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Mazars contribution to the European Commission public consultation on Corporate Reporting – improving its quality and enforcement

3 February 2022

Audit quality is the cornerstone to building trust amongst investors and other stakeholders, ensuring efficient allocation of capital and contributing to the development of a sustainable and prosperous economy in the EU. Statutory auditors work for the public interest and play a critical role in setting confidence by attesting corporate reporting on financial and sustainability information.

Since the adoption of the 2014 Regulation, the efficiency of corporate reporting has been challenged by a series of high-profile corporate failures, a remaining high concentration in the PIE audit market (EC Market Monitoring report, 2021) and insufficient regulatory and supervisory convergence. Besides, the introduction of an integrated reporting combining both financial and sustainability reporting calls for redesigning the PIE audit market structure and creating incentives for high quality audit and reliable information.

We welcome the EU consultation process triggered by this Call for evidence, and its ambition to simplify and upgrade audit legislation in the EU, in order to contribute to a more efficient and integrated Capital Markets Union (CMU) and improve reliability of sustainability reporting. Corporate integrity and the prevention and detection of fraud are critical to building investors' confidence.

- The current legal framework for corporate governance in the EU is properly designed to reach this objective if audit committees are in place, at least for major PIEs. From our experience, existing requirements will result in better audit quality if best practice regarding internal controls are more widely spread and monitored within the Single Market. Such corporate governance codes for PIEs should include a more explicit definition of roles and responsibilities of the management, audit committee, board and auditors in order to avoid loopholes or grey areas.
- As a global audit-centric firm with European roots, operating in over 90 countries, Mazars believes that the forthcoming intervention by the EU to enhance the corporate reporting of PIEs should focus on audit quality, and be articulated around the following objectives:
  1. Introduce the provisions of upgraded international standards on quality (ISQM 1 & 2) within the EU, in order to enhance quality controls and engagement risk monitoring within audit firms.
  2. Reduce fragmentation in the audit market by further harmonizing mandatory firm rotation and prohibited non-audit services rules, for which transposition options have translated into a highly complex and risky framework.
  3. Reduce the existing market concentration, thereby increasing choice for PIE when selecting an audit firm, in order to enhance the resilience of the audit profession and its ability to address new requirements (CSRD). There are cost-efficient methods which could help diversify the audit market, with a predictable transition period, and enable effective supervision.
  4. Introduce a mandatory "four eyes principle" for the audit of large and listed PIEs, credit institutions and insurance companies, leading to a cross-review and co-signature of audit opinions, which embed independent and high-quality cross-checking within the audit process.
  5. Favor supervisory convergence by granting the CEAOB a formal advisory role on more detailed delegated acts adopted by the Commission, and a capacity to promote

convergence of inspection practices by national competent authorities. Academic and theoretical studies have intensely debated joint audit as a method of reform without reaching a conclusive answer. We recommend focusing future discussion on the practical experience of preparers, auditors, investors and supervisors, and on identifying the prerequisite and conditions for an efficient way to combine more than one auditor, in order to improve audit quality and create a vibrant audit market.

Read the contribution on the European Commission's website.

Below you find a list of studies and reports with information and evidence supporting the arguments made by Mazars.

On joint audit & quality	
Title	Joint audit and accuracy of the auditor's report - an empirical study Baldauf, Julia; Steckel. Rudolf International Journal of Economic Sciences and Applied Research 5 (2): 7-42. 2012
Country	Austria, Germany
Quotes	"Baldauf and Steckel (2012) surveyed 35 statutory auditors in Austria and Germany and found evidence that auditors who use a joint audit approach achieve higher consensus and greater accuracy. The joint audit approach strengthens the auditors' independence by providing further opportunities to express conflicting opinions. The mutual supervision of the audit planning process and the audit procedures in a joint audit improves the quality (accuracy) of the issued audit opinion. More than 60% of the participants who had already been involved in a joint audit considered the mutual supervision to have a positive influence on the audit process and the audit opinion."
Executive summary	This study examines the effects of a joint audit on auditor's report consensus and accuracy. We investigate whether a joint audit, particularly the report issued, improves an audit's quality. We measure the audit's quality using the degree of auditor consensus in the auditor's report. We also use an expected opinion, which we believe is appropriate in the defined circumstances, as a scale for the measurement of the report's accuracy. Participants in the study were statutory auditors from Austria and Germany. At present, manners of improving audit quality and auditing decisions are being intensively discussed in the European Union and everywhere in the world. The joint audit approach is a very current topic in this discussion. Regulators and standard setters are extensively examining the benefits of various audit approaches. Nevertheless, in most countries, the joint audit approach is still utilised on a voluntary basis and is not very common. Our study provides evidence that auditors who use a joint audit approach achieve higher consensus and greater accuracy. In light of current discussion on improving the quality of audits by implementing new methods and regulations, these results are significant for both auditing practice and audit research. Despite this importance, there are very few studies and little research on improving quality through the use of a joint audit approach. Our results demonstrate the need for further investigation of the determinants of audit performance when using a joint audit approach. Using a case study research design and an interview, we draw conclusions and discuss necessary future research.

