



NON-AUDIT SERVICES

STREAMLINING EUROPEAN COUNTRIES' AUDIT RULES

May 2022

This publication highlights how differently 30 European countries have implemented the 2014 European Union (EU) audit rules on non-audit services, especially on the so called blacklist of prohibited non-audit services. Different national regimes lead to complexity, additional compliance costs and practical and operational difficulties for internationally operating companies and audit firms. Therefore, we propose streamlining these rules to create a level playing field in Europe.

With this paper, we aim to inform policymakers in the context of the European Commission's ongoing initiative on corporate reporting.



CONTEXT

The [2014 EU Audit Regulation](#), which applies to statutory audits (hereafter 'audits') of Public Interest Entities (PIEs), introduced several measures related to and limiting the statutory auditor's (hereafter 'auditor') provision of non-audit services.

Non-audit services are services other than annual financial statements audit and they include assurance, tax, advisory and other non-audit services. The aim of the introduced measures is to avoid situations where the independence of the auditor could be compromised.

Concretely, the Regulation established:

- a list of **prohibited non-audit services**, a so called '**blacklist**', which the auditor or audit firm cannot provide to the audited company
- a **cap on allowed non-audit services** to PIEs. The total fees that an audit firm can receive from a PIE for non-audit services are limited to 70% of the average of the audit fees received from that company in the last three years

Member States can choose to derogate from, i.e. opt out of, the list of the prohibited non-audit services under certain conditions or they can be stricter by prohibiting additional non-audit services than those in the blacklist. Member States can also decide to apply a stricter, i.e. lower, cap on non-audit services.



OBJECTIVE

This publication presents our latest [update](#) (November 2021) on how countries have decided to deal with these options on implementing the non-audit services rules, almost six years after the transposition deadline. Our analysis covers 30 European countries, including 27 EU Member States, Iceland, Norway and the United Kingdom.¹

¹ Note that the United Kingdom, which applied the EU Single Market legislation until the end of 2020, resulting in its audit framework in 2022 remaining consistent with EU practice, is included in this publication with respect to the subject matters as covered for EU and European Economic Area (EEA) countries, the latter being Iceland and Norway.

We also present a way forward to help improve the current state.

Note that there are also other measures in place on the provision of non-audit services which ensure auditors' independence. We cover them in a relevant section below.

Information in this publication can be useful for policymakers in the context of the [European Commission's initiative on corporate reporting](#), especially if considering any changes that would have an effect on this area.



CURRENT STATE OF PLAY

NON-AUDIT SERVICES AND AUDITOR'S INDEPENDENCE ²

MEASURES IN PLACE TO ENSURE AUDITOR'S INDEPENDENCE

There are already a number of measures in place that ensure the auditor's independence when providing non-audit services to audit clients, some of which we will focus on later:

- the **blacklist** set in the EU Audit Regulation
- 70% **cap for allowed non-audit services** as per the Regulation
- further restrictions on non-audit services established in ethical standards, based on [The International Code of Ethics](#), which forms the basis for many Member States' professional codes of ethics
- a company's audit committee pre-approval of all allowed non-audit services provided by the auditor
- transparency of fee-related information in audit firms' annual transparency reports and in large companies' financial statements
- national public oversight over auditor's independence

² For more details about non-audit services and auditor's independence see our briefing paper *Non-audit services and auditor's independence: Why do auditors provide other assurance services to their audit clients?* (November 2021), available at <https://www.accountancyeurope.eu/publications/non-audit-services-and-auditors-independence/>

WHY ARE AUDITORS REQUIRED OR REQUESTED TO PROVIDE CERTAIN NON-AUDIT SERVICES?

Non-audit services are not a homogeneous group of services. Auditors provide certain non-audit services to the companies they audit to meet stakeholders' valid expectations and to respond to emerging requirements. These services can be:

- closely related to the audit itself and may be considered as an extension of the financial statements audit (e.g., review of interim financial information, comfort letters)
- demanded by third parties who need reliable information and receive comfort from the independent auditor's involvement (e.g., assurance on reporting to the prudential regulatory authority)
- required by legislation to be performed by an independent provider and auditors already meet relevant preconditions (e.g., sustainability assurance)

In cases where the legislation requires companies to obtain independent assurance from its auditor or another service provider, we observe that some Member States exclude the fees for these services from cap calculations whereas others do not.

