

# EU Consultation on Corporate Reporting

## Review of the answers

April 2022



# EU Consultation on Corporate Reporting

## Key take aways

High level of participation to the consultation with respondents from:

- 24 Member States + Norway, UK, US and Mexico
- Diverse stakeholders: 37% auditors, 23% companies, 23% investors, public authorities (11%)

### Clear support

- For the European Commission to take initiative on Corporate Reporting (65%)
- For further diversification of the audit market (47%)
- For further harmonisation :
  - Remove exemption to set up an Audit Committee (53%)
  - Mandatory Firm Rotation rules (47%)
  - Increase supervisory convergence in the EU (47%) but not to create an EU direct audit supervisory body (52%)

### Mixed support

- To limiting non-audit services scope
- To increasing or eliminating liability caps
- To improving the internal governance of audit firms

### Enhance quality & choice: 'EU Sox' & joint audit

#### 'EU Sox 404'

- **56% respondents** support increasing company boards responsibility on **risk management and internal control** systems
- **42%** support requiring auditors to provide **assurance** on the systems and **internal controls** but question cost-efficiency

#### Joint audit

- **47%** agree that there is **not enough choice** for PIEs to find an auditor
- **2/3** are in favour or neutral about joint audit, **1/3** is against
- **34,3%** agree that **joint audit** is effective in increasing audit **quality** and enhance **competition**
- The **4 dominant audit firms** are the only audit firms **rejecting joint audit**

# EU Consultation on corporate reporting

## Who answered?

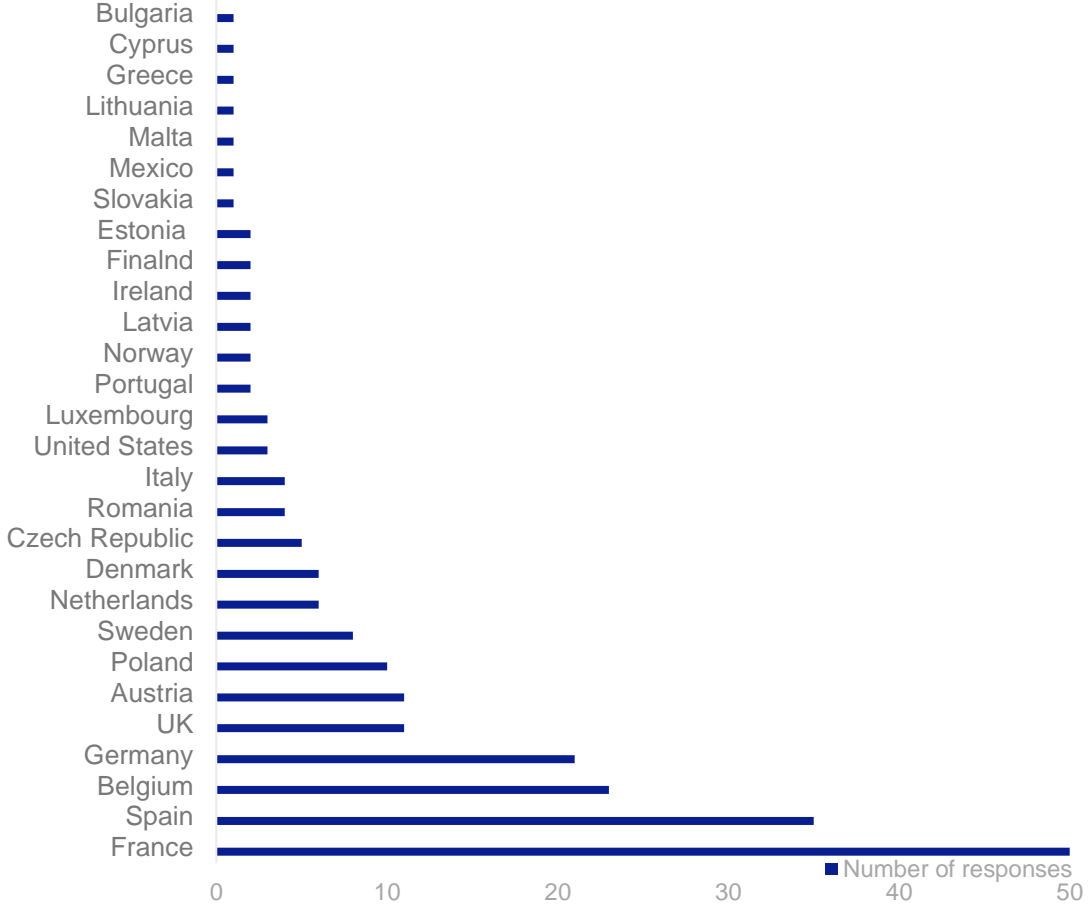
### Strengthening the quality of corporate reporting and its enforcement (Nov. 21-Feb. 22)

