International Journal of Economics and Finance; Vol. 14, No. 11; 2022
ISSN 1916-971X E-ISSN 1916-9728
Published by Canadian Center of Science and Education

The Role of the Audit Firm Governance in Enhancing Audit Market Stability

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Received: September 2, 2022 Accepted: October 4, 2022 Online Published: October 10, 2022

doi:10.5539/ijef.v14n11p8 URL: https://doi.org/10.5539/ijef.v14n11p8

Abstract

Across the world there have been important regulation related to the audit matters. Significant efforts have been made in recent years to improve the audit firm trustfully with a focus on the significance of corporate governance for the market perception of the audit firm quality. The IAASB published in 2020 the exposure draft on "Fraud and going concern in an audit of financial statements" and the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) updated in 2016 the Audit Firm Governance Code. Good corporate governance and the related effects on market reputation of audit firm could reduce the market concentration of the BIG4. This study looks at whether or not, and if so, in the UK market the corporate governance of the audit firms is correlated with the market share of audit firms in order to support the efforts of standard setters to improve the corporate governance of audit firms and to enrich the academic literature on this topic. Enhancing corporate governance practice in non BIG4 audit firm could affect the perception of audit quality of the smaller accounting firms and improve their market share.

Keywords: audit firm concentration, audit market share, corporate governance, transparency

1. Introduction

The number of corporate scandals during the last decades has highlighted the critical role of the audit firms in assuring the high-quality and credibility of the financial reporting. Audit firms play an essential role in maintaining an efficient market environment ensuring the reliability, the transparency and the usefulness of financial statements and enhancing market confidence.

This takes us to a number of questions that will be relevant in current and future discussion among academics, practitioners, regulators and standard setters across the world[1].

Starting from IOSCO (2009) there have been some suggestions on the relevance of corporate governance practice for the audit firm quality, performance and sustainability. In this regard the EU in the eighth Directive (84/253/CEE) underlines the significance of corporate governance for the market perception of the audit firm quality: in the article 40 of eighth Directive regarding the Transparency reporting it is especially required that the audit firm disclosures information on its governance structure.

Starting from these first efforts on enhancing the corporate governance of Audit firm the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) published the *Audit Firm Governance Code*.

The Audit Firm Governance Code is intended to assist in promoting confidence and choice in the market for the audit of listed companies. The Code supports firms in their aims of performing outstanding work that gives confidence to shareholders. It would be beneficial for capital markets by permitting choice and providing support to eliminate or mitigate the risk that audit firms lost public trust and create adverse effects on the functioning of markets and on the availability of choice for users of audit services. The reputation that the audit firms have built upon their license to audit can improve if they are being seen as exemplars of best practice governance.

Nevertheless, many researchers investigated corporate governance showing how the monitoring function of corporate governance significantly influences the financial performance of the companies (Lang & Lundholm, 1993; Bushman & Smith, 2001; Sloan, 2001; Kanagaretnam et al., 2007; Abraham & Cox, 2007; Lim et al., 2007), but there is not much research that investigates the corporate governance of the audit firms.

A good corporate governance and the related effects on market reputation of audit firm could reduce the market concentration (Boone et al., 2012; Numan & Willekens, 2012) of the BIG4. In fact, the EU 2010 suggests that the preference for a BIG4 auditor might be based on perception rather than merit.

The emphasis on the effect of corporate governance on market reputation and concentration seems to underline that enhancing corporate governance practice in non BIG4 audit firm could affect the perception of these audit firms and improve their market share.

Based on these motivations, this study looks at whether or not, and if so, in the UK Market the corporate governance arrangements of the audit firms is correlated with the market share of audit firms in order to support the efforts of standard setters to improve the corporate governance of audit firms and to enrich the academic literature on this topic.

This study will make both theoretical and practical contribution to the field of auditing concentration with a focus on UK environment. Regulators/Supervisory bodies, corporation, academics, future researchers, and students will also benefit from the research since it is going to serve as a reference point.

