (Article 16(7) Audit Regulation	nomination committee performing the functions of the audit committee (Article 16(8) Audit Regulation)
IT	Y, but only in the cases of cooperative societies belonging to Federations, where the statutory audit is assigned to the Federation which appoints its statutory auditors	N/A, option not transposed	N/A, option not used
LT	N	N/A, option not used	N/A, option not used
LU	N	N/A, option not used	N/A, option not used
LV	N	N/A, option not used	N/A, option not used
MT	N	N/A, option not used	N/A, option not used
NL	N	N/A, option not used	N/A, option not used
PL	N	N/A, option not used	N/A, option not used
PT	N	N/A, option not used	N/A, option not used
RO	N	N/A, option not used	N/A, option not used
SE	N	N/A, option not transposed	N/A, option not used
SI	N	N/A, option not transposed	N/A, option not used

Country	Alternative appointment procedures (Article 37(2) Audit Directive)	Implementation of Article 16 of the Audit Regulation	
		Mandatory joint audit (Article 16(7) Audit Regulation	nomination committee performing the functions of the audit committee (Article 16(8) Audit Regulation)
SK	Y, in case the accounting entity does not have a general meeting, the system for the appointment of statutory auditors shall be prescribed by a separate regulation. The Ministry of Finance of the Slovak Republic is entitled to approve a statutory auditor/audit firm based on the proposal for an appointment[167]	N/A, option not used	N/A, option not used
NO	N	N/A, option not used	N/A, option not used

[167] Although the Export-Import Bank of the Slovak Republic does not meet a definition of a bank, it has been designated a PIE; in case the accounting entity does not have a general meeting, the system for the appointment of statutory auditors shall be prescribed by a separate regulation. The Ministry of Finance of the Slovak Republic is entitled to approve a statutory auditor/audit firm based on the proposal for an appointment, made by the Bank Board. Prior to the approval, the Supervisory Board is obliged to provide a statement on the proposal for an appointment that is based on a recommendation of the audit committee.

Table 33: Maximum and minimum pecuniary sanctions that can be imposed across countries

	Max. pecuniary sanction	Min. pecuniary sanction
AT	EUR 350,000	EUR 400
BE	EUR 2,500,000 or up to three times the amount of the gain or avoided loss obtained by the perpetrator	N/A
BG	**Natural persons**: approx. EUR 1,530 (BGN 3,000) **Legal entities:** approx. EUR 2,560 (BGN 5,000) Or up to 10% of the net sales revenues of the auditor In case of a repeated violations, the fine or financial sanction imposed is doubled	**Natural persons**: approx. EUR 150 (BGN 300) **Legal entities**: approx. EUR 255 (BGN 500)
CY	**Statutory auditor:** EUR 100,000 **Statutory audit firm**: EUR 1,000,000[168]	N/A
CZ	Approx. EUR 390,000 (CZK 10,000,000)	Approx. EUR 7,900 (CZK 200,000)
DE	EUR 500,000	EUR 1
DK	Approx. EUR 202,000 (DKK 1,500,000)	Approx. EUR 40,340 (DKK 300,000)
EE	**Natural persons**: EUR 6,400 **Legal entities:** EUR 32,000	EUR 200
EL	EUR 1,000,000	N/A
ES	**Individual auditors**: EUR 36,000 **Audit firms**: 3-6% of the fees invoiced for the account auditing activity in the last financial year **Persons who are not auditors**: EUR 60,000[169]	**Individual auditors**: EUR 6,000 **Audit firms**: EUR 6,000 **Persons who are not auditors**: EUR 6,000
FI	EUR 50,000	N/A
FR	**Natural persons**: EUR 250,000 **Legal persons**: EUR 1,000,000	N/A
HR	**Independent auditors**: approx. EUR 26,700 (HRK 200,000) **Audit firms**: approx. EUR 106,800 (HRK 800,000) PIEs: approx. EUR 106,800 (HRK 800,000) (penalties vary depending on the sector)	**Independent auditors**: approx. EUR 6,675 (HRK 50,000) **Audit firms**: approx. EUR 6,675 (HRK 50,000) **PIEs**: depends on the sector
HU	**Statutory auditors**: approx. EUR 287,105 (HUF 100,000,000) **Audit firms**: approx. EUR 1,435,400	**Statutory auditors:** approx. EUR 287 (HUF 100,000) **Audit firms**: approx. EUR 287 (HUF 100,000)

168 In case of repeated violation, the pecuniary fine for a statutory auditor to be imposed can be up to EUR 200,000 and for a statutory audit firm up to EUR 2,000,000.