On joint audit & quality	
Title	The effects of joint audits on audit quality and audit costs: a game-theoretical explanation for contradictory empirical results. Biehl, Henrike; Bleibtreu, Christopher; Stefani, Ulrike. 2021
Country	Global
Quotes	"Audit quality is high and audit costs are low if both auditors have similarly high expertise. Free riding of one auditor occurs most likely if the auditors are dissimilar. In such a joint audit situation, allocating more of the audit work to the auditor with high expertise can increase audit quality and decrease audit costs. However, an imbalance in the allocation of the audit work can be harmful if both auditors have similar expertise. We show that JAs can lead to higher audit quality and lower audit costs than single audits (SAs) when synergy effects are sufficiently high. In contrast, low synergy effects (i.e., due to rivalry) can lead to coordination difficulties in JAs and result in lower audit quality and higher costs than SAs. Our game-theoretical analysis provides insights into the effects of institutional parameters like a mandated allocation of the audit work and a proportional litigation rule on the JA outcomes. Our findings thus can help to prevent unintended consequences from a mandatory JA regulation."
Executive summary	We analyse how auditor expertise and the auditors' (dis)similarity affect audit quality and audit costs in a joint audit (JA) setting. We model both harmful free-riding incentives and a beneficial synergy effect between auditors. We find that audit quality is high and audit costs are low if both auditors have similarly high expertise. Free riding of one auditor occurs most likely if the auditors are dissimilar. In such a JA situation, allocating more of the audit work to the auditor with high expertise can increase audit quality and decrease audit costs. However, an imbalance in the allocation of the audit work can be harmful if both auditors have similar expertise. We show that JAs can lead to higher audit quality and lower audit costs than single audits (SAs) when synergy effects are sufficiently high. In contrast, low synergy effects (i.e., due to rivalry) can lead to coordination difficulties in JAs and result in lower audit quality and higher costs than SAs. Our game-theoretical analysis provides insights into the effects of institutional parameters like a mandated allocation of the audit work and a proportional litigation rule on the JA outcomes. Our findings thus can help to prevent unintended consequences from a mandatory JA regulation.

On joint audit & quality	
Title	Assessing France's joint audit requirement: are two heads better than one? Francis, Jere; Richard, Chrystelle; Vanstraelen, Ann Auditing. A Journal of Practice and Theory, 198 (8-9), pp. 35-63. 2006
Country	France
Quotes	"Having two Big 4 auditors is better than one in terms of earnings quality in France, but we find no evidence that French investors value companies more highly if audited by Big 4 firms. Audit fees of French companies are no larger than fees of other European countries."
Executive summary	We examine auditor choice for listed companies in France where two (joint) auditors are required by law. This unique setting creates more complex auditor choice than the typical Big 4/non-Big 4 dichotomy in other countries, and we study if a firm's ownership structure affects its auditor-pair choice as well the consequences on earning quality. The findings are consistent with agency theory and indicate that a Big 4 auditor (paired with a non-Big 4 auditor) is more likely to be used when there is greater information asymmetry (less family control and more diversified ownership structures), and that these associations are even stronger for firms with two Big 4 auditors conducting the joint audit. We also test if a firm's auditor-pair choice affects earnings quality and find that firms using one Big 4 auditor (paired with a non-Big 4 auditor) have smaller income-increasing abnormal accruals compared to firms that use no Big 4 auditors and, once again, find that this effect is even stronger for firms that use two Big 4 auditors.

On joint audit & quality	
Title	The effect of joint auditor pair composition on audit quality: evidence from impairment tests; Lobo, Gerald; Paugam, Luc; Zhang, Dana; Casta, Jean Francois. Contemporary Accounting Research Vol. 34 No. 1 (Spring 2017) pp.118–153. 2017
Country	France, Italy, UK
Quotes	"Firms audited by a Big 4–non-Big 4 auditor pair (BS) are more likely to book an impairment and book a larger impairment than firms audited by a Big 4–Big 4 auditor pair (BB) when low performance indicators suggest a greater likelihood of impairment. Moreover, firms audited by a BB pair reduce impairment disclosures when they book impairments, while firms audited by a BS pair do not, suggesting lower transparency for firms audited by a BB pair."
Executive summary	Using a sample of firms from France, where the law requires the use of two auditors, we study the effect of auditor pair composition on audit quality by examining a specific account, goodwill impairment. We document that firms audited by a Big 4–non-Big 4 auditor pair (BS) are more likely to book an impairment and book a larger impairment than firms audited by a Big 4–Big 4 auditor pair (BB) when low-performance indicators suggest a greater likelihood of impairment. Moreover, firms audited by a BB pair reduce impairment disclosures when they book impairments, while firms audited by a BS pair do not, suggesting lower transparency for firms audited by a BB pair. Our results inform investors and firms in mandatory joint audit regimes, as well as regulators who are considering requiring joint audits.

