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Extent of the definition of Public Interest Entities (PIEs) in other countries

Advantages and disadvantages
of an enlarged extent

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EXTENT OF
THE DEFINITION OF PIES
IN OTHER COUNTRIES

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Executive abstract

The concept of “Public Interest Entities” (PIEs) is particularly relevant in the field of auditing. It is mainly due to the existence of certain additional obligations, respecting other entities, for both the auditor and the audited entity. It is linked to the high level of interest that may be generated by the audit of the PIE, mainly due to the impact it has on its stakeholders, which are expected to be very numerous and include various groups. In fact, the Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts states that “since public-interest entities have a higher visibility and are economically more important, stricter requirements should apply in the case of a statutory audit of their annual or consolidated accounts”.

The main reason for defining these entities in the audit regulatory framework is precisely to establish some restrictions on the legal audit in order to meet stakeholders’ expectations about auditor independence and to enhance stakeholder confidence in the entity’s financial statements. Ultimately, the aim is to ensure that financial information can be used to assess the financial condition of the entity, thereby improving the audit quality.

European legislation establishes three common categories of PIEs for member countries:

- Entities whose stocks can be traded on a regulated market in any Member State.
- Credit institutions.
- Insurance companies.

Furthermore, it allows each Member State to qualify additional entities as public interest entities when they are considered to have “significant public relevance” due to their nature and/or size. This has led to differences about what entities can be included in this concept, as well as about the extent of information and auditing obligations of entities from one country to another.

In this context, the aim of the paper is to carry out a review of the regulation of the concept of PIEs in auditing in the European Union (EU). We want to compare which entities the regulators understand to have “significant public relevance”, as well as the implications of the concept in different countries. The paper focuses on the main European countries and analyses, in addition to the concept of PIEs in each country, the extent to which these countries have made use of the possible exemptions contained in the European regulatory framework. In other words, the second objective of the paper is to compare the obligations and restrictions that regulatory bodies have established for the audit of these entities.

The applied methodology is based on the analysis of the regulations in force in the most relevant EU countries for which we have been able to obtain information. This comparative analysis allows us to confirm the high degree of diversity that exists around the concept and the implications that it entails in the different regulations. Spain is one of the countries that has made most use of the enlarged concept of PIEs, including various categories of entities, some of which are few contemplated or not contemplated at all in other countries. This has led to a very high number of included additional entities, both in relation to the total number of PIEs and to Gross Domestic Product.

Once these divergences have been identified, the third objective of the paper is to analyse the implications of extending the concept to entities not included in European legislation, and fundamentally what advantages and disadvantages can be derived from this enlarged extent. To this end, firstly, the existing literature on the subject is analysed, in an attempt to elucidate the advantages and disadvantages that can be derived from the obligations and restrictions on the audit of PIEs in previous papers. Subsequently, the implications of the obligations set out in Spanish legislation for these

entities are analysed, also attempting to highlight the advantages and disadvantages that each one may entail. Finally, and in order to contrast from a practical perspective the identified advantages and disadvantages, both in terms of the regulatory implications and previous literature, an empirical analysis is carried out by means of a survey to auditors and audit committees of the entities included in the extended concept. The results reveal that both auditors and audit committee members mostly consider the extended concept developed in the national regulations to be adequate, with less consensus about sports federations and professional leagues. In general, they have a positive view of the restrictions and limitations imposed on these entities. They are not particularly concerned about the potential disadvantages that may arise from them.

KEY WORDS: Auditing, PIEs, International Comparison, European Auditing Standards, Public Interest Entities.

Extent of the definition of PIEs in other countries. Advantages and disadvantages of an enlarged extended definition

1. Introduction

The concept of “Public Interest Entities” (PIEs) has arisen within the framework of the rules governing the auditing. Its main objective is establishing guarantees that both ensure the veracity of the entity’s economic and financial information and guarantee the confidence of stakeholders. Due to the type of entity, it is understood to include a wide range of stakeholders. In fact, the Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts states that “since public-interest entities have a higher visibility and are economically more important, stricter requirements should apply in the case of a statutory audit of their annual or consolidated accounts”.

However, far from being a strict definition of what should be included in the concept of public interest entity, European regulations allow each Member State to qualify additional entities as public interest entities when they are considered to have a “significant public relevance” due to their nature and/or size. And it is precisely in this understanding that differences arise from one regulation to another, or from one regulatory body to another. Consequently, there are discrepancies in the extent of the information and auditing obligations of entities from one country to another.

EU legislation, originating in Directive 2006/43/EC and subsequently included in Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, and in the Directive 2014/56/EU amending Directive 2006/43/EC, defines Public Interest Entities on the basis of the types of entities included therein:

- a. Entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State.
- b. Credit institutions.
- c. Insurance companies.
- d. Other entities designated as PIEs by Member States, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees.

The flexibility of the last paragraph has given rise, on the one hand, to some debate as to when an entity could be considered to be of “significant public relevance”, and on the other hand, to “heterogeneity in the concept of PIEs”, due to the fact that the national regulatory bodies have been those that have defined which entities should be considered as such.

The main reason for defining these entities in the audit regulatory framework is precisely to establish some restrictions on the legal audit in order to meet stakeholders' expectations about auditor independence and to enhance stakeholder confidence in the entity's financial statements. Ultimately, the aim is to ensure that financial information can be used to assess the financial condition of the entity improving the audit quality. It also contributes to strengthening confidence in financial markets and to facilitating informed decision making.

European legislation, and specifically Regulation (EU) No 537/2014 (hereinafter Regulation EU) on specific requirements regarding statutory audit of public-interest entities, introduces various measures for the audit of entities defined as PIEs, and for their auditors. They can be summarised in four areas: reporting, internal organisation and work of the auditor, audit committee and auditor independence (Condor et al., 2018).

In terms of reporting, these are more demanding for the PIE auditor as the audit report contains more information, and there is also an obligation to submit an annual transparency report and an additional report to the audit committee, in addition to the mandatory reports to be submitted to the supervisory authorities. This leads to higher demands on the internal organisation of the statutory auditor.

Also, as described below, PIEs are required to establish an audit committee or commission.

Finally, to reinforce independence and objectivity, some requirements are established to enhance professional scepticism and avoid conflicts of interest. Also, a list of prohibited non-audit services (NAS) is established, as well as fee limits and rotation obligations for PIEs.

However, despite all these measures introduced through the Regulation EU, this regulation also leaves some options open to the Member States. Once again, we find implications of differing extent depending on the EU country in which we are located. In fact, in Condor et al. (2022) it can be seen that the restrictions in terms of limits on fees and NAS provision are different in the most relevant EU countries.

The objective of this paper is to carry out a review of the regulation of the concept of PIEs in auditing from an international perspective in order to compare which entities have been understood by regulators to have "significant public relevance," focusing on the EU level. In addition, given that there are also certain differences in the extent of information and auditing required of PIEs in each Member State, i.e. in the implications that the concept has for auditing, we compare the obligations and exemptions that local regulators have established for the audit of these entities.

On the other hand, the paper aims to reflect on the advantages and disadvantages for companies, auditors and supervisors, of enlarging the extent of local regulations, both in relation with the concept of PIEs in itself, as well as the obligations associated with the statutory audit of these types of entities.