169 When the imposition of a fine is the consequence of an audit of a PIE or the breach of the obligations imposed on those who are auditors of PIEs, the amount of the fine can be increased up to 20%. The minimum and maximum amounts shall be increased in the same proportion.

	Max. pecuniary sanction	Min. pecuniary sanction
	(HUF 500,000,000)	
IE	**Individual auditors**: EUR 100,000 **Audit firms**: EUR 100,000, multiplied by the number of statutory auditors in the firm at the time of the contravention	N/A
IT	EUR 500,000	EUR 10,000
LT	EUR 100,000	EUR 1
LU	**Natural persons**: EUR 50,0000 **Legal persons**: EUR 1,000,000	N/A
LV	EUR 14,200	N/A
MT	EUR 60,000	EUR 23,29
NL	EUR 4,000,000	EUR 0
PL	Approx. EUR 110 900 (PLN 500 000)	N/A
PT	EUR 5,000,000	EUR 2,500
RO	One-sixth of the gross minimum wage or 2.5% of annual revenue	Two-sixths of the gross minimum wage or 0.5% of annual revenue
SE	**Natural persons**: approx. EUR 49,000 (SEK 500,000) **Legal persons**: approx. EUR 980,487 (SEK 10,000,000) or 1% of the turnover of the last preceding year or an equivalent estimate where the legal person has not yet been operating for a full year	Approx. EUR 490 (SEK 5,000)
SI	**Statutory auditors**: EUR 10,000 **Audit firms:** EUR 250,000	**Statutory auditors**: EUR 2,500 **Audit firms:** EUR 10,000
SK	**Natural persons**: EUR 10,000 **Legal entities**: EUR 30,000	N/A
NO	**Natural persons**: approx. EUR 486,819 (NOK 5,000,000) **Legal persons:** approx. EUR 973,638 (NOK 10,000,000)	N/A

Table 34: Overview of the sanctions transposed, by country

Article / MS	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
Notice to cease conduct	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public statement	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N	✓	✓	✓
Prohibition on carrying out audits/signing reports	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Declaration	✓	✓	✓	✓	N	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N	✓	N	✓	✓	✓	✓	✓
Temporary ban from exercising functions	✓	✓	✓	✓	✓	N	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N	✓	✓	✓	✓	✓	✓	✓	✓
Pecuniary sanctions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other sanctions	N	✓	N	✓	N	✓	✓	N	N	✓	N	✓	✓	✓	✓	✓	✓	✓	N	N	N	✓	✓	N	✓	✓	✓	N

Table 35: Option to publish anonymised sanctions

Member State / Article	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	NO
Online publication of the sanctions	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Anonymised sanctions	✓	✓	✓	[170]		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓

Table 36: Level of cooperation during investigations

CY[171]	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
Level and quality of cooperation of statutory auditors and audit firms during investigations (low-medium-high)												
N/A	Medium	High	High	Medium	High	High	Medium	Medium	Medium	High	Not indicated	High
Main issues identified												
N/A	In one case refusal to submit required documentation	In some cases, there are delays in the provision of documents or in the requested	No issues identified	Sometimes excessively long delays in obtaining the voluntary handing over of audit files held by firms; restrictions on access to	No issue with access to information	No issues identified	Submission of requested documents with a reasonable delay; submission of comprehen	Audit firms submit requested information in some cases later than requested;	None	None	None	None

[170] No provision directly transposing this possibility was identified in the national law, but the Cyprus Audit Oversight Board website does not contain any information on sanctions.
[171] No questionnaire available.