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On joint audit & quality	
Title	The choice of joint-auditors and earnings quality: evidence from French listed companies Marmousez, Sophie. CAAA Annual Conference 2009 Paper. 2009
Country	France
Quotes	Analysis of 177 companies in France showing lower audit quality if 2 Big 4 are appointed: “Contrary to what was expected, the study found that the quality of the financial statements was lower for companies audited by two of the big four audit firms compared to the rest of the companies. This result was due to the interaction between the big four firm and the other non-big firm. When the two big four auditors have the same work procedures and the same reputational risk, they are likely to rely on each other. Hence, the incentive to exert maximum effort is reduced; taking into account the fact that auditor’s effort is not directly observable.”
Executive summary	In France, every listed company is legally required to hire two auditors performing together the audit. Joint-auditing, initially instituted to allow a dual control, provides a unique and rich setting to study the consequences of the choice of auditors. It is generally assumed that audit market is segmented into at least two categories, large (Big 4) and small (non-Big 4) auditors, and that large audit firms are perceived to provide higher quality audits. Consistently to these assumptions, we hypothesize that financial reporting by companies audited by two Big 4 audit firms is of higher quality than companies audited by one Big 4 and one non-Big 4 or by two non-Big 4. Quality is operationalized using Basu's (1997) measure of conservatism, an important attribute of reporting quality. We test our hypothesis on a sample of 177 French listed companies on 31 December 2003. We regress earnings on stock returns and type of auditors. The result provides evidence that, contrary to our hypothesis, the presence of two Big 4 is associated with lower reporting quality. This surprising result can be explained by the fact that the interaction between two Big 4 audit firms is likely to be less productive in terms of corporate governance than the interaction between a Big 4 and a non-Big 4. When two Big 4 audit firms, applying comparable methodologies and incurring comparable reputation risk, work together, they would be more likely to rely on each other and, consequently, would have fewer incentives to provide maximum effort.

On joint audit & quality	
Title	Joint audit – a means to reduce bias and enhance scepticism in financial statement audits? Marnet, Oliver; Barone, Elisabetta; Gwilliam, David. 2018
Country	Global
Quotes	"Susceptibility to bias in auditors' judgement of single auditors and single audit teams provides support for implementations of the four-eyes principle through joint audit arrangements, with the proviso that the particular structure of such an arrangement and the explicit objective of joint audit will have a substantial impact on a potential contribution to the level of professional scepticism and the overall contribution to audit quality. If implemented to provide an independent, possibly even forensic, quality review of the other engagement team, and to provide a second, independent review of the assumptions and processes underlying the formation of critical judgements and the overall opinion, joint audits may be particularly useful to counter the effects of biases that have been found to strongly affect single engagement teams."
Executive summary	This paper proposes a contribution of joint audit to audit quality through the mitigation of cognitive bias during the audit process, a potential largely overlooked in the prior literature. With reference to social and psychological factors impacting the quality of auditor hypothesis formation and the search for corroborating evidence, we contend that cognitive bias particularly affects the application and maintenance of an appropriate level of professional scepticism. Building on the extant literature on bias and heuristics in single audit arrangements, the paper suggests that the impact of these factors on audit quality may be less pronounced under some joint audit arrangements than for a single engagement team. Mitigating bias, in turn, could enable a more consistent application of an appropriate level of professional scepticism, an attitude of critical importance to audit quality. We review and evaluate theoretical frameworks derived from extant research to guide future applied studies and extend the discussion on bias and professional scepticism in audit, presenting a novel and previously ignored role for joint audit arrangements.

On joint audit & quality	
Title	Joint audit and quality, Marnet, Oliver. 2021
Country	Global
Quotes	"Joint audits allow for a more consistent application of an appropriate level of professional scepticism by critically questioning the assumptions and processes underlying audit judgements, the amount of evidence gathered to support managerial assertions, and by the critical review of the processes applied by the other audit team. Joint audit implies on-going peer-review and enhances accountability."
Executive summary	This review explores behavioural perspectives to provide insights on a contribution of joint audit to audit quality. We suggest joint audit to act as a means to reduce cognitive bias and enhance professional scepticism in financial statement audits. With reference to social and psychological factors impacting the quality of auditor hypothesis formation and the search for corroborating evidence, we suggest that heuristics and cognitive bias particularly affect the application and maintenance of an appropriate level of professional scepticism and the gathering of sufficient appropriate evidence to support managerial assertions during audit.