The rest of the paper is organised as follows: section 2 presents a review of background and literature review. The research question and the hypotheses are discussed in section 3 while section 4 presents sample and data collection. Findings are analysed in section 5. Finally, section 6 presents the conclusion, limitations, and direction for future research.

2. Background and Literature Review

2.1 Audit Firm Governance

The last decades have seen a significant change in audit market with the emergence and predominance of the BIG 4 audit firms.

This high level of audit market concentration has arisen a lot of concerns about the adequacy of the audit work to the high level of quality required to assure the capital market stability.

Answering to these concerns, audit practitioners, standard setters and regulators have taken significant efforts to enhance confidence on the audit firm particularly in the light of the financial crisis encountered in world capital markets during these years.

After the last financial crisis, the role of the audit market in the capital market stability became so significant that in the 2010, the EU started a study called the Green Paper “Audit Policy: Lessons from the Crisis” that highlighted the influence of audit firms in the recent listed companies collapsed and suggested the introduction of a supervisory board that assures the high quality of the audit firms and an improvement of the transparency of the audit governance and practices to enhance the stakeholders confidence on the audit firms despite the high level of market concentration.

Starting from the debate on the role that the corporate governance could play to assure the audit quality and, naturally, the financial markets confidence, in January 2010 the FRC and Institute of Chartered Accountants in England and Wales (ICAEW) published the Audit Firm Governance Code (the Code), updated in 2016, with the aim of: “*Provid[ing] a formal benchmark of good governance practice against which firms which audit listed companies can report for the benefit of shareholders in such companies.*”

Specifically, the Code is intended to assist in promoting the way that audit firms are run, the high quality of the audit work and the transparency of the disclosure of the audit firms’ practices and performance to enhance the reputation of the audit firms and the confidence of stakeholders. Being seen as exemplars of the best governance practices could improve the competition because it could be one of the determinants in the decision-making process of the listed companies that have to choose among different audit firms. The good corporate governance practice, hence, could improve the reputation of the audit firms and reduce the high level of market concentration offered more opportunity to non-BIG 4 audit companies to engage new clients on the capital market.

As well as Corporate Governance Code for the listed companies, the Code is principles- based and the compliance of these provisions is on a “comply or explain” basis. The main provisions on governance and transparency follow these six elements: leadership; values, independence, regulatory compliance and risk management, reporting.

Despite many of these provisions were already applied when it was introduced, for example the request for board independence and risk management, the Code introduced a significant change in the audit governance with the requirements of the appointment of the Independent Non-Executives (INEs) members as components of a specific committee that assure the public entities interests. The INEs could increase analysts and shareholders confidence through independence, experience, and expertise.

The Code affirms that INEs must play a central role in the governance bodies included in the company and specially possess the majority in a structure that takes care of public interest matters.

INEs provide a guarantee to two possible governance risks related to trust in an audit firm: company decision-making and reputation risk.

The participation of people without executive responsibilities in the firm and with independence quality characteristic could reinforce a positive culture climate permitting to develop the right atmosphere and showing while the firm does not pursue other interests to the detriment of the public interest.

Moreover, the capacity of a firm to preserve its presence in the listed company audit market depends on its reputation of being subject to effective audit regulation.

The reputation of a firm could be negatively affected by non-effective regulation and non-audit business. The audit regulation at national and international level has put in place to reduce many of the risks above illustrated. In fact, the presence of independent non-executives within an audit firm could be fundamental in considering and mitigating reputational risks including those in the firm's businesses that are not otherwise effectively addressed by regulation.

Based on the comply or explain principle there are many similarities in the approach that each audit firm has taken in the implementation of the Code but also some important differences, notably in respect of the number and the position of INEs within the governance structure (INEs sit on the Board or a similar governing body and INEs sit on a separate Public Interest Committee).

The practice adoption of the Code increased the audit firm governance in last years through the involvement of INEs, the creation of Public Interest Committees and the development of other checks and balances on the way management runs the business (FRC, 2015).