CY[171]	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
		comments		electronic audit files, which can only be read and used on computers equipped with audit software owned by the BIG by the investigators and, subsequently, by the members of the judging panels, who are not trained to use this software			sive answers/ explanations	Assertions of legal privilege of specific information and/or assertions about non-disclosure provisions stemming from other supervisory activities (for instance competition law).				

Table 37: Confidential information and specific communication channels

CY [172]	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
Treatment of confidential information received or sent from/to other EU authorities												
N/A	Most shared materials (regarding enforcement) do not contain confidential information	All information is handled confidentially, no special protection is required	It is treated confidentially	Information is exchanged with counterparts via encrypted media that require a password to open[173]	Encrypted email	All information is bounded by official secrecy, except in the cases set out by law for investigations relating to breaches punishable by law[174]	The management of confidential information, within AVNT is specified in the internal regulation	The information received from other EU authorities receives the same confidential treatment as any other confidential information received	Duty of confidentiality established under national law[175]	Through a secured email address, which is accessed only by the staff involved in the processing of that information. All staff involved in processing	Handled on a case-by-case basis	-

[172] No questionnaire available.

[173] These materials are sent with a system for tracking the envelope and its receipt. The password is transmitted a few days later in a second shipment using the same procedure. The information received is processed solely in the context of the survey for which it was requested. If it is not useful for the investigation, it is not included in the file of the procedure.

[174] The duty of professional secrecy provided by national legislation preserve the confidentiality of information exchanged in the context of cooperation with authorities of other Member States. CONSOB employees, as well as consultants and experts working at CONSOB, are bound by professional secrecy. All information obtained by CONSOB through international cooperation is bounded by official secrecy and, except in the cases set out by law for investigations relating to breaches punishable by law, cannot be transmitted to third parties or to other Italian authorities without the consent of the authority that provided them (Article 4(4) and (10), Legislative Decree No 58/98). The violation of professional secrecy is subject to criminal sanctions. CONSOB uses an automatic encryption system to ensure the confidentiality of information transmitted via email in the context of international cooperation.

[175] The employees of the Agency and persons working for the Agency are bound by a duty of confidentiality, which covers any and all information or documents obtained or developed in connection with the exercising of public oversight. It is expected, however, that the inquiries addressed to PANA will fulfil all of the following requirements a) Should be submitted to the Agency either in the form of an original document in writing by a hard copy with a handwritten signature of a person authorised to represent the NCA, or as an original electronic document containing a qualified secure electronic signature of a person authorised to represent the NCA; b) If the manner of representation of the entity cannot be verified by the Agency through access to a public register, then an appropriate document must be delivered showing the authorisation to represent the entity. If the notification is signed by a duly authorised representative/authorised person, then the power of attorney/authorisation must be attached; c) It is necessary for the NCA to precisely indicate what cooperation between PANA and applicant authority is to take place, which tasks and from what exact legal bases, including the provision of information covered by the obligation of confidentiality.

CY 172	CZ	DE	ES	FR	IE	IT	LT	NL	PL	RO	SE	NO
								from audit firms, regulators or from other sources		such information have signed a confidentiality agreement with ASPAAS		
Specific communication channels in place to exchange such confidential information												
N/A	Wiki	Secure platforms or with the guarantee of encryption.	No specific channel	-	-	Automatic encryption system to ensure the confidentiality of information transmitted via e-mail in the context of international cooperation	No specific channel	-	No specific channel	No specific channel	No specific channel	-

Table 38: Views of NCAs on the impacts of the reform on the administrative budget and necessary financial and human resources to ensure enforcement of the audit reform