On joint audit & quality	
Title	Mandating joint audits in Nigeria: perspectives and issues, Okaro, Sunday C.; Okafor, Gloria O.; Ofoegbu, Grace N. International Journal of Academic Research in Business and Social Sciences, 8(3), 325–346. 2018
Country	Nigeria
Quotes	"In their study, they examined the perceptions of Nigerian accountants, auditors, and academicians in the field of accounting and finance. Their findings exposed that in the case of Nigeria it is perceived that joint audit positively impacts the audit quality and financial reporting as the participants stated that "four eyes are better than two". Although a joint audit is associated with higher fees, however, the benefits outweigh the costs, besides, the risk of overfamiliarity with the client can be mitigated by joint audits."
Executive summary	This paper reviews the benefits and costs of joint audits (audits in which financial statements are audited by two or more independent auditors), and ascertains the perceptions of stakeholders (Nigerian accountants, auditors, and accounting academics) as an important determining factor as to whether Nigeria's government should make joint audits mandatory. Accountants, auditors, and accounting academics were surveyed in Nigeria using a Likert-type questionnaire. Responses to the questions were analysed using simple percentages and independent t-test statistics. Clarifications were also sought from partners of accounting firms. The study revealed little agreement among stakeholders on the desirability of mandated joint audits in Nigeria, although there was general agreement that the benefits outweigh the costs involved. The open-ended questions, and the clarifications provided by some accounting practitioners shed further light on the issues surrounding the use of joint audits in Nigeria. This study contributes to the current debate in Nigeria, on whether joint audits should be mandated, by eliciting the opinions of three important stakeholder groups. This study adds to the current literature on joint audits, and highlights avenues for further research, both in Nigeria, and in other developing countries.

On joint audit & quality	
Title	What do we know about empirical joint audit research? Velte, Patrick, A Literature Review. Accounting and Financial Control, Volume 1, Issue 1, 2017. 2017
Country	Denmark, Finland, Sweden
Quotes	"Joint audits can enhance audit quality due to the prevention of auditor dependence. Contradictory academic research results on the connection between audit fees and JA: while some document a positive relation in Denmark, France or Sweden, others point out the lack of evidence in the same countries and Finland."
Executive summary	This literature review evaluates empirical studies which concentrate on economic effects on joint audits from an international perspective. We briefly introduce the theoretical and empirical joint audit framework that comprises an adequate structure of the state-of-the-art of empirical research in this field. This is followed by a discussion of the following output factors of joint audits: (1) audit quality; (2) audit costs and (3) audit market concentration. We will summarize the key findings in each area and provide a description of the analyzed proxies. Finally, we will discuss the current limitations of the studies and give useful recommendations for future empirical research activities in this topic.

On joint audit & quality	
Title	Do joint audits improve audit quality? Evidence from voluntary joint audits Zerni, Mikko; Haapamäki, Elina; Järvinen, Tuukka; Niemi, Lasse. European Accounting Review, 21, pp. 731-765. 2012
Country	Sweden
Quotes	"In the voluntary Swedish joint audit setting, companies opting voluntarily for joint audits have a higher degree of earnings conservatism and lower abnormal accruals (both are proxies for audit quality). They also have better credit ratings and lower risk forecasts for insolvency (both being proxies for perceived audit quality) than companies with only one auditor. Zerni et al. (2010) find in the Swedish setting that, compared to single audit cases, firms with joint auditors (regardless of the type of auditor selected) have the highest perceived audit quality, because the market values joint auditors as a monitoring mechanism that helps prevent the expropriation of minority shareholders. The fee premium may be considered an indication of the client firm's willingness to pay more for a higher actual and perceived audit quality and to enable a greater faith in the auditing product."
Executive summary	This study examines whether the decision to voluntarily (i.e. without a statutory obligation) employ two audit firms to conduct a joint audit is related to audit quality. We use separate samples and empirical designs for public and privately held companies in Sweden, where a sufficient number of companies have a joint audit on a voluntary basis. Our empirical findings suggest that companies opting to employ joint audits have a higher degree of earnings conservatism, lower abnormal accruals, better credit ratings and lower perceived risk of becoming insolvent within the next year than other firms. These findings are robust to the use of a propensity score matching technique to control for the differences in client characteristics between firms that employ joint audits and those that use single Big 4 auditors (i.e. auditor self-selection). We also find evidence that the choice of a joint audit is associated with substantial increases in the fees paid by the client firm, suggesting a higher perceived level of quality. Collectively, our analyses support the view that voluntary joint audits are positively associated with audit quality in a relatively low litigious setting both for public and private firms.