To this end, after this brief introduction, the second section presents a review of the concept of PIEs in the literature and the advantages and disadvantages that can be derived from it. The next section describes the current situation of European legislation, and the options it provides with respect to the PIEs concept, as well as the implications for auditors, supervisor and the company itself. The fourth section presents a comparison of the extent granted to these aspects in the main EU countries and analyse both the categories of entities included in the concept and the differences in the obligations for these entities in these countries. Subsequently, we focus on Spanish regulations and the main implications that the extended PIEs concept may have. To contrast the advantages and disadvantages associated with this approach, the sixth section presents the results of a survey of auditors and chairs of audit committees of the entities included in the extended concept in Spain. Finally, the main conclusions and implications of the work are presented.

2. The concept of PIEs in literature. Advantages and disadvantages

2.1 The concept of Public Interest Entity and the categories to be included in it

The concept of “public interest” is fundamentally rooted in the development of public policy, but it is also commonly used in auditing. It is due to the fact that it is considered to be an activity that performs a public interest function as its results may be of interest to a large group of people, including investors, financial institutions, companies, supervisors and governmental bodies, or citizens themselves. It is for this reason that a number of requirements have been imposed on the profession that seek to ensure the confidence of these stakeholders.

Although the concept has not been free from criticism in the literature, arguing its ambiguity and lack of precision (Dellaportas and Davenport, 2008) or even its unsuitability for the accounting profession (Paisey and Paisey, 2020, van Brenk et al., 2022), this same conception gave rise to the concept of PIEs as they are entities whose activity can influence a broad set of agents, and therefore the results of the audit should also have a high impact. In some countries, this concept is used in both accounting and auditing, but the concept has different approaches and the entities covered are not the same from both perspectives (Kňažková and Ondrušová, 2020).

In auditing, PIEs are based on the notion that the public interest function performed by auditing implies that a broad community of people and institutions rely on the quality of the audit (Van Liempd et al., 2019). Audits contribute to the orderly functioning of markets and allow a high level of consumer and investor protection. Therefore, it is assumed that stricter requirements for the statutory audit of PIEs are necessary because the potential negative economic and social consequences for stakeholders would be greater than for other types of entities. It is understood that, in this case, the benefits of avoiding audit problems would be higher than the costs of introducing such stricter requirements.

The definition of this concept can be adopted from two perspectives (IESBA, 2006):

- A precise definition of the categories of entities to be included in the concept.
- A less precise definition that presumes that each case must be considered separately along general lines. Under this perspective, the key issue lies in the definition of “public interest” and to what extent this definition may be different in each national context.

In the second alternative, the International Ethics Standards Board for Accountants (IESBA) has recently proposed a revision of the concept of PIEs in the document “Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code” (IESBA, 2022), following the corresponding Exposure Draft (IESBA, 2021). The IESBA notes that PIEs “represent a significant public interest in the financial condition of these entities due to the potential impact of their financial health on stakeholders.” In other words, it links the concept to the public interest in financial condition.

By way of example, the IESBA mentions the following factors to consider when assessing the extent of the public interest in the financial condition of an entity: the nature of the business or activities; the assumption of financial obligations with the public as part of the entity's core business; the entity's subjection to regulated supervision to provide confidence that the entity will meet its financial obligations; the size of the entity; the importance of the entity to the sector in which it operates, including the ease with which it is replaceable in the event of a financial failure; the number and nature of stakeholders, including investors, customers, creditors and employees; and the potential systemic impact on other sectors and the economy as a whole in the event of the entity's financial failure.

In any case, in its final version, the IESBA (2022) opts to define a list of categories included in the concept and leaves flexibility for local authorities to assess which other entities do or do not meet the characteristics as part of the code implementation process. Specifically, it identifies the following

entities to be included: (a) listed entities; (b) entities whose main functions are to take deposits from the public; (c) entities whose main functions are to provide insurance to the public, and (d) entities defined as such by professional standards or pronouncements in order to achieve the independence expected by stakeholders due to the significance of the public interest in the entity's financial situation.

This list of categories allows it to respond, for example, to the Association of European Professionals (Accountancy Europe, 2021), which argued in its response to the Exposure Draft: "We do not agree with the broad approach proposed by the IESBA. The Code should define a minimum list of categories of PIEs as a reference, and other entities can be designated as PIEs according to local circumstances". In its view "broadening the definition of PIEs may discourage smaller audit firms from auditing PIEs by forcing them to comply with additional and disproportionate independence rules". This would also apply to the extension of this concept with national PIEs in case it would be disproportionate.

In this respect, among the possible entities to be included by local bodies, the IESBA mentions pension funds, collective investment undertakings, private entities with a large number of stakeholders (other than investors), non-profit organisations or government entities and public companies. Here again, the response of Accountancy Europe (2021) is also noteworthy, given that initially they were included in the concept of Public Interest Entity in the Exposure Draft: "We do not agree with the inclusion of entities whose function is to provide post-employment benefits (paragraph d) and those whose primary function is to act as a collective investment vehicle (subparagraph e) in the PIEs categories. Their inclusion would certainly be counterproductive as it jeopardises the purpose of focusing on entities with a genuine public interest. At the local level, depending on characteristics such as number of investors or participants, size or local circumstances, some entities in these two categories could be added to the PIEs list by laws and regulations or by local authorities". Therefore, the IESBA finally accepted the suggestions and left it to the local authorities to decide which entities should additionally be included in this concept taking into account the specific context. In order to compare the extent of the concept in different jurisdictions, the IESBA (2023) has a database including 72 jurisdictions. In it, a comparison is made among different national frameworks.

On the other hand, within the EU, the report of the European Commission (2022) highlights the existence of differences in the entities included in the concept within the countries of the European Union and note that only sixteen countries opted to maintain or designate additional PIEs.

Finally, it should be noted that there are different positions in the literature about which entities should or should not be included in the concept. For example, Kňázková and Ondrušová (2020), applied in this case in Slovakia point out that size should not be the only variable to consider when classifying a company as a PIE, and affirm that it is important to consider whether it has a significant direct impact on the country in which it carries out its activities.

2.2 Implications of the concept of PIEs: advantages and disadvantages

The question is, therefore, is a broad concept of PIEs beneficial? The answer should be given by the advantages or benefits that are considered to derive from the restrictions imposed on the audit of PIEs, which should outweigh the costs. For this reason, it is worth considering the effects of the audit reform and, more specifically, the regulation of PIEs.

In this respect, it is worth starting with a generic assessment of the EU Audit Directive and Regulation. The objective of the European regulation on audit was to harmonise across EU Member States and to increase competition in the profession to enhance auditor independence and audit quality and to strengthen the audit oversight system, thereby seeking to promote transparency for investors. However, the results of various studies in this area show some gaps in the achievement of these objectives. In particular, the European Commission study (2022) finds that, despite some

clear improvements in the harmonisation of national frameworks, significant disparities remain between countries in the transposition, implementation and enforcement of EU audit legislation (e.g. audit requirements applying to different types of companies, rotation requirements, investigations or sanctioning regimes). The study shows that the reform did indeed increase levels of independence but did not impact on competition as intended. Auditor rotation has been limited and a persistently high market share of the Big4¹ remains. In particular, the majority of audit reports of PIEs are carried out by the Big4.

