

## **Study on the Audit Directive and Regulation - List of questions for EGIAN Members**

### **ANSWERS BY THE MEMBERS OF GGI PRACTICE GROUP AUDITING REPORTING AND COMPLIANCE**

#### **AFTER AN INTERNAL SURVEY AND A PRACTICE GROUP MEETING**

#### **GGI – A WORLDWIDE ALLIANCE OF INDEPENDENT FIRMS**

Q1. What is your general view on the Audit reform operated in 2014?

A1. Market concentration has not decreased. Joint audits have not really arisen. The rotation happens mostly between Big4s, not really with mid-tiers. The rotation period is too long. Too less attention to the SMEs where things are not the same. On the contrary, the reform about the PIEs, despite its lack of success in terms of market concentration, has created an appeal for rotation also with SMEs, while this is not a need there.

Q2. Did the quality of statutory audit work provided by auditors improved in your view?

A2. For PIEs, no, according to the vast majority of our respondents - see “wirecard” in particular. For SMEs, it has increased competition and decreased prices in several countries.

Q3. Has the independence of the statutory auditor or audit firm increased, and if so which provision(s) was(were) the key reason?

A3. This is a never ending process. But the limitation of non audit services has contributed to more independence.

Q4. Has the level of competition in the market improved, and if so which provisions were the key reasons? What are the main current challenges for audit firms regarding access to the EU market, and in particular the market for PIEs audits?

A4. Some mid-tier firms have increased their level of expertise. But the markets, and even most of the governments (when they are buying audits) and of the supervisory authorities, still overvalue Big4s.

Q5. Are there, in your opinion, issues that arose as a result of the Reform?

A5. Too much time dedicated to non-central issues: over-documenting the audit, answering to the supervisory authorities... Focus should go rather to motivated professional judgment.

Q6. What are the main positive impacts of the reform in your view?

A6. They are very little. Some attention has been dedicated to the question of the concentration of the market, even if the concentration is still there.

Q7. Is the level of guidance from EU institutions and national authorities sufficient to ensure correct and harmonized implementation of the Audit Reform in your view?

A7. Yes.

Q8. Has the Reform in your view lead to an improvement in the transparency and usefulness of the information available to the investors and oversight authorities?

A8. The majority of our respondents do answer: no.

Q9. What are the impacts of the new requirements regarding the appointment of auditors for PIEs for mid-tier audit firms? What are the main challenges experienced by mid-tier audit firms in participating in calls for tenders for the audit of PIEs?

A9. The impacts are disappointing. Mid-tier firms are not considered by the financial markets, governments (as auditees), etc., as good alternatives to the Big4s, with their own merits, like a deeper involvement of the signing partner.

Q10. What are the biggest challenges/impacts for auditors in the implementation of the mandatory rotation system?

A10. The rotation is too slow, the maximum period is too long. The audit prices are too low and the cost of the first year of an audit is too high. Clients are reluctant to change of auditor. The accounting frameworks, especially IFRS, are so complex that in fact they favor Big4s: these, because of their size, can allocate more financial and human means in view of developing expertise on the accounting frameworks.

Q11. In your view, have the requirements (rotation, non-audit services, fee cap and appointment of auditor) affected the quality of statutory audit work? 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)

A11. Should be, but in fact is not – see Wirecard. A really shorter rotation period *for PIEs* would however favor the quality of work, since new auditors will have to review the previous audit work. About the appointment of different auditors for the entities within a group, it would help, but the draft new ISA 600 will again favor

Big4s, very often chosen as the auditor of (listed) groups, by reducing the role of components auditors, who currently are possibly coming from outside the Big4s world.

Q12. What could be improved in your opinion to enhance the quality and usefulness of audit reports and committee reports?

A12. Increased audit fees. Simpler audit reports.

Q13. Did the audit requirements lead to any significant increase of the costs for the companies (internal and external auditor costs) or for the auditors? If so, which and what are the drivers of the increase in costs?

A13. Change always leads to increased costs. But the audit market does not accept this.

Q14. What new requirements had the most important impact on costs, and how are the costs distributed among the different requirements (mandatory rotation and appointment of auditors via tender procedures and joint audits where applicable)?

A14. Increasing costs should be accepted when increased quality comes with them.

Q15. To what extent would the costs also be these without the audit reform (trends and own initiatives)?

A15. Increased costs come with the more and more complex economic world, but decreased prices come with an aging audit industry, creating too little innovation.

Q16. What type of sanctions are mostly used against statutory auditors and audit firms?

A16. Fines.

Q17. In your opinion, are the national regimes of supervision, investigation and sanctions of statutory auditors able to ensure fair competition in the audit market? Did the strengthened provisions on supervision and sanctions in the Directive lead to specific issues? Would you recommend any changes?

A17. Sanctions and punishment can favor fair competition. But fair prices (i.e. increased prices) would favor innovation and quality.

Q18. Which further changes would you recommend in order to enhance audit quality and/or the auditors' independence, e.g. scope of the audit (ISC), further tightening on prohibition of NAS, joint audits, quicker rotation, enhancement of the audit committee's role...

A18. It would help if we can come up with:

- an appointment of the auditor for a reasonable period (not on a year-by-year basis);
- some sort of standard on how we can use AI across the profession;
- clearer standards on non-audit services;
- more independence from the profession at the level of IESBA but more connections with the profession at the level of IAASB, with a real (and majority) participation of mid-tier firms.