MS	Impacts of the reform on the administrative budget and necessary financial and human resources to ensure enforcement of the audit reform
CY	No questionnaire available
CZ	Due to the new competences of PAOB within a sanction area, the need for experienced staff (in legal and audit) is greater
DE	The reform took into account the expanded catalogue of tasks of the public oversight APAS, which was newly established in 2016, and adjusted the financial resources accordingly. The financing of the work of the auditor oversight is ensured by a hybrid model. Approximately 70% of the financing is provided by fees and 30% by taxes. Staffing levels will only be adequate for the purposes of the audit reform if they are also able to cover acute, ad hoc needs for action. Recruiting well-trained staff whose background and experience enable them to analyse and critically scrutinise the work of PIE firms has always been a challenge
ES	The enforcement of the audit reform requires proper human and financial resources. These resources should be increased according to the budget forecast included in the file for the approval of the Spanish Audit Law
FR	In the area of investigations, the impact has been significant as the H3C reorganised its activities to set up a new investigations department. It was necessary to recruit experienced - therefore more expensive - legal and auditing staff. There are not enough staff to deal with all the investigation cases received
IE	Probable future needs to increase staff for enforcement
IT	Following the new provisions of the audit reform and the assignment of new tasks to the supervisory authorities, the resources required for the performance of the supervisory activity has increased. In the case of human resources, they must have specific qualifications and skills. In addition, the needs arising from the use of new technologies and related developments in the financial field (Fintech) will require the recruitment of new, skilled staff
LT	Due to increased requirements and oversight activity, financial and human resources are not sufficient. Direct impact of the reform on the increased administrative budget as well
NL	It is difficult to specifically determine the impacts from the reform on the AFM's budget, which is driven by many factors, or on the budget for the Audit and Reporting Quality Division, which is responsible for financial reporting surveillance and for audit oversight. Resources are being significantly expanded as the non-PIE oversight will fully executed by the AFM's. A budget is agreed that should allow the AFM to fulfil its duties
PL	The Department of Disciplinary, Administrative and Legal Service has 17 employees (director, deputy director (attorney-at-law), statutory auditor - analyst, two attorneys at-law for legal assistance, 11 employees for disciplinary and administrative proceedings, legislator). Human resources are currently sufficient
RO	ASPAAS applies the sanctions through the Disciplinary Commission (CD), which consists of members with legal or economic backgrounds and long experience, representing National Bank of Romania (BNR), Financial Supervisory Authority (ASF), Ministry of Finance (MF) and ASPAAS. ASPAAS fulfils the objective on investigations through the same staff who perform the inspections, trained in the economic field, with experience in statutory audit, but who do not carry out financial audit activity. ASPAAS faces a shortage of staff among inspectors. The financing of ASPAAS is secure, being

	required by law, and sufficient, as the budget of the institution is prepared in line with planned activities
SE	Necessary financial and human resources to ensure enforcement of the audit reform are guaranteed
NO	No increase in workload is foreseen

10.2. Annex II: Details of the analysis of audit fees

This annex provides supporting evidence for Part 9. It provides detailed analysis of:

- Description of the data;
- Analysis of means;
- Regression analysis.

10.3. Description of the data

As described in Part 9, the main variable of analysis was D_AFEES, defined as the percentage change of audit fees from 2015 to 2018[176]. Preliminary analysis of this variable revealed a huge dispersion, with values ranging from a minimum of -98% to a maximum of 19,900%. 1% of the observations were below -68% and 1% above 678% (as shown by the percentiles 1% and 99%, Table 39).

Table 39: Distribution statistics of D_AFEES (total audit fees % increase 2015-2018)

Statistics	Observations
Percentiles	**Four smallest observations**
1% -68.3	-99
5% -44.4	-98
10% -28.2	-95
25% -6.5	-90
50% 11.3	**Four largest observations**
75% 49.7	2,700
90% 124.2	4,745
95% 233.0	16,139
99% 675.3	19,900
Average: 56.1	**Total observations:** 3,614
Median: 11.3	
Std Dev.: 455.1	

Source: Europe Economics Analysis,

The disparity can be attributed to some PIEs with very small audit fees in 2015 but high fees in 2018 (few entities with audit fees in the order of thousands or tens of thousands of euro in 2015 incurred fees in the order of hundreds of thousands of euro in 2018). Although these are all potentially legitimate values, it is very likely that they severely influenced the results. Accordingly, separate analyses were undertaken, excluding those PIEs in the top and bottom 1% of the distribution of D_AFEES (i.e. excluding those observations below -68% and above 678%).