**219 answers** to the Consultation survey, mostly from:

- France (23%), Spain (16%), Germany (10%)\*, Austria (11%), Poland (11%)
- Company/business organisation (32%), business association (20%) and EU citizen (16%)

**30 feedback** to the Call for evidence, mostly from:

- Germany (17%), Austria (17%), Spain (7%)
- Business association (30%) & Company/business organisation (23%)

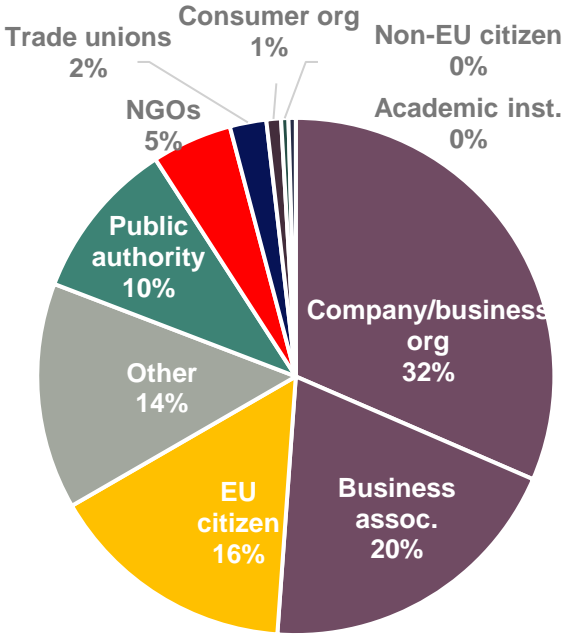


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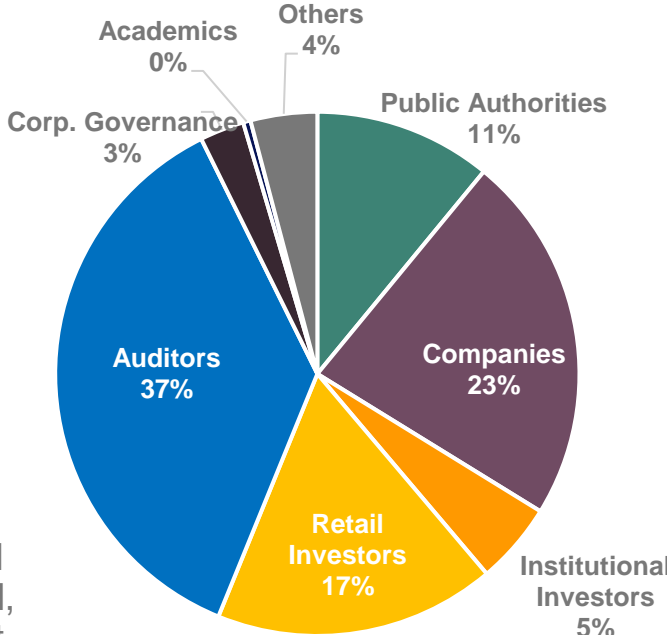
## Who answered? (2)

### Accounting for stakeholders' views\*\*

Statistics by category of respondents



Statistics by category of stakeholders\*

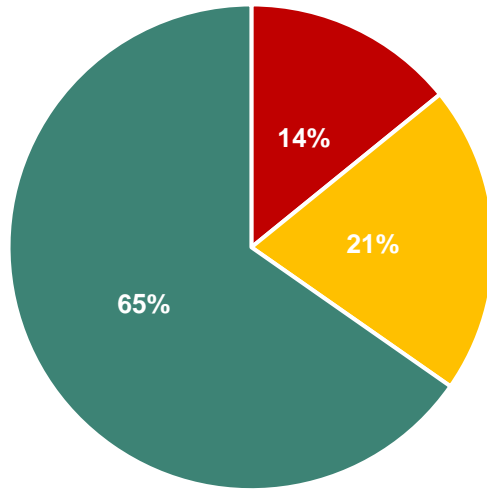


\* To get a better view of the stakeholders' answers and positions, the following categories have been identified, based on the information provided by each respondent (cf. Annex for methodology).

