AUDIT ANALYTICS®

MONITORING THE AUDIT MARKET IN EUROPE

DECEMBER 2020

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Introduction

In 2014, the European Union adopted two pieces of legislation that fundamentally reformed the EU audit market. The legislation was one of several responses to concerns identified following the financial crisis.

The first piece of legislation was Directive 2014/56/EU which applies to the statutory audits of the annual and consolidated accounts of every company in the EU that is required to have a statutory audit.[1] It amended a pre-existing Directive adopted in 2006.

The second piece of legislation was Regulation 537/2014 which applied additional requirements to the statutory audits of public interest entities (PIE).[2] While not specifically identified by the European Commission when it proposed this legislation back in 2011, it was generally thought that there were approximately 300,000 statutory audits across the EU and roughly 30,000 public interest entities.[3]

The Directive was due to be implemented by the EU Member States by mid-2016. The Regulation entered into force at the same time. However, Regulation 537/2014 contained several Member State options, notably around auditor tenure, prohibited non-audit services, and caps on such services. These options were contested by the European Commission but were a necessary evil if the European Commission were to secure a Qualified Majority in the Council of Ministers. While this was not the intent of the EU law makers, these options have resulted in an EU audit market that is arguably less harmonized today than was the case before the 2014 legislation was adopted.

Article 27 of the Regulation requires the European Commission, in cooperation with the Committee of European Audit Oversight Bodies (CEAOB), to prepare a report every three years on inter alia, the evolving structure of the EU audit market. The first such report was published in September 2017 but, given the legislation had only just entered into force, was very much an opening stocktake. The second Market Monitoring Report is expected in early 2021.

Audit Analytics first started collecting data on EU public interest entities in 2012. Today, we have specific databases on EU PIEs covering audit fees, audit opinions, auditor changes, auditor engagements and tenure, transparency reports and key audit matters. Highlights include:

Database	Total Records
Audit Fees	82,000+
Audit Opinions	74,000+
Auditor Changes	6,300+
Auditor Engagements	~7,000 *(active)*
Transparency Reports	5,700+
Annual Reports	80,000+

1 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056
2 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0537
3 https://www2.deloitte.com/qa/en/pages/audit/articles/gx-eu-audit-legislation.html

The purpose of this report is to contribute to the EU debate by focusing on one aspect of the triennial Market Monitoring Report, notably concentration in the EU audit market. However, we also take the opportunity to examine the impact of mandatory audit firm rotation and prohibitions of non-audit services on market structure, something that the European Commission identified as a focus of their own report to be published in early 2021.

We do not address audit quality, nor do we assess the effectiveness of audit committees, as these two requirements of Article 27 are outside the scope of our expertise.

For the purpose of this report, we refer throughout to the 28 EU Member States, including the United Kingdom.

Much of the data that follows has been extracted from one or more of the databases referred to above. Where we have relied on data from other sources, those sources are identified within the body of the report.

Highlights

The audit profession is the backbone to a well-functioning financial market. The CEAOB Chair's remarks in the 2019 Annual Report described the profession as "a cornerstone of international financial stability and economic growth."[4] Instilling trust and confidence in the profession are vital for maintaining financial stability and economic growth. The public must trust that audit firms are truly independent from the companies they audit and that they take their responsibilities seriously. The smooth functioning of the capital markets depends upon the accuracy and reliability of financial information and confidence that high quality audits are being performed.

Resilience

Since the early 2000s, creating a more resilient statutory audit market has been a top priority for European law makers. There are three main challenges to creating a more resilient statutory audit market:

1. Large international companies require audit firms with the appropriate skills, resources, and geographical footprint to be able to conduct their audits.
2. Only a limited number of audit firms have the resources to conduct audits of large international companies.
3. Auditor independence rules - specifically the prohibitions on providing certain non-audit services to the company being audited and mandatory audit firm rotation - and the interaction of these two rules create significant challenges for large corporate groups. This is particularly acute in the banking and insurance sectors because of the patchwork approach to audit firm rotation across the EU.

These three factors exacerbate each other. As companies grow, the number of audit firms that have the necessary skills and resources to perform large audits shrinks. Audit firms outside the Big 4 face a significant barrier to enter this market segment due to their smaller size and reduced international presence.

The strict independence rules included in the 2014 Regulation have forced companies to carefully manage how they source the provision of tax, consulting, and audit services. Often, these services are divided up between competing Big 4 firms. When it comes time to change auditors due to the rotation rules, other Big 4 firms can find themselves conflicted out of the audit tender process.

This can result in large companies having just one or two choices for their statutory audit firm. In markets that require joint audits, it can be especially difficult to find audit firms that are sufficiently independent to be able to perform the audit.

Article 16 of the Regulation requires an audit committee to make two or more recommendations to the Board for the new auditor. There are also obligations on audit committees to ensure that smaller audit firms are not routinely ignored as part of the tendering process. While this might appear to create an advantage for smaller audit firms who may not be providing any prohibitive non-audit services to the company putting its audit out to tender, the reality seems somewhat different. Audit firms outside the Big 4 are, indeed, being invited to tender for the audit alongside the one Big 4 firm, but often these smaller firms are not successful. There is a perception they are included in the process to "make up the numbers" and enable audit committees to comply with the provisions of Article 16. They incur the costs of the tender process, but with little hope of subsequently winning the audit engagement. As one mid-tier audit firm commented, they became tired of coming in "a glorious second place" in tenders for larger, listed company audits and decided to withdraw from this segment of the market.[5]

4 https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-annual-report-2019_en.pdf
5 https://www.irishtimes.com/business/financial-services/grant-thornton-irish-arm-breaks-ranks-with-uk-firm-over-audit-work-1.3444348

The tender process is not cheap. In a 2011 European Commission impact assessment, the Commission estimated the average cost of the tender process for both PIEs and audit firms.[6] The commission found that audit firms would pay about €160,000 per tender for a medium PIE client, from €1,060,000 to €1,080,000 per tender for a large PIE, and from €5,000,000 to €7,000,000 per tender for a very large PIE. It was expected to cost medium PIEs up to €60,000, large PIEs from €60,000 to €80,000, and very large PIEs €400,000 per tender process (see page 35).

Shorter tenures, due to the Audit Directive, give firms less time to recoup the cost of the tender if the firm were selected. And, coming in "a glorious second place" can become an unsustainable veneration for the unselected firm. The cost to tender an offer can become another barrier for smaller firms to compete with larger firms.

Presently, the profession seems to have the minimum number of large firms to promote competition while also adhering to independence rules that limit eligible market participants. If a large firm were to fail or voluntarily leave a market, large international companies could face a lack of choice for statutory auditors.

Transparency

The number of public interest entities (PIEs) fell dramatically following the adoption of the 2014 Audit Directive. In 2015, the European market had approximately 26,000 PIEs. As of 2019, that number was just 17,000. The drop in PIEs was concentrated in several member states, with Spain accounting for over half of this decline.

While much of that decline was due to changes in the definition of a public interest entity at a member state level, there are other forces at play. For example, some companies are choosing to delist from EU regulated markets. Often, the cost of regulatory compliance is stated as one reason for delisting.

This can be seen in the number of companies listed on regulated exchanges. In 2014, there were nearly 4,600 listed entities that issued audited financial statements in the EU. In 2018, there were 4,350, for a 5.6% decrease. So far, there have been 4,150 for 2019 as of September 30, 2020, though this may be due to delays from the COVID-19 pandemic.

It is surprisingly difficult to find an accurate assessment of the number of listed entities in the EU, as defined by the first element of the PIE definition, since this number must exclude companies listed on unregulated exchanges, such as the UK Alternative Investment Market (AIM). However, data collected by the World Bank on domestic listed companies in the EU suggests that the number of such companies have reduced by over 16% between 2014 and 2018.[7] While this data has to be treated with some caution, the downward trend is significant.

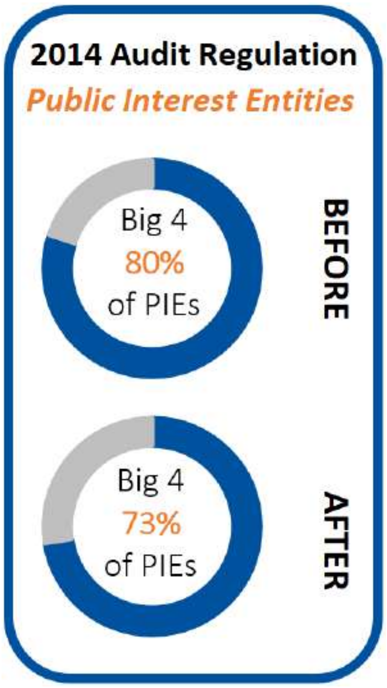
The declining number of PIEs and listed entities are mirrored by a decline in the number of audit firms qualified to engage in PIE audits. Nearly a quarter of audit firms have left the PIE market whether due to merger activity, losing customers, or voluntarily leaving the market. For smaller audit firms with just one or two PIE audit clients, the obligation to prepare a Transparency Report can create costs that exceed the total revenues earned from the PIE audits in question. In such circumstances, and as illustrated on page 25, it is hardly surprising these audit firms choose to leave the PIE audit market.

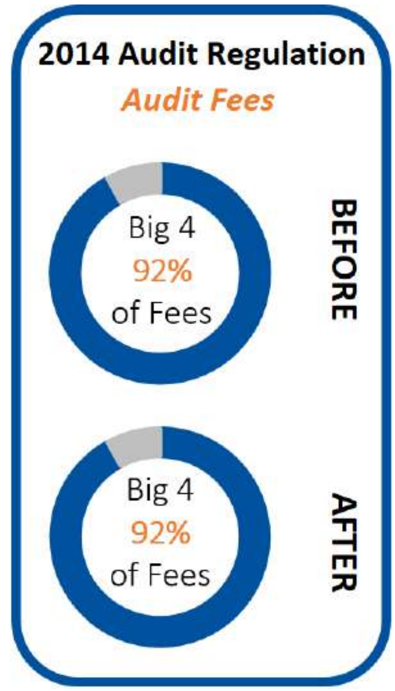
The decline in both the number of PIEs and audit firms should raise concerns. Fewer PIEs mean these laws and regulations apply to fewer entities, and fewer audit firms mean a naturally concentrated market. Laws and regulations must strike a delicate balance of achieving objectives – like improving competition and audit quality – while avoiding disincentives – such as creating unnecessary costs and other barriers to market entry.

6 https://ec.europa.eu/transparency/regdoc/?fuseaction=list&coteId=2&year=2011&number=1385&version=ALL&language=en
7 https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=EU

Competition

Competition in the market can involve a variety of factors. Across the EU, high levels of firm concentration and auditor rotation and independence rules, particularly those prohibiting statutory audit firms from performing certain non-audit services, limit the statutory audit firm choices for many large entities, particularly those operating internationally.





The change in concentration of public interest entity audits has been the most significant. There has been a 7% shift from Big 4 audit firms to small and mid-sized firms among PIEs.

This may seem like a positive development for audit firm choice, but as mentioned above, part of the shift is likely due to changes in the definition of PIE following the adoption of the 2014 Audit Directive. Many member states reduced the scope of PIE definitions, which in turn reduced the number of PIEs in those member states.

Concentration among listed entities has become slightly more pronounced. The Big 4 audit firms added 2% to their market share.

Additional requirements, costs, and audit firm mergers each played a role in the additional concentration, as might a reduction of small listed entities delisting, which would have a greater impact on small firms.

Overall, the listed entity audit market is less concentrated than the audit market for public interest entities.

There was no change in concentration to the listed entity audit market when measured by audit fees. Market share of audit fees has remained steady from 2014 through 2019.

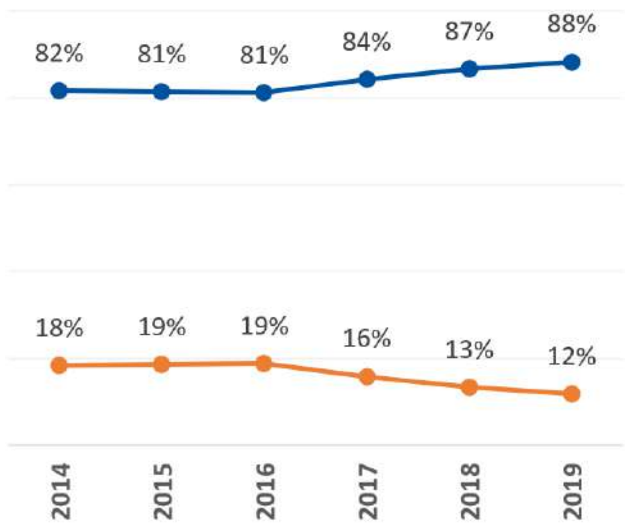
The significantly higher rate of concentration in audit fees indicates that the Big 4 audit firms are engaged by many of the largest listed entities.

If the goal of increasing competition is to provide greater choice, it will be important to focus on the listed entity audit fees.

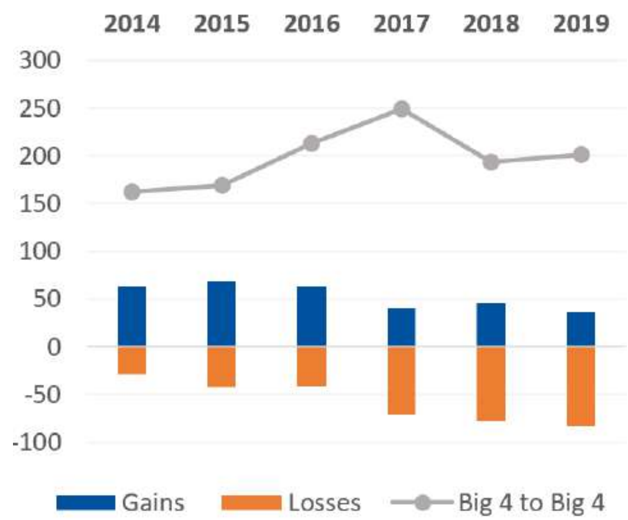
Independence

The EU legislation has had the greatest effect on measurements of auditor independence. Reductions in the percentage of non-audit service fees and an increase in companies moving from large audit firms to mid-sized and small audit firms are signs that some independence rules may be having the intended effect on market structure.

Audit Fees vs. Non-Audit Fees



Big Four Audit Firms Gains & Losses



Fees earned from non-audit services as a percentage of total audit services performed by statutory audit firms of listed entities have fallen each year since the Audit Regulation entered into force. Prior to the Audit Regulation, non-audit services represented about 20% of total fees paid to statutory audit firms. This has declined to just over 10%.

Since the Audit Regulation, the number of audit firm rotations for listed entities has increased due to mandatory firm rotation. More recently, the number of listed entities replacing a Big 4 firm with a non-Big 4 firm has outpaced the number of entities engaging a Big 4 firm. This is a sign that the Audit Regulation is beginning to have some of its intended effect.