From a global perspective, Lubenchenko et al. (2020) consider that, due to all the restrictions imposed on the audit of a PIE, the definition of "public interest" is entangled with the economic benefits of the interested users of the financial statements. In other words, a whole structure is created around the audit (creation of an audit committee that monitors independence, supervises internal control, supports the administrative and management bodies, etc.), which even affects decision-making within the company itself. All of this ultimately benefits the user of the information.

On the opposite side, van Brenk et al. (2022) consider that the current model of PIEs auditing has many weaknesses and argue that the profit-seeking companies are precisely the responsible for the public interest, so the model is not optimal. The authors propose the creation of a national audit committee, conceived as a quasi-governmental organisation and with professional auditors, which would be responsible for auditing the financial statements of PIEs. It would be an expert auditing body and would avoid the current problems of independence of audit firms, which are for-profit entities by nature.

If we focus more specifically on the assessment of specific aspects linked to the audit of PIEs and the implications they may have, one of the advantages argued is the creation of the audit committee and the role it plays in auditor independence and audit quality. However, literature also contains contradictory positions on its role and whether it truly achieves the objectives for which it was created (Van der Elst, 2014). Nevertheless, there are several studies that find that the quality of accounting information is better in those entities that have audit committees, especially with regard to accrual adjustments, and that they can even act as drivers for the introduction of international accounting standards in certain contexts (Bananuka et al., 2019).

Linked to the committee is precisely the obligation to prepare a report for the audit committee. In this respect, it should be noted that the report of the European Commission (2022) finds that audit committee members rate the content of the audit report very positively and remarks that "Almost all audit committee representatives found the current audit committee report useful and sufficient for the audit committee's decision-making".

On the other hand, another objective of the restrictions on PIEs is to ensure audit independence and audit quality. In this respect, the report of the European Commission (2022) notes that audit committee members consider that little change has been achieved in these areas following the introduction of the European regulatory restrictions. It concludes (p. 138) that the proportion indicating no change in quality ranged from 56% for mandatory rotation to 66% for the fee cap for non-audit services. A substantial minority reported an improvement in quality (between 20% and 32% of the companies in the sample), while a good number had no opinion on the impact on audit quality (between 7% and 11%). Finally, several audit committee representatives reported that the various measures reduced audit quality.

Among the measures that are considered to have a positive impact on auditor independence, a prohibition on the provision of certain non-audit services in these entities can be mentioned (Van Liempd et al., 2019). In this respect, the results obtained by Van Liempd et al. (2019) in a survey of Danish

1 The term "Big4" is used to refer to the four largest companies in the area of consulting and auditing. It currently consists of: Deloitte, PWC, EY and KPMG, whose activity, number of employees and turnover are significantly distanced from the rest of the audit firms, so that they are often identified as a clearly differentiated sub-group.

stakeholders is found that respondents consider that the prohibition on the provision of non-audit services should also be extended to large non-PIEs, due to the beneficial effect on independence, and because there is no reason to treat a large PIE and a large non-PIE differently. In the same vein, the study conducted by García-Hernández et al. (2023), through a survey of Spanish auditors, shows that auditors perceive positively the personal and service provision restrictions introduced by the audit reform, as well as the safeguards related to internal and external controls established in the regulation, as they improve the perception of auditors' independence.

Another problem cited in the literature, and most obviously generated in PIEs, is the concentration of the audit market of these entities: the Big4 usually have very high market shares, and its results are repeated in various European countries. For example, Rozgina et al. (2020) show that market concentration in Latvia has not changed with the reform of audit regulation. Also, Stiebal and Šindelá (2022) show that, in the Czech Republic, Big4 audit 64% of PIEs, but obtain 96% of the audit fees from these entities. There are only 18 firms auditing at least one PIE. Condor et al. (2018) show that, in Spain, the 4 largest audit firms produced 81.5% of the PIEs' reports in 2016 and, analysing the distribution of the market in terms of turnover, the concentration of the market is even more evident since the Big4 audited 97.6%. This situation seems to remain stable in Spain, as the ICAC report (2022) indicates that the Big 4 audit firms carried out 78.81% of the PIEs work and reports in 2022. Also, the reports of the European Commission (2021 and 2022) point out the concentration of the PIEs audit market in larger firms, due to entry barriers for small firms.

3. Delimitation and implications of the PIE in european legislation

Before presenting a review of the state of play in the main analysed EU countries, it is worth recalling the delimitation and specific requirements, as well as the possible exemptions open to Member States, which are established in different European regulations for entities that are considered to be PIEs.

3.1 Definition of Public Interest Entity (PIE)

Within EU legislation, the concept of PIE is not new, as it was already included in the original drafting of Directive 2006/43/EC, and it has not had significant changes. However, the need to comply with specific requirements for the statutory audit of PIEs, following the approval of Regulation EU 537/2014, has made the identification and delimitation of PIEs a fundamental issue because it significantly conditions the obligations to which all entities that fall within the extent of the definition, as well as their auditors, will be subject.

The most current definition of PIE is set out in Article 2.13 of Directive 2006/43/EC, amended by Article 1 of Directive 2014/56/EU. As already noted, this is not a strict definition, but only states that it is considered to be PIEs²:

- a. entities** governed by the law of a Member State **whose transferable securities are admitted to trading on a regulated market of any Member State** within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;
- b. credit institutions** as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive;

2 Article 2 of the Directive 2013/34/EU also reproduces the same delimitation.

- c. **insurance undertakings** within the meaning of Article 2(1) of Directive 91/674/EEC; and
- d. **entities designated by Member States** as public-interest entities, for instance undertakings that are of **significant public relevance** because of the nature of their business, their size or the number of their employees;

This last group of PIEs, made up of those entities designated as such under the criteria of the Member States, is precisely the focus of the disparity in the extent that the definition of PIEs has acquired at the European level. We will see it in the comparison presented in section III of this paper. Indeed, this last paragraph d) leaves the extent of the definition to the discretion of local legislation, which will be significantly conditioned by circumstances or factors of each Member State.

3.2 Implications of the definition of PIEs in EU legislation

3.2.1 *Obligation to present a corporate governance statement in the management report*

Article 19 of the Directive 2013/34/EU regulates the content of the management report required of companies, which must contain a review of the development and performance of the undertaking's business and of its position, as well as a description of the principal risks and uncertainties. In this report, the statutory auditor must issue an opinion, assessing its consistency with the financial statements for the financial year and its compliance with the applicable legal requirements³.

In Article 20, this obligation is reinforced in the case of PIEs listed on a regulated market, which are obliged to include a corporate governance statement in their management reports, also subjecting this statement to the opinion of the statutory auditor. However, Member States are allowed to simplify the content of this corporate report where listed PIEs have only issued securities other than shares admitted to trading on a regulated market⁴.

3.2.2 *Obligation to have an audit committee*

Article 39 of Directive 2006/43/EC, as introduced by Directive 2014/56/EU, requires PIEs to have an audit committee, which can be configured as:

1. a stand-alone committee or
2. a committee of the administrative body or supervisory body of the audited entity.