# I. Policy context

## Need for EU intervention?

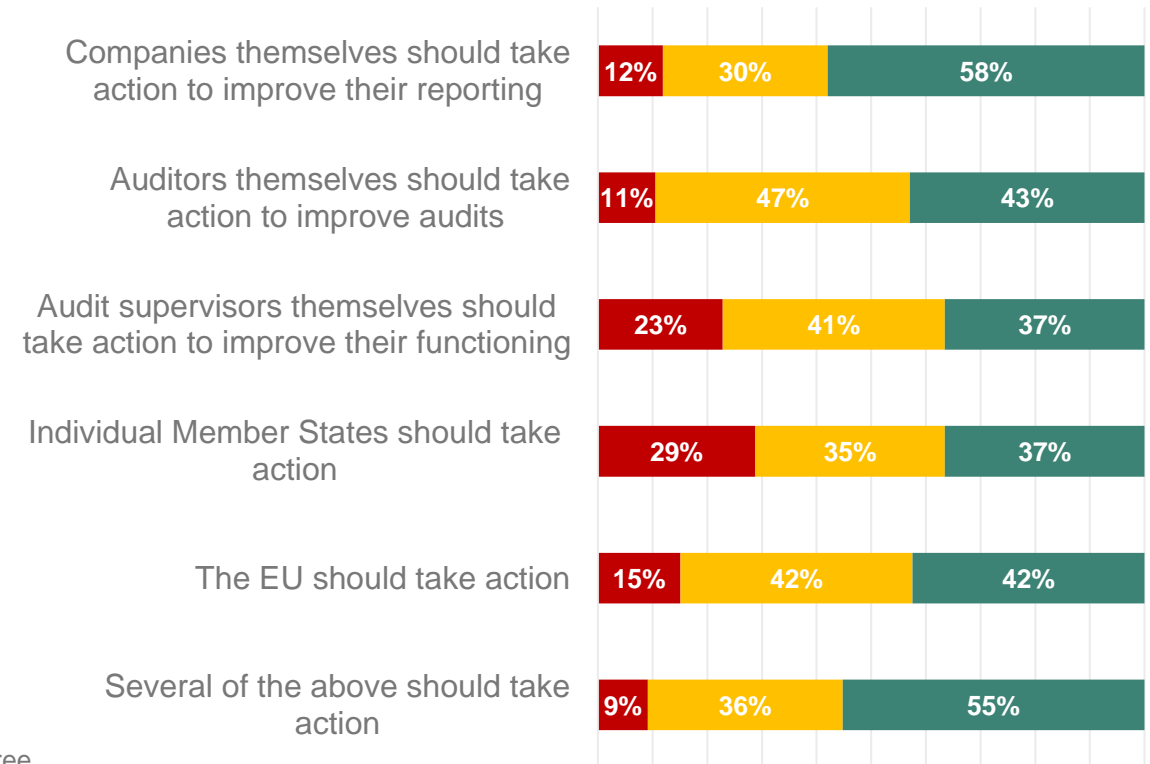
### Opportunity for an EU initiative on corporate reporting



**65% of respondents agree that the Commission should take action** in the areas of the Corporate Governance pillar, the Statutory Audit pillar and the supervision of PIE auditors and audit firms and the supervision of corporate reporting (Q5)

■ Negative - rather disagree, strongly disagree ■ Neutral ■ Positive - strongly agree & rather agree