Conclusions

The 2014 Audit Directive and Audit Regulation have had mixed results. The non-audit services provided by an auditor to a PIE audit client as a percentage of total fees are at their lowest point since at least 2014. While this would suggest that auditors are now more independent, the level of non-audit services being provided was never of a magnitude that would cause major independence concerns.

The legislation introduced a cap on non-audit services at 70% of audit fees. The member state with the highest level of non-audit services, Denmark, was significantly under this threshold.

The mandatory audit firm rotation rules have had no impact on concentration levels in the listed company market. Between 2014 and 2019, Big 4 market share has increased by 2%.

The PIE audit market is even more concentrated than the listed company market. This is likely because banks and insurance undertakings – the largest component of the PIE market – may prefer to appoint Big 4 audit firms due to the complexity of auditing these two industry segments. However, concentration of the PIE audit market has reduced between 2014 and 2019 by roughly 7%. It is possible that this reduction can, in part, be attributed to the different auditor rotation rules that exist across the EU. For banking and insurance groups with numerous subsidiaries across the EU, as each subsidiary must rotate their auditors in line with national law, it is not unreasonable to assume that smaller firms are being appointed to audit subsidiary companies that have to rotate their auditors more rapidly than the parent company. This leaves other Big 4 firms free to continue to provide those services that the group auditor is not allowed to provide.

The new auditor rotation rules have, unsurprisingly, reduced the average tenure of PIE auditors across the EU. The EU average is roughly eight years, although the Regulation permits a maximum tenure of 24 years where more than one audit firm is employed. Average Big 4 tenure is nine years, 50% longer than smaller firms who have average tenure of six years. This may be yet another reason why some smaller firms are choosing to exit the PIE audit market.

Both the number of PIEs and the number of PIE audit firms has declined over the five-year period to 2019. To some extent this decline has been driven by cost. No real analysis has been performed of the costs of mandatory firm rotation – to companies, to the successful tendering firm and to the other audit firms who were not successful in the tender process. These costs are not insignificant.

Based on cost estimates produced by the European Commission in its Impact Assessment, and supplemented by data in this report on average auditor tenure and the number of PIEs, we estimate that the total cost of rotating the entire PIE market is in excess of €3.8 billion. With an average tenure of eight years, this is the equivalent of €600 million per year.

For firms, the cost of compiling and tendering an offer may be prohibitive, especially when winning an offer means reduced audit fees. We have found that 62% of listed entities saw their audit fees fall following an auditor change. This suggests that firms are competing aggressively for clients, even if the amount of choice has been declining.

One of the primary goals of the 2014 audit legislation was to improve audit quality. This improvement was expected to be driven, in part, by improved auditor independence and more competition in the PIE audit market. This report suggests that the EU audit legislation has had only a limited positive impact on independence and concentration, and has come at some cost. The 2019 Market Monitoring Report of the European Commission, due to be published soon, will hopefully provide evidence of the extent to which audit quality has improved over this period, something which is outside the scope of this report.

Evaluation of EU Audit Regulations

Legislation & Recommendations

Over the past two decades, EU regulators have proposed and implemented several legislative and regulatory changes aimed at improving transparency, competition, independence, and resilience of the audit market.

This report reviews what, if any, impact these laws and regulations have had on transparency, competition, independence, and resilience. Below is a timeline of important laws and regulations, their objectives, and their actions.

2002

Recommendation on Statutory Auditors' Independence in the EU

Objective: Create a single set of independence rules throughout the European Union

Action: Proposed a set of fundamental principles for auditor independence and creation of an internationally accepted ethics standard for statutory auditors.

2006

Statutory Audit Directive

Objective: Introduce high-level harmonization of requirements for performing EU statutory audits

Action: Expanded a pre-existing Directive on Auditor Qualifications to include independence, professional ethics, auditor reporting, and audit standards. Established an independent audit oversight through the EGAOB regulatory body. Required auditors of public interest entities (PIEs) to prepare transparency reports when auditing PIEs. Required PIEs to establish an Audit Committee.

2014

Amended Audit Directive

Objective: Refinement of the 2006 Directive in order to complement the new Audit Regulation

Action: Continues to apply to all statutory audits in the EU. Specific measures that apply to PIEs were moved into the Audit Regulation. Introduced a new section on sanctions and expanded the content of the audit report.

2014

Audit Regulation

Objective: Introduce supplemental requirements that apply to the statutory audits of PIEs

Action: Limited the length of auditor tenure, prohibited the provision of most types of non-audit services to a PIE, and capped any remaining such services. Considerably expanded the audit report and introduced a new report to the Audit Committee. Upgraded the EGAOB which became the CEAOB to strengthen regulatory cooperation.

Legislative & Regulatory Goals

The EU audit legislation, referred to above, was designed to establish minimum requirements for engaging in and conducting statutory audits across EU member states. The new rules and regulations seek to create a more resilient audit market through increased transparency, competition, and independence. These measures are expected to contribute to an improvement in audit quality.

Resilience

The EU audit legislation was adopted to create a more resilient economy and audit profession. The 2006 Statutory Audit Directive came in the wake of the Enron scandal and the collapse of Arthur Andersen. The 2014 Amended Audit Directive and Audit Regulation came as a response to the financial crisis.

The establishment of rules to create a more transparent and competitive audit market, as well as greater independence of statutory audit firms and their clients, is meant to result in enhanced audit quality and more resilient capital markets.

Transparency

Member states are required to keep a public register of statutory auditors and audit firms that are approved by each member states' competent authority. Statutory audit firms that audit a PIE are required to compile an annual transparency report which, inter alia, lists each public interest entity client of that statutory audit firm.

Competition

A major goal of the legislation was to create a more competitive audit market through greater diversity. The implementation of mandatory audit firm rotation and the incentivization of joint audits were introduced to create greater opportunity for mid-tier audit firms to make gains in the audit market. Further, limitations or prohibitions of non-audit services to PIE audit clients were expected to create greater opportunity for mid-tier audit firms to make gains in the non-audit service market, as well.

Independence

Statutory audit firms are required to maintain independence from the entities they are tasked with auditing during both the periods covered by the financial statements to be audited and the period when the statutory audit is carried out. Prohibitions of many non-audit services, limits on the amount of fees charged for any permissible non-audit service, and limits on the length of statutory audit firms' tenure seek to maximize auditor independence with a consequential improvement in audit quality.

Resilience

Background on Market Concentration

Through the 1980s and 1990s, the audit market began to concentrate. By the 2000s, the Big 8 had become the Big 5 due to mergers among the largest firms. In 2002, following numerous accounting scandals, Arthur Andersen was dissolved. Arthur Andersen had been the auditor of Enron prior to the discovery of systemic accounting fraud.

Following the fall of Arthur Andersen, the firm's audit practice was broken-up primarily between fellow Big 5 firms Ernst & Young and Deloitte. In just 16 years, the largest firms had declined from eight to just four.

The increase in concentration among the largest audit firms brought with it concerns about market competitiveness and market resiliency. While the Big 4 firms enjoy a dominant position at the top end of the audit market, there is no evidence of that dominance being abused. However, the continued expansion of the list of prohibited non-audit services and the way in which these prohibitions apply, both within corporate groups and across the network to which an audit firm belongs, has considerably reduced the choice of audit firms available to a large, multinational group.

Cause for Concern

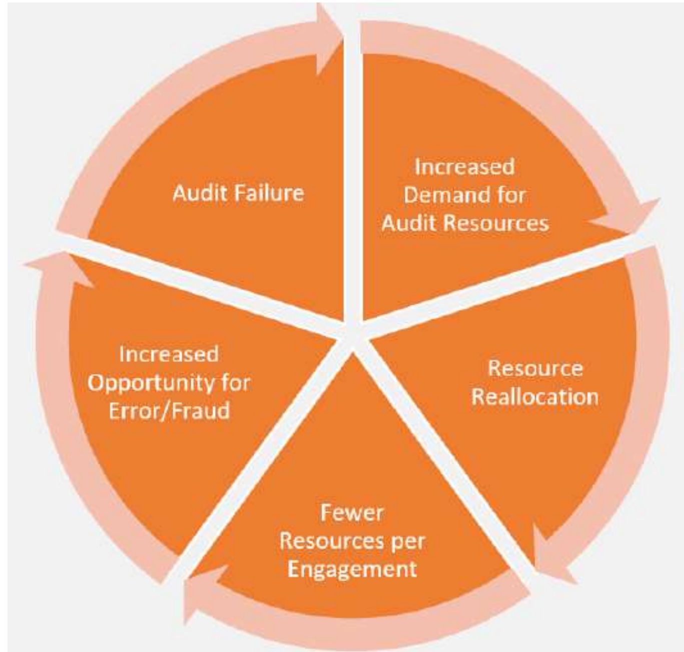
Since the collapse of Arthur Andersen, fear of the failure of another large firm has become a cause for concern. Statutory audit firm choice among large international companies is limited due to the resources, knowledge, and geographical coverage required to conduct an audit of their size.

As mentioned above, the problem is compounded due to independence rules banning certain non-audit services from being performed by a company's statutory audit firm. Large international companies will often engage another Big 4 audit firm to provide these non-audit services, which can prohibit that firm from subsequently tendering for the audit.

Should one of the Big 4 fall, ultimately, it is likely that the remaining three firms would absorb the subsequent increase in demand from the fallen firm's clients. However, like the collapse of Arthur Andersen, the other Big 4 firms would have to first acquire many of the fallen firm's operations and employees to service its clients.

But, in an environment in which the remaining firms absorb a fallen firm's clients, additional difficulties are sure to arise. Addressing the singular demand issue is unlikely to stabilize a national market, protect stakeholders, and restore public confidence in financial institutions, regulators, and auditors.

Even in a country like France, where the Big 4 each hold similar market shares, the largest accounting firms have a fixed amount of resources available at any given point in time. Human capital is the greatest resource each of the Big 4 firms have – in specialized expertise and in number. Resources are allocated to audit engagements with each in mind; more complex engagements require more resources. While resource allocation has a degree of flexibility, it might not be feasible to immediately allocate resources to adequately engage 15-20% more clients. Such an increase would almost certainly result in delays or understaffed engagements.



> **[T]he collapse of a 'systemic firm' or a firm that reached 'systemic proportions' could disrupt the whole market.**
>
> - 2010 EU Green Paper

Audit Firm Resilience

It is impossible to discuss market concentration and the cost of audit failure without a discussion of auditor liability. Auditors have a responsibility to exercise due care and issue an opinion on the reasonableness of the financial statements, but this opinion is not a guarantee. There are numerous examples of auditors having failed to exercise due care, but there are also circumstances in which management have provided misleading information, engaged in collusion with third parties, or made unintentional errors that the auditors failed to detect despite exercising due care.

In a market environment in which audit firms are punished for any error, the lack of liability protection in most member states increases the risk that another large audit firm could fail. It also serves as a deterrent for smaller firms who may be unwilling to take on the risk of a large audit despite having the necessary skills and resources.

This situation has a real impact on a firm's choice to enter or continue serving the PIE market, and directly impacts market resilience and diversity. In response to these discussions, the European Commission adopted a recommendation on Auditors Liability in 2008, encouraging member states to designate an appropriate method of limiting auditor and audit firm liability in situations where there had not been an intentional breach of duties.[8]

8 https://www.iasplus.com/en/binary/europe/0806auditorliabilitypr.pdf

Some member states have issued guidelines limiting the amount of auditor liability. The UK Companies Act of 2006 allows auditors to contractually limit their liability.[9] Other member states, like Belgium, limit liability by placing a cap on penalties.[10] There are also other methods member states use to limit auditor liability, such as proportionate caps and tort reforms. But some member states, like the Netherlands, have no limitations.

Article 31 of the 2006 Audit Directive required the European Commission to conduct a study on auditor liability. That study was the precursor to the subsequent Recommendation adopted in 2008. However, despite concerns expressed in the 2010 Green Paper about the risk of disruption to the EU audit market following the failure of a "systemic firm", neither the Amended Directive nor the 2014 Regulation gave any consideration to liability limitation.[11]

9 https://www.legislation.gov.uk/ukpga/2006/46/contents

10 https://www.icci.be/fr/avis/avis-detail-page/limitation-of-liability-of-public-auditors belgium#:~:text=%E2%80%9CThe%20auditors%20are%20liable%20under,by%20or%20under%20the%20law.&text=This%20means%20that%2C%20for%20example,has%20not%20contractually%20been%20foreseen.

11 https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0348:FIN:en:PDF

Transparency

Public Interest Entities

Number of Public Interest Entities by Member State in 2019

1.	United Kingdom	2,000	15.	Luxembourg	400
2.	France	1,720	16.	Denmark	337
3.	Spain	1,452	17.	Belgium	309
4.	Poland	1,308	18.	Greece	254
5.	Portugal	1,095	19.	Austria	203
6.	Germany	1,070	20.	Slovakia	170
7.	Italy	900	21.	Czech Republic	158
8.	Romania	859	22.	Lithuania	156
9.	Croatia	794	23.	Cyprus	146
10.	Ireland	751	24.	Malta	142
11.	Netherlands	723	25.	Hungary	128
12.	Sweden	696	26.	Latvia	81
13.	Bulgaria	470	27.	Slovakia	66
14.	Finland	420	28.	Estonia	38

Source: CEAOB

Transparency Reports

The requirement for statutory auditors and audit firms to issue Transparency Reports was intended to give market participants better insight into the operations of statutory auditors. Statutory auditors are required to disclose a list of public interest entities for which the audit firm has carried out statutory audits during the preceding financial year, provide a description of the legal structure and ownership, a description of the internal quality control system of the audit firm, and financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services, among other information.

