

# Statutory audit of public-interest entities: specific requirements

2011/0359(COD) - 07/09/2017 - Follow-up document

The Commission presents a report on developments in the EU market for providing statutory audit services to public interest entities pursuant to Article 27 of Regulation (EU) 537/2014.

The Regulation makes up part of EU legislation on audits and aims to enhance audit quality and at the same time, promote competition in the audit market. Article 27 serves as a means of effectively and regularly monitoring compliance with these aims.

The analysis in the report is based on the data that the Commission received from the national authorities responsible for audit oversight (NCAs) and the European Competition Network (ECN). It refers mostly to 2015.

**European audit market:** the available data shows a very diverse EU audit market in terms of size and structure.

Furthermore, the market for statutory audits of public-interest entities (PIEs) remains relatively concentrated in most Member States, particularly in terms of turnover. In 15 of 21 Member States **the Big Four** (PwC, Deloitte, KPMG and EY) hold **more than 80 % of the market share** for turnover.

However, there is insufficient evidence to draw conclusions about the level and effectiveness of competition in the market. The Commission will continue **monitoring trends in the consolidated concentration levels of the largest audit firms** in Member States.

**Quality assurance systems:** the report notes that the application of a common methodology and supervisory convergence in this area will become crucial to ensure consistency and comparability. Whilst no major risks have been identified, the Commission considers that it is certainly **too early to fully assess major risks**.

The Commission recognises, however, that more work could be done to **encourage further convergence around common indicators** and the terminology for findings and deficiencies, these being: (i) deficiencies in the internal quality control systems ; (ii) failure to document some aspects of the audit engagement ; and (iii) lack of sufficient audit evidence.

**Encourage dialogue between NCAs and audit committees:** the assessment shows most NCAs **have very little experience in monitoring the audit committee activities and performance**. To overcome this problem, the NCAs should have appropriate tools to assess the ACs' performance and receive the information they need to monitor how ACs are complying with the new rules. For their part, AC members should be made aware of their new responsibilities and more prominent role.

At this stage, **engaging with ACs and raising awareness is vital**. This would not necessarily entail redefining or changing the national corporate governance frameworks or the supervisory remit of NCAs. Each national authority would be free to decide the best approach and the most appropriate tools to assess the ACs' performance. **The Commission could have a role to play in promoting this dialogue** and in engaging with ACs directly to better understand their experience in implementing the audit reform.

**Data collection:** the Commission considers that some limitations will be addressed as the new audit rules take effect. This is the case for access to and availability of data. However, further work will be required if there is to be progress on areas **such as common terminology, convergence around reference periods and methodologies for data collection**. To move forward on convergence, the Commission will work to review the current indicators in close cooperation with the NCAs, and especially with the Committee of European Auditing Oversight Bodies (CEAOB) sub-group on market monitoring.

The Commission will **continue monitoring developments in the market** for providing statutory audit services to PIEs in the EU. It stands ready to work with Member States to ensure that the requirements in Article 27 of the Regulation can be fulfilled as effectively as possible.