Q5.2

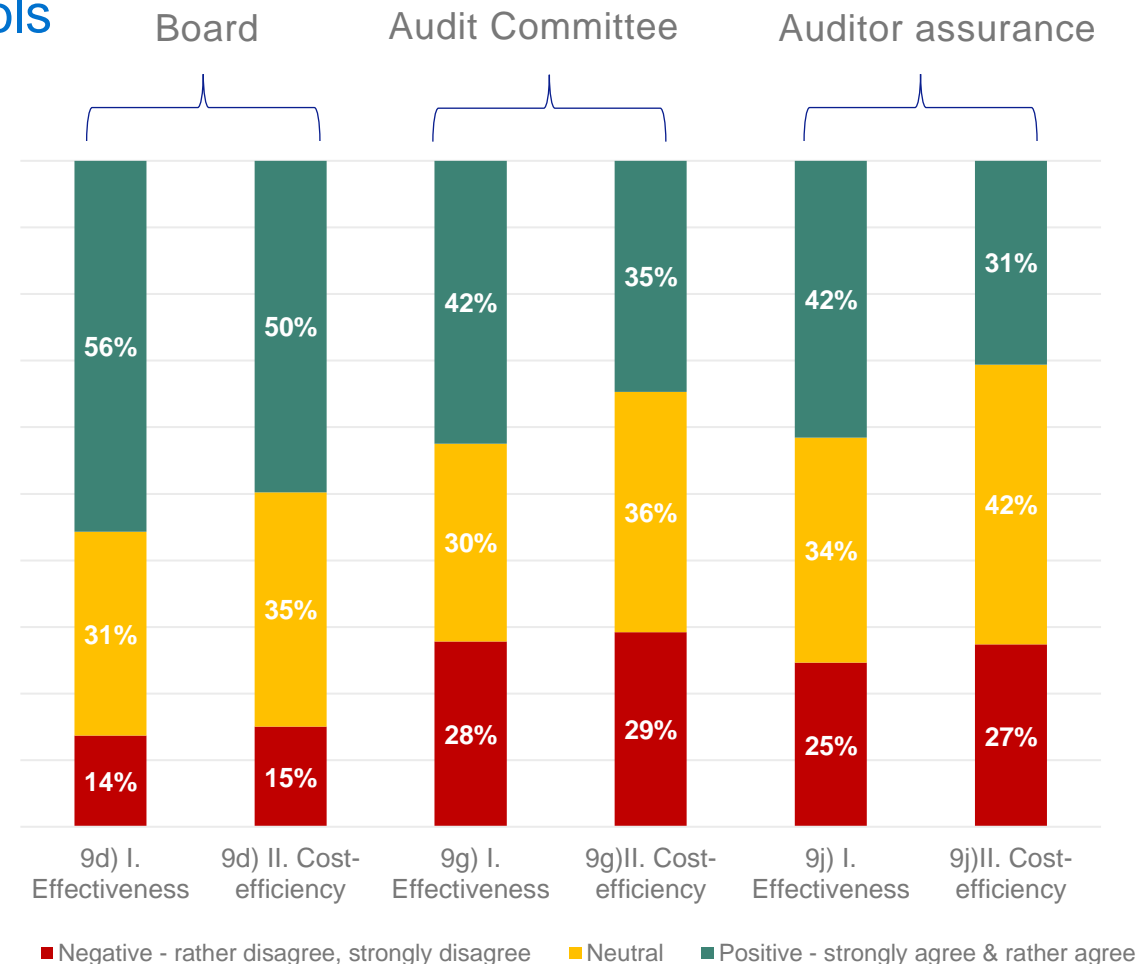


## II. Pilar 1 - Corporate Governance

### Support for broader corporate governance role

#### Mandatory audit committee and 'SOX' like internal controls

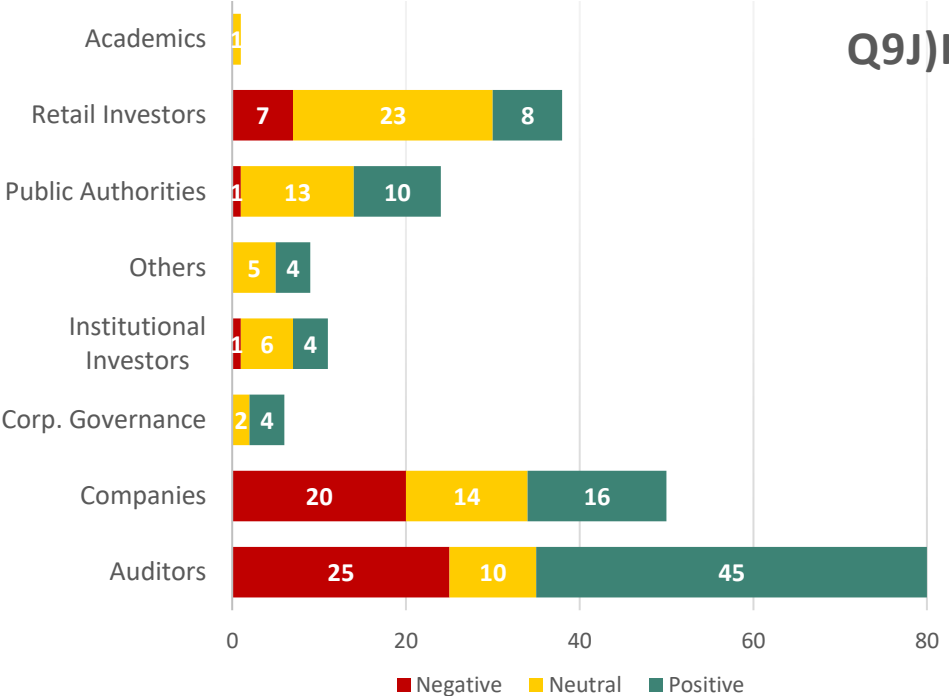
- **53%** of respondents support the removal of the EU law exemption to establish an **audit committee** and consider that it is a cost-efficient measure (Q 9.f)
- **56%** support giving **company boards** an explicit responsibility to establish **effective risk management and internal control systems** for the preparation of corporate reporting, including as regards controls for risks of fraud and going concern and consider that it is a cost-efficient measure (Q 9.d)
- **42%** agree that it would be effective to increase **the tasks of the audit committee**, e.g. for **providing assurance** on internal control systems for the avoidance of risk and fraud and going concern but express doubts on cost-efficiency (29%) (Q 9.g)
- **42%** agree that it would be effective to require **auditors to provide assurance** on the systems and internal controls implemented by the Board, including fraud, going concern and related reporting requirements but express doubts on cost-efficiency (27%) (Q 9.j)