The ‘extremeness’ in D_AFEES was further examined by analysing any differences in the distribution according to other characteristics of the sample. One potentially relevant characteristic was the size of the audit fees in 2015 (the underlying presumption is that most of the extreme values of D_AFEES would occur due to an original small audit fee value in 2015). The analysis therefore looked at distribution statistics according to three fee groups: group 1 contains PIEs that paid fees under EUR 100,000 in 2015 (49%); group 2 those that paid between EUR 100,000 and EUR 500,000 (30%); and group 3 those that paid above EUR 500,000 (21%) (Table 40).

[176] For each PIE *i* and audit fees paid in 2015 and 2018 (respectively denoted as $AUDIT_{i,2015}$ and $AUDIT_{i,2018}$), the percentage 2015-2018 difference is defined as $D\_AUDIT_i = 100 * [(AUDIT_{i,2018} - AUDIT_{i,2015}) / AUDIT_{i,2015}]$.

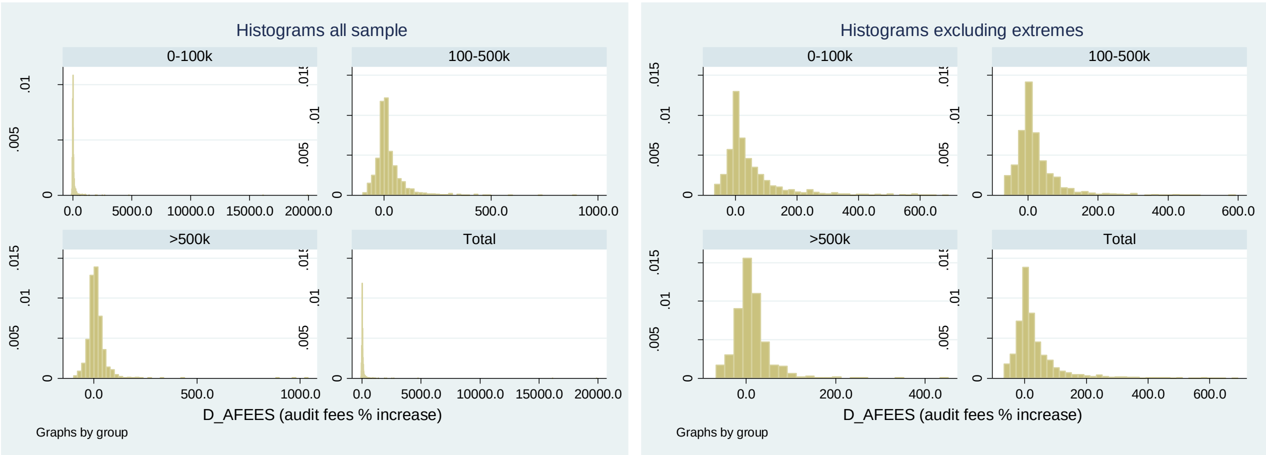
Table 40: Distribution of PIEs, by group 1 (0-100k), group 2 (100-500k), group 3 (>500k)

group	Freq.	Percent	Cum.
0-100k	1,782	49.31	49.31
100-500k	1,078	29.83	79.14
>500k	754	20.86	100.00
Total	3,614	100.00	

Source: Europe Economics Analysis,

The fee group split worked well in explaining the dispersion observed in the variable D_AFEES: the majority of extreme values occurred in fee group 1, which also contained the most extreme values. Groups 2 and 3 contained fewer extremes and had distributions with frequencies more concentrated around the mean of the variable (Figure 105, left). Not surprisingly, the distribution in all fee groups showed a smaller dispersion when all values below -68% and above 678% were excluded (top and bottom 1% of the distribution). This happened for each of the groups and for all grouped observations (Total), in Figure 105, right.

Figure 105: Distribution of D_AFEES: histograms by PIE fee groups (all sample and reduced)



Source: Europe Economics Analysis,

10.4. Analysis of means

Different analyses were undertaken, all of which used D_AFEES as the dependent variable. As the purpose was to investigate any observed changes following different type of rotations undertaken by firms (single-audited firms to another single auditor or single-audited firms to a joint audit), the average of D_AFEES for those different categories of firms was analysed separately.