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On joint audit & costs	
Title	Implications of the CMA's call for a joint audit among the FTSE 350. Pakaluk, John, Audit Analytics blog. 2018
Country	UK, France
Quotes	"London Economics, a consulting firm, published a thorough analysis of joint audits back in 2012 in which they found that the evidence suggested an increase of fees between 25%-32% associated with a joint audit. ("Study on Joint Audits", July 2012). However, if you compare the cost per €1 million in revenue between the SBF 120 listed on Euronext Paris and the FTSE 100 listed on the London Stock Exchange (Fiscal 2017 audit fees): at the top of the market – companies in the fourth quartile of revenue, i.e., greater than €20.4 billion – the cost of a joint audit is essentially equal to the cost of an audit using only one auditor. A joint audit costs about €492 per million euros of revenue, compared to €491 for a single audit."
Executive summary	The Competition and Markets Authority (UK) released an update paper regarding its study of the audit market in the United Kingdom. In the paper, the CMA made a number of striking proposals that, if implemented, would lead to drastic changes in the audit market landscape in the UK. Among the proposals was one in particular that jolted followers of the market: a call for joint audits. The implications of such a requirement are far-ranging, but perhaps the first and most important question revolves around the cost: how much more expensive would it be to hire two auditors rather than one?

On joint audit & costs	
Title	Leaving a joint audit system: conditional fee reductions, Holm, Claus; Thinggaard, Frank. 2014
Country	Denmark
Quotes	"Short-term fee reductions in companies switching to single audits, but only where the former joint audit contained a dominant auditor. In this situation, bargaining power is more with the auditors than in an equally shared joint audit, and the auditors' incentives to offer an initial fee discount are bigger. Companies should consider their relationship with their auditors before deciding to switch to single auditors. Fee discounts do not seem to reflect long-lasting efficiency gains on the part of the audit firm."
Executive summary	The authors find short-term fee reductions in companies switching to single audits, but only where the former joint audit contained a dominant auditor. The authors argue that in this situation bargaining power is more with the auditors than in an equally shared joint audit, and that the auditors' incentives to offer an initial fee discount are bigger.

On joint audit & costs	
Title	Paying for joint or single audits? The importance of auditor pairings and differences in technology efficiency. Holm, Claus; Thinggaard, Frank. International Journal of Auditing, 20, 1–16. 2016
Country	Denmark
Quotes	"Using 261 firm year observations from Danish listed companies, Holm and Thinngard found that, contrary to the predictions of Deng et al (2014), neither BB nor BS joint audits exhibited lower audit fees when compared to B single audits. This implied that coordination costs do have a significant effect on audit costs in the context of joint audits. Overall, joint audits with at least one big audit firm are not significantly more expensive than single audits performed by one big audit firm acting alone."
Executive summary	In the first theoretical paper on joint audits, Deng et al. predict that the audit fees for joint audits will be lower than those from single audits. However, the prediction depends on the combination of audit firms involved in the joint audit and on their technology efficiency as well as on the liability involved. This paper is the first to empirically test the predictions. Our findings from Denmark do not indicate any general difference in audit fees when two audit firms – regardless of combination and technology efficiency – conduct the statutory audit compared to a single Big audit firm. The results indicate the existence of fixed coordination costs in joint audits. We do, however, find higher audit fees in Big-Small joint audits when the Small audit firm has a share of less than 25 per cent. This may reflect free-riding concerns.

On joint audit & choice	
Title	Market shares and concentration in the EU auditing industry: the effects of Andersen's demise. Ballas, Apostolos A.; Fafaliou, Irene. Int Adv Econ Res 14, 485–497. 2008
Country	EU
Quotes	"Changes at the concentration level of the audit services markets in 15-EU member-countries. The sample consists of 2,862 clients of auditing firms for the period 1998 to 2004. The findings of the research show that concentration in the aggregate sample increased over time. Concentration in the audit markets of the EU-15 member-countries exhibits substantial variation across countries while average concentration, before and after Arthur Andersen's dissolution, has increased in 12 and declined in three countries."
Executive summary	This paper describes and analyses changes at the concentration level of the audit services markets in 15-EU member-countries. The sample consists of 2,862 clients of auditing firms for the period 1998 to 2004. The findings of the research show that concentration in the aggregate sample increased over time. Concentration in the audit markets of the EU-15 member-countries exhibits substantial variation across countries while average concentration, before and after Arthur Andersen's dissolution, has increased in 12 and declined in three countries. Results segmented by economic sectors indicate that the concentration increased in all sectors except Energy, which is the sector with the highest concentration. Overall, the empirical results suggest that there are complexities in our understanding of auditing services markets for competition purposes.

