



MANDATORY ROTATION OF AUDITORS

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 mandatory rotation of auditors, especially when it comes to extending the maximum duration of the auditor's engagement through tender or joint audit. 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 measures limiting the statutory auditor's (hereafter 'auditor') tenure. Their aim is to address the familiarity threat and reinforce auditors and audit firms' independence.

MINIMUM & MAXIMUM DURATION OF AUDIT ENGAGEMENT

Mandatory auditor/audit firm rotation requires that companies change their auditor after a legally set period of time. The Regulation established a maximum duration of the audit engagement of an auditor or an audit firm in a particular audited company at 10 years. The minimum duration is 1 year.

OPTIONS FOR SETTING MINIMUM & MAXIMUM DURATION

Member States are provided with an option regarding both of these time limits, they are

allowed to set:

- the minimum duration longer than 1 year
- the maximum duration shorter than 10 years

OPTIONS FOR EXTENDING MAXIMUM DURATION - PUBLIC TENDER & JOINT AUDIT

Member States are also given 2 options for extending the original maximum duration of an audit engagement – through 'public tendering' or 'joint audit'. Enabling one of these may result in extending the maximum duration of the audit engagement up to:

- a total period of 20 years, but only if a public tender takes effect upon the expiry of the original 10-year (or shorter) period
- a total period of 24 years, but only if 2 auditors, via a joint audit, are simultaneously appointed after the expiry of the original 10-year (or shorter) period

COOLING-OFF PERIOD

A 4-year 'cooling-off' period starts after the maximum duration of the engagement expires. During this time, the statutory auditor, audit firm or any member of their network shall not undertake the statutory audit of the same company.

In addition, the Regulation requires key audit partners, carrying out the statutory audit on behalf of the audit firm, to rotate after a maximum of 7 years, followed by a 3-year cooling-off period. Member States may decide to require key audit partners to cease their participation in an audit of the audited company earlier than 7 years.



OBJECTIVE

This publication presents our latest [update](#) (November 2021) on how countries have decided to deal with the options on implementing the mandatory auditor rotation rules, almost 6 years after the transposition deadline of the 2014 EU audit legislation. Our analysis focuses on implementation of the maximum duration of the audit engagement and related Member State options for extending it.

It covers 30 European countries, including 27 EU Member States, Iceland, Norway and the United

Kingdom.¹ We also present a way forward to help improve the current state.

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.

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.



CURRENT STATE OF PLAY

MAXIMUM DURATION OF THE AUDIT ENGAGEMENT

The Regulation sets the maximum duration of the PIE audit engagement at 10 years. Member States may decide to apply a shorter period.

As shown in the map, there is overwhelming consistency across European countries in setting the original maximum duration of the audit engagement period at 10 years, as applied in 25 countries:

- 7-9 years
- 10 years
- 5 years for systematically important financial institutions
- 9 years for banks



EXTENDING THE MAXIMUM DURATION BY TENDER

The maximum duration of the audit engagement can be increased up to 20 years in case of public tendering once the original maximum duration of 10 years or shorter is finished.

The map shows that more than half of European countries, in total 18, opted for allowing an extension of the maximum duration in case of tendering:

- these countries apply 4 different extension periods, ranging from 1-2 to 10 years
- the most prevalent extension is 10 years, applicable in 15 countries

■ No extension ■ 6 years ■ 10 years
■ 1-2 years ■ 9 years

- ● Original maximum duration of engagement extendable up to 10 years
- ●● No extension for banks
- ●●● 10 years extension for existing engagement (1st appointment between 2003 and 2014)
- ●●●● No extension for banks, insurance undertakings & pension funds



EXTENDING THE MAXIMUM DURATION BY JOINT AUDIT

The maximum duration of the audit engagement can be increased up to 24 years once the original maximum duration of 10 years or shorter is finished, if more than 1 audit firm has been simultaneously engaged through joint audit. The map shows that:

- the majority of European countries, in total 20, have not adopted a Member State option allowing extension of the audit engagement duration in case of joint audit
- 10 European countries opted for allowing an extension in case of joint audit, applying 3 different periods

Note that mandatory joint audit exists only in 3 European countries – in Bulgaria, Croatia and France. In other countries it may be applied on a voluntary basis.

■ No extension ■ 14 years
■ 4 years ■ 15 years

- ● Mandatory joint audit. Bulgaria: only for banks, insurance undertakings and pension funds. Croatia: only for PIEs with 5000+ employees or HRK 5 billion+ (~ EUR 660 million) in assets
- ●● No extension for banks
- ●●● 14 years extension for existing engagement (1st appointment between 2003 and 2014)
- ●●●● No extension for banks, insurance undertakings & pension funds





WAY FORWARD

When combining the data from all 3 maps above, there are 13 different mandatory audit firm rotation regimes applied across 30 European countries. This patchwork of different regimes across European countries following the implementation of the 2014 EU audit legislation comes namely as a result of the use of the option to allow extending, in case of tender or joint audit, the original maximum duration of the audit engagement.

The patchwork, in combination with other requirements on independence such as audit partner rotation or cooling-off period for audit firms, creates complexity, additional compliance costs and practical & operational difficulties in the market. This is because companies and audit firms operating internationally have to comply with a range of 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 mandatory audit firm rotation across European countries to create a level playing field where it matters most for both auditors and audited companies.

We propose the following solutions:

- setting the **original maximum duration** of the audit engagement at 10 years in all countries as is already applied in the majority of countries
- setting the extension of the original maximum duration of the audit engagement in case of **tender** at 10 years in all countries. More than half of European countries already allow extension in case of tender, with the most prevalent extension period being 10 years
- setting the extension of the original maximum duration of the audit engagement in case of **joint audit** at 10 years in all countries. This may incentivise joint audits as a measure to open the PIE audit market. Extending auditor tenure in case of joint audit does not pose a threat to auditor independence as joint audit in itself is a measure to promote this independence