With the adoption of the Code and after audit scandal (i.e., Andersen failure), there was the feeling that the governance code for major audit firms would provide large companies the confidence to consider a wider range of potential auditors and hence reduce the concentration seen in this market. Despite this feeling there is no evidence anyway that the existence of the Code had an impact on concentration in the audit market.

2.2 Literature Review

In many European Countries the audit market of listed companies is strongly concentrated. The concentration has substantiation in an oligopoly by the Big Four audit firms (KPMG, PWC, Deloitte and ERNST&YOUNG) that have as clients the biggest companies listed in every market.

Considering the threat of audit concentration, the European Commission (EC) considered the audit concentration in 2011 (EC, 2011a, 2011b). The worrying point under the attention of the EC is the risk linked to a potential loss of credibility in the quality of external audit, having in mind that the external audit relevance is one of the main pillars of every market.

Stakeholders are in general anxious because the power of few players can cause monopolistic prices that at the end of the day could diminish the effectiveness of capital markets and investor confidence (Cammack & Caban-Garcia, 2005).

The concentration of the audit market has been analyzed at international level (i.e., Francis et al., 2011) and especially in the UK market where some papers (Beattie & Fearnley, 1994; McMeeking et al., 2006) underlined that the concentration level touched high quotes that are consistent with an oligopoly market characterized by few players, stable market shares and barriers to entry.

Many reports deeply considered this issue like the Green Paper on Audit Policy: Lessons from the Crisis" (EC, 2010), "Auditors: Market concentration and their role" (House of Lords, 2011), "Public Accounting Firms: Mandated Study on Consolidation and Competition" and "Audit of Public Companies: Continuous Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action" (United States General Accounting Office 2003 and 2008).

In literature the option exercised for one of the big audit companies is linked to reputation and audit quality (i.e., De Angelo, 1989; Rama & Read, 2006). Reputation is an important driver of choice, favoring the Big Four, whether this is based on real or perceived differences with the mid-tier firms. In the perception of most UK FTSE 350 companies (OXERA report, 2010).

Reputation is commonly seen as a perceptual evaluation, an "estimation" of a person or thing. Following this general idea, scholars have most often conceptualized corporate reputation as a subjective evaluation of a firm's overall quality or appeal in the eyes of key stakeholders (Fombrun, 1996). Strong corporate reputations have been associated with sustained long-term performance (Barney, 1991; Roberts & Dowling, 2002), access to resources and customers (Shapiro, 1983) and other material benefits (see Fombrun, 1996; Fombrun & Van Riel, 2004).

Research on the antecedents of corporate reputation reflects a quite similar theme (which is unsurprising given that corporations tend to be evaluated in part as if they are people).

Several studies have found that assessors assign high reputations to organizations that show their ability to deliver valued outcomes (e.g., high quality products, or high financial performance) (Fombrun & Shanley, 1990; Fombrun & Van Riel, 2004; Shapiro, 1983). Similarly, an individual's perceived effectiveness or competence is often seen as the core of their reputation, both by organization theorists (Tsui, 1994) and particularly by economists (Hirshleifer, 1993; Weigelt & Camerer, 1988). The above discussion provides some guidance as to how governance arrangements enter into evaluators' assessments of the reputation of a firm and its managers. First, reputational evaluators seem likely to account for the apparent impact of governance arrangements on organizational performance.

Corporate governance has a direct impact on market liquidity because poor governance increases information asymmetry between insiders and outsiders (i.e., owner and/or liquidity providers). The weak governance can take to poor financial and operational transparency (Chung et al., 2007).

Previous works on this issue highlighted that better corporate governance improves a firm performance (e.g., Gompers et al., 2003; Cremer & Nair, 2005). Companies with better Corporate Governance have the incentive to provide evidence to investors about their high-quality level of governance and their higher expected future share performance and growth (Mitton, 2002). In general, investors prefer firms with good corporate governance because they noticed that firm value increases and equity cost decreases when the quality of corporate governance improves (Loukil & Yousfi, 2010).