It shall be composed of non-executive members of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity or, for entities without shareholders, by an equivalent body.

In the same way, in accordance with Article 39(2), Member States may decide to allow PIEs that qualify as *small and medium-sized enterprises*⁵ to assign the functions of the audit committee directly to the administrative or supervisory body as a whole, provided that where the chairman of such a body is an executive member, he or she shall not act as chairman whilst such body is performing the functions of the audit committee.

Article 39(3) also allows Member States to exempt certain PIEs from the obligation to have an audit committee, essentially because they are a subsidiary—provided that the requirements of the Directive

3 Article 34, Directive 2013/34/EU

4 Article 20(4) of Directive 2013/34/EU exempts them from the application of its paragraph 1(a), (b), (e) and (f), but paragraph 1(c) and (d) apply to them.

5 As defined in Directive 2003/71/EC: "companies, which, according to their last annual or consolidated accounts, meet at least two of the following three criteria: an average number of employees during the financial year of less than 250, a total balance sheet not exceeding EUR 43 millions and an annual net turnover not exceeding EUR 5 millions."

in this respect are being complied with a group level—, or because it is an Undertaking for Collective Investment in Transferable Securities (UCITS) or an alternative investment fund (AIF), or because its sole business is to act as an issuer of asset backed securities, or because it is a credit institution whose shares are not admitted to trading on a regulated market of any Member State.

Specifically, the Article 39(3) of Directive 2014/56/EU details:

“Member States may decide that the following public-interest entities are not required to have an audit committee:

(a) any public-interest entity which is a subsidiary undertaking within the meaning of point 10 of Article 2 of Directive 2013/34/EU if that entity fulfils the requirements set out in paragraphs 1, 2 and 5 of this Article, Article 11(1), Article 11(2) and Article 16(5) of Regulation (EU) No 537/2014;

b) any public-interest entity which is an UCITS as defined in Article 1(2) of Directive 2009/65/EC of the European Parliament and of the Council or an alternative investment fund (AIF) as defined in Article 4(1)(a) of Directive 2011/61/EU of the European Parliament and of the Council;

c) any public-interest entity the sole business of which is to act as an issuer of asset backed securities as defined in point 5 of Article 2 of Commission Regulation (EC) No 809/2004;

d) any credit institution within the meaning of point 1 of Article 3(1) of Directive 2013/36/EU whose shares are not admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC and which has, in a continuous or repeated manner, issued only debt securities admitted to trading in a regulated market, provided that the total nominal amount of all such debt securities remains below EUR 100 millions and that it has not published a prospectus under Directive 2003/71/EC”.

Finally, it should be noted that the rules allow Member States (paragraph 4) to require or allow the PIE not to have an audit committee provided that it has a body or bodies with equivalent functions to those of the audit committee, that it has been established and that it operates in accordance with the rules in force in the Member State where the audited entity is registered. In such a case, the entity shall make public the body entrusted with those functions and its composition.

3.2.3 Audit report requirements and additional report to the audit committee

At EU level, statutory audits of companies must be carried out in accordance with Article 34 of Directive 2013/34/EU, which states that: “Member States shall ensure that the financial statements of public-interest entities, medium-sized and large undertakings are audited by one or more statutory auditors or audit firms approved by Member States to carry out statutory audits on the basis of Directive 2006/43/EC”.

Article 28 of Directive 2006/43/EC, complemented by Article 10 of Regulation EU 537/2014 on specific requirements regarding statutory audit of public-interest entities, details the content of the audit report to be drawn up by companies subject to the annual audit obligation. In the case of a statutory audit of a PIE, Article 10 of that Regulation sets out additional requirements regarding the content of the audit report, which must, at least⁶:

- a. state by whom or by which body the statutory auditor(s) or the audit firm(s) was (were) appointed;

⁶ It can be highlighted as noted in section 3.2.1 of this paper, that for PIEs listed on regulated markets the management report should include a corporate governance statement and that the statutory auditors of these PIEs should also include in their audit report an opinion on the corporate governance statement.

- b. indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the statutory auditors or the audit firms;
- c. provide, in support of the audit opinion, the following:
 - i. a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud,
 - ii. a summary of the auditor's response to those risks, and
 - iii. where relevant, key observations arising with respect to those risks.
- d. explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud;
- e. confirm that the audit opinion is consistent with the additional report to the audit committee;
- f. declare that the prohibited non-audit services were not provided and that the statutory auditor(s) or the audit firm(s) remained independent of the audited entity in conducting the audit;
- g. indicate any services, in addition to the statutory audit, which were provided by the statutory auditor or the audit firm to the audited entity and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.

In addition to these requirements in relation to the audit report of a PIE, according to Article 11 of the EU Regulation, the statutory auditor is required to submit an additional report to the audit committee of the audited entity and, if the Member State provides so, also to the administrative or supervisory board of the audited entity. This additional report must explain the results of the audit carried out and a minimum content is also set out in that article of the Regulation.

The minimum requirements set out in EU Regulation 537/2014 for the audit report and those detailed for the additional report to the audit committee may be strengthened by Member States, as they are allowed to set additional requirements.

On the other hand, statutory auditors or audit firms that carry out statutory audits of PIEs must publish an annual transparency report with the minimum content and conditions of publicity established in Article 13 of the EU Regulation. They also must inform the competent authorities of the list of all audited PIEs breaking down all the information set out in Article 14 of the EU Regulation.

3.2.4 *Mandatory rotation of audit firms and statutory auditors*

Article 17 of Regulation EU 537/2014 introduces a major change to the EU legal framework on auditor rotation by requiring PIEs to change their statutory auditors or audit firms every 10 years at the latest.

However, the Regulation leaves a significant margin of discretion to Member States, as it provides four different options for minimum initial commitments and their maximum duration.

Thus, after establishing a general criterion of a minimum duration of one year and a maximum of ten years for the audit engagement, the EU Regulation leaves the following possibilities open⁷:

1. Require that the initial engagement be for a period of more than one year.

⁷ Note that the first three are options available to Member States, while the fourth concerns the PIE itself.

2. Set a maximum duration of less than 10 years.
3. They can extend the maximum duration to 20 years if, after the first maximum period, a public tendering process is made, or to 24 if a joint audit is carried out⁸.
4. Exceptionally, after the expiry of the maximum period, including the extensions referred to in 3), the PIE may request that the competent authority grant an extension with a maximum duration of two years.

After the expiry of the maximum engagement period, including the extensions referred to in points 3) and 4), the statutory auditor, the audit firm or the members of their EU Networks may not carry out a statutory audit of the same PIE for the following four years.

As regards the audit partners responsible for carrying out the statutory audit, they must be rotated at the latest after seven years and may not participate again in the audit of that entity before three years. However, Member States may require the change of partners to take place before seven years have elapsed.

It is important to note that the maximum periods of audit engagements, whether defined in the EU Regulation or in national frameworks, apply to each PIE and not to the group as a whole. It can give rise to a wide range of different situations. For example, if a group has several PIEs in the EU, this does not necessarily mean that the statutory auditor or audit firm auditing the consolidated accounts of the group has to rotate. Under the EU Regulation, if the audited entity is not a PIE, it does not have to change statutory auditor or audit firm, regardless of its subsidiaries. If it is a PIE, it will be subject to the rules governing rotation in the Member State in which it is located.