# II. Pilar 1 - Corporate Governance (2)

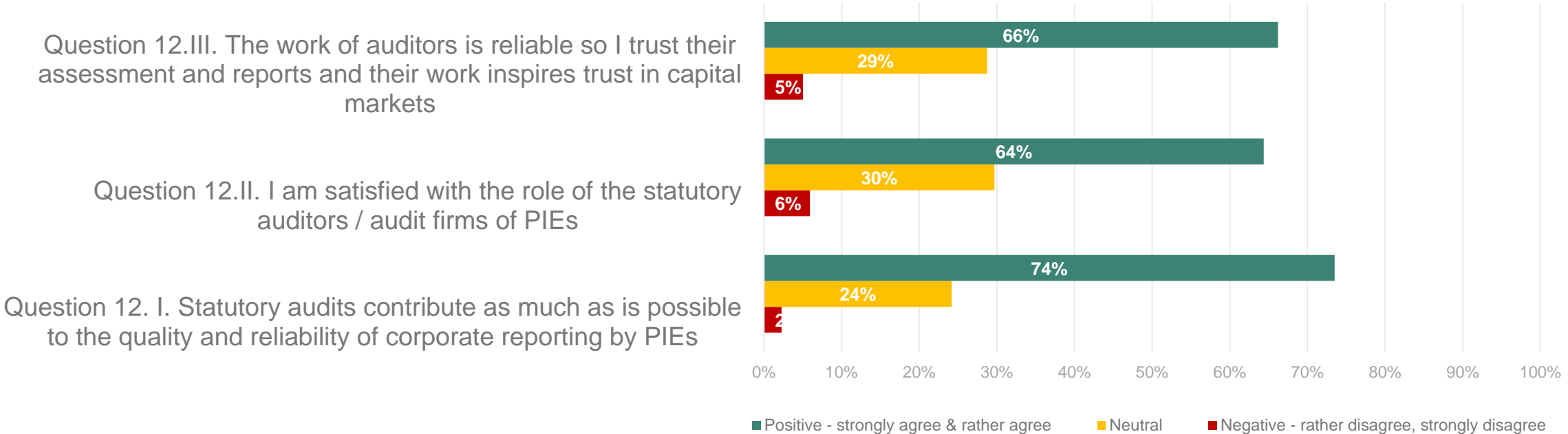
## Mixed support on requiring auditors' assurance on the systems and internal controls - SOX 404 B

- The most supportive are the auditors (56% in favour)
- The most reluctant are the companies (40% against)
- Investors have not expressed a strong view (59% neutral)