A good corporate governance increases the quality of listed companies, forms a scientific constraint and incentive mechanism that pushes managers to maximize returns on investment and consider the interests of investors.

Good corporate governance is also a firm guarantee for reduction of speculation and violations of market rules and thereby helps permitting stability in the financial markets. It should furnish incentives for the board and management to reach objective that are in the interests of the company and various stakeholders and should facilitate effective monitoring, supporting firms to use resources more efficiency (OECD Principles of corporate governance, 1999).

Effectiveness of governance system depends on application of principles and guidance standards in companies in a way that using these principles may have benefits like reducing conflict of interest, control and improving transparency for shareholders. The right level of balance of governance mechanisms is the first step for optimum use of resources, improving accountability, transparency, observing fairness and rights of all shareholders of company (McGee, 2009; Okpara, 2010).

Despite some studies highlight the uncertainty and ambiguity of the link between the governance arrangements and financial performance (Bhagat & Black, 2002; Dalton et al., 1998) the impact of corporate governance on corporate reputation is seen in research that has linked perceptions of governance practices' appropriateness to prevailing institutional logics (Zajac & Westphal, 2004). Modern conceptualizations of appropriate governance are centered on increasing shareholder value while controlling the actions of self-interested managers, or what has been termed the agency logic (Daily et al., 2003; Davis, 2009). To the extent that governance practices align with this logic, they tend to be evaluated positively and as representing "good" governance. For example, even though the presence of independent directors has proven difficult to link directly with financial performance (Dalton et al., 1998), they ostensibly inhibit CEO efforts to inappropriately control the board and thus have taken on a broader meaning as a symbol of "good" governance (Bednar, 2012).

A growing body of work suggests that governance arrangements, such as the composition of the board of directors and the presence of independent non-executive directors may influence external stakeholders' perceptions of the firm and its managers (Bednar, 2012; Sanders & Boivie, 2004).

3. Research Question and Hypotheses

The emphasis on the effect of corporate governance on market reputation and concentration seems to underline that enhancing corporate governance practice in non BIG4 audit firm could affect the perception of these audit firms and improve their market share.

Because of these motivations, this study looks at whether or not, and if so, in the UK audit market the corporate governance arrangements of the audit firms is correlated with the audit market concentration to support the efforts of standard setters to improve the corporate governance of audit firms and to enrich the academic literature on this topic.

According to many empirical works conducted in this field we measured market concentration (CONC) as audit fees applied by audit companies and the percentage of each company object of analysis on the total. This is in line with previous literature (i.e., Iyer & Iyer, 1996; Peel, 1997; Beattie et al., 2003) that used the audit fees as the principal measure of market concentration parameter.

The research question of the present work is to investigate if there is any relationship between audit concentration and audit companies' characteristics either in terms of corporate governance or dimension.

Regarding the corporate governance arrangements, we decide to test the influence of the numbers of the INEs, measured as the number of independent non - executive member in the Public Interest Committee (INE_SIZE) and the independence of the board measured as the number of non-executive member on the total numbers of the board (BOARD_IND) to capture the main improvements of the UK Audit Firm Code.

The number of INEs and the independence of the board are significant topics that need to be considered governance (FRC, 2010/2016). The gap in the literature regarding the audit firm governance creates the opportunity to test these important proxies used in literature (Lang & Lundholm, 1993; Bushman & Smith, 2001; Sloan, 2001; Kanagaretnam et al., 2007; Abraham & Cox, 2007; Lim et al., 2007).

Morck (2008) analyzed the board composition in terms of qualification, nomination and independency. The concern could be related to possible factors (like the relationship between the independent directors with other board members, management and other subjects of the company) that could affect the independence.

The Higgs report (2003) strongly suggests that at least 50% of the board should be independent and in France the Bouton Report (2002) on corporate governance recommended the same.