3.2.5 *Appointment of statutory auditors and audit firms*

The general procedure for the appointment of auditors is provided in Article 37 of Directive 2006/43/EC. Under this provision, statutory auditors and audit firms are appointed by the general meeting of shareholders or members of the audited entity. However, the Member State may allow alternative systems or modalities for the appointment of the statutory auditor which ensure the independence of the auditor from the executive members of the administrative body or from the managerial body of the audited entity.

Article 16 of Regulation EU 537/2014 introduces new conditions for PIEs for the appointment of auditors by the general meeting of shareholders or members of the audited entity. However, these conditions do not apply when a country chooses to apply the alternative modalities of appointment referred to in the previous paragraph, in accordance with Article 37(2) of the Directive 2006/43/EC.

The appointment procedure provided for in Article 16 of EU Regulation 537/2014 consists of three stages:

1. The audit committee organises a tendering procedure, as defined in paragraph 3 of the Article, which shall respect several criteria, such as invitations, tender specifications and selection procedure.
2. The audit committee shall submit a recommendation to the administrative or supervisory body with at least two choices for the audit engagement, and its duly justified preference for one of them.
3. The administration or supervisory board of the audited entity addresses a recommendation to the general meeting of shareholders, which must include the audit committee's recommendation, but may deviate from the audit committee's preference, giving its reasons. The statutory auditor

⁸ Such extensions may only be given if, on the recommendation of the audit committee, the administration or supervisory board, in accordance with national law, proposes an extension of the engagement to the general meeting of shareholders and they approve it.

or audit firm recommended by the supervisory or administration board must have participated in the tender procedure.

On the other hand, Article 16(7) opens up the possibility for Member States to provide for mandatory joint audits by stating that "Member States may decide that a minimum number of statutory auditors or audit firms are to be appointed by public-interest entities in certain circumstances".

It can be seen from the above that the main obligations imposed on PIEs and on their statutory auditors, as well as the options open to their Member States, which will be the subject of comparative analysis in the following section, are summarised in the Table 1.

/// **TABLE 1** Summary of PIEs' obligations in European legislation and options open to Member States

OBLIGATIONS	POSSIBLE OPTIONS TO BE IMPLEMENTED BY MEMBER STATES
1. Corporate governance statement	Listed PIEs may be exempted if they have only issued debt securities admitted to trading on a regulated market
2. Audit committee	<ol style="list-style-type: none"> 1. If it is not an independent committee, Member States may allow or require the board of directors to carry out the functions of the audit committee. 2. They may allow, in the case of PIEs that are SMEs, the functions of the committee to be assumed by the administration or supervisory board. 3. They may exempt the following PIEs from the obligation to have an audit committee: <ul style="list-style-type: none"> - Subsidiaries. - Undertakings for collective investment in transferable securities and alternative investment funds - Issuer of asset backed securities. - Credit institutions whose shares are not admitted to trading.
3. Audit report requirements and additional report to the audit committee.	They may establish additional requirements for the content of the audit report of PIEs and the additional report to the audit committee.
4. Auditor rotation	<ol style="list-style-type: none"> 1. Require that the initial engagement be for a period of more than one year. 2. Set a maximum duration of less than 10 years. 3. They can extend the maximum duration to 20 years if, after the first maximum period, a public tendering process is made, or to 24 if a joint audit is carried out. 4. Exceptionally, after the expiry of the maximum period, including the extensions referred to in 3), the PIE may request that the competent authority grant an extension with a maximum duration of two years.
5. Appointment of statutory auditors and audit firms	<ol style="list-style-type: none"> 1. Member State may allow alternative systems or modalities for the appointment of the statutory auditor or the audit firm to ensure the independence of the auditor. 2. Member States may decide that a minimum number of statutory auditors or audit firms (joint audits) are to be appointed by PIEs.

3.2.6 *Audit fees and provision of additional non-audit services*

Regulation EU 537/2014 also introduces limitations on audit fees and on the provision of additional non-audit services (NAS) to PIEs, with some options open to Member States when implementing them. All these limitations, as well as the options and exceptions, are summarised in Table 2, taken from the paper by Condor et al. (2022), in which a comparative study was carried out specifically on these issues on the same sample of EU countries.

/// **TABLE 2** Summary of European regulation on fees and NAS provision in PIEs**Main regulated aspects**

Fee setting	Non-contingent (Art. 4(1) Regulation EU)	
Fee Limits	Concentration: may not exceed 15% of the total fees of the auditor (Art. 4(3)).	NAS fees: may not exceed 70% of the average audit fees of the last three financial years received by the auditor of the audited entity, its parent company, or the companies it controls (Art. 4(2)).
Exceptions	The Audit Committee may allow the 15% limit to be exceeded for a maximum period of 2 years (Art. 4(3.2)).	Member States may allow the 70% limit to be exceeded for a maximum period of 2 years (Art. 4(2.3)).
	Member States may apply stricter requirements (Art. 4(4)).	
Disclosure of information	<ul style="list-style-type: none"> - PIEs and large companies: requirement to disclose audit and NAS fees in the notes. - Member States may allow the breakdown not to be required in the financial statements of the company as long as it is included in the consolidated accounts (Art. 18(3) Directive 2013/34/EU). 	
NAS Provision	<ul style="list-style-type: none"> - Prohibited NAS list (Art. 5). - Deadline: Financial year audited until the reporting date + immediately preceding financial year for services for design and implementation of internal control procedures and computerised financial information systems. 	
Exceptions	Member States may: <ul style="list-style-type: none"> - Prohibit other additional services. - Allow the provision of some tax and valuation services, as long as the requirements are met. - Establish stricter rules governing the conditions under which permitted NAS can be provided. 	

↑ Source: Condor et al. (2022)

The following results were obtained from the review carried out by the same team as the one in charge of preparing this document (Condor et al., 2022, p. 60):

In relation to the fees received by NAS, the option done by in Article 4(2) of the Regulation EU to exceed the limit of 70% of the average audit fees of the last 3 financial years, if a competent authority allows it for a maximum period of 2 years, has only been taken up in 9 of the 15 EU countries analysed (Austria, Belgium, Denmark, Finland, France, Ireland, Poland, Portugal and Sweden). Denmark only allows it for a maximum period of 1 year.

As regards the limitation on the receipt of fees from a single PIE client established in Article 4(3) of the EU Regulation, which may not exceed 15% of the total fees of the auditor in 3 consecutive financial years, only 2 countries have restricted the possibility of exceeding this limit for 2 years, in accordance with the provisions of this article. These are (i) Austria, which limits the period to one year and (ii) Spain, which restricts it only for small-and-medium-sized audit firms and for a maximum period of one year, in accordance with Article 4(4).

The disclosure requirements for audit fees in the financial statements for the 15 EU countries surveyed are relatively homogeneous. Only 5 countries have not made use of the breakdown exemption when it is included in the consolidated financial statements of the group (Spain, Finland, Poland, Portugal and Sweden) and 2 countries (Belgium and Portugal) do not include in their regulations the exemption from breakdown due to the size of the audited company.