Of particular relevance were categories that separated PIEs that changed from a single auditor to another single auditor (category 1: Change-Single-Single), those changing from a single to a joint auditor (category 2: Change-Single-Joint), in comparison to those PIEs that did not change their auditors (category 0: No change). For completeness, an additional category (category 3: Other change) was reported, which includes those firms that switched from a joint to a single audit and those switching from a joint audit to a different joint audit.

The sample breakdown of these categories shows a majority of PIEs in category 0: No change (2,592, 71.7%), followed by category 2: Change-Single-Single (530 firms, 14.7%). There were fewer observations in each of the remaining categories (category 2: Change-Single-Joint and category 3:

Other change, see last column in Table 41). The differences across the three fee groups are also presented in Table 41.

Table 41: Firms across categories and fee groups

	0-100k	100-500k	>500k	Total
0 No change	1,376	717	499	2,592
1 Change-Single-Single	234	182	114	530
2 Change-Single-Joint	63	44	26	133
3 Other change	109	135	115	359
Total	1,782	1,078	754	3,614

Source: Europe Economics Analysis,

The change in audit fees (D_AFEES) according to the different categories showed an average of 42 for those PIEs that did not change auditor between 2015 and 2018, lower than any other category in the sample: an average change of fees of 79.7 was observed for those who changed auditor (Change-Single-Single) and 125.6 for those that used a joint auditor (Change-Single-Joint, last column in Table 42). This suggests that those firms that changed their auditor paid higher fees compared to those that did not change. However, the averages obtained were very much influenced by the dispersion observed in the data, and in particular by the distribution across the fee groups. Hence, when looking at the average of D_AFEES by fee group, there was a noticeable reduction when comparing category 0 (No change) with category 1 (Change-Single-Single, Table 42) for all fee groups except group 1. This recurred throughout the analyses presented below.

Table 42: Average D_AFEES, by category and fee group (all sample)

	group			
	0-100k	100-500k	>500k	Total
0 No change	60.0	27.2	16.0	42.4
1 Change-Single-Single	166.9	11.6	9.5	79.7
2 Change-Single-Joint	185.2	59.4	93.2	125.6
3 Other change	291.9	12.4	1.7	93.8
Total	92.6	24.0	15.5	56.1

Source: Europe Economics Analysis,

The influence of the extreme values was evident when a similar analysis excluded the top and bottom 1% of the sample. The means reduced significantly when excluding the extreme values for most groups, with the most noticeable reduction in group 1 (Table 43). In all cases, changing to a joint audit (category 2: Change-Single-Joint) increased the audit fees in comparison to those firms that did not change their auditors (category 0: No change): the average audit fees increased by 117.1, 62.6, 56.0 and 86.6 in cases where firms undertook joint audits, compared to 49.2, 26.2, 14.7, and 36.1 when no change in auditors was made (Table 43).

Table 43: Average D_AFEES, by category and fee group (reduced sample)

	group			
	0-100k	100-500k	>500k	Total
0 No change	49.2	26.2	14.7	36.1
1 Change-Single-Single	58.8	14.8	2.3	31.4
2 Change-Single-Joint	117.1	62.6	56.0	86.6
3 Other change	57.9	13.8	6.1	24.3
Total	53.2	24.2	13.0	36.1

Source: Europe Economics Analysis,

10.5. Regression analysis

The analysis was extended by using a regression model to see the interaction of different variables in the results. The proposed model included D_AFEES as a dependent variable, and dummy variables to account for each of the category changes to be tested. These were:

- **d1_change_single_joint:** equal to 1 if the PIE changed from single to joint audit between 2015 and 2018, and 0 otherwise;
- **d1_change_single_single:** equal to 1 if the PIE changed from single auditor to a different single auditor between 2015 and 2018, and 0 otherwise;
- **d1_change_other:** equal to 1 if the PIE made any other change in its auditors between 2015 and 2018 (this included those firms that changed from a joint to a single audit or those that changed from a joint audit to a different joint audit), and 0 otherwise.

The model to be tested therefore included D_AFEES, d1_change_single_joint, d1_change_single_single, d1_change_other and a constant term (to avoid perfect collinearity, the model explicitly excluded a dummy for PIEs that did not change their auditors between 2015 and 2018: the fixed effects of this group were estimated with the constant term).