To exercise the right control of management the board of directors should be independent, in its composition we should find non-executive directors (Gubitta & Gianecchini, 2002). Non- executive directors play, in fact, a central role in monitoring and controlling the management of a company (Jensen & Meckling, 1976; Fama & Jensen, 1983; Pettigrew & McNulty, 1995; Mak, 1996; Leung & Horwitz, 2004) and preserving the shareholders interests (Leung & Horwitz, 2004).

As previous research suggests (Fama & Jensen, 1983; Haniffa & Cooke, 2002), the monitoring control is more efficient when the proportion of non-executive is higher inside the board.

Regarding the audit firm governance, we consider both the independence of board and the numbers of the INEs in the Public Interest Committee in order to capture the specific features of the audit firms whose stakeholders are the public companies and not the investors as is usual in corporate governance literature.

Furthermore, it comes from the research in this field that, in cases where the boards are monitoring the management more effectively, the quality of the control increased and improved during the years (Karamanou & Vafeas, 2005).

Based on the above discussion, we hypothesize that concentration will be positively associated with the number of independent non - executive member in the Public Interest Committee, the proportion of non-executive members on the board and the dimension of the board, as formulated in the following hypothesis:

Hp.1:

There is a positive association between the number of independent non - executive member in the Public Interest Committee and the level of audit concentration.

Hp.2:

There is a positive association between the proportion of non-executive members on the board and the levels of audit concentration.

Hp.3:

There is a positive association between the dimension of the Board and the level of audit concentration.

Regarding the dimension of the audit firms, based on previous studies (Francis et al., 2010; Deumes et al., 2012), we test two different variables for the audit size: the natural logarithm of total revenues of an audit firm as reported in its transparency report (LNREV) and a dummy variable with a value of 1 if an audit firm is a Big 4 auditor BIG4, and 0 (BIG4).

Hp4:

There is a positive association between dimensions of the audit firms and audit market concentration.

Our regression model is the follow:

$$CONC = \beta_0 + \beta_1 BOARD\_IND + \beta_2 INE\_SIZE + \beta_3 BOARD\_SIZE + \beta_4 LNREV + \beta_5 BIG4 + \varepsilon$$

where

CONC is a measure of in terms of audit fees applied, BOARD_IND represents the independence of the board measured as the number of non-executive member on the total numbers of the board, INE_SIZE is the numbers of the INEs, measured as the number of independent non - executive member in the Public Interest Committee, BOARD_SIZE is the number of directors in the board, LNREV is the natural logarithm of total revenues of an audit firm as reported in its transparency report and BIG4 is a dummy variable with a value of 1 if an audit firm is a Big 4 auditor BIG4, and 0.

4. Sample and Data Collection

To conduct our empirical tests, we collected data on audit firm disclosure present in the transparency reports of the UK audit firms[2] for the 5 years period 2015-2020 in order to capture the effect of Audit Firm Governance Code on audit disclosure (FRC, 2010, 2016). The content analysis is based on the analysis of 96 items. We have identified twelve sub-sections: Governance and Structure; Internal Quality Control Framework; Tone of the Top; Independence and conflict of Interest; Human Resources; Engagements clients; Internal Control Quality Reviews; External Inspections; Other information; Financial Information; Remuneration policy; Quantitative information. We assigned a score of 1 or 0 in case of presence/absence of the item in the report then we calculated the amount for every section and the overall score for every year/company.

We have reported in Appendix 1 an extract of the disclosure check.

We decide to focus our analysis just on the audit firms that operates for the public interest entities, as required for the application of transparency report and for the audit firm governance code.

We know that BIG 4 have the 90% of audit market so that we consider for our analysis all the audit firms that cover the 99% of capital market in the UK.

To avoid bias in the sample and specification problems in the estimation of the model we exclude from this study part of the audit firms that cover a not significant part of audited public interest companies. Referring to the annual report on top 20 audit firms in the world (from the BIG4accounting firms.com) we collect the data from transparency reports of the BIG 4 (KPMG, PWC, Deloitte and ERNST&YOUNG) and of 4 non-BIG 4 (GRANT THORNTON, BDO, RSM, MAZARS,) to have a good sample.