Regarding the restrictions to the provision of NAS in PIEs by the auditor, established in Article 5 of the Regulation, we note the following:

- The possibility of allowing certain tax and valuation services to PIEs when they are of minor importance has been generally included in the regulations of the analysed countries, except in four of them (Italy, Netherlands, Poland and Portugal).
- Six EU countries have extended some kind of prohibition to the provision of NAS to non-PIEs (Germany, Austria, Belgium, Denmark, Spain and Italy), although this limitation has a different extent in each country.

3.2.7 Supervision obligations

In addition to the obligations imposed to the PIEs and their statutory auditors, the articles 20 and following of the Regulation EU establish the obligation of the Member States to have a competent authority in charge of carrying out quality control reviews of the auditors and audit firms that carry out statutory audits of PIEs. These competent authorities are also mandated to regularly monitor and report on developments in the PIEs audit market and to comply with the requirements of transparency of information by publishing the required annual reports on the activity carried out in the exercise of the functions attributed to them by the EU Regulation.

In these matters, the options left to the Member States are minimal, as they only can designate the national competent authority in charge (Art. 20(2), EU Regulation), delegate to authorities other than those initially assigned (Art. 24(1) and 24(4)), as well as to provide a higher or lesser degree of content to the reports that must be published referring the results and conclusions of individual inspections, except for the minimums established in Article 28. On this last point, the "Comparative Analysis Of Oversight Information Of Public Oversight Bodies For Statutory Auditors Published In Member States (EU)" report (Gisbert et al., 2021) notes the disparity in the criteria adopted by POBSAs in the Member States in terms of the structure of the documents published and their content, which makes comparative analysis difficult. Our work will not address these issues as they are sufficiently developed in that report.

4. International comparison of the extent of the definition of PIEs and the obligations and exemptions adopted in the main countries of the EU

After setting out the current European legislation on the obligations inherent to the audit of PIEs, and the options it provides for its implementation in the Member States, in this section we offer an international comparison of how this legislation has been adapted locally in the different European countries.

This comparison covers the main 15 countries of the EU in terms of GDP. To carry out this analysis, the first challenge we faced was to obtain the reference regulations applicable in each country, translate them when they were not available in English and ensure that the team's interpretation of them was correct. Three sources of information were used. In order of contribution relevance, they were: contacts with auditors working in the countries under analysis, collaboration with national regulatory bodies, and personal contacts with university professors in the Erasmus network.

As a result of all this, we do believe that the exhaustive regulatory review, adjusted to the regulations in force in each country at the date of preparation of the study (first quarter of 2023), guarantees a high degree of reliability and contrast of the conclusions drawn from its analysis.

4.1 Comparison of the extent of the definition of PIEs in the main countries of the EU

The following comparative analysis focuses firstly on delimiting the extent of the definition of PIEs in the main countries of the EU. In other words, it summarises how other *entities of significant public importance have been defined* at the local level. This analysis has been carried out regarding the regulations in force in the main EU member states in the first quarter of 2023. However, previous studies have already monitored the state of art of this issue at the European level at different dates. Among them, we can cite the pioneering study carried out by the Fédération des Experts Comptables Européens (FEE, 2014), which notes the wide diversity of definitions of PIEs applicable at the

European level and points to foreseeable changes in the extent as a result of the implementation of the new accounting and auditing directives⁹.

An update of this work was published in 2019 (Accountancy Europe, 2019) to analyse the impacts of Directive 2014/56/EU and Regulation EU 537/2014 on the extent and number of PIEs in the Member States. Among its results, it remarks that the implementation of the EU Regulation brought a redefinition of the concept of PIEs in most countries. Some, the fewest, enlarged its extent (Lithuania, for example) and others reduced it considerably, like France, Finland, Denmark, Czech Republic or Spain. Even so, the number of PIEs in each country is highly variable due to their economic level, but also to other local factors. In 18 countries they found a decrease in the number of PIEs.

A European Commission report on the evolution of the EU market for statutory audit services to public interest entities (European Commission, 2021) comparing data from 2015 and 2018, notes this same reduction in the number of Pies. It observed a 73-percentage point reduction in the category of 'national PIEs', which was the main category in 2015, but in 2018 only represented 19% of all PIEs. In Denmark, the flexibility of European regulations led to a significant decrease in the number of PIEs, from around 845 to around 385 (Van Liempd et al., 2019).

On the other hand, in October 2022, the European Commission (2022) published the report *Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014)*. Its aim was to provide an analysis and a continuous monitoring of the implementation of the Audit Directive and the Audit Regulation. Among the conclusions of the study, and in relation to the definition of PIEs, there are differences between the countries of the EU in the use of the option to include additional categories to those set out in the EU Regulation. While some countries have not made use of this option, others have included various types of entities, such as pension funds, undertakings for collective investment, asset management companies or public companies.

This diversity in the category of entities included in the concept of Public Interest Entity is confirmed at the global level in the comparative analysis carried out by the IESBA (2023).

In order to deepen the comparison, this paper focuses on both the concept of PIEs and the main obligations required of them in the main countries of the EU. The Table 3 summarises the extent of the enlarged definition of PIEs in local regulations at present (first quarter 2023). Of the 15 countries analysed, only 4 of them (Germany, Denmark, Finland and Ireland) have not transposed into their local legislation the possibility of designating other PIEs in addition to the three basic categories established by European legislation (listed companies, banks and insurers). Austria provides for this possibility but has not developed it at the level of national federal law. Therefore, *de facto* it has not enlarged the extent of the definition of PIEs.

The case of Italy should be also noted. In 2016¹⁰, it opted to create a new category comprising the so-called "*Intermediate Regime Entities (ESRI)*" —previously considered PIEs— which are subject to a less demanding regulatory regime than PIEs as they are only subject to articles 4(1), 4(2), 5(1), 5(5), 6(1), 7, 8, 12 and 17 of the EU Regulation¹¹. These ESRI are unlisted issuers of widely distributed financial instruments, management companies of regulated markets or clearing and guarantee

9 Directive 2013/34/EU and Directive 2014/56/EU.

10 Through Legislative Decree 135/2016, implementing the Audit Directive 2014/56/EU.

11 These articles of the EU Regulation regulate the setting of non-contingent fees (4.1), limit on fees for NAS (4.2), list of prohibited services (5.1 and 5.2), obligations before accepting or continuing an engagement (6.1), irregularities (7), quality control review of the engagement (8), report to supervisors (12) and duration of the engagement (17).

schemes; centralised administration companies of financial instruments; stockbroking companies; Italian asset and fund management companies, Italian investment funds managed by management companies of the EU; EU and non-EU alternative investment fund management (AIFM); investment companies with variable capital and investment companies with fixed capital, payment institutions as defined in Directive 2007/64/EC, electronic money institutions and financial intermediaries referred to in Article 106 of the TUB (Testo Unico Bancario). So, Italy also chose not to enlarge the extent of the definition of PIEs, but partially subjected a group of entities to part of its obligations.

We can say that in 6 of the 15 countries compared, the extent of the definition of EIPs has not been enlarged beyond the basic typology contemplated by European legislation.