Public Interest Entities

Member State	Expanded Definition	Organizational size	Governmental/State-Owned Entities	Funds	Other Financial Institutions	Other Entities
Austria	X					
Belgium	✓					X
Bulgaria	✓		X	X		X
Croatia	✓		X	X		X
Cyprus	✓					X
Czech Republic	✓			X		
Denmark	X					
Estonia	✓		X			
Finland	X					
France	✓	X		X	X	
Germany	X					
Greece	✓					X
Hungary	✓			X		
Ireland	X					
Italy	✓			X	X	
Latvia	✓			X	X	
Lithuania	✓		X	X	X	
Luxembourg	X					
Malta	✓				X	
Netherlands	✓	X				
Poland	✓			X	X	
Portugal	✓	X		X	X	
Romania	✓			X	X	
Slovakia	✓	X	X	X	X	
Slovenia	X					
Spain	✓	X				X
Sweden	X					
UK	X					

✓ = expanded PIE definition
X = did not expand PIE definition
X = included in expanded PIE definition

The concept of a public interest entity (PIE) for audit purposes was introduced by the 2006 Statutory Audit Directive and continued without significant modification into the 2014 Audit Directive. The law defines four categories of PIE:

1) Those with transferable securities trading on a regulated market

2) Credit institutions

3) Insurance undertakings

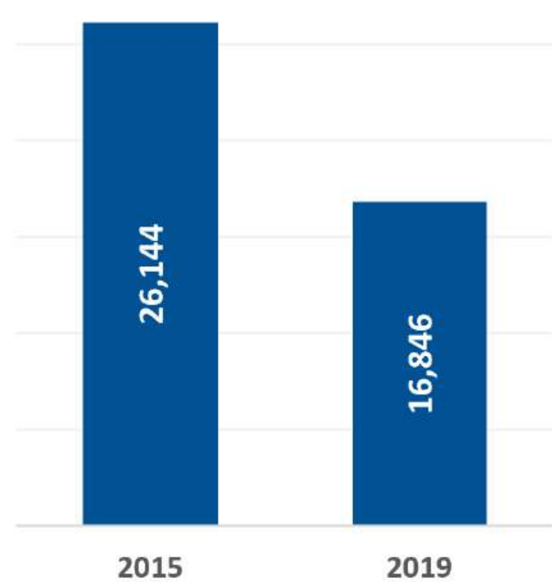
4) Other entities designated as a public-interest by an EU Member State

Each member state can designate additional entities as a public interest. Following adoption of the 2006 Directive, over half the member states adopted an expanded PIE definition. Common designations included pension funds, governmental entities, asset management companies, and size thresholds.

Some member states – like Cyprus, Greece, Luxembourg, Malta, and the Netherlands – have expanded definitions by law, but do not expand PIEs in practice.

Given the stricter requirements introduced in the 2014 Regulation, many member states scaled back their PIE definition to the first three categories shown above. The number of PIEs has fallen by nearly 35% - or 9,000 PIEs - from 2014 to 2019. Much of this decrease was seen in Spain.

Number of PIEs Pre/Post 2014 Audit Directive



Listed Entities

Listed Entities by Member State

1.	United Kingdom	804	15.	Romania	63
2.	Germany	558	16.	Austria	63
3.	France	421	17.	Cyprus	52
4.	Poland	360	18.	Portugal	42
5.	Sweden	322	19.	Ireland	42
6.	Italy	215	20.	Luxembourg	41
7.	Bulgaria	166	21.	Malta	29
8.	Spain	148	22.	Hungary	29
9.	Denmark	136	23.	Lithuania	28
10.	Finland	132	24.	Slovenia	24
11.	Belgium	112	25.	Slovakia	23
12.	Netherlands	97	26.	Estonia	20
13.	Greece	95	27.	Latvia	18
14.	Croatia	95	28.	Czech Republic	15

Source: Audit Analytics Audit Opinions database as of September 30,2020

Listed Entities

Entities with transferable equity securities admitted to trading on regulated exchanges in the EU, referred to as listed entities in this report, represent 30% of total public interest entities. As of 2019, our Audit Opinions database contains data on over 4,000 listed entities in the EU.

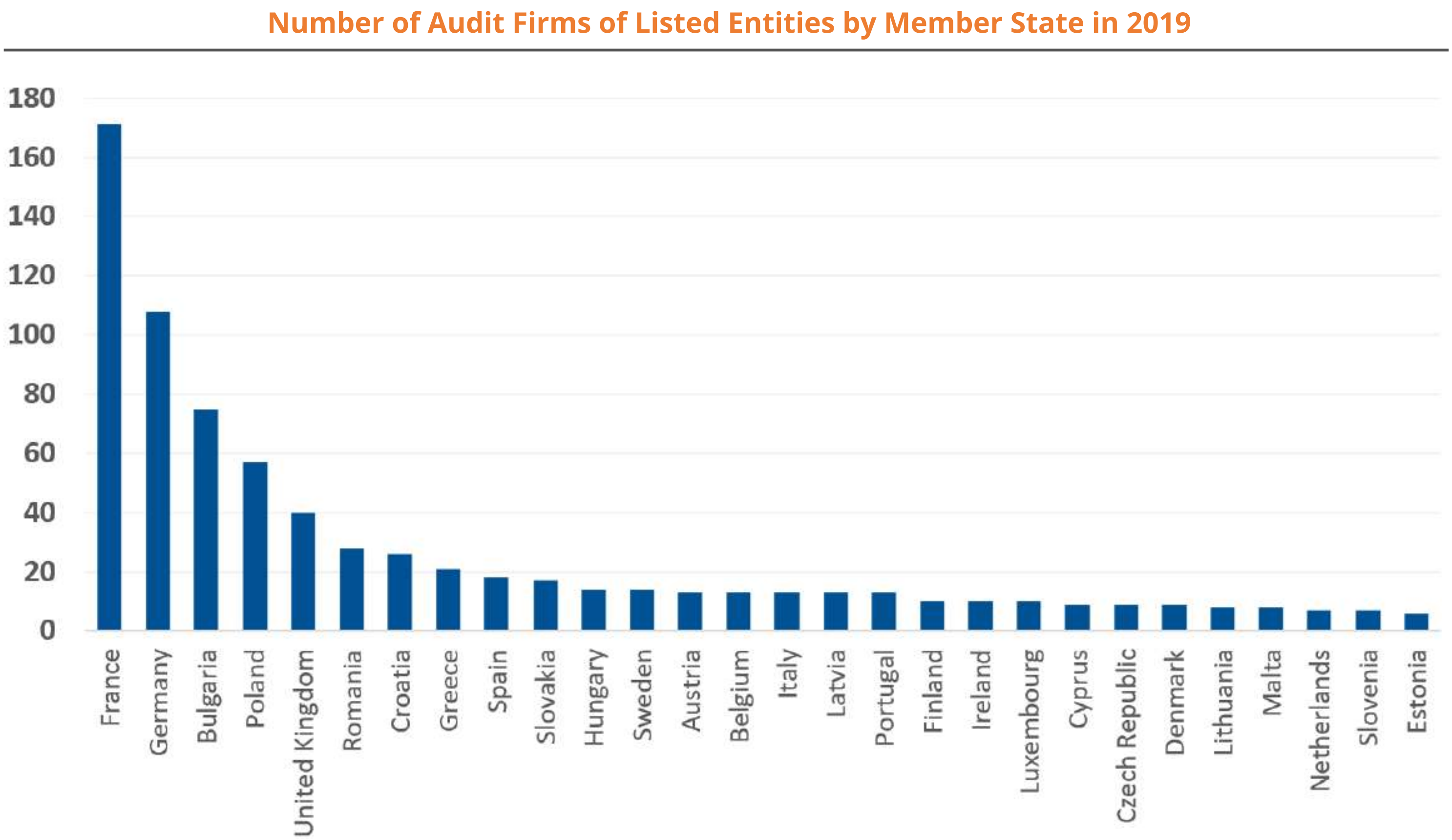
The UK, which has the largest public interest entity market, also has the largest market of listed entities – with over 800 entities listed on regulated exchanges.

Of note is Germany, which has the seventh most public interest entities, but the second most listed entities. Germany is one of the eight member states that chose not to expand their definition of PIE and has a large base of its economy in public markets.

Alternatively, Spain is third in the market for public interest entities but is eighth for listed entities. Spain includes a size component for private companies when determining public interest entities.

Determining exact numbers of listed entities can be complex. Numbers may vary due to inclusion or exclusion based on the type of exchange, the type of equity, and multiple security classes for an individual company. Regardless, using a consistent approach in calculating the number of listed entities, a steady trend of declining listed entities is evident.

Audit Firms

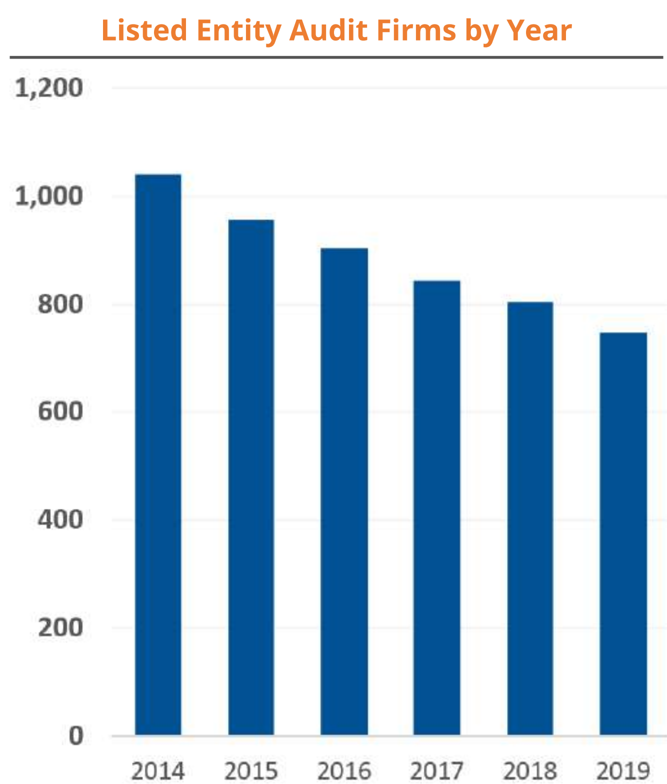


Statutory Audit Firm Concentration

The number of statutory audit firms with at least one listed entity client varies widely from member state to member state. Just four member states – France, Germany, Bulgaria, and Poland – represent more than half of the statutory audit firms in EU member states.

France, which requires joint audits for all listed entities that prepare consolidated financial statements, and Bulgaria, which requires joint audits for certain industries, have more statutory audit firms relative to member states of similar size.

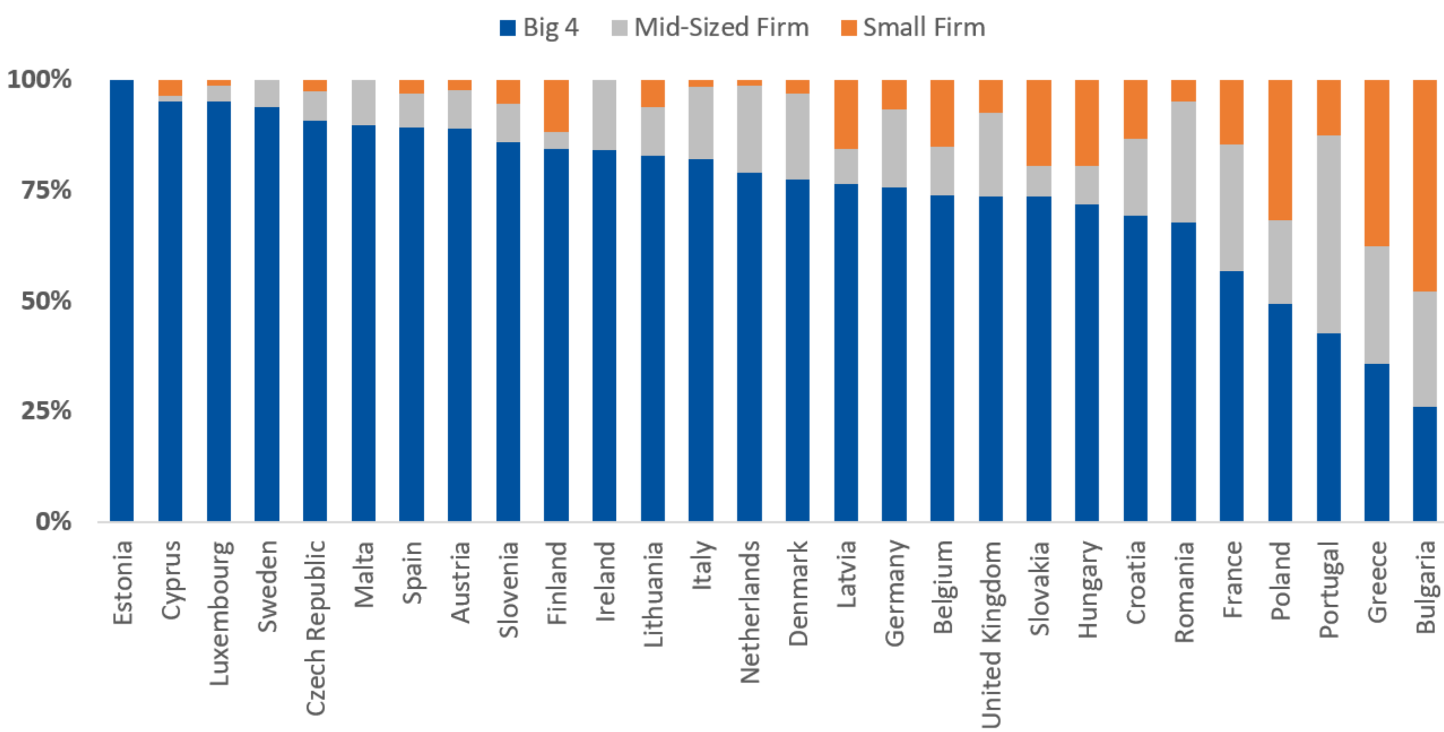
Overall, the number of statutory audit firms has been steadily declining. While there are many reasons as to why the number of statutory audit firms may be decreasing, a declining statutory audit market is a hindrance in creating market choice.



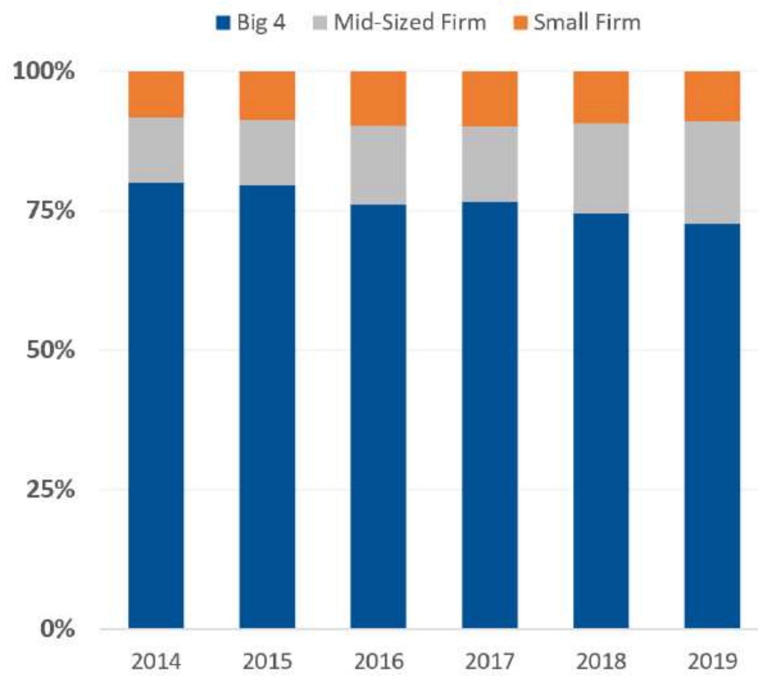
Competition

Public Interest Entities

Concentration of European Audit Market for Public Interest Entities



Concentration by Audit Firm Size



Concerns have existed about the lack of competition in the audit market since the early 2000s, when audit firm Arthur Andersen failed. This event reduced the top tier firms from five to four after two decades of market consolidation (see page 11 for more detail). In the 2010 Green Paper, the European Commission noted that "the collapse of a 'systemic firm' or a firm that reached 'systemic proportions' could disrupt the whole market."