# III. Pilar 2 - Statutory audit

## Statutory auditors and audit firms are reliable and well-perceived





# III. Pilar 2 - Statutory audit (2)

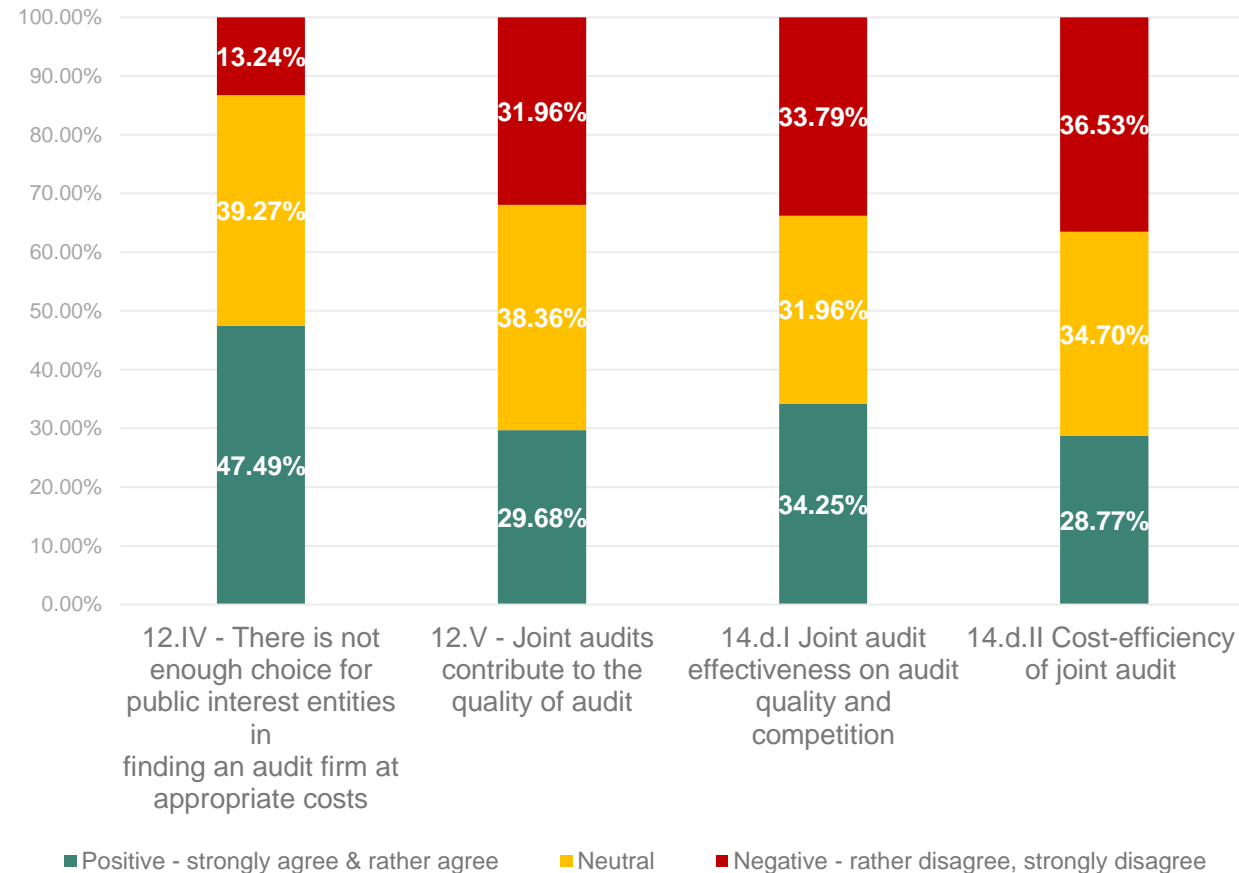
## Choice & joint audit

Joint audit is not an isolated (or French specific) audit process anymore :

- **more than 60%** of respondents are positive or neutral about making it mandatory in the EU
- **more than 60%** see joint audit has a useful measure to reduce market concentration.

Joint audit will enhance both quality and choice and should be cost-efficient :

- **47%** agree that there is **not enough choice for PIEs** in finding an audit firm at appropriate costs (Q 12.IV)
- The views on whether **joint audit** contributes to **audit quality** are **split in 3 thirds (negative / neutral / positive)** (Q 12.V)
- **34,25%** agree that incentivize or mandate joint audit for PIEs is effective in increasing the **quality** of statutory audits of PIEs, including to enhance **competition** on the PIE audit market (Q 14.d.I).
- **36,5%** underline that incentivize or mandate joint audit for PIEs should be made in a cost-efficient manner (Q 14.d.II).



# III. Pilar 2 - Statutory audit (4)

## Joint audit is supported by all the stakeholders who experienced it

- **All stakeholders with a joint audit experience support the regime**
- The public authorities of Member States where joint audit is mandatory (France, Bulgaria) or which experienced such a regime in the past (Denmark)
- In France, which has the most extensive experience of mandatory joint audit in the EU, more than 82% agree on the positive relationship between joint audit, audit quality and competition – including companies and the most important business federation (MEDEF & AFEP).