IMPLEMENTATION OF RULES ON NON-AUDIT SERVICES

PROHIBITED NON-AUDIT SERVICES

As shown in the map, most European countries, in total 27, have adopted the list of prohibited non-audit services, the blacklist, as included in the Audit Regulation:

- List of prohibitions as per the Regulation
- 'White' list approach in line with the Regulation. Auditors and audit firms can only provide the non-audit services included in the white list

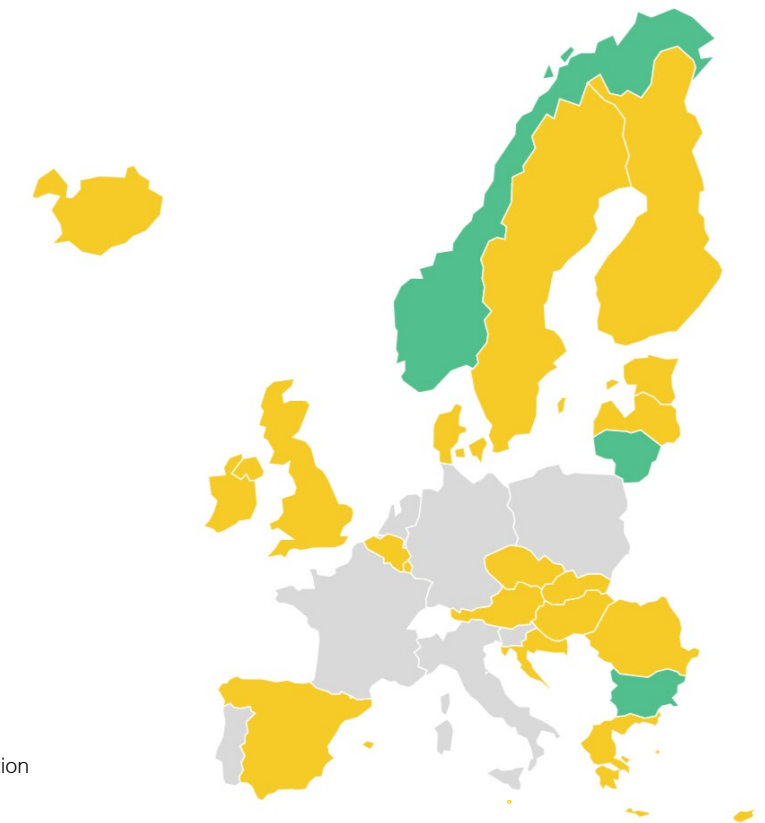


OPTING OUT OF THE PROHIBITED NON-AUDIT SERVICES

The map shows that a large majority of European countries, in total 23, opted out of the prohibition of certain tax and valuation services within the following conditions of the Regulation:

- impact on the audited financial statements is immaterial or none
- evaluation of this impact on the financial statements is documented in the additional report to the audit committee
- principles of independence, as included in the [2014 EU Audit Directive](#), are applied by the auditor

- No
- Certain tax services under the conditions of the Regulation
- Certain tax & valuation services under the conditions of the Regulation



ALLOWED NON-AUDIT SERVICES CAP

When it comes to the cap for those non-audit services that are allowed, all 30 European countries opted for the cap of 70% as per the Regulation:

■ 70% cap



EVOLUTION OF FEES FOR NON-AUDIT SERVICES

As noted in [this report](#) by Audit Analytics (2020), the % of non-audit fees received from PIE audit clients has been declining since new measures at EU level were adopted in 2014. The report was prepared based on publicly available market data as included in the [Audit Analytics database](#). The International Federation of Accountants' recent [survey](#) (2022), also using the Audit Analytics database, has confirmed that the provision of non-audit services by auditors continues to drop in European countries.



WAY FORWARD

PROHIBITED NON-AUDIT SERVICES

Overall, we see a number of different regimes across European countries following the implementation of the 2014 EU audit legislation. This is due to the use of the Member State option to opt out of the prohibition of certain tax and valuation services. These different regimes create complexity, additional compliance costs and practical and operational difficulties in the market as companies and audit firms operating internationally have to comply with rules which vary from country to country.

As expressed in [our response](#) to the European Commission's consultation on corporate reporting, we believe that there is a need to simplify and streamline the legal provisions on prohibited non-audit services across European countries to create a level playing field for both auditors and audited companies.

We therefore propose to **remove the Member State option which allows for opting out of the list of prohibited non-audit services.**

ALLOWED NON-AUDIT SERVICES

Auditors should continue being allowed to provide non-audit services that are not prohibited, including assurance services, to companies they audit. There are no independence issues in this regard thanks to the various measures in place as mentioned earlier.

This is important given that:

- stakeholders take comfort from auditors' involvement
- auditors' understanding of an audited company may be paramount to deliver a specific type of an assurance service, especially when the service draws on the auditor's knowledge acquired through auditing the company

ASSURANCE SERVICES REQUIRED BY EU OR NATIONAL LEGISLATION

Assurance services required by the EU and national legislation should be excluded from cap calculations even when the legislation does not explicitly require that auditors provide the service.

DISCLAIMER: The information in this publication was informally gathered from different sources, especially through Accountancy Europe's members, up to November 2021. Accountancy Europe makes every effort to ensure, but cannot guarantee, that the information in this publication is accurate and we cannot accept any liability in relation to this information. We encourage dissemination of this publication, if we are acknowledged as the source of the material and there is a hyperlink that refers to our original content. If you would like to reproduce or translate this publication, please send a request to info@accountancyeurope.eu.