Those concerns appear to be justified. The four largest firms, known as the Big 4, are engaged by nearly three quarters of the European Union (EU) public interest entity (PIE) market. In this report, we examine 28 EU member states (i.e., including the United Kingdom) as of 31 December 2019. On a member state basis, the Big 4 audit over 50% of each market, except for Portugal, Greece, and Bulgaria.

The 10 key audit players (KAP10) – which include the Big 4 plus six mid-sized audit firms – are engaged in nearly nine of every ten public interest entities audits in the EU. These firms control over 75% of PIE engagements in all member states, except for Portugal and Bulgaria.

The largest mid-sized firm, BDO, has clients in 25 of the 28 member states; however, the firm only has a market share over 10% in three member states: Denmark, Portugal, and Romania. This would make it difficult for BDO to replace a Big 4 firm, if the need were to arise.

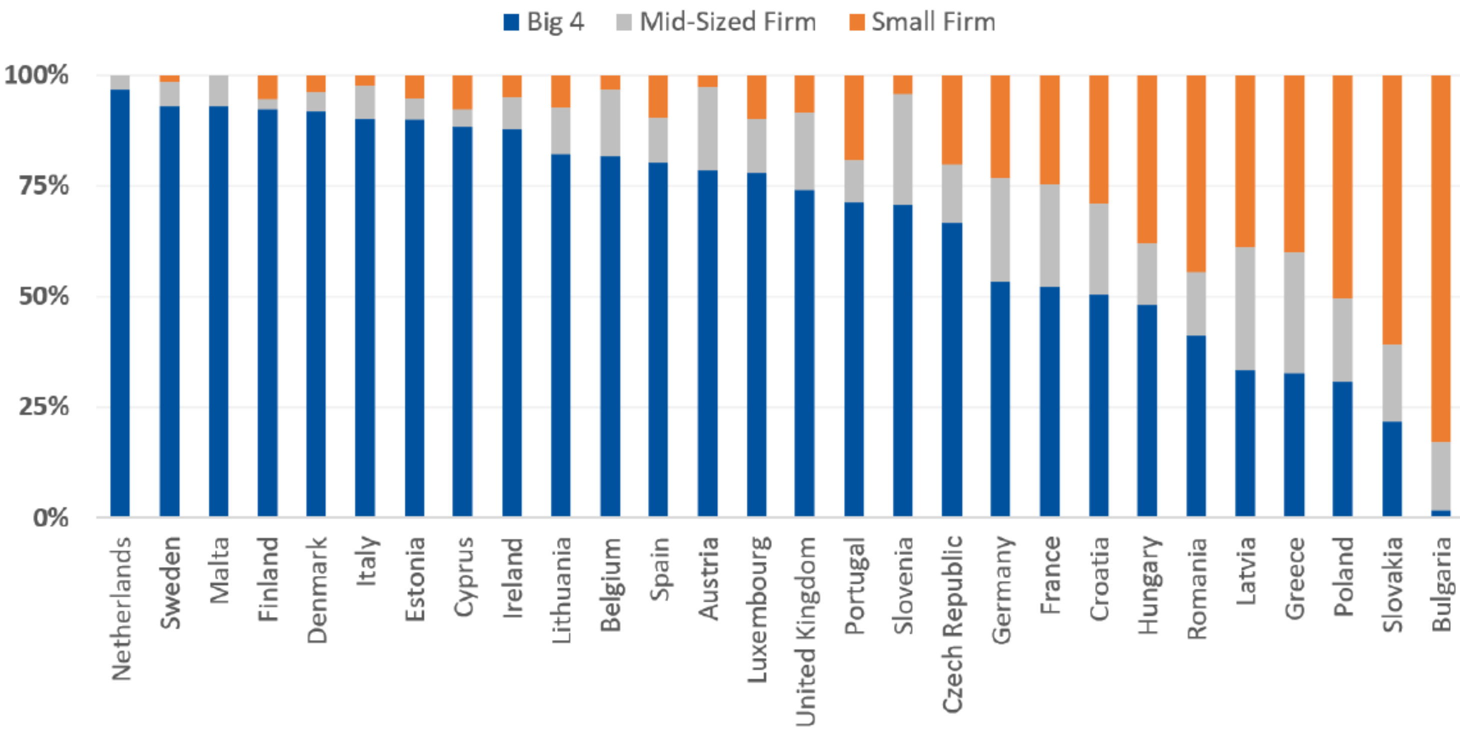
The entry into force of the 2014 Audit Regulation has resulted in more diversity among the KAP10. The six mid-sized firms have grown their share of the PIE market from 12% in 2014 to 18% in 2019. The Big 4's audit market share has declined from 80% of public interest entity audits to 73% over the same time frame.

Changes in market share have differed from market to market. Grant Thornton and Mazars grew their combined market share in Ireland from 1% in 2014 to 14% in 2019. In Lithuania, Grant Thornton increased their market share from 3% in 2014 to 12% in 2019. Meanwhile, BDO grew from 6% of the Romanian market in 2014 to 25% in 2019; BDO has been the largest auditor by number of public interest entity engagements the past two years in Romania.

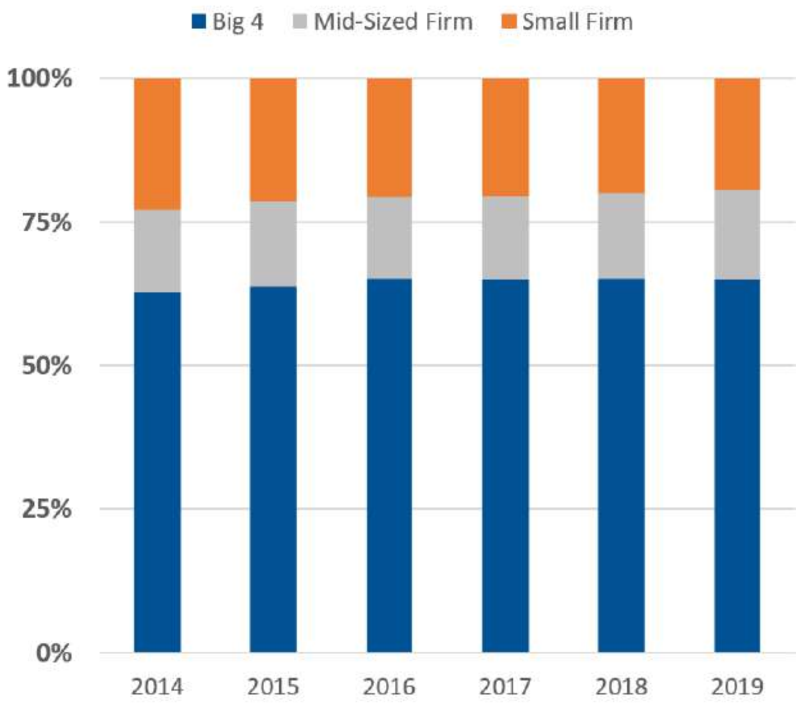
The trend has not existed in some markets. Big 4 audit firms in the Czech Republic have grown their market share from a low of 77% in 2016 to 91% in 2019. In Sweden, the Big 4 have grown their market share from 87% in 2017 to 94% in 2019. Most of the Big 4 gains have come from Mazars, which retracted from 9% to 2% during the same period. Additionally, the Big 4 audit firms have become the only participants in the Estonia market.

Listed Entities

Concentration of European Audit Market for Listed Entities on Regulated Exchanges



Concentration by Audit Firm Size



The audit market for listed entities on regulated exchanges is less concentrated. Smaller firms have nearly 20% of the market share compared to just 10% of the public interest entity market.

On a member state basis, the Big 4 have less than 50% of the market share in seven member states, while the mid-sized firms have fewer than 75% of the market share in ten member states.

There is still cause for concern; the Big 4 have a greater than 90% market share in five member states, while the mid-sized firms have a greater than 90% market share in 15 member states, including the United Kingdom.

The regulation appears to have been less successful in the listed entity market. Modest gains have been made by large firms at the expense of small firms, while mid-sized firms have been engaged by a consistent share of clients since 2014.

Overall, the European market did not see large fluctuations in market concentration though there are some notable outliers.

In Croatia, the concentration of Big 4 firms hovered at around 45% in the two years prior to the Audit Regulation. After the regulation went into effect in 2016, the market share of the Big 4 firms noticeably increased, while the market share held by mid-sized firms rapidly decreased. The change in market shares among these groups is the result of mid-sized firms losing listed clients to the Big 4.

BAKER TILLY CROATIA

The decline of the mid-sized audit firm market share in Croatia was the result of the collapse of Baker Tilly Croatia. Prior to their collapse, Baker Tilly Croatia audited about 7.5% of Croatian listed entities.

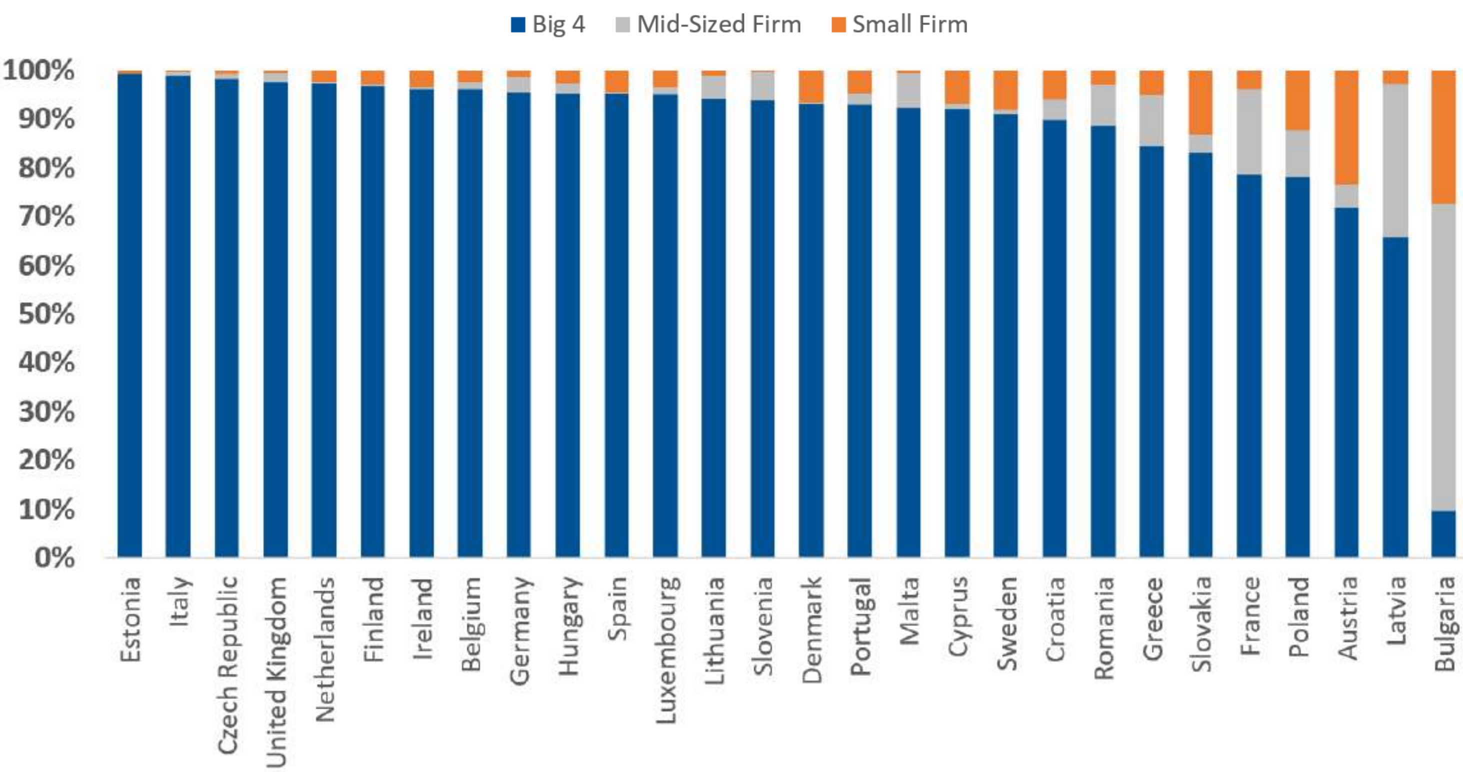
Baker Tilly Croatia had been the auditor of the private company Agrokor until 2016, when PwC was engaged. Agrokor was a conglomerate that operated many of the largest food and drink distributors and retailers in Croatia. During PwC's review of Agrokor, substantial fraud was uncovered which led to upheaval in the Croatian economy as well as the collapse of Baker Tilly Croatia.

The vacuum left by Baker Tilly was mostly filled by Big 4 audit firms; in 2015, the Big 4 audited 45% of Croatian listed entities. Big 4 engagements rose to 59% by 2017. Mid-sized firm engagements fell from 22% to 8% over the same period.

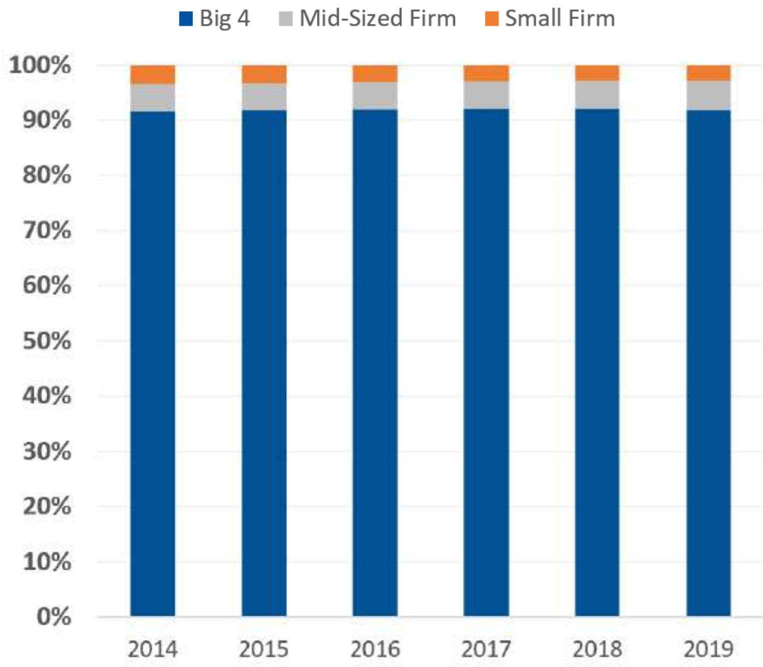
Audit Fees

Listed Entities

Concentration of European Audit Market for the Audit Fees of Listed Entities



Concentration by Audit Firm Size



Audit fees paid by listed entities are highly concentrated among the Big 4. The Big 4 firms receive 94% of all audit fees in the European Union compared to just 65% of engagements.