Following this approach, we collect transparency reports via the websites of the audit firms and via e–mails to audit firms and we have a final sample of 40 audit firm transparency reports.

From this final sample, we apply manually a content analysis to collect all information regarding our variables of audit corporate governance.

The data collected have been analyzed throughout the descriptive statistics and the regression model.

Below it is reported descriptive statistic of the variables used:

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min.	Max.
CONC	40	.112	.085	.02	.25
BOARD_IND	40	.219	.180	0	.67
INE_SIZE	40	2.425.	1.356	0	5
BOARD_SIZE	40	10.350	4.503	3	18
LNREV	40	18.940	1.206	16.18	20.32
BIG4	40	.005	.506	0	1

5. Results

From the analysis run for the period 2015-2020 we found that there is a significant and positive relationship between the market concentration (captured as fees percentage) the number of independent non - executive member in the Public Interest Committee INE_SIZE and the fact that audit companies belong to Big4 companies network.

While the second relationship was quite predictable considering that according to market concentration in terms of fees we can identify an oligopoly market if "at least five companies have a market share of >66% respectively" (Velte & Stiglbauer, 2012) the first one was not so predictable and worth's to be discussed.

Table 2. Regression analysis findings

Variables	Coefficient	Robust St. Err.	p-value
BOARD_IND	-.0125	.0134	0.360
INE_SIZE	.194	.001	0.000
BOARD_SIZE	.001	.005	0.759
LNREV	.005	.004	0.195
BIG4	.133	.009	0.000
_cons	-.105	.074	0.163

We run additional analyses to investigate the robustness of these findings. To validate our results, we utilize some other proxies for Concentration and for Governance. For Concentration instead of fees we tested the market share as the number of clients audited by each Big4/Non Big4 for the time period of the present work, while in terms of board independence instead of looking at the percentage of independent members we tested the absolute number of independent included in the board. The results were in line with previous findings confirming the positive association between concentration, the number of independent non - executive member in the Public Interest Committee INE_SIZE and the fact that audit companies belong to Big4 companies network.

We then make some further analyses considering to what extent modifications in the client composition lead the decrease in market concentration. We do so by comparing the HHI (Herfindahl-Hirschman index corresponds to the sum of the squared market share (based on either number of clients or audit fees) of each auditing firm in the market or for the Big 4 or largest 4 auditors) based on audit fees or number of clients. We take in consideration a balanced sample based on the subset of clients that compose the entire sample over the period of analysis. This corresponds with the statistics on the computed changes. We observe that HHI decreases by 11.47% (7.82%) with the balanced sample. We therefore rule out that systematic changes in the client composition are a major driver of the decrease in market concentration. We move on assessing how modifications in audit pricing impact on the decrease in market concentration. The work takes under consideration the HHI based on audit fees for the full sample with the same proxy for a revisited sample where we consider audit fees at the client level as constant across time. We recognize the amount of audit fees compensated by the client in its first year in the sample and consider audit fees to be equal to this amount in next coming years. Even if in in the UK, this deviation HHIs (full sample versus same auditors) looks throughout the entire sample period, the HHI is more consistent when presuming no auditor changes than the HHI for the full sample towards the end of the sample period. All in all, our results indicate that in the UK the hypothetical decrease in market concentration is driven by changes in audit pricing or modifications in the client composition but rather by expanding auditor changes.

6. Conclusion

This wok studies the effects of the most recent changes in EU rules (2014 EU Directive) setting the audit market. The Directive offers a new framework to harmonize and support auditor independence in the EU. The European Union has managed the issue of protecting independence by following a principle of independence combined with the implementation of a deterrent and sanctioning framework of protections and prohibitions.

The motivation for this paper is to discuss the situation of the Uk audit market after the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) published the *Audit Firm Governance Code*. Considering the concentration in terms of audit fees applied by audit companies and the percentage of each company object of analysis on the total we looked for possible relationships between Audit concentration, governance and dimension.