On joint audit & choice	
Title	The audit market dynamics in a mandatory joint audit setting: the French experience Kermiche, Lamya; Piot, Charles. Journal of Accounting, Auditing and Finance, Volume: 33 issue: 4, page(s): 463-484. 2016
Country	France
Quotes	"The long-term effects of a joint-audit requirement in terms of concentration dynamics, projected market shares, and competition. The main findings support the view that the French joint audit system is effective in maintaining market openness and in mitigating the Big 4 domination in the long run. An investigation of the determinants driving changes in joint audit combinations suggests little economic support in favour of two Big 4 combinations, whereas changes in audit clients' agency costs tend to explain the performance of mixed and two non-Big 4 combinations. (...) The "mixed" (large-small) joint-audit arrangement remained the most common combination, adopted by a majority of audit clients."
Executive summary	Policy makers in France have considered joint audits as a solution to mitigate the audit market concentration and the "systemic" risk associated with Big 4 auditors. We implement a Markovian analysis where audit clients chose between different types of combinations across Big 4 and smaller auditors. Our main findings support the view that the French joint audit system is effective in maintaining market openness and in mitigating the Big 4 domination in the long run. An investigation of the determinants driving changes in joint audit combinations suggests little economic support in favor of two Big 4 combinations, whereas changes in audit clients' agency costs (e.g., higher ownership concentration) tend to explain the performance of mixed and two non-Big 4 combinations. Overall, this study supports the European Commission's position on the potential benefits of joint audits in mitigating the market concentration; it also suggests that it might not be necessary to impose mixed joint audits to achieve that objective.

On joint audit & choice	
Title	Joint audit: issues and challenges for researchers and policy makers Ratzinger, Nicole V.S.; Audousset-Coulier, Sophie; Ketteunen, Jaana; Lesage, Cedric. Accounting in Europe, Taylor & Francis (Routledge), 2013, 10 (2), pp.175-199. 2013
Country	Global
Quotes	"(1) On method and abcruals, models (e.g., Jones, 1991; DeFond and Park, 2001) follow the rationale that accounting accruals are composed of a 'normal' part, which is not subject to manipulation, and an 'abnormal' part, which is subject to manipulation. One drawback of these models is their limited predictive accuracy and power to detect earnings management. However, they continue to be used to identify differences in audit quality (Francis and Wang, 2008; Francis et al., 2009). (2) Even though in France there is no restriction on the composition of joint audit pairs, only 44% of companies listed on the SBF120 are audited by two Big Four firms. (EY's response to update paper, Appendix A, part 2, page2. The SBF 120 is a French stock index that EY suggests is the most comparable French index to the FTSE 350.). (3) Our analysis of joint audit pairs in the SBF 120 shows that even outside of Mazars, 18 companies have appointed a non-Big Four audit firm. Nine of these companies use one of the large challenger firms that are present in the UK market (ie BDO, Grant Thornton or RSM), but the remaining nine use an audit firm outside of this group. This suggests that in a joint audit regime, some smaller audit firms below our recognised challengers might also bid for some of the FTSE 350 tenders. (4) Insights into the auditor's cost structure are not publicly available. As a consequence, audit fees have to be used, acknowledging that they are neither a direct measure of audit costs nor of audit effort."
Executive summary	The publication of the European Commission Green Paper, "Audit Policy: Lessons from the Crisis" in October 2010, has stirred up a lively debate on the role of joint audits. This literature review identifies and evaluates, for the benefit of future research and regulators, existing evidence about joint audits. We find limited empirical support to suggest that joint audits lead to increased audit quality, but some empirical support to suggest that joint audits lead to additional costs. Overall, this paper indicates that joint audit should be seen as a mechanism that is embedded in a broader institutional context, and not be considered in isolation from other factors that might impact the audit market. The results indicate that various country-level characteristics are simultaneously at play. While joint audits can potentially enhance the audit market competition by allowing smaller audit firms to maintain larger market shares, the related impact on audit quality has not yet been clearly demonstrated and thus provides a promising avenue for future research.