On a member state basis, the Big 4 have more than 75% of the market share in every member state except for Bulgaria, and they earn over 90% of all audit fees in twenty of the twenty-eight member states.

The mid-sized firms earn over 90% of audit fees in all but three member states: Slovakia, Austria, and Bulgaria. However, these six mid-sized firms only earn more than 10% of audit fees in four member states: Romania, France, Latvia, and Bulgaria.

30%

of member states rely on a single firm for more than half of PIE audits

This suggests that, in addition to having far more audit clients, the Big 4 firms also have much larger clients; larger clients pay higher fees.

There has been almost no change in the market share of audit fees over the past six years. Since the implementation of the Audit Directive and entry into force of the Audit Regulation, mid-sized firms have increased their share of total audit fees by a fifth of a percent in each of the past two years. This slight increase was mostly offset by minor losses from the large firms.

While the way in which overall European audit fees were shared amongst audit firms did not see large fluctuations in market concentration, there are some notable outliers.

Mid-sized firms earned roughly a quarter of audit fees in Croatia in 2014 and 2015. These were largely earned by Baker Tilly, whose presence was significantly reduced in 2016 before their exit in 2017 (see page 21). Baker Tilly had been the second largest audit firm in Croatia based on audit fees. Clients of Baker Tilly engaged Big 4 firms when they were forced to find new auditors.

Concentration

Calculating Market Concentration

The Herfindahl-Hirschman Index (HHI) is an accepted method of measuring market concentration. HHI uses a simple formula to measure the market share of individual companies within an industry compared to their peers and sums the results to create a single market concentration metric. The Index ranges from 1 (least concentrated) to 10,000 (most concentrated). Markets with few participants or single dominant competitors will have higher HHI scores.

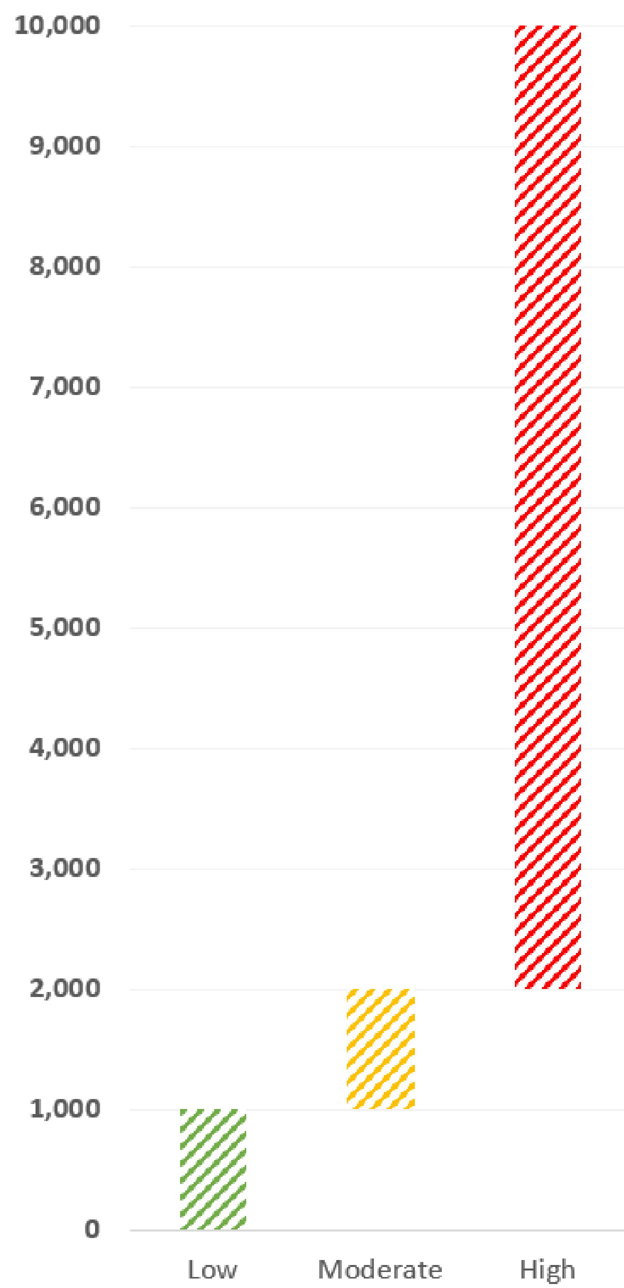
HHI is calculated as the sum of the squares of all market shares.

$$HHI = \sum_{i=1}^{N} S_i^2$$

Based on the European Union's guidelines for assessing horizontal mergers, an HHI of over 2,000 would cause competition concerns and require the Commission to assess additional criteria due to the combined entity's control over a market.[12] It would be unlikely that an HHI between 1,000 and 2,000 would raise concerns, with the caveat that the combined company was not significantly larger than the larger of the two merging companies. Additionally, it would be unlikely that an HHI under 1,000 would cause competitive concerns.

Larger markets are generally expected to have lower HHI scores, as there is more room in the market for competitors; conversely, smaller markets are expected to have higher HHI scores, as it is more likely for a smaller market to be dominated by fewer competitors.

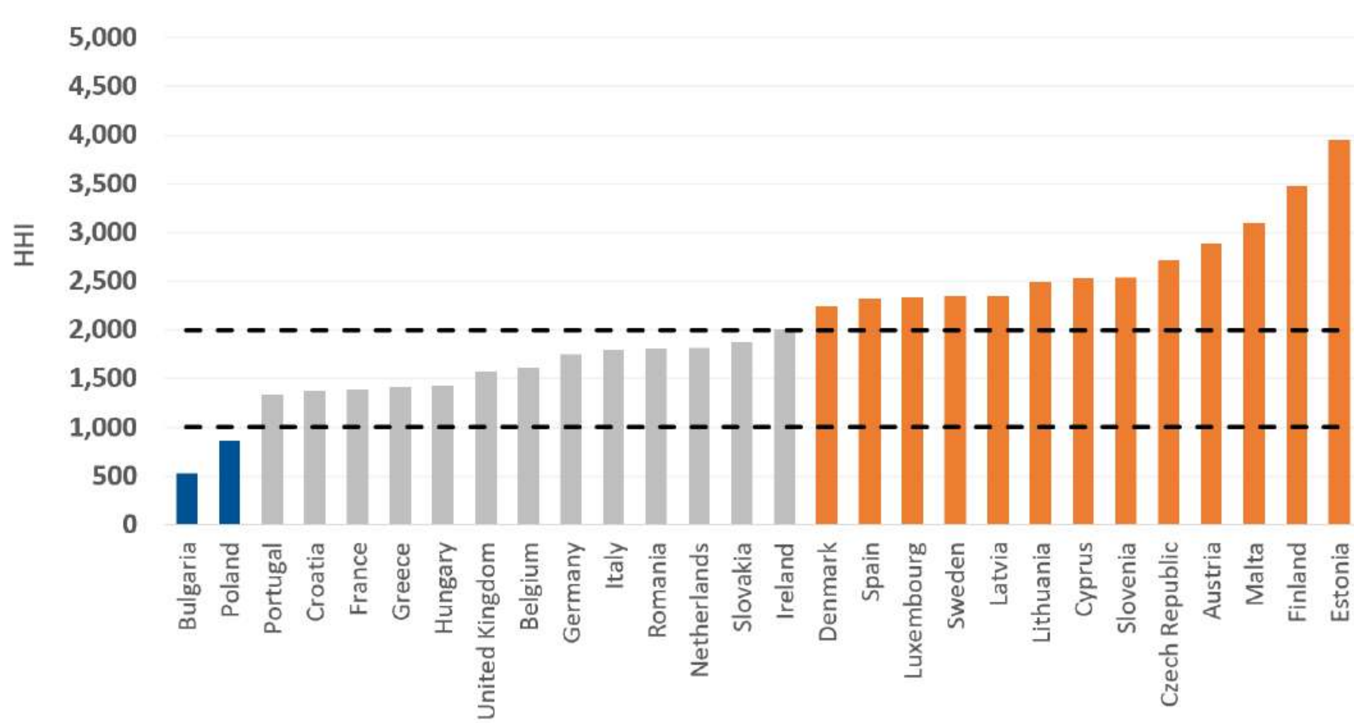
EU HHI Guidelines for Market Concentration



12 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52004XC0205%2802%29

Public Interest Entity Concentration

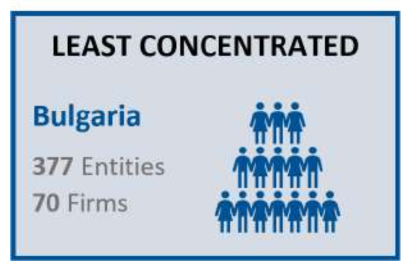
Concentration of PIE Engagements by Member State



Based on the HHI, the public interest entity market is moderately concentrated in Europe. In individual member states, there is just one member state that has a low audit market concentration and 14 member states with high audit market concentration. The remaining 13 member states have moderate audit market concentration.

Estonia, which is the smallest public interest entity market in the European Union, has the highest HHI score among EU member states; Estonia has just four PIE audit firms and 40 public interest entities.

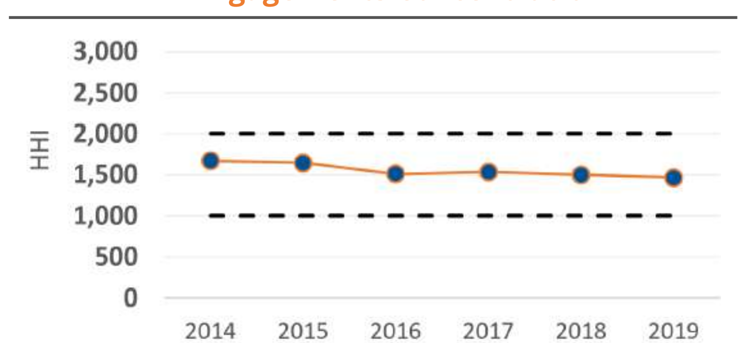
Bulgaria has the lowest HHI scores among EU member states; Bulgaria has 70 PIE audit firms and 445 public interest entities. No single firm in Bulgaria has a greater than 10% representation in the audit market.



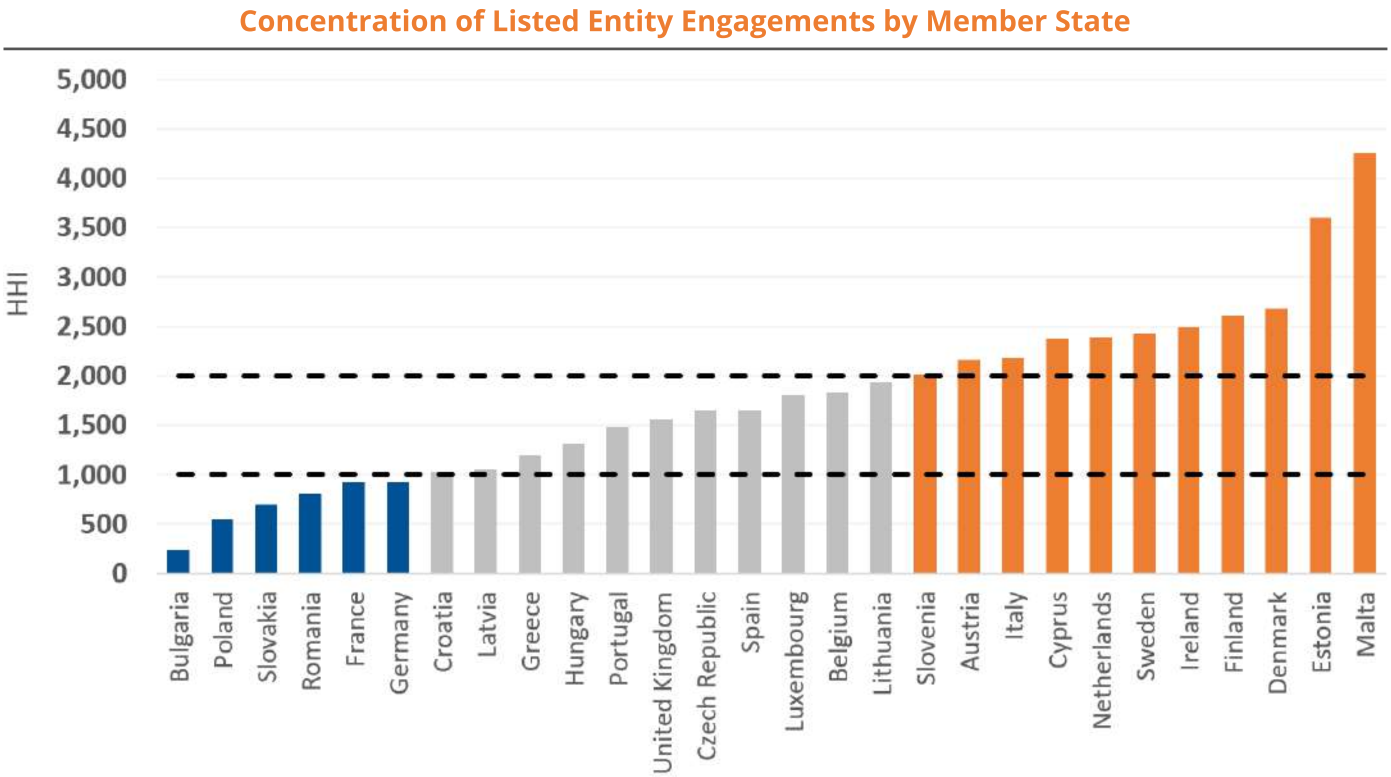
Member states that have more public interest entities usually have a lower HHI score. However, Spain is an exception; Spain has just 21 PIE audit firms and over 1,000 public interest entities. Two firms, Deloitte and PwC, audit nearly 60% of Spanish public interest entities.