From our first analysis we confirm what illustrated by previous studies in terms of an audit market as an oligopolistic market given that we found for the period 2015-2020 that there is a significant and positive relationship between the market concentration (captured as fees percentage) the number of independent non - executive member in the Public Interest Committee INE_SIZE and the fact that audit companies belong to Big4 companies' network.

Our results provide evidence that auditors highlight the importance of defending independence during the audit assignment as a fundamental matter. Furthermore, auditors estimate that a gap is in place between what society demands during their work and what is in place in the auditing assignment. The result of this change is that the audit regulation put in place in the Directive is effective at defending the independence of auditors.

This study provides so evidence of the effects of the Audit Corporate Governance Code and may be helpful for Regulators, Professional Bodies. The audit work has so expanded through the better protection of independence. The results show for regulators and policymakers that the auditing Directive and national regulation that the aim to defend auditor independence are helpful. The new requirements of protections and incompatibilities are effective at improving independence during the audit commitment. Finally, our work has limitations that suggest possible future research opportunities. Even if this paper involved the new regulation on identified auditor independence, it considered just the English environment. Given that international and national regulations are not issued at same times in all countries, it is still necessary to control the effects of these in other states. It will be important to analyse the views of stakeholders such as auditees, regulators, and users of financial information.

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Notes

Note 1. Significant efforts have been made in recent years to improve the audit firm trustfully (IFAC, 2007, 2018; FRC, 2008; IOSCO, 2009; EC, 2010, 2016, 2021; PCAOB, 2011, 2013; IAASB, 2013, 2014, 2020).

Note 2. The Transparency Report provides information on how audit companies structure and govern their compliance with the Audit Firm Governance Code.

Appendix A

Transparency Report content analysis

	Governance and Structure (SCORE1)
1	Description of their legal structure and ownership
2	Description of the network
3	The number of partners/members
4	The number and location of offices
5	Presence of non-executive members in the board
6	Procedure for the election of the principal management body and committees
7	Presence of compensation committee
8	Presence of audit and risk committee
9	Presence of the chief risk manager
10	Presence of Public Interest Committee
11	Presence of Oversight Quality Committee
12	Presence of Independent Non-Executive members (INEs)
13	INEs have the majority on a Public Interest Committee

14	INEs are members of the Board
15	INEs are members of the Audit and Risk Committee
16	INEs are members of the Oversight quality Committee
17	Description of functions of principal management bodies and committees
18	Statement of the meetings of the management bodies and committees
19	Information about the meeting between the INEs and other committee
20	A description of the professional skills of the members of the board and committees
21	Definition of reporting line and communication channel
22	Statement on risk management and Internal control system as required by Turnbull Guidance
23	The board identifies the oversight responsibilities in relation to audit quality
24	The heads of the client service functions (Audit, Tax and Advisory) oversee and improve the quality of service delivered in their respective functions
25	The head of Quality has a seat on the Board
	Internal Control Quality Framework (SCORE2)
26	The policies of quality control are based on the International Standard on Quality Control 1 (ISQC1)
27	Adoption of additional policies and procedures that are designed to address rules and standards issued by other standard setters (FRC, PCAOB, etc.)
28	Statement on the functioning of the internal quality control system
	Tone of the Top (SCORE3)
29	Specific measure taken by the board to set the tone at the top in term of integrity and ethical value (clear message on what is wrong or right)
30	Presence of the mission and value statement
31	Presence of policies and procedure on ethical value
32	Presence of the standard of conduct that reflect governing laws, rules, regulations, standards
33	Policies and procedures to communicate and reinforce the standard of conduct
34	Adoption of formal and informal communications channel (regular staff meeting, whistle –blowing program)
35	Definition of the corrective actions for the deviations from standard of conduct
36	Number of the matters that require investigation
37	Presence of the external ombudsman
	Independence and conflict of Interest (SCORE4)
38	Description of independence and conflict of interest procedures and practices
39	Identifies and promptly notify the threats to independence
40	Requires partners and staff members to make independence declaration at least annually
41	Confirmation that an internal review of independence practices has been conducted
42	Information about the monitoring process on the compliance to independence and integrity requirements (how many people was monitored)
43	Requires the rotation of the engagement partner and the engagement quality control reviewer
	Human Resources (SCORE5)
44	Policies and procedures to evaluate competence (knowledge, skills, experience, nature and degree of judgment and limitations of authority to be applied to a specific position)
45	Policies and procedure to train and mentor personnel (classroom instruction, self-study, on the job training)
45	Policies and procedure to evaluate personnel (performance measures)
46	Policies and procedure to retain personnel (incentive and reward)
47	Policies and procedure to manage pressure (pressure to achievement of objectives)
48	Staff turnover rate
	Engagements clients (SCORE6)
49	Indication of the element of acceptance and continuance of client relationship and specific engagements (an assessment of principals and business)
50	Indication on other service-related matters of a new client
51	Application of an assessment criteria on client’s integrity
52	Description of the responsibility in the acceptance of the new clients
53	Description of the procedure for high-risk clients
54	Adoption of an annual re-evaluation of all clients
55	The engagement team makes appropriate use of information technology
56	Undertakes appropriate consultation with experts within or outside the firm to resolve difficult and contentious matters
57	Protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues
58	Policy and procedure to develop business understanding and industry knowledge