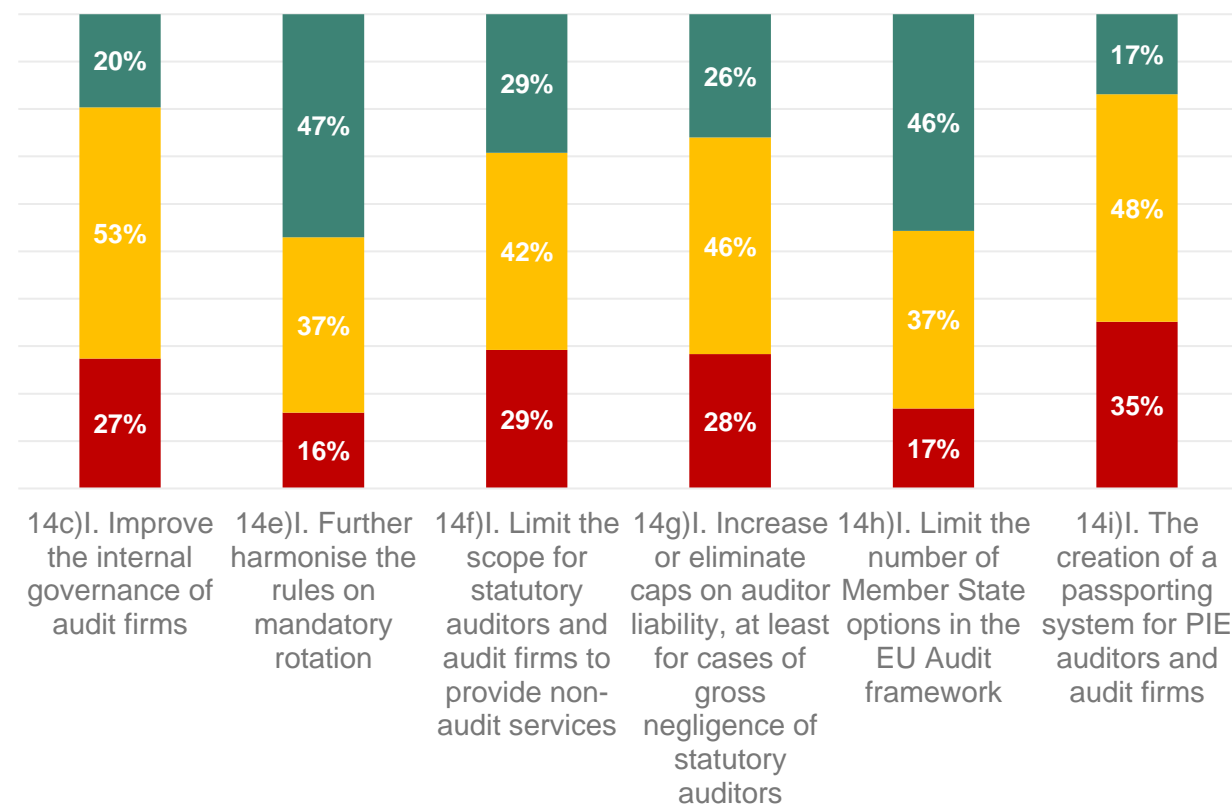
▪The 4 dominant audit firms are the only audit firms rejecting joint audit - Q 14d.I

Negative	Neutral	Positive
PwC IL	Baker Tilly International	Mazars Group
EY Europe	BDO	Crowe Global
Deloitte	Grant Thornton IL	Grant Thornton France
KPMG		RSM France
		Auren internacional
		Mazars Italia
		JPA Romania
		18 French mid-tier audit firms