Looking at the HHI over time, the market concentration of public interest entities has declined by 12% since the adoption of the Amended Directive and Regulation in 2014. The greatest change, a 9% decline in HHI, occurred after both went into effect in 2016. The market has continued to become slightly more diverse, providing some evidence that the legislation has had some impact.

PIE Engagements Concentration

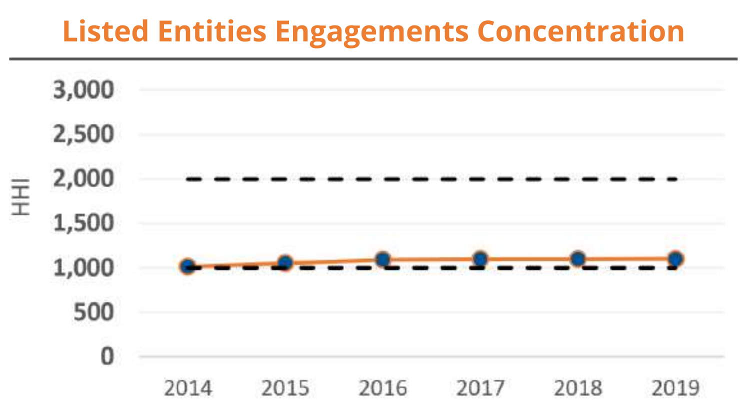


Listed Company Concentration



The listed entities market is slightly less concentrated than the public-interest entity market; six member states have low audit market concentration, compared to ten member states with high market concentration.

Unlike public interest entities, a gradual increase in market concentration has been seen in the listed entity market. The greatest increase was seen before the Regulation came into force in 2016, leveling off in the years that followed. While the increase has been consistent, the changes have not been substantial enough to shift the market concentration to what would be considered highly concentrated.

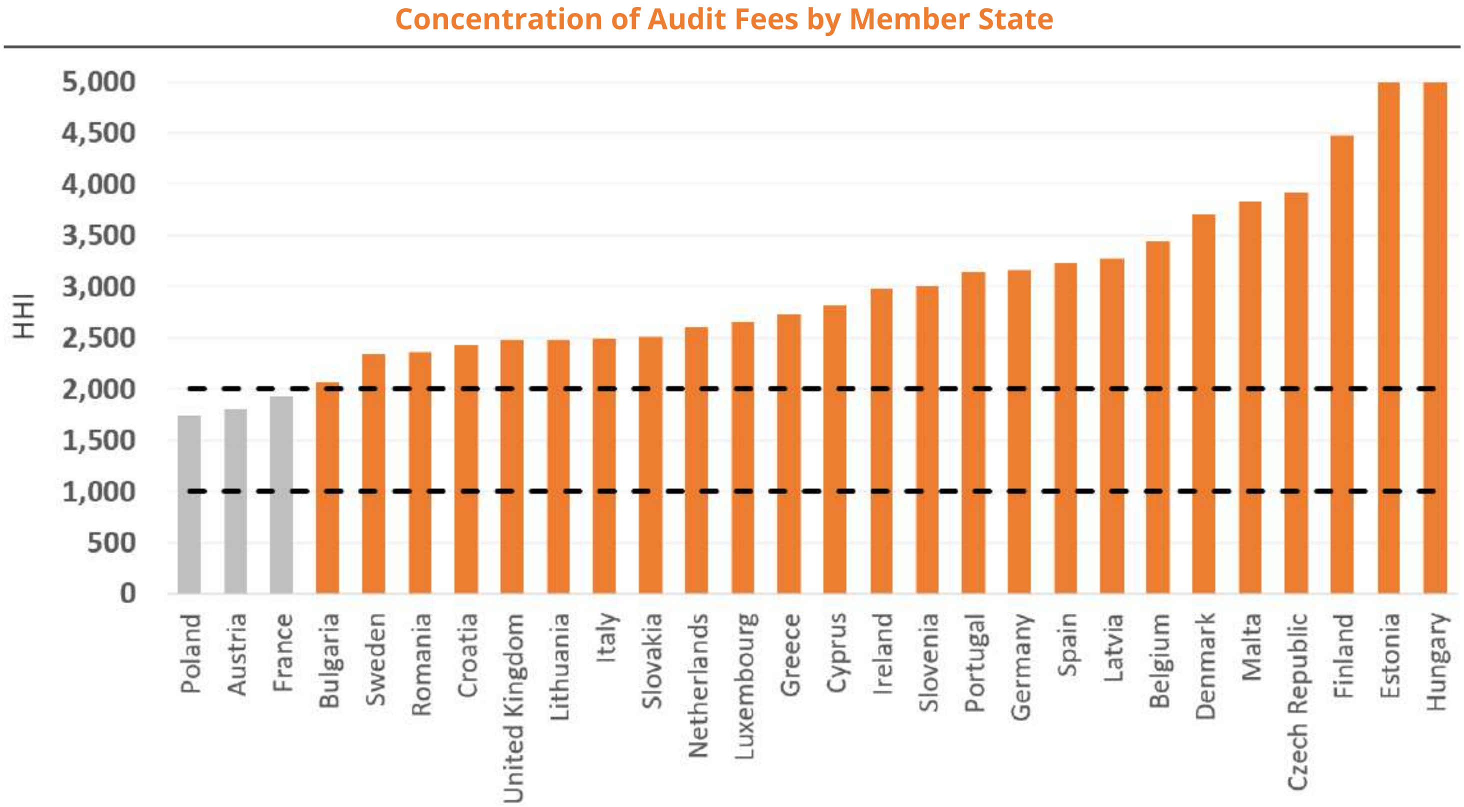


COST OF COMPLIANCE: ACCON AVM

In their 2019 Transparency Report, **Accon avm -** a leading Dutch accounting firm - revealed that,

"Holding a PIE license and properly serving PIE customers has placed disproportionate pressure on capacity and required intensive management attention, while these customers represent a modest share of total sales. A further focus on the PIE segment would therefore be at the expense of the necessary development of the services in which Accon avm is strong. Accon avm will [...] continue to perform audit procedures for non-PIE customers in its core sectors."

Audit Fee Concentration

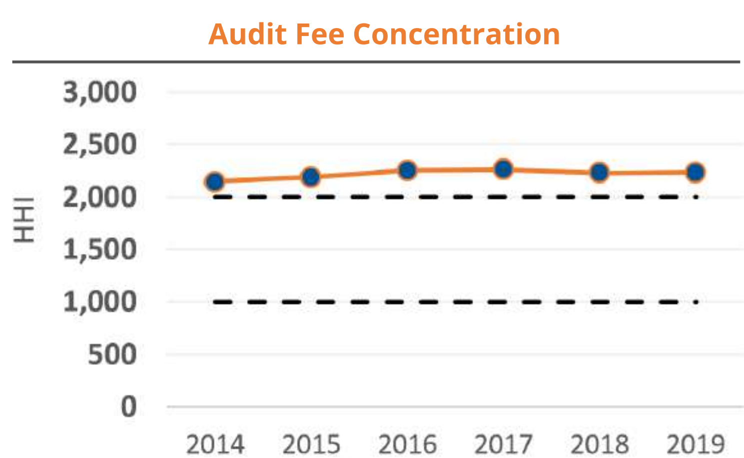


The audit fees of listed entities reveal a much more concentrated audit market. Only three member states have moderately concentrated markets, while the other 25 member states have highly concentrated markets. No member states have a low market concentration based on audit fees.

Despite over 75% of fees being earned by just the Big 4 firms in France and Poland, these markets have moderate concentration. This demonstrates that the market can maintain a minimal level of competition if the Big 4 hold similar market shares.

Examining the trends over time, after the adoption of the Amended Directive and Regulation, the market concentration for audit fees in Europe increased gradually until after their entry into force in 2016. From the period between 2017-2019, market concentration by audit fees has seen an overall decline, though notably not as dramatic as the increase following adoption of the legislation.

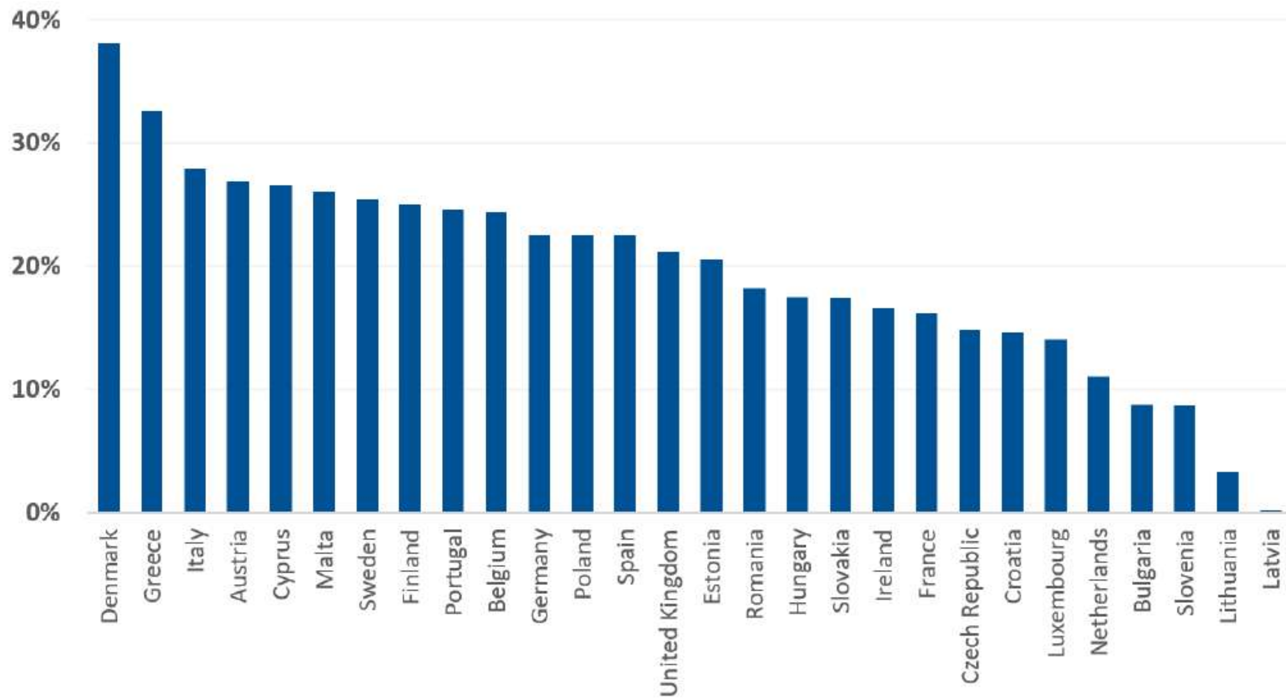
While a pattern of decline is seen in market concentration for audit fees, overall, the lack of competitors in the market leaves Europe vulnerable to sudden changes in auditor supply.



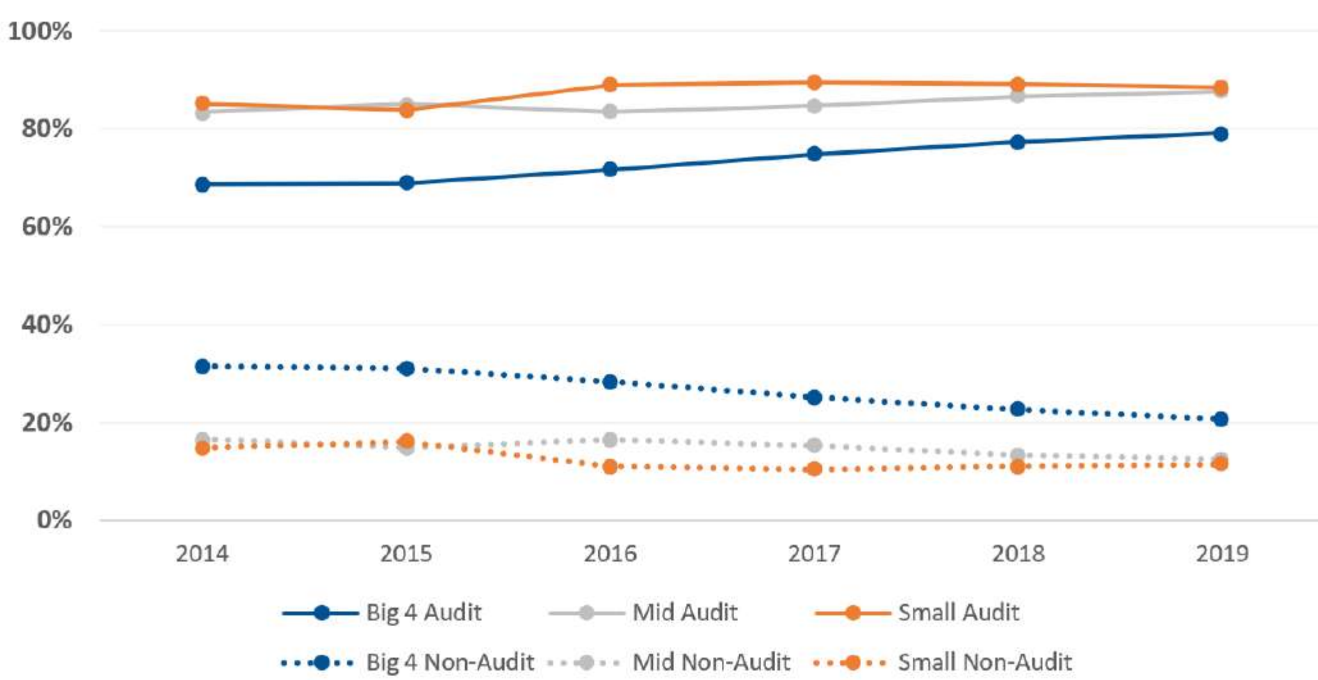
Independence

Non- Audit Fees

Average Non- Audit Fees as a Percentage of Total Fees Paid to Statutory Audit Firm by Member State



Average Audit and Non- Audit Fees as a Percentage of Total Fees Paid to Statutory Audit Firm



Member State	Cap on Non-Audit Fees	Non-Audit Service White List	Non-Audit Service Prohibitions	Tax and Valuation Services Permitted
Austria	70%		X	✓
Belgium	70%		X	✓
Bulgaria	70%		X	Tax
Croatia	70%		X	X
Cyprus	70%		X	✓
Czech Republic	70%		X	✓
Denmark	70%		X	✓
Estonia	70%		X	✓
Finland	70%		X	✓
France	70%		X	X
Germany	70%		X	✓
Greece	70%		X	X
Hungary	70%		X	✓
Ireland	70%		X	✓
Italy	70%		X	X
Latvia	70%		X	✓
Lithuania	70%		X	Tax
Luxembourg	70%		X	✓
Malta	70%		X	✓
Netherlands	70%	X		X
Poland	70%	X		X
Portugal	30%		X	X
Romania	70%		X	✓
Slovakia	70%		X	✓
Slovenia	70%		X	X
Spain	70%		X	✓
Sweden	70%		X	✓
UK	70%		X	✓

✓ = allow tax and valuation services
X = do not allow tax and valuation services
X = have non-audit service white list / prohibition list

The 2014 Audit Regulation further limited the type and amount of non-audit services that could be provided to a PIE by their statutory auditors. Audit firms are now "limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity."