59	The audit engagement partner is actively involved in risk assessment, planning, supervising, and reviewing the work performed
60	Policy and procedure for the Ongoing mentoring and on-the-job coaching
61	Information about appropriate arrangements with management so as to achieve an effective and efficient audit process
62	Information about the time that partners and staff must undertake the audit in an effective manner and to deal with difficult issues as they arise
63	Staff performing detailed “on-site” audit work is appropriately directed, supervised and reviewed
64	Reasonable degree of staff continuity
65	Information about the final engagement reports
66	Procedure and policies on maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation
67	Presence of IT security System and certification of IT security system
68	Plans future staffing needs
	Internal Control Quality Reviews (SCORE7)
69	The audit methodology is adapted to findings from internal quality control reviews and external inspections
70	The audit methodology encourages individual team members to apply professional skepticism and exercise appropriate professional judgment
71	The methodology requires effective supervision and review of audit work
72	Description of the resources allocate for audit quality
73	Presence of an internal monitoring program to assess the relevance, adequacy, and effective operation of key quality control policies and procedures
74	Overview of the Internal Quality Performance Reviews Results
75	Ensures inspections of the engagement are conducted regularly
76	Information about the effect of deficiencies noted as a result of the monitoring process
77	Establishes policies and procedures requiring appropriate documentation to provide evidence on the quality control system
78	Where required, effective engagement quality control reviews (EQCRs) are undertaken
79	Statement on the effectiveness of the functioning of the internal quality control system
80	A section on factors outside of the firm’s control affecting audit quality and the actions the firm was taking to mitigate those risks
	External Inspections (SCORE8)
81	A statement of when the last external monitoring of the audit firm took place
82	An explanation of actions taken to address matters raised by external bodies
83	The date(s) of the last inspection(s) of the external bodies
	Other Information (SCORE9)
84	A list of public interest entities in respect of which an audit report has been made in the financial year of the auditor
85	Presence of Appendices to more explanation on particular matters
	Financial information (SCORE10)
86	Total revenues
87	Revenues from statutory audit work
88	Revenues from non-audit services for audit clients
89	Revenues from non-audit services to non-audit clients
90	Comparative information for previous year
	Remuneration Policy (SCORE11)
91	List of criteria for remunerating partners/members/elements of partner remuneration
92	Confirmation that audit partners not remunerated by reference to sale of non-audit services to audit clients
93	Set out clearly the relative importance attached to each component of partner remuneration
	Quantitative information (SCORE12)
94	Quantitative information on engagement team (year on engagement, year of industry experience, year with the audit firm)
95	Quantitative information on engagement team work (average number of hours for each key member, workload levels in excess of a standard workload by level)
96	Quantitative information about allocation of resources (planned and actual resources allocation)