The 9 countries that do implement the option opened up by the EU Directive to the Member States specify the extension to the following groups of entities, in order of highest to lowest frequency:

- Pension funds are considered as PIEs in 8 out of 9 countries, among which Spain and the Netherlands make their inclusion conditional on size criteria¹², while the rest of the countries do not¹³.
- Undertakings for collective investment in transferable securities and investment undertakings are classified as PIEs in 5 of the 9 countries. For this group of entities, their inclusion is also conditional on size criteria¹² in the case of Spain, France and Poland. Portugal includes in this category venture capital and credit securitisation companies and funds, but not investment advisory firms¹³.
- Payment and e-money institutions are considered as PIEs in Spain, Poland and Romania (3 out of 9 countries).
- Clearing or settlement institutions are subject to the PIE regime in Belgium and Romania (2 out of 9).
- In Romania, Central Depositories and other market operators are also included as PIEs.
- Banking foundations are considered as PIEs only in Spain.
- With all these groups of entities related to financial activity, some countries have been inclined to consider that, due to a significant public importance, certain sectors should be considered as PIEs, as is the case of electricity grid operators, real estate companies with more than 5,000 rental units or scientific research institutions in the Netherlands. Recently, in Spain, the Sports Law (Article 58.2), with effect from 1/1/2023, adds that Spanish sports federations and professional leagues are considered to be public interest entities for the purposes of the audit law¹⁴. In Romania, autonomous companies (the legal form created to replace the former state-owned enterprises) are also classified as PIEs and are a significant number among of other national PIEs (1,726 out of 2,052).
- In Spain, in addition to the sector, the size factor is also a determining factor, since in our country the category of PIEs includes those entities that have a net turnover and average workforce for two consecutive years of more than 2,000 million Euro and 4,000 employees, respectively.

12 In the case of Spain, for this type of institution, size is measured by the number of members.

13 In relation to pension funds and undertakings for collective investment, of the countries under study, Spain and Romania explicitly mention their management companies as PIEs.

14 The local regulations of France and the Czech Republic expressly mention that health insurance institutions are classified as PIEs. However, for the purposes of this paper, no extensions to the extent of the definition of PIEs have been considered since we understand that these institutions are in fact already considered PIEs by the other countries under the heading of insurers. Similarly, Poland cites credit unions that meet the criterion of a large institution within the extent of its definition of PIEs, but we also consider them to be included in the group of credit institutions defined by the EU.

/// **TABLE 3** Extent of the enlarged definition of PIEs in the main countries of the UE

Extent of the definition of PIE		Entities considered PIEs due to their significant public importance in each country of the EU							
Country	Have additional PIEs been designated?	Pension Funds	Undertakings for collective investment in transferable securities and investment undertakings	Clearing Institutions (settlement)	Payment Institutions and E-money Institutions	Banking Foundations	Central Depositories and other market operators	Other companies designated as PIEs due to its size	Other companies designated as PIEs for being a sector of special interest (e)
Germany									
Austria	(a)								
Belgium	YES			YES					
Denmark									
Spain	YES	YES (c)	YES (c)		YES	YES		YES	YES
Finland									
France	YES	YES	YES (c)						
Ireland									
Italy	(b)								
Netherlands	YES	YES (c)							YES
Poland	YES	YES	YES (c)		YES				
Portugal	YES	YES	YES (d)						
Czech Republic	YES	YES							
Romania	YES	YES	YES	YES	YES		YES		YES
Sweden	YES	YES							

- (a) Austria transposed the possibility to appoint additional PIEs when they are designated as such in a national federal law; however, they have not used this option.
- (b) Italy has no additional categories of PIEs but it established a new category of companies that were previously considered PIEs but without the same requirements as PIEs, the so-called "Entities of Intermediate Regime (ESRI)".
- (c) Subject to a size criterion.
- (d) It includes venture capital and credit securitisation companies and funds, but not investment advisory firms.
- (e) The Netherlands classifies as PIEs electricity grid operators, real estate companies with more than 5,000 rental units or scientific research institutions. Spain has recently included within the extent of PIEs Spanish sports federations and professional leagues. In Romania, autonomous companies (the legal form created to replace the former state-owned enterprises) are also classified as PIEs and are a significant number among of other national PIEs (1,726 out of 2,052).

/// **TABLE 4** Details of the Number of the PIEs in the main countries of the EU

Country	Credit institutions	Insurance companies	Entities issuing securities on official secondary markets (excluding listed CIs and insurers)	Other National PIEs	TOTAL	2022 GDP (Millions €) ¹⁵	Change in total PIEs compared to data from Accountancy study (2019)
Germany	171	344	535	0	1,050	3,869,900	-100
Austria ¹⁶				0	185	446,933	-54
Belgium ¹⁶				0	290	549,456	-52
Denmark	63	72	139	0	274	376,087	-86
Spain	114	241	345	726	1,426	1,328,922	-81
Finland	89	201	130	0	420	266,679	-49
France	314	594	495	95	1,498	2,639,092	-298
Irlanda	27	188	411	0	626	502,584	-574
Italy ¹⁷	392	90	351	0	833	1,909,154	-84
Netherlands ¹⁸	50	175	475	220	920	941,186	+195
Poland	577	80	374	347	1,378	656,906	-622
Portugal	80	74	507	488	1,149	239,242	-101
Czech Republic	38	31	50	22	141	276,606	-9
Romania	26	27	77	2,052	2,182	285,885	+1,182
Sweden	232		495	7	734	560,959	+113

The casuistry described above shows a diverse panorama at the EU level, which is reflected in a variable number of PIEs in each country, a variability that is not exclusively due to economic factors, as we show below.

The Table 4 presents a breakdown of the number of entities classified as PIEs in each of the 15 countries analysed. It differentiates between EU PIEs (Credit Institutions, Insurance Companies and Listed Entities) and the rest of the entities considered to be of significant public importance within each country and which are considered to be PIEs at local level (Other national PIEs). The data included in this table have been obtained from the regulatory bodies of the audit profession in each country, either through their published annual reports when they contain such detail or, if not, by directly asking the regulatory body, which has provided us with its latest available data, mostly referring to the end of 2022 or 2021. If we compare them with those contained in previous studies, for example, with those contained in the Accountancy Europe report (2019) —see last column of Table 4—, we can see that the trend is clearly downward in most countries, with falls in the total number of PIEs particularly significant in Poland, Ireland or France.