Non-audit fees from audit clients represent just over 20% of total fees earned by audit firms in the EU market, but there is a wide range from member state to member state. Non-audit fees in Bulgaria, Slovenia, Lithuania, and Latvia are under 10% of total fees, while Denmark is over 30%. Bulgaria, Slovenia, and Lithuania have additional limitations to the non-audit services that can be performed.

The percentage of non-audit fees to total fees has been declining since 2014. The decline accelerated in 2016 following the entry into force of the Audit Regulation and is largely due to new prohibitions on the provision of certain tax services.

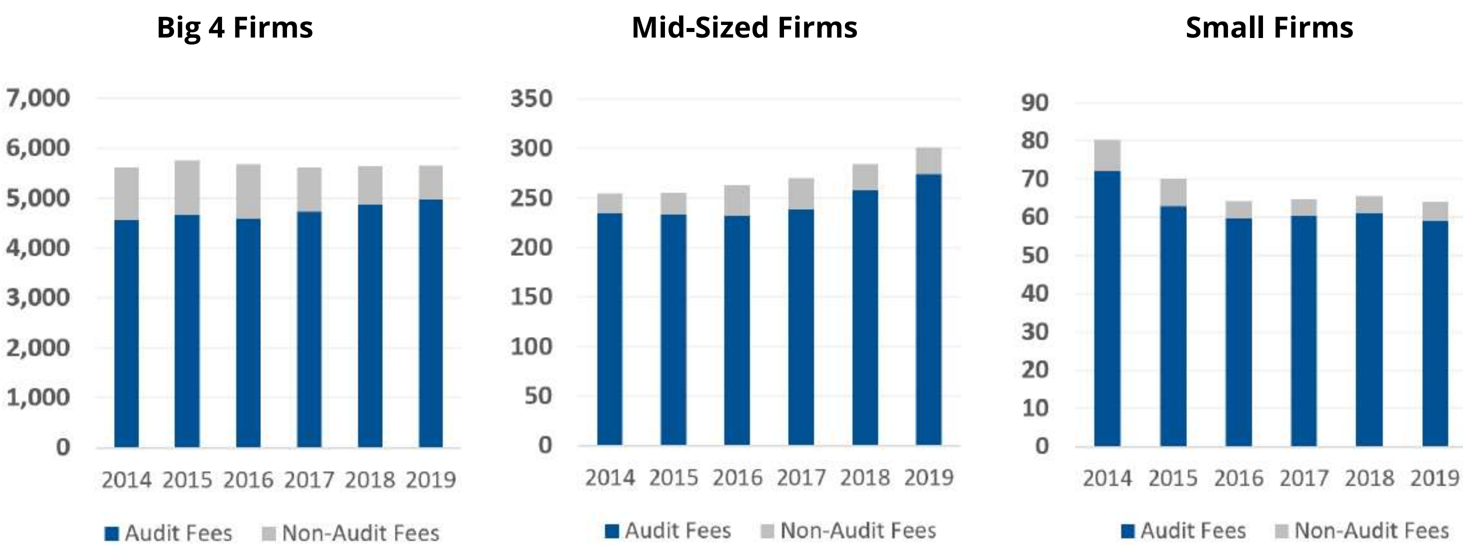
The decline is mostly among the Big 4 audit firms; Big 4 non-audit fees have declined as a percentage of total fees from 32% in 2014 to 21% in 2019.

Mid-sized firms have also seen a gradual decline in non-audit fees as a percentage of total fees since 2016; mid-sized firms only earn about half as much of their total fees from non-audit services as the Big 4 firms.

Small firms have the lowest non-audit fee to total audit fee percentage at just 11%, but small firms have been increasing fees earned from non-audit services since 2016.

The Audit Regulation introduced a maximum cap on non-audit fees of 70% of total fees, and yet the member state with the highest level of non-audit fees, Denmark, reaches less than 35%. This raises a question as to whether the costs incurred by audit committees and their auditors in policing levels of non-audit fees can really be justified.

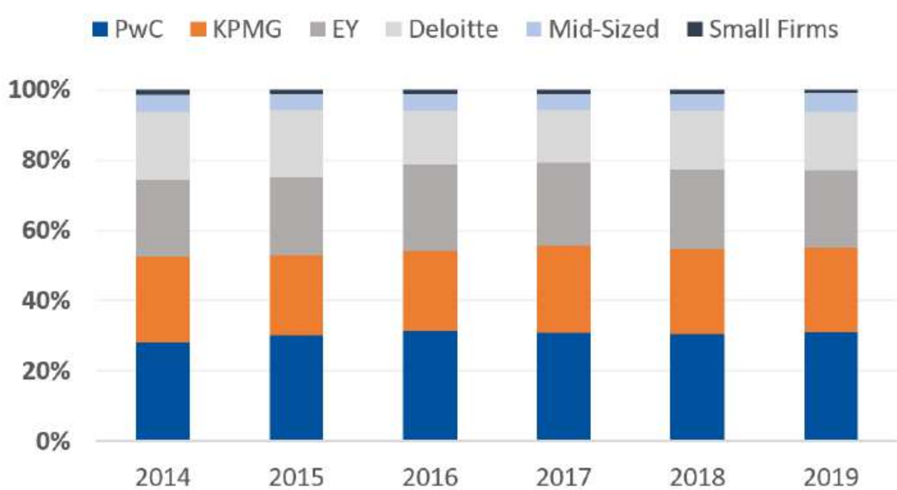
Audit and Non-Audit Fees by Firm Size
(in millions EUR)



The Big 4 audit firms have earned more than 96% of total European Union non-audit fees each year from 2014 to 2019, though they have seen a minor (1%) decrease in their market share. The mid-sized firms increased their market share of non-audit fees from 2% in 2014 to 3% in 2019, and the small audit firms have seen very little movement in their market share of non-audit service; the small firms represent less than 1% of the non-audit fees market.

Overall, non-audit fees have declined. Since the entry into force of the Audit Regulation, non-audit fees have declined by 33% between 2014 and 2019. Most of the decline is attributable to the Big 4 audit firms, which had a cumulative decline of 33%. Mid-sized firm non-audit fees declined just 11%, while small firm non-audit fees decreased 32%. Deloitte saw the largest relative change with a 39% decline.

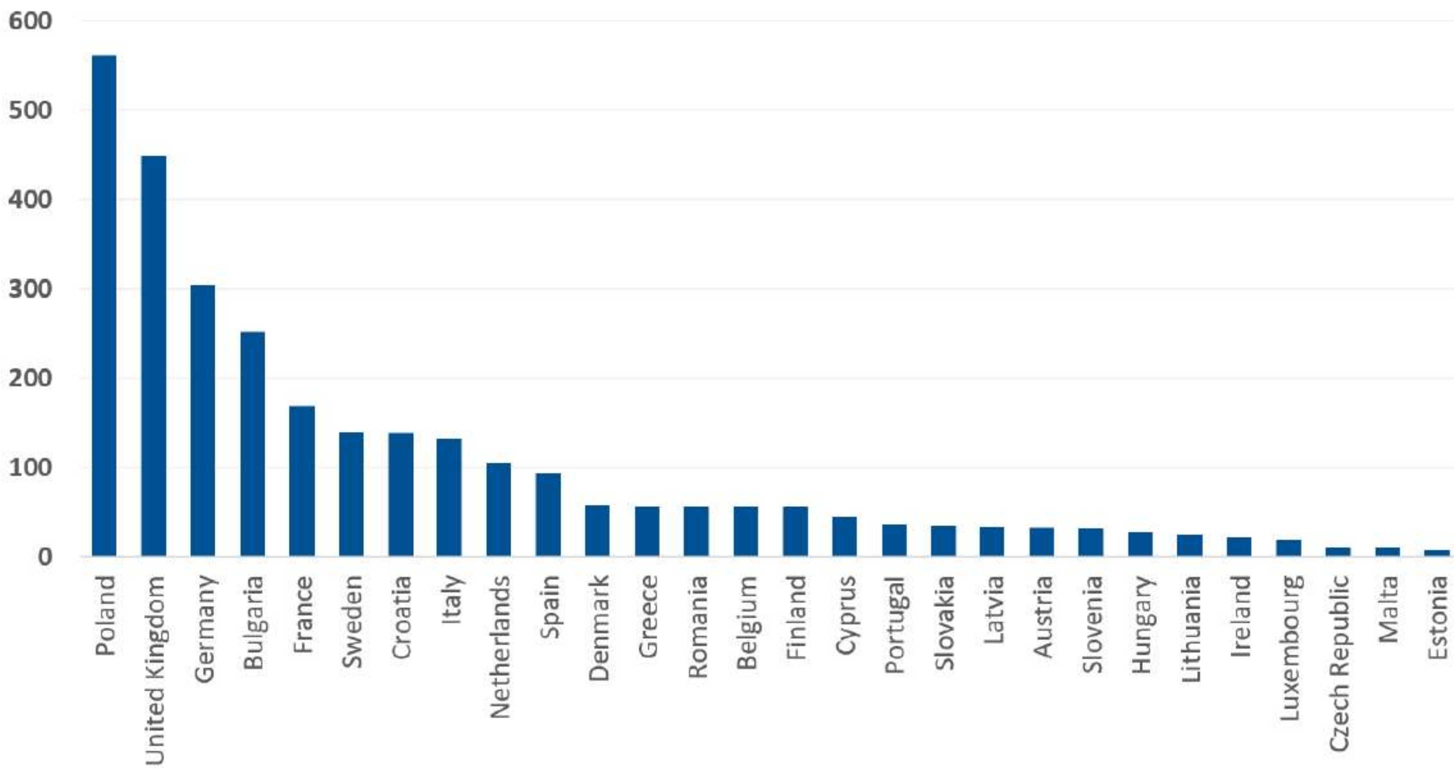
After bottoming out in 2017, small firms have made gains in non-audit fees over the past two years, increasing non-audit fees by 15%. Although these gains have not been enough to alter the non-audit service market, small firms still represent less than 1% of total non-audit fees.



However, not all countries experienced this decline in non-audit fees. After adoption of the Amended Directive and Regulation in 2014, non-audit fees paid to PwC and KPMG in Spain increased, more than doubling after entry into force in 2016. This trend does not indicate a decline in independence nor audit quality, though regulators should be cognizant of similar trends in individual member states, and take these into account when making decisions about focus areas and resource allocation.

Audit Firm Rotation

Number of Audit Firm Rotations by Member State

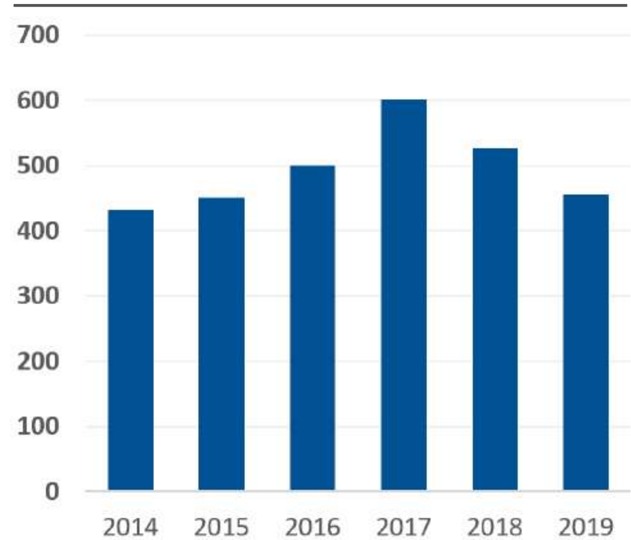


Mandatory firm rotation has been another tool in the initiative to increase audit firm diversity, independence, and resilience in the global markets. The 2016 Regulation required mandatory audit firm rotation for statutory auditors of public interest entities after a maximum period of ten years, with the option for individual countries to set lower audit tenure restrictions. A member state may allow an extension of up to 20 years if a public tender process is conducted, and up to 24 years if two or more statutory audit firms are engaged simultaneously.

Poland accounts for about 20% of all EU auditor changes. This is likely a result of the implementation of mandatory audit firm rotation every five years, rather than the ten year EU standard. In a recent study examining the Polish market, Indyk found that mandatory rotation did not result in reduced market concentration, as the largest capital groups are audited by Big 4 firms and tend to rotate to other Big 4 firms.[13]

This is further supported in Beleibtreau and Stefani's recent paper, which indicated that mandatory audit rotation only increases market diversity when smaller firms have a significant market share. In highly concentrated markets, mandatory audit firm rotation only results in further homogeneity.[14]

Number of Audit Firm Rotations by Year

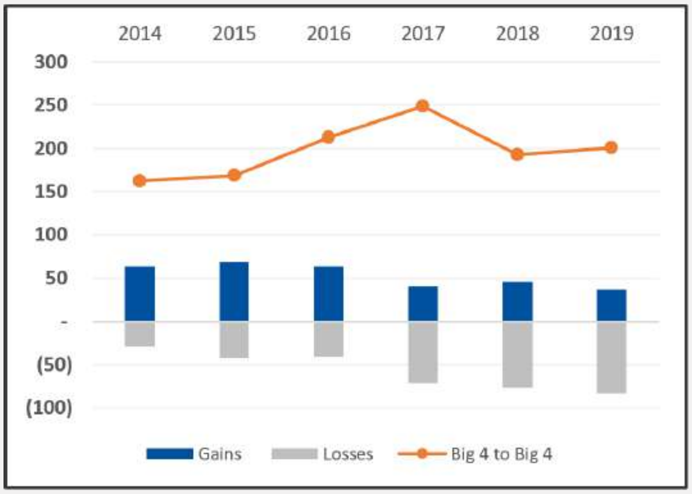


13 https://content.sciendo.com/configurable/contentpage/journals$002febrpl$002f5$002f4$002farticle-p90.xml?tab_body=pdf-78589
14 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2981659&download=yes

The considerable variation of rotation periods across the EU can cause significant challenges for PIEs and their auditors. This is particularly true for banks and insurance companies, since each of their EU subsidiaries will be required to change their auditors in line with national law. These companies must decide either to rotate their group auditor in accordance with the shortest rotational period required by the company group and its subsidiaries, or alternatively, to appoint different auditors for subsidiaries that are required to rotate their auditors more rapidly than the parent company. This will result in fragmentation of the group audit and is unlikely to be conducive to better quality audits.

