



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**

MINISTERO DELLA GIUSTIZIA

Roma, 27 febbraio 2008

**European Commission
DG Internal Market and Services
Unit F4 – Auditing
SPA 2 (JII), 02/085
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RE: Consultation on control structures in audit firms and their consequences on the audit market

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (hereinafter CNDCEC) has the pleasure to submit its response to the above mentioned consultation.

Let us express our appreciation for this initiative aiming at ensuring a sustainable and more integrated international audit market.

Please find below our considerations concerning the issues set out in the consultation paper. Should you need further clarifications, we would be pleased to discuss with you any of the points raised in our letter.

Best regards,



Francesca Maione

*Executive Director in charge
of Institutional Affairs*



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Response 1

- a) In principle there are no significant *de facto* barriers to enter the market of audit services. Major restrictions are to be attributed to a highly fragmented and differentiated local regulation (within the EU member states) of relevant aspects which impact on demand and supply of services.
- b) Due to a very strong competition among the big four providers, the statutory audit activity has become an activity with a significant lower return. This would discourage other audit firms to undertake additional investments in various key area: HR development, development of new methodologies, IT infrastructure and innovation. The high investments associated with these areas favour those who have started to invest in the past and can rely on large personnel and high number of audit assignments.

The important merges between international audit firms in the last decade have in fact aimed at achieving "significant masses".

This is even more significant with the recent deregulation trend, with higher exemption thresholds and the consequent market shrinkage.

- c) An important action which can be undertaken is to communicate the concept that also small and medium networks are efficient, qualified, reliable and integrated structures for provision of audit services (in this respect the role of professional bodies is particularly relevant). It is important to counter the attitude of big multinationals directors to *a priori* assign the engagement to the big firms, considering them as safe choice.
- d) An additional means to enhance participation of small and medium firms could consist in ensuring that call for bids of audit engagement in public owned companies, do not provide for restrictive and selective requirements such as dimensional criteria or past experiences.

Response 2

The number of existing networks is deemed as sufficient.

However, the great part of the networks does not necessarily have the critical dimension to ensure independence with respect to large companies nor the possibility to engage in significant investments and gain an adequate level of integration.

Moreover, even the big international networks, in an ever growing globalised market and due to the limited number of multinational clients, may run the risk of not having the appropriate level of independence.

Response 3



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The development of international networks requires significant investments. We do not believe that the involvement of external financial capital is a key factor in the development of networks, for the following reasons:

- a) If well prepared, also small and medium firms could participate at announcements of funds, as other companies would, while ensuring their independence;
- b) As already mentioned, the audit "business" can satisfactorily remunerate only the interests (stakes) of audit partners. However the introduction of an expectation of highly remunerated investments, on behalf of external (institutional) investors introduces the risk of managing the firm according to a strict "business is business" logic, far from the public interest safeguard.
- c) Present regulation, both at EU level and in the Italian regulatory framework, already envisages the possibility to invest up to 50% in an audit firm, without restrictions on the qualitative characteristics of the investor. It is to be carefully observed that in practice this option has rarely been used.

Response 4

A growing share of external capital held by non audit partners (non professional partners) would increase the perception of independence risk. This would imply the need, for the audit firm, to adopt additional measures to safeguard independence and therefore additional limitations on the development of networks or business opportunities.

Response 5

The European Commission can usefully contribute to the development of small and medium networks by acting at regulatory level as well as with regard to the market opportunities.

- a) At market level it could consider inclusion of small and medium networks when it publishes announcements for assigning research projects; it can in parallel ensure that Member States act in the same way;
- b) At regulatory level it could consider to allow less options to Member States and closely examine any gold plating attitude adopted by specific Member States. Differences in national requirements are the main obstacles to the development of networks, entailing higher compliance costs.

We believe that there are other relevant key elements which can enhance the creation of an effective audit market, such as:



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- a) The introduction of limited liability of statutory auditors. The lack of consideration of this important issue by some Members States (among which Italy) results in bearing high insurance costs and discourages many from undertaking any statutory audit assignment;
- b) The extension of mandatory audit to some companies that are currently not subject to any audit - for example companies funded with public funds;
- c) The rationalisation of oversight system and inspection mechanisms;
- d) The development and retention of human resources.

Response 6

CNDCEC is of the opinion that regardless of the legal form adopted by audit firms, it is indispensable to keep the current condition which provides that at least 50% of the share capital is held by statutory auditors who work for the same firm.

Only the expectation of becoming a partner effectively represents a motivation to retain best human resources and to act with the highest accountability sense and provide a high quality service.

Response 7

- a) Professional competency and the high quality of the service provided by partners and staff are key elements for the development and growth of any firm, be it big, medium or small.
- b) Differences in audit regulation, as mentioned under 5 b), are the main barriers to the development of small and medium networks since differentiation, and even more gold plating, entails the burden of high compliance costs and the need to customize each and every project, methodology and governance decision.
- c) The application of International Standards on Quality Control (ISQC) in a formalistic, literal and bureaucratic manner, on behalf of oversight authorities are conducive to high compliance costs. It might be necessary to reconsider this approach in order to ensure that quality control is both effective and affordable to small and medium firms who wish to engage in the provision of statutory audit services.