A study on the Audit Directive and the Audit Regulation

Dear Sir/Madam,

CEPS together with Milieu and Europe Economics have been commissioned by the European Commission (Directorate-General for Financial Stability, Financial Services and Capital Markets Union) to conduct a study on the Audit Directive and Regulation.

The Audit Directive and Regulation were adopted in 2014 and became applicable on 17 June 2016 with the aim of improving audit quality and restoring investor confidence in financial information. 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 both legal acts. 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.

We kindly request you to **prepare this questionnaire**. It is recommended to complete the questionnaire in order from the top of each Excel-sheet. The completed questionnaire can be returned to **willem.pieter.degroen@ceps.eu**.

Contact information research team:
If you have any further questions concerning the questionnaire, please do not hesitate to contact:

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Is the information included in the audit report useful and sufficient for your activities/decision making?

No, not useful

OK

If not both useful and sufficient, please describe what information is missing and why the information is not useful and/or sufficient.

Audit reports are standardised and do not use a language sufficiently clear and intelligible for the average user, i.e. the individual, non-professional investor. At the same time, key information on sustainability is missing and should be integrated into the management report so it can be audited. Thus, at the moment, audit reports do not provide enough useful information.

OK

In your view, would the use of a standard digital reporting format (e.g. based on a defined taxonomy) contribute to the usefulness and added value of the audit report?

No

OK

Please explain:

The format of the report and form of presentation are of secondary importance and of limited use if the content is not helpful for the average investor (see Q1 above). However, should the language

OK

and content be improved, a standard digital reporting format may enable more non-professional investors have access to audit reports and interact/engage with the information therein.

In your view, did the quality of the statutory audit work change following the implementation of the following requirements:

Mandatory rotation of statutory auditor or audit firm	Much deterioration	OK
Restrictions on the delivery of non-audit services	Much deterioration	OK
Cap on fees for non-audit services	Much deterioration	OK
Rules for appointment of auditor (tender procedure, etc.)	A little improved	OK

Please explain:

In BETTER FINANCE's view, the audit reform has not reached its objectives, including to increase the quality of audit reports, the independence of auditors (and audit firms), protection for whistle-blowers, and breaking the oligopoly of the largest audit firms. BETTER FINANCE's members noted that, in their jurisdiction, the opposite was "achieved": audit markets have become even more narrow.

In your view, has the independence of the statutory auditor or audit firm changed following the implementation of these requirements?

Much decreased

OK

If any change, what was the main reason for the change

Non-audit services restrictions

OK

If other, please specify:

OK

Please explain (optional):

The market for statutory audit has narrowed due to the restrictions imposed on non-audit services, leading many firms to opt-out of statutory audit functions. In addition, non-audit services are not transparent and not reported in the annual report, thus leaving investors in "the dark". The new rules must improve transparency on the matter as it is important for the independence of the auditor (and the decision of the audit committee) to know whether candidate audit firms have performed, prior to the decision, non-audit services.

In your view, has the level of competition of the statutory auditor or audit firm changed following the implementation of these requirements?

Much decreased

OK

If any change, what was the main reason for the change

Other (specify)

OK

If other, please specify:

Audit firms tend to opt-out from audit services to non-audit as it is more profitable.

OK

Please explain (optional):

The audit reform had the objective to enhance transparency for investors. Would there in your view be any measures necessary to attain the transparency? Please specify which.

See answers to previous section: transparency can be mandated but it will not be useful for the average investor if the information (including language and presentation) is not user-friendly and if the format is not standardised and digitally useful.

OK

In your view, should the statutory auditors and audit firms provide <u>additional assurance services</u> on financial information compared to the ones already included in EU and national law?

Yes

OK

If yes, please explain:

Auditors should provide additional assurance on financial information, as well as on sustainability reporting.

OK

In your view, should the statutory auditors and audit firms provide <u>less assurance services</u> on financial information and reduce the current number of reports or details included in the reports?

No

OK

If yes, please explain:

No, see Q5

OK

Do you consider any changes needed to the requirements (rotation, non-audit services, fee cap and appointment of auditor, etc.) for attaining the objectives of the audit reform (improving audit quality and restoring investor confidence in financial information)?

Yes

OK

If yes, please explain the change necessary:

In BETTER FINANCE's view, there are **seven key actions to be taken to improve the quality of audit services** and the audit market: 1) Strengthen and clarify the liability (legal and contractual) and accountability of auditors and auditing firms and its enforcement; 2) Improve and expand the EU Directive on the protection of “whistle blowers”; 3) Stimulate and improve competition on the market for auditors (break the current quasi-oligopoly); 4) Complete separation of audit and consultancy business; 5) Improve the quality of the auditors’

OK

work; 6) Introduce shared or joint audits on certain companies (such as public interest entities); 7) Strengthen auditors' oversight and supervision.

Do you consider that any changes in the interplay of these requirements would be needed to attain the audit reform objectives?

Yes

OK

If yes, please explain the change necessary:

In our view, the choice of legal instrument at EU level will be key: instead of using minimum harmonisation policies to achieve an integrated market, EU authorities should opt for EU Regulations which are directly applicable and, thus, reduce regulatory arbitrage, gold plating, and differences in implementation at national level.

OK

Were there according to you any other impacts due to the interconnection (rotation, non-audit services, fee cap and appointment of auditor, etc.) between these requirements and their simultaneous implementation?

No opinion

OK

If yes, please explain:

OK

Should you have any comment(s) regarding the audit committee report, its requirements (rotation, non-audit services, fee cap and appointment of auditor, etc.) or implementation, please indicate them in the box below (Optional):

Based on the experience of BETTER FINANCE's members, a good practice that should be considered by the EU Commission would be the obligation of the supervisory board to assess the quality of the audit report, as is currently the case in Germany. However, adequate provisions on the liability of the supervisory board are needed in order to not transform such process in a box-ticking exercise.

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