

# EU Statutory Audit Reform

## Impact on costs, concentration and competition

The [original full study](#)<sup>1</sup> analyses the evolution of market concentration, competition and costs in the EU market for statutory auditing before and after the Audit Reform.

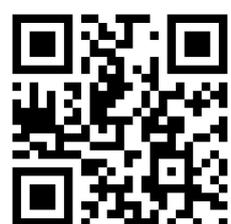
### Background

The **EU Statutory Audit Reform** came into effect in June 2016 with the adoption of the new Directive (2014/56/EU) and Regulation (537/2014) proposed by the European Commission as a response to the shortcomings in the statutory audit function, as well as in the European audit system, in the aftermath of the financial crisis. The **major aim** was to strengthen confidence in the integrity of reported financial statements and to improve audit quality. To achieve this **goal**, the main objectives were to: reinforce the auditor independence, improve auditor supervision, ensure a higher level of transparency in companies' reported financial information, make the top end of the audit market **more dynamic**, and reduce unnecessary burdens on SMEs.

The study consists of two main parts: (1) **main objectives** of the audit reform, research findings regarding the audit market competition and concentration, and impact on audit costs before and after the reform; (2) the **impact** of specific provisions of the audit reform and a multivariate analyses of the impact of the Reform on audit and non-audit fees in case of both financial Public Interest Entities (PIEs) and non-financial PIEs.

For a further explanation, a methodology of the descriptive analyses in addition to the explanatory graphs and tables is provided. Additionally, PIE and audit firm surveys are made available in support of the research findings. The study ends with a glossary containing the essential terms of the study.

**Check out the  
[original full study](#)  
 by scanning this  
 QR code!**




	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2.65	13399.77	14016.76	994.89	12902.21	12625.01	13686.73	213.05	12541.58	
5.57	925.01	1232.45	7046.0	1152.82	1210.19	2180.86	2100	1938.01	
1.89	2990.29	3408.59	445.21	3400	2956.32	3779.39	225.32	3003.2	
2.52	340.83	445.02	491.75	442.9	443.52	603	774.39	698.84	
4.23	8983.85	8323.28	128.76	5744.81	4654.11	6468.39	3983.8	6088.4	
92.9	1675.65	1859.25	78.12	1914.77	1830.85	2288.69	165.45	2480.94	
1.67	911.7	850.27	3.35	979.59	847.94	1067.62	1163.01	1107.52	
7.45	482.46	561	3.93	113.79	158.06	645.75	549	589.68	
5.55	419.47	390.99	38.52	403.78	402.71	329.77	367.56	313.65	
59.8	57.72	80.6	4.2	87.88	35.36	74	85.28	66.68	
4.08	1.24	0.99	17.86	1.88	3.7	1.3	0.71		
2.75	1	0.78	0.35	0.35	0.35	0.35	0	2.5	
1.74	196.86	313.62	14	0.75	3.70	710.8	794.09	738.86	
3.24	173.81	308	14.44	191.87	177.88	153.71	119.41	121.48	
0.2	0.2	0	14.44	0	20.7	0.19	0	7.47	
1.85	30.8	18.56	18.56	23.4	30.25	28.35	45.7	28.85	
13.3	20.33	15.4	15.4	15.92	29.29	18.99	41.92	68.48	
1.88	7.3	1.9	1.26	0.62	1.72	35.1	238.59	205.46	

### Key findings

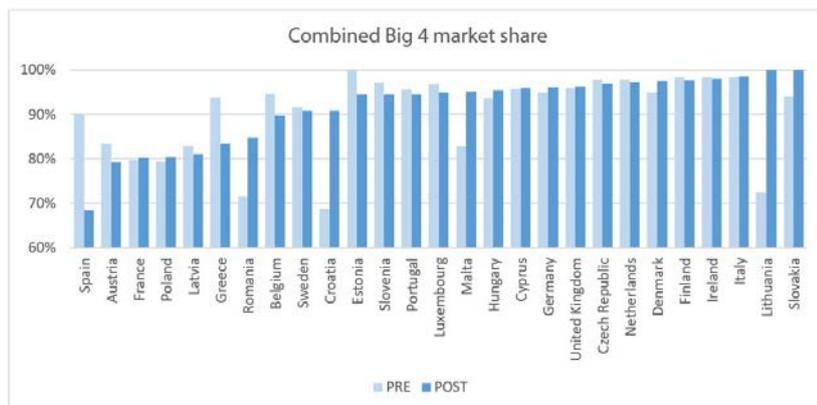
This study focuses on the impact of the audit reform on **costs, concentration and competition**. Statistics are provided over the period 2013-2017, considering 2016 as the year of transition. After the reform, the audit market concentration has been overall constant, thereby being still high. The **Herfindahl-Hirschman Index (HHI)** of market concentration and the combined Big 4 market share have slightly decreased, however the Non-Big 4 market share has slightly increased after the reform. As for the audit market competition, it has increased within the group of the **four biggest market players** across the EU, with a similar scenario also in the group of the smaller audit suppliers.

The **audit market evolution** also depends on different market segments (financial sector, small vs. large PIE clients, individual Member States). In regard to the aggregate EU PIE (Public Interest Entity) market concentration, the HHI index does not show large changes after the implementation of the audit reform. As for the **auditor switching**, smaller clients tend to switch to Non-Big 4 audit firms (with lower audit fees), while bigger clients to the Big 4 (paying higher



fees), and this is captured by **dynamic measures of competition** which take market share mobility and percentage of switches into account. If we consider, instead, only the financial sector, the average HHI levels are higher compared to the overall audit market. Additionally, after the reform, there is more auditing switching in the financial sector segment, but there is no tendency to move to non-Big 4. Large financial clients mainly switch between auditors within the Big-4 group. Furthermore, the audit reform seems to have led to an **increase in the average audit fees**, while non-audit

Evolution of the aggregate Big 4 market share per Member State before and after the Audit Reform



fees decreased, and this phenomenon is even more accentuated in those Member States adopting a strict mandatory **audit firm rotation** (MFR) implementation although there are also other elements affecting these results.

In order to enhance the auditor **independence**, the MFR, as a specific provision of the reform, was introduced. The MFR provision was implemented differently across EU Member States. In case of the strict implementation of the MFR, the Big-4 dominance dropped. However, mandatory rotation does not

necessarily lead to enhanced audit quality, and evidence shows that longer tenure is not associated with lower quality audits. With regard to **joint audits**, instead, the empirical evidence shows that they are typically associated with higher audit fees but not higher audit quality.

Due to different regimes in the implementation of the reform, with flexibility regarding specific requirements in both the Directive and Regulation (e.g. PIE definition, MFR duration etc.), **costs** and **benefits** also vary across EU Member States.

In conclusion, after the reform, the **aggregate audit market concentration** is still high and has not decreased significantly. More dynamic measures of market competition show that the EU statutory audit reform led to an increase in auditor switching and market share mobility, with also a rise in the non-Big 4 market share. The study also proposes areas of possible future research.

<sup>1</sup> [https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631057/IPOL\\_STU\(2019\)631057\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2019/631057/IPOL_STU(2019)631057_EN.pdf)

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Manuscript completed: October 2019; Date of publication: October 2019  
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