Given the huge disparity in the data, in particular, the differences previously found for different fee groups (see Table 42), a different coefficient (constant and slopes) was allowed for each of those fee groups[177]. The results of this very first extended model showed two interesting findings (detailed results not shown):

- Large differences in the estimates obtained for group 1 (reflected in the constant and slope parameters) and the parameters for groups 2 and 3;
- Similar values (and in fact not significantly different) for the pairs of parameters for groups 2 and 3[178].

Two separate models were estimated: for PIEs in group 1 (audit fees between EUR 0 and EUR 100,000 in 2015) and for PIEs in groups 2 and 3 (audit fees of more than EUR 100,000 in 2015).

[177] Included a different dummy variable to allow a different constant for the different groups:
• d1_group_100: equal to 1 if the PIE was one of group 2 (paid audit fees between EUR 100,000 and EUR 500,000 in 2015), and 0 otherwise.
• d1_group_500: equal to 1 if the PIE was one of group 3 (paid audit fees above EUR 500,000 in 2015), and 0 otherwise.
Also included different dummy variables to allow a different slope for the different groups. Hence, d1_change_single_joint_100 denoted the interaction of d1_group_100 and d1_change_single_joint; and d1_change_single_joint_500 denoted the interaction of d1_group_500 and d1_change_single_joint. The analysis proceeded similarly for the remaining parameters: d1_change_single_single_100, 1_change_single_single_500, d1_change_other_100 and d1_change_other_500.

[178] T-tests were unable to reject the hypotheses of statistically significant differences for the pairs {d1_change_single_joint_100, d1_change_single_joint_500}; {d1_change_single_single_100, 1_change_single_single_500}; and {d1_change_other_100, d1_change_other_500}.

The results for group 1 showed a significant coefficient (at a 5% level of significance) for the dummy coefficient for Change-single-single when using the whole sample. The coefficient was positive, indicating that the increase in audit fees (2015-2018) was higher for those firms that changed from a single to another single auditor, compared to those that did not change. Given the disparity in D_AFEES observed for that group of PIEs, the same model was estimated, excluding the upper and lower 1% D_AFEES observations. The results changed substantially, showing an insignificant coefficient for the dummy Change-single-single (and also for the coefficient capturing the other changes: Other change). For robustness, the same model was estimated with a further reduced sample, excluding the upper and lower 5%, and excluding the upper and lower 10% of the observations. All cases consistently showed insignificant coefficients for the dummies of Change-single-single and Other change. The dummy coefficient for those that changed from a single to a joint audit (Change-single-joint) was positive and significant in all specifications, except where it included the whole sample (Table 44).

Table 44: Estimates for different categories of change (PIEs with audit fees EUR 0-100,000 in 2015)

	(1) All sample	(2) Excl. top-bot 1%	(3) Excl. top-bot 5%	(4) Excl. top-bot 10%
Change single-single (dummy)	107.0*	9.629	-0.159	-0.490
	(2.37)	(1.31)	(-0.04)	(-0.17)
Change single-joint (dummy)	125.2	67.91***	45.35***	30.82***
	(1.52)	(4.98)	(5.95)	(5.13)
Change other (dummy)	232.0***	8.714	0.363	0.460
	(3.65)	(0.82)	(0.06)	(0.10)
Constant	59.95***	49.18***	32.40***	24.28***
	(3.48)	(17.67)	(21.71)	(23.46)
Observations	1782	1741	1568	1360
F	6.234	8.636	11.90	8.844

t statistics in parentheses.
* p<0.05, ** p<0.01, *** p<0.001.
Source: Europe Economics Analysis,

The results for groups 2 and 3 (spending more than EUR 100,000 in fees in 2015) showed significant coefficients for all dummy variables: Change-single-joint, Change-single-single and Other change. The significance of the coefficient was robust to different model specifications, although the magnitude reduced with the sample used. The results show the following (Table 45):

- PIEs that did not change their auditors experienced, on average, a 22.59% increase in the audit fees from 2015 to 2018 (indicated by the constant term;
- PIEs that changed a single auditor for another single auditor experienced a 10.77% increase in fees over the same period (-11.82% compared to those that did not change, as indicated by the Change-single-single dummy);
- PIEs that moved from a single to a joint audit experienced an increase in audit fees. On average this was 49.37% more than those that did not change. The coefficient for this variable changed significantly across specifications and, although it is very likely that those joint audits resulted in higher fees, the magnitude is less certain (different specifications were subject to a great disparity in the samples used and gave coefficients in the range of 49.37% to 22.73% higher than the constant term);
- The coefficient capturing the differences in groups that changed their auditors in other ways also showed a negative coefficient. This was consistent across different model specifications.