Many of these problems could be solved if rotation periods across an EU group of companies were dictated by the law of the member state of the ultimate EU parent company. However, this is a political issue which would require a change to the legislation.

Big 4 Audit Firm Rotations



Since the entry into force of the 2016 Audit Regulation, Big 4 firms have begun to see losses. Prior to this date, Big 4 firms had gained more than 20 clients per year. Since then, Big 4 firms have lost about 30 clients per year.

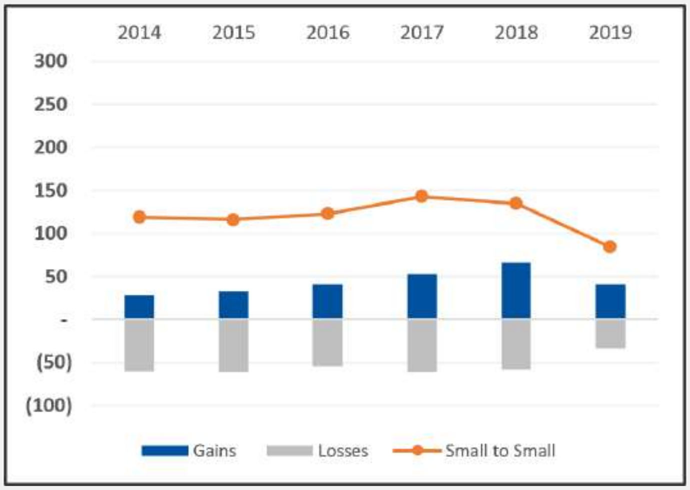
Clients of Big 4 firms are most likely to engage other Big 4 firms. In 2014, 85% of Big 4 departures resulted in the engagement of another Big 4 firm. This has declined to 71% in 2019. Clients that engage smaller firms were evenly divided among mid-sized firms and small firms.

Mid-Sized Audit Firm Rotations

Since the entry into force of the 2016 Audit Regulation, mid-sized firms have begun to see gains from small and large firms. Prior to this date, mid-sized firms had generally broken even. Since then, mid-sized firms have gained about 20 new clients per year.

Unlike clients of Big 4 firms, clients of mid-sized firms are less likely to move to other mid-sized firms. Prior to 2016, most clients departing mid-sized firms engaged a Big 4 firm. Since then, most clients have engaged small firms.

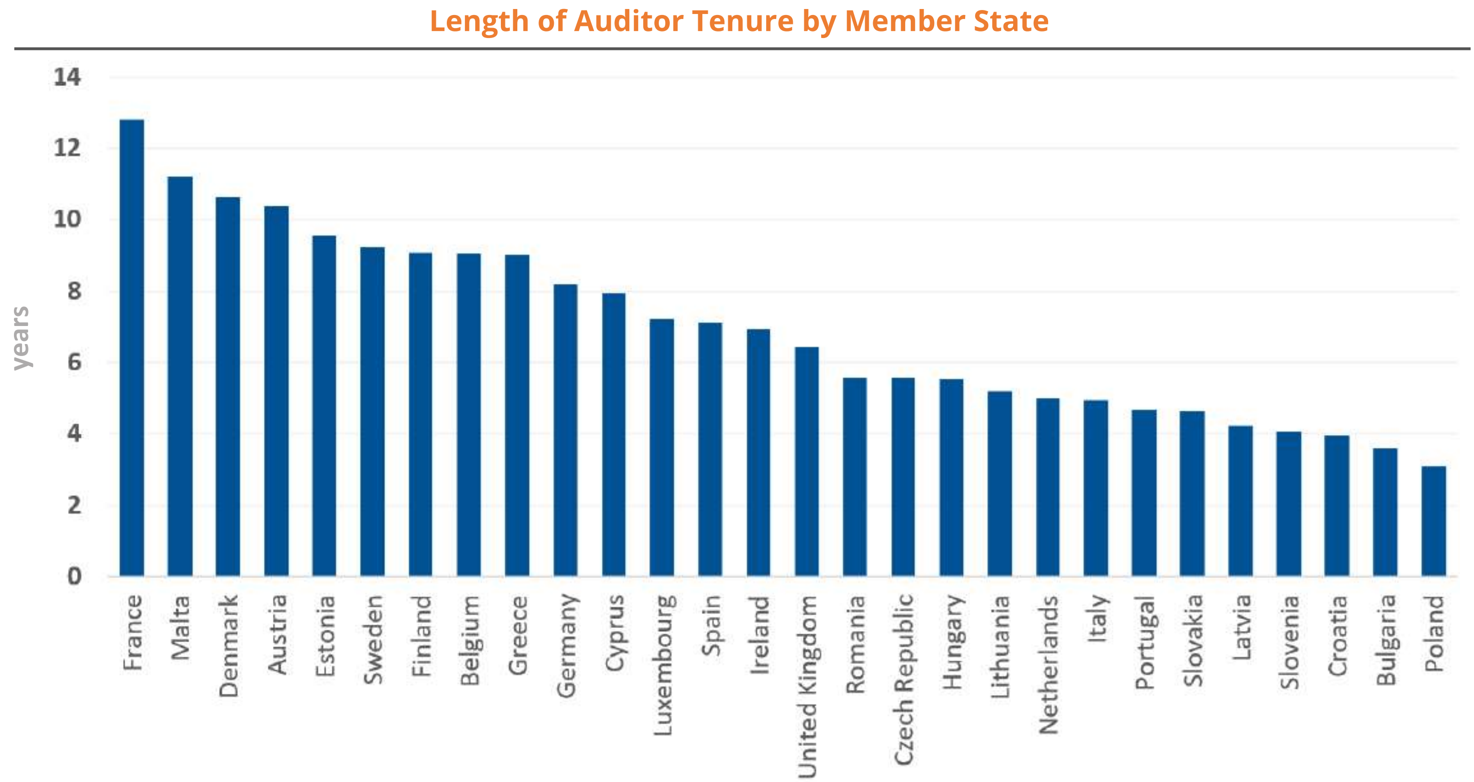
Small Audit Firm Rotations



Since the entry into force of the 2016 Audit Regulation, small firms have also begun to see gains. Prior to 2016, small firms had lost between 15 and 30 clients to larger firms per year. Since then, small firms have begun to see modest gains of fewer than 10 clients per year.

Clients of small firms are most likely to engage other small firms. In 2014, 82% of small firm departures resulted in the engagement of another small firm. This number has declined to 64% in 2019. Clients that engage larger firms were evenly divided among mid-sized firms and Big 4 firms.

Auditor Tenure



Overall, the average tenure of auditors in the EU is eight years; this is much shorter than tenures had been prior to the 2014 Audit Regulation. In a 2012 report, Audit Analytics found that large cap companies in Germany, the Netherlands, Spain, and the UK had average tenures of 25, 26, 12, and 22 years, respectively.[15] Even for small cap companies, average tenures were 11, 15, 9, and 13 years, respectively.

However, tenure varies widely from member state to member state. Poland implemented the Act on Statutory Auditors, Audit Firms and Public Supervision in 2017 which established a 5-year auditor rotation.[16] Poland's five-year rotation requirement is the strictest in the EU and has resulted in Poland having the shortest average tenure of 3.1 years.

Average Tenure Length by Firm Size	
Big 4	9 years
Mid-Sized Firms	7 years
Small Firms	6 years

France has the longest average auditor tenure of 12.8 years. France is the only EU member state that requires joint audits which allows longer engagement periods. Three other member states have auditor tenures over 10 years. Malta, Denmark, and Austria have tenures between 10.4 years and 11.2 years.

As noted above, large companies tend to maintain longer auditor relationships than smaller companies. The Big 4 firms – which have the largest clients – have an average tenure of nine years, while small firms, which have the smallest clients, have an average of just six years.

The exception to this trend is mid-sized firm Mazars; because Mazars' predominant market is France, the audit firm's average tenure is 10 years, giving Mazars' the longest average tenure in the EU.

Longest Average Tenure in EU:

10 years

Mazars has the longest average tenure in the EU, as the firm's predominant market is France

15 https://www.auditanalytics.com/0002/view-audit-analytics-reports.php?report=e31d61ff09c14400ea50aada07e36d13

16 https://www.pibr.org.pl/assets/file/2481,Ustawa_uobr_11.05.2017_EN.pdf

Audit Firm Tenders

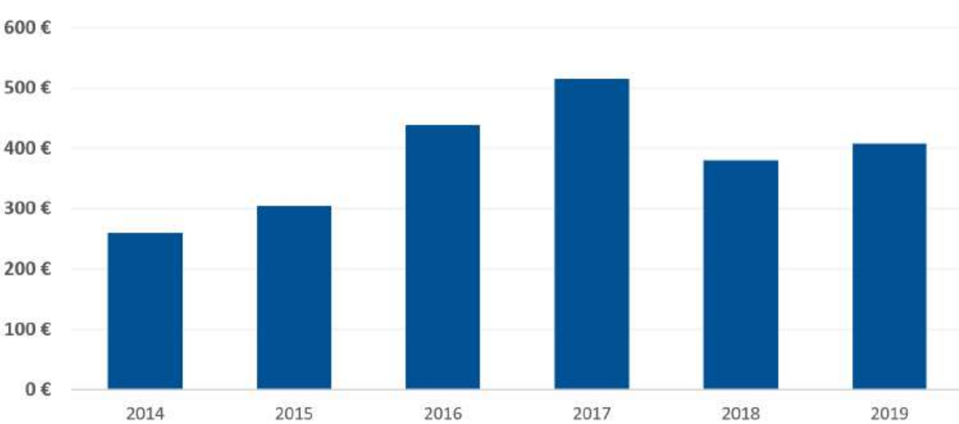
Estimated Cost for Individual Tender		
PIE Size	**Cost per PIE**	**Cost per Audit Firm Tender**
Very Large	400,000 €	5,000,000 € - 7,000,000 €
Large	60,000 € - 80,000 €	1,060,000 € - 1,080,000 €
Medium	60,000 €	160,000 €
Small	N/A	N/A

The cost of tendering an offer can be prohibitive for small firms. In a 2011 impact assessment conducted by the European Commission, the Commission found that a tender for the audit of a very large PIE - those with a market capitalization in excess of €40 billion - would cost a firm upwards of €5 million. A tender for a large PIE - those with a market capitalization more than €1 billion and less than €40 billion - would cost a firm about €1 million. And a tender for a medium PIE - those with a market capitalization more than €50 million and less than €1 billion - would cost a firm up to €160,000. No cost was disclosed for small firms, those with a market capitalization of less than €50 million.

On average, small firms earned €70,000 per audit. The cost for a small firm to compose a tender offer for a medium-sized PIE would be a substantial risk. Additionally, a small firm would likely compete with mid-sized and Big 4 firms that have more resources, or tender riskier medium-sized PIEs that mid-sized and Big 4 firms avoid. The same is true for mid-sized firms composing tender offers for large and very large PIEs. This creates another barrier for smaller firms to compete with larger firms.

The 2014 Audit Regulation requires audit committees to submit at least two choices whenever a PIE is required to perform a tender process. Using conservative estimates of the lower bound of the Commission's estimated costs, three firms per tender, and excluding small PIEs (because no estimate was determined), we found that tender offers cost audit firms at least €500 million in 2017 and have been above €375 million each year since the Audit Regulation entered into force.

Estimated Cost for Audit Firm Tenders (in millions)*



*Excludes estimated costs for small PIEs; Assumes three tenders per PIE

The actual cost is likely much larger. The calculation excluded small listed entities, which represented between 40% and 60% of auditor changes between 2014 and 2019, and the calculation tenders that do not result in an auditor change.

We anticipate these costs will increase as more large and very large listed entities, which usually have longer auditor tenures, begin to rotate their auditors due to the Audit Regulation.

Market Overview - Regional Summary

Western Europe

	Total Audit Fees	Non-Audit Fees	Average Tenure	Dominant Firm	Audit Fees HHI	Concentration
France	1,119,354,422 €	16%	12.8 years	EY 15%	1,932	Moderate
Germany	927,106,025 €	20%	8.2 years	KPMG 16%	3,163	High
Austria	52,258,190 €	24%	10.4 years	KPMG 33%	1,807	Moderate
Luxembourg	72,703,677 €	13%	7.2 years	KPMG 23%	2,652	High
Belgium	103,041,387 €	21%	9.0 years	Deloitte 31%	3,448	High
Netherlands	353,736,578 €	10%	5.0 years	KPMG 25%	2,609	High

Southern Europe

	Total Audit Fees	Non-Audit Fees	Average Tenure	Dominant Firm	Audit Fees HHI	Concentration
Malta	6,444,245 €	24%	11.2 years	PwC 46%	3,832	High
Spain	342,299,184 €	15%	7.1 years	Deloitte 30%	3,224	High
Portugal	25,440,102 €	21%	4.7 years	PwC 33%	3,142	High
Italy	299,155,508 €	24%	4.9 years	EY 25%	2,490	High
Greece	25,389,443 €	30%	9.0 years	PwC 15%	2,732	High
Cyprus	8,525,056 €	25%	7.9 years	KPMG 31%	2,813	High

Scandinavia & British Isles

	Total Audit Fees	Non-Audit Fees	Average Tenure	Dominant Firm	Audit Fees HHI	Concentration
Sweden	263,099,193 €	22%	9.2 years	PwC 38%	2,341	High
Finland	104,327,588 €	24%	9.1 years	PwC 36%	4,474	High
Denmark	74,176,734 €	34%	10.6 years	PwC 32%	3,707	High
UK	1,386,129,987 €	19%	6.4 years	PwC 24%	2,485	High
Ireland	69,000,913 €	16%	7.0 years	KPMG 43%	2,984	High

Eastern Europe

	Total Audit Fees	Non-Audit Fees	Average Tenure	Dominant Firm	Audit Fees HHI	Concentration
Lithuania	823,380 €	3%	5.2 years	PwC 40%	2,486	High
Poland	38,840,818 €	19%	3.1 years	Deloitte 12%	1,745	Moderate
Slovakia	1,898,035 €	12%	4.6 years	KPMG 8%	2,517	High
Romania	4,222,394 €	16%	5.6 years	Deloitte 20%	2,358	High
Bulgaria	4,904,748 €	9%	3.6 years	Deloitte 31%	2,063	High
Croatia	2,645,511 €	15%	4.0 years	PwC 19%	2,431	High
Estonia	820,950 €	18%	9.6 years	PwC 56%	5,203	High
Slovenia	3,111,976 €	5%	4.1 years	KPMG 24%	3,004	High
Czech Republic	6,245,646 €	13%	5.6 years	KPMG 24%	3,927	High
Hungary	4,821,760 €	17%	5.5 years	Deloitte 17%	5,210	High
Latvia	458,290 €	0%	4.2 years	Deloitte 17%	3,279	High

ABOUT US

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