### III. Pilar 2 - Statutory audit (5)

#### Priorities for enhancement and further harmonisation of audit rules

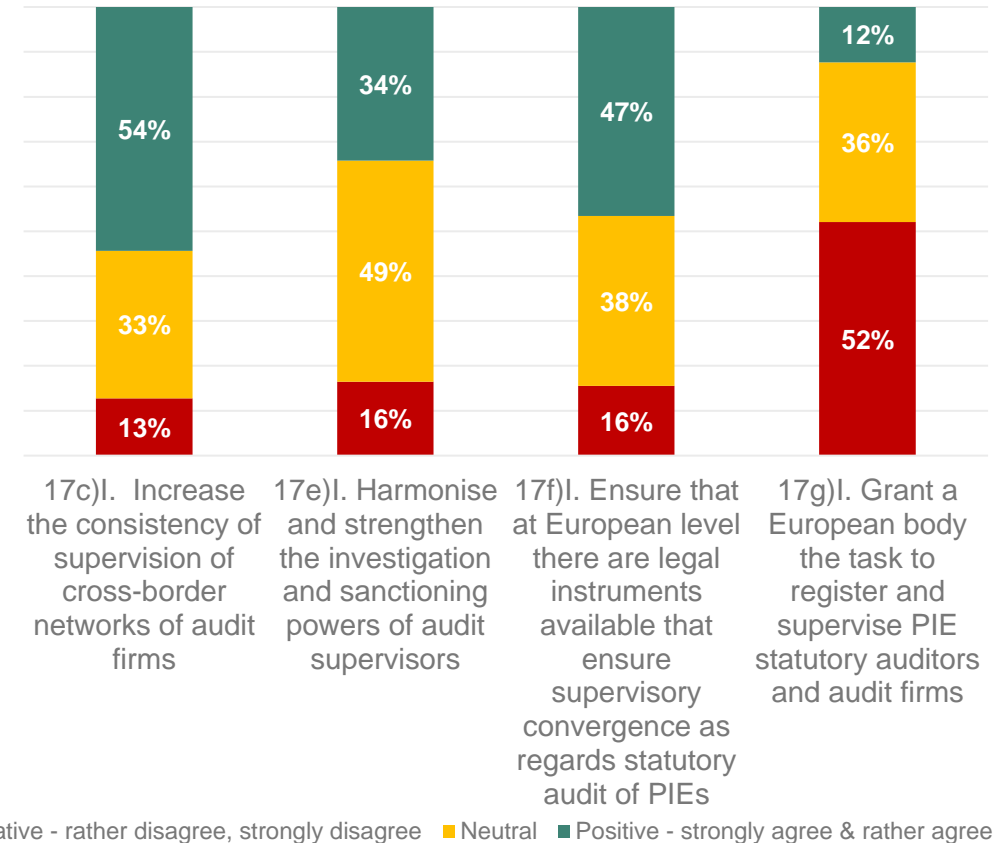
- **46%** of respondents support limiting the number of Member States options - Q14h)I
- **47%** support further harmonization of mandatory rotation rules - Q14e)I
- **53%** are neutral on improving the internal governance of audit firms - Q14c)I
- Only **29%** supports limiting non-audit services scope (29% against, 42% neutral) – Q14f)I
- **28%** are against increasing or eliminating caps on auditor liability (26% in favor, 46% neutral) – Q14g)I
- **35%** are against the creation of a passporting system for PIE auditors (48% neutral) – Q14i)I



# IV. Pilar 3 - Audit supervision

## Call for EU supervisory convergence

- **46%** of respondents support more supervisory consistency for cross border networks or audit firms
- **47%** see benefits in having more EU wide laws and rules to ensure supervisory convergence
- But **52%** oppose the creation of an EU audit oversight body



# Annex - Methodology

## Who answered to the EU Consultation?

Source: [XL](#) file compiling 219 answers to the EU survey on corporate reporting

Based on the information provided by respondents on columns 4 (User type), 8 (Governance level), 9 (Organisation name) 14 (PIE or Listed company), 15 – 16 (Role in Corporate Reporting) and 17 – 18 (Field of activity or sector), the following categories of stakeholders have been identified:

- **Public Authorities:** Ministries, Regulators, Supervisors, CEAOB
- **Companies (Preparers):** Listed companies, other PIEs and their corresponding bodies or associations
- **Investors (Users):**
  - **Institutional Investors:** Insurance companies, Pension funds, Asset managers and their corresponding bodies or associations
  - **Retail investors:** Citizens and their corresponding bodies or associations
- **Auditors:** Audit firms, professional bodies and their corresponding bodies or associations
- **Academics**
- **Corporate Governance bodies:** Self-regulatory bodies, Think Thanks, Advocacy organisation on Corporate Governance and their corresponding bodies or associations
- **Others:** NGOs, Sustainability advocacy bodies, Working groups on Corporate and Sustainable Reporting, Internal Control bodies, Trade Unions, ... and their corresponding bodies or associations

For clarity purposes, the ratings from 1 (low) to 5 (high) have been divided into three categories:

- **Negative:** 1 or 2
- **Neutral:** 3, 'Don't know – No Opinion – Not applicable', 'Blank'
- **Positive:** 4 or 5

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