On joint audit & choice	
Title	Auditing in Europe: PIEs market structure in Germany, France and the UK FAZ Institute. 2022
Country	Germany, France, UK
Quotes	The four dominant audit firms audited 698 (71%) of the 980 PIEs in Germany in 2020: - The combined turnover (1,76 trillion €) of the 240 listed PIEs audited by the Big Four amounted to 97% of the total turnover (1,8 trillion €) of the 381 listed PIEs (all 37 DAX companies were audited by the 4 dominant firms). - The 263 insurance companies audited by the Big Four posted premiums of 373 billion €, which represented 94% of the premiums (397 billion €) of all insurance companies. - The banks audited by the Big Four generated 6,3 trillion €, namely 93% of the total assets (6,8 trillion €) posted by the 258 German financial institutions. The situation is different in France, where joint audit is compulsory for most PIEs since 1966, with a large number of audit firms active in the PIE audit market (256 in 2020): - If 58% of the combined turnover of listed PIEs is audited by a joint audit completed by two Big Four firms, 33% is audited by at least one non-Big Four audit firm. - 49% of the combined premiums of insurance companies (509 billion €) are audited by at least one Next Ten audit firm. - Non-Big Four audit firms audited financial institutions which generated 28% of the total assets (9,1 trillion €) of the 416 PIE financial institutions in 2020.
Executive summary	Up to now, both the EU's audit reform of 2014 with its specific provisions for public interest entities (PIEs) and other reforms have not led to significantly greater diversity in the auditor market. In Germany and the UK, the Big 4 continue to dominate the market, including and particularly in PIE audits. However, the example of France shows that it is possible to open up the market for competitors with the aid of mandatory joint audits.

On joint audit	
Title	The joint audit in Bulgaria – issues and prospects. Bacheva, Snejana; Petrova, Daniela; Bachev, Iavor. Economic Alternatives, 2019, Issue 4, pp. 615-626. 2019
Country	Bulgaria
Quotes	
Executive summary	This piece of research is the first one conducted in regards to the applicability of the joint audit in Bulgaria. The paper summarises the stakeholder environment in regards to the joint audit in The Republic of Bulgaria after the new Independent Financial Audit Act (IFAA) was adopted and performed for the first time in the country.This aim is achieved by using a survey sent to three groups of potential respondents that are also stakeholders in the whole process. The first group is the group of auditors, the second are supervisory institutions and the third are the entities whose financial statements are subject to joint independent financial audit. The paper ends with an outline of the positive aspects and difficulties in joint audits in the Bulgarian context as well as the recommendations made by the respondents for improving the overall process.

On joint audit	
Title	Statutory audit reform: Impact on costs, concentration and competition Willekens, Marleen; Dekeyser, Simon; Simac, Ines European Parliament Study 2019
Country	EU
Quotes	"In the EU, JA is mandatory in 3 countries and voluntary in 9 other countries: In these countries, since 2013, the joint audit rate has increased significatively (+15%) in the financial services sector, and slightly (about 2%) on the full audit market. In 2017, 20 Member States had at least one PIE client engaged in a joint audit, and the average percentage of PIE joint audits in the EU equaled 9.1 % (excluding France). The study confirms the lower market shares of Big Four firms in France in comparison to the other European countries (especially the Netherlands or the U.K.), for the period 2013-2017."
Executive summary	In this study we execute an in-depth analysis of the evolution of market concentration, competition and costs in the EU market for statutory auditing before and after the Audit Reform. Based on data from archival databases and a survey, we present evidence suggesting that rivalry between the largest audit suppliers increased, as did audit costs, non-Big 4 audit market share, and joint audit rates. Non-audit services (NAS) fees earned by the incumbent auditor decreased. This document was provided by Policy Department A at the request of the Economic and Monetary Affairs (ECON) Committee.

On joint audit	
Title	Statutory audit services market study. Competition and Markets Authority (CMA, UK) 2019
Country	UK
Quotes	"(...) The BEIS Select Committee spoke to a range of audit firms, investors, Audit Committee Chairs and academics as part of its 'The Future of Audit' inquiry. After hearing this evidence, the Committee concluded that 'joint audits may lead to marginal improvements in audit quality and that if proper checks are put in place, such as effective communication between the joint auditors and regulatory monitoring, they will not lead to a decline in audit quality'. (...) Mandatory joint audits would reduce barriers for challenger firms, and thus reduce market concentration. (...) Shared audit would result in the smaller firm being very clearly subsidiary to the bigger; it would be less effective in achieving resilience and choice in the market. It would also present a risk to audit quality because the second auditor would not sign the audit report, and would not be jointly liable, as with joint audit."
Executive summary	Overview 1. Everyone in the UK is affected in some way by the quality of external audits, even if few people will ever read an audit report. Audits are there to check whether companies are giving an accurate picture of their financial performance. The decisions that this information supports affect us all, through our pensions or savings, or as customers or suppliers of companies. They are crucial to the efficient allocation of capital and therefore overall performance of the economy. Audits are also a vital contributor to the trust and confidence that is required in a modern economy. 2. Audits cannot be expected to prevent company failure, nor are they likely to be the cause of failure; but they are a vital part of the warning system that should protect savers' interests. Cases like Carillion or BHS show the size of the stakes when there is a high-profile failure; the regulator's quality reviews have revealed that shortcomings are widespread in the UK audit market. 3. Along with well-documented issues with regulation, the market exhibits a number of deep-seated problems: audit committees are only a partial solution to the problem that companies select their own auditors; high concentration among four big audit firms, resulting in limited choice and a market that is not resilient; audits being carried out by firms whose main business is not in audit. 4. There is no simple answer to these problems. Any change will need time to take effect, and there are trade-offs inherent in any proposal we could make. But the market shows no signs of self-correcting. The Secretary of State asked the CMA to 'be ambitious in its thinking and move swiftly on this issue'. We are making four recommendations to the Government. a. Robust regulatory oversight of the committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure that they prioritise quality. b. Mandatory joint audit, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the regulator – mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, realtime peer reviews commissioned by and reporting to the regulator. c. An operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality. d. A five-year review of progress by the regulator