Table 45: Estimates for different categories of changes (PIEs paying audit fees of more than EUR 100,000 in 2015)

	(1) All sample	(2) Excl. top-bot 1%	(3) Excl. top-bot 5%	(4) Excl. top-bot 10%
Change single-single (dummy)	-11.82*	-11.51**	-9.293***	-6.459**
	(-2.41)	(-2.96)	(-3.32)	(-2.89)
Change single-joint (dummy)	49.37***	38.75***	27.05***	22.73***
	(5.32)	(5.25)	(4.99)	(5.42)
Change other (dummy)	-15.11**	-11.15**	-5.904*	-4.737*
	(-2.88)	(-2.67)	(-1.98)	(-2.09)
Constant	22.59***	21.44***	19.08***	17.25***
	(10.43)	(12.55)	(15.93)	(19.06)
Observations	1832	1800	1687	1529
F	15.25	15.57	14.26	15.02

t statistics in parentheses.

* p<0.05, ** p<0.01, *** p<0.001.

Source: Europe Economics Analysis,

10.6. Overview of stakeholders contacted

Scoping phase	Mapping of legal requirements	Data and analysis of systems of investigations and sanctions	Data analysis of reporting requirements for statutory auditors/audit firms	Data analysis of reporting requirements for statutory auditors/audit firms reporting to audit committees	Analysis of requirements related to mandatory rotation, use of joint audits, and fee caps	Analysis of audit fees
Interviews • EcoDa • InsuranceEurope • BusinessEurope • Committee of European Auditing Oversight Bodies • European Securities and Markets Authority (ESMA) • Federation of European Accountants (Accountancy Europe) • European Federation of Accountants and Auditors for small and medium-sized enterprises (EFAA) • European Contact Group (ECG)	**Written questionnaire** EU-27 and NO competent authorities as part of the CEAOB CY, EE, HR did not provide some responses	**Written questionnaire focusing on a sample of 13 countries** Competent authorities as part of the CEAOB from CY, CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO No response from CY **Written questionnaire targeting EU associations (Accountancy Europe, EFAA for SMEs and the ECG representing Deloitte, Ernst and**	**Interviews and written questionnaires** Audit committee representatives from AT, BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, HR, IE, IT, LT, LU, MT, NL, PL, PT, RO, SE, SI Big Four and non-Big Four auditors and users from AT, CZ, DE, EL, ES, FR, IE, IT, LT, LV, NL, PL, RO, SE, NO and EU	More than 1,750 PIEs (listed companies, banks and insurance companies) in the EU-27 and NO were contacted to participate in the study. In total, representatives of 138 audit committees or 8% of the contacted PIEs participated in the compliance assessment	**Interviews and written questionnaires** Audit committee representatives from AT, BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, HR, IE, IT, LT, LU, MT, NL, PL, PT, RO, SE, SI Big Four and non-Big Four auditors from CZ, DE, ES, FR, IE, IT, LT, NL, PL, RO, SE and NO No response from auditors in CY	**Not applicable**

• European Audit Committee Leadership Network (tapestry network) **Contacted but no interview carried out:** • European Investors Association • European Federation of Investors and Financial Services Users (Better Finance) • European Fund and asset management Association (EFAMA) • Invest Europe • Alternative Investment Management Association (AIMA)		**Young, KPMG, BDO, Grant Thornton and PwC), and national associations of auditors in a sample of 13 countries** Feedback was received from Accountancy Europe and their members in 12 countries and from a representative of one of the Big Four. No feedback received from auditors in PL				

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