On joint audit	
Title	Own initiative overview report on the Wirecard case. ESMA. 2021
Country	EU
Quotes	"The SMSG recommend assessing the relevance of requiring joint audits for large listed companies in the EU."
Executive summary	The key recommendations of the SMSG's are the following (Annex 1 provides a full overview). First, in case more than one national authority oversees the supervision of accounting fraud, their respective competences should be clearly defined. The SMSG recommends that ESMA would develop guidelines to further harmonize how and when NCAs should use their investigative powers in case of possible accounting fraud. Further to a peer review on resources, the SMSG recommends that ESMA uses its supervisory convergence tools (i) to promote an NCA culture which avoids conflicts of interests, (ii) to standardise and make more transparent NCA's investigations and enforcement, and (iii) to foster exchange of information between different supervisors, criminal authorities, and also between supervisors and auditors. In the area of market abuse, the SMSG recommends that ESMA uses its supervisory convergence tools to improve several crucial aspects such as (i) the restriction of trading in financial instruments by NCA staff, (ii) effective scrutiny of allegations of market manipulation, and (iii) the publication of information about enforcement. With regards to short selling, the Wirecard case highlighted the limitations of the regime at national and EU levels. The SMSG is of the opinion that a fundamental reflection on the use of short selling bans is necessary. A dichotomy between a systemic short selling ban due to specific circumstances and a short selling ban applied to a specific share (the latter being disputable), may for instance be useful. The SMSG recommends that ESMA uses its supervisory convergence tools to clarify the circumstances under which a prohibition or a restriction can be enacted. The SMSG is not convinced of the usefulness of the opinion - a mere consistency check - which ESMA needs to issue in regard of any short selling restriction proposed by an NCA. The SMSG recommends that ESMA issues an own initiative report to the European Commission in order to pave the way for changes to the level 1 Short Selling Regulation Auditing is certainly one of the nexus of the Wirecard case which signals the need for a comprehensive reform of the EU audit rules. Therefore, the SMSG invites the European Commission to carry out a reflection on the mission of auditors, with the aim to clarify their duties to report on irregularities and to grant the corresponding powers, such as the rights for the auditors to access information, in particular from employees. In this context, forward-looking ideas may be inspirational (e.g. a rotation system in auditing teams, which is already required for ratings agencies, joint audits and appropriate liability caps for audit firms). Furthermore, the audit oversight system should be thoroughly examined, including the possibility of giving a role to ESMA in this respect, for instance in the form of direct supervision of big auditing firms. In respect of the supervision of groups / financial holdings, the SMSG encourages the ESAs to use their supervisory convergence tools to strengthen (i) the supervision of complex groups, as well as (ii) the transparency and the efficiency of enforcement about outsourcing. More fundamentally, the SMSG sees a need for regulators to adapt regulation and supervision to the digital age, which implies a better understanding of new business models stemming from payments-related services and FinTechs. Another area where the SMSG deems relevant to draw lessons from the Wirecard case is corporate governance, inter alia on the following items: the need for (i) a mandatory robust compliance management system, (ii) access to critical information by the supervisory board, (iii) the establishment of an audit committee with a composition largely founded on independence, and (iv) penalties for a wrong "reporting oath" by the leadership of the company. Finally, the SMSG recommends that the EU institutions would reflect on the eligibility for collective redress of shareholders from the companies in which they have invested (for instance in case of misleading information).

	This report has pointed to a number of serious problems in the supervision of Wirecard. However, in view of the SMSG's limited resources and powers, this report is inconclusive on the question of whether there are grounds for ESMA to trigger a procedure against the relevant competent authority for non-compliance with EU law (so-called "breach of union law" procedure) under art. 17 ESMA Regulation. The SMSG therefore recommends that ESMA investigates in more detail whether there is ground to trigger an investigation under article 17 ESMA Regulation.

Read the studies and reports on the Knowledge Centre on Join audit.