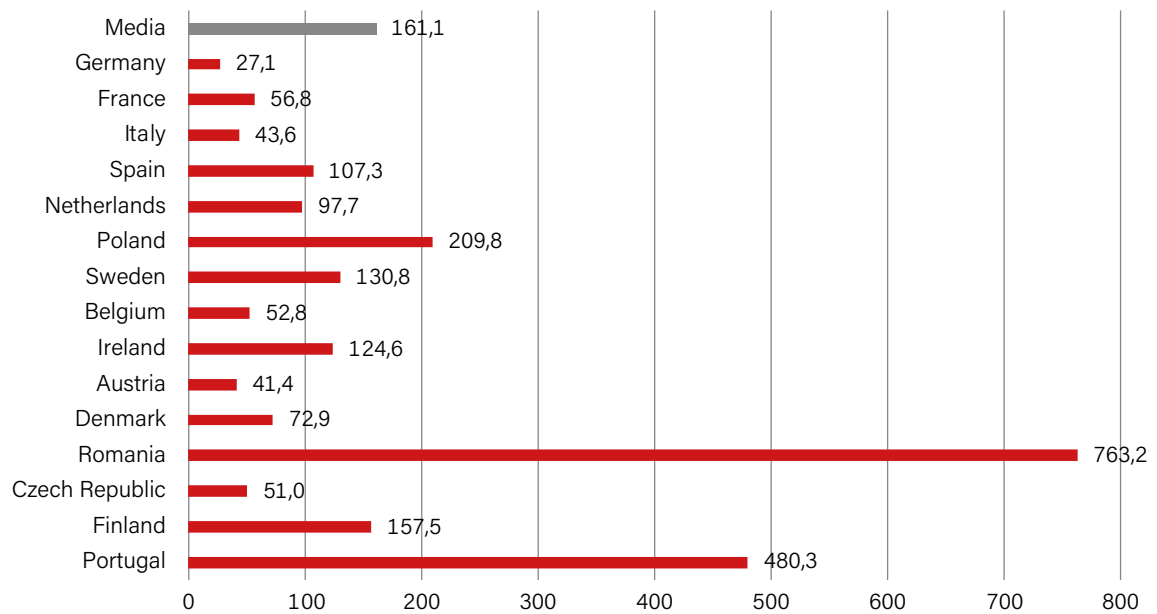
15 Data extracted from Datos macros Expansión. (<https://datosmacro.expansion.com/paises/grupos/union-europea>, accessed May 2023)

16 Despite the efforts made, the Austrian and Belgian regulators only provided us with the total number of PIEs but not their detail. From the information previously provided we know that Austria does not include other national PIEs, and in the case of Belgium, with very few added, we assimilate it to 0.

17 The declared number of Entities of Intermediate Regime (ESRIs) was 559, although as mentioned above they are not considered as PIEs and are therefore not included in this table.

18 Approximate data, as indicated by the supervisory body.

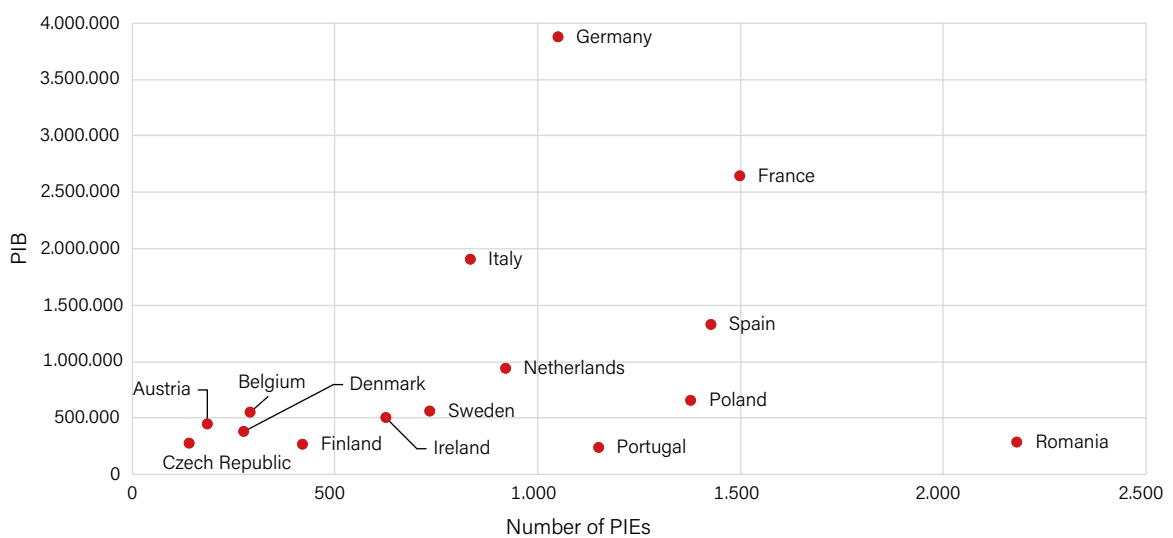
GRAPH 1 Number of PIEs per €100 billion of GDP



As can be seen in Table 4, the number of PIEs in Germany is lower than in Spain, France, Poland, Portugal or Romania, even when its GDP is the highest in the EU. It is clear that the number of PIEs is not directly related to the economic relevance of the country, as can be seen in the Graph 1, which relates the number of PIEs to the country's GDP (number of PIEs per 100 billion GDP).

This graph, in which the countries have been ordered according to their GDP, from highest to lowest, shows that the number of PIEs relative to GDP is much higher in Romania and Portugal, which are among the countries with the lowest GDP, than in the rest of the EU countries. Germany has the lowest ratio of PIEs in relation with its GDP.

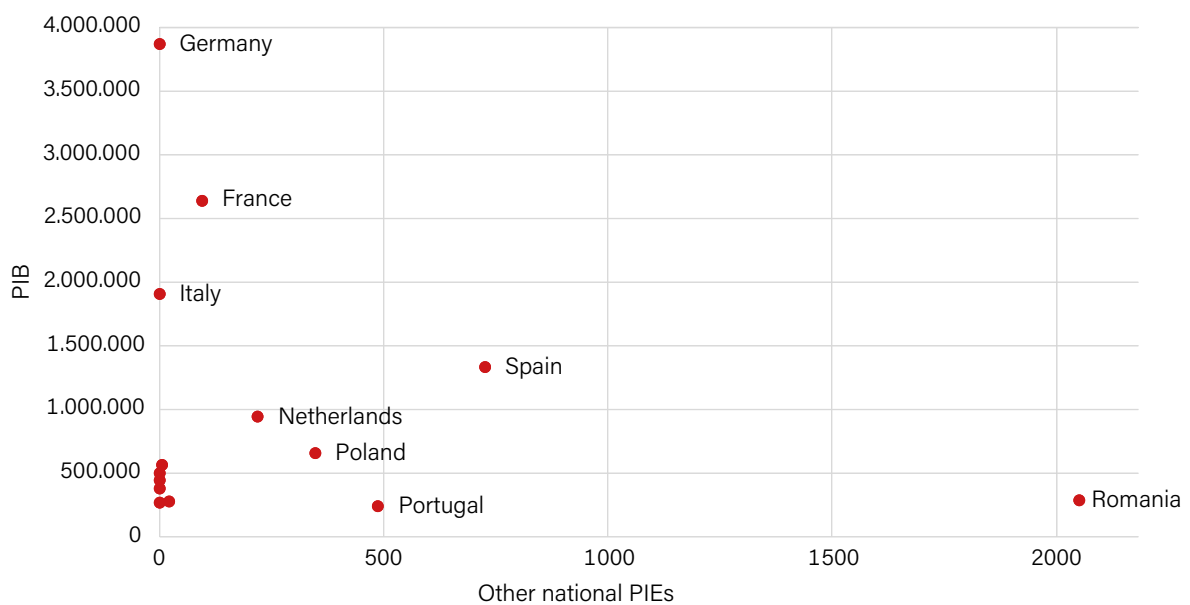
GRAPH 2 Ratio of number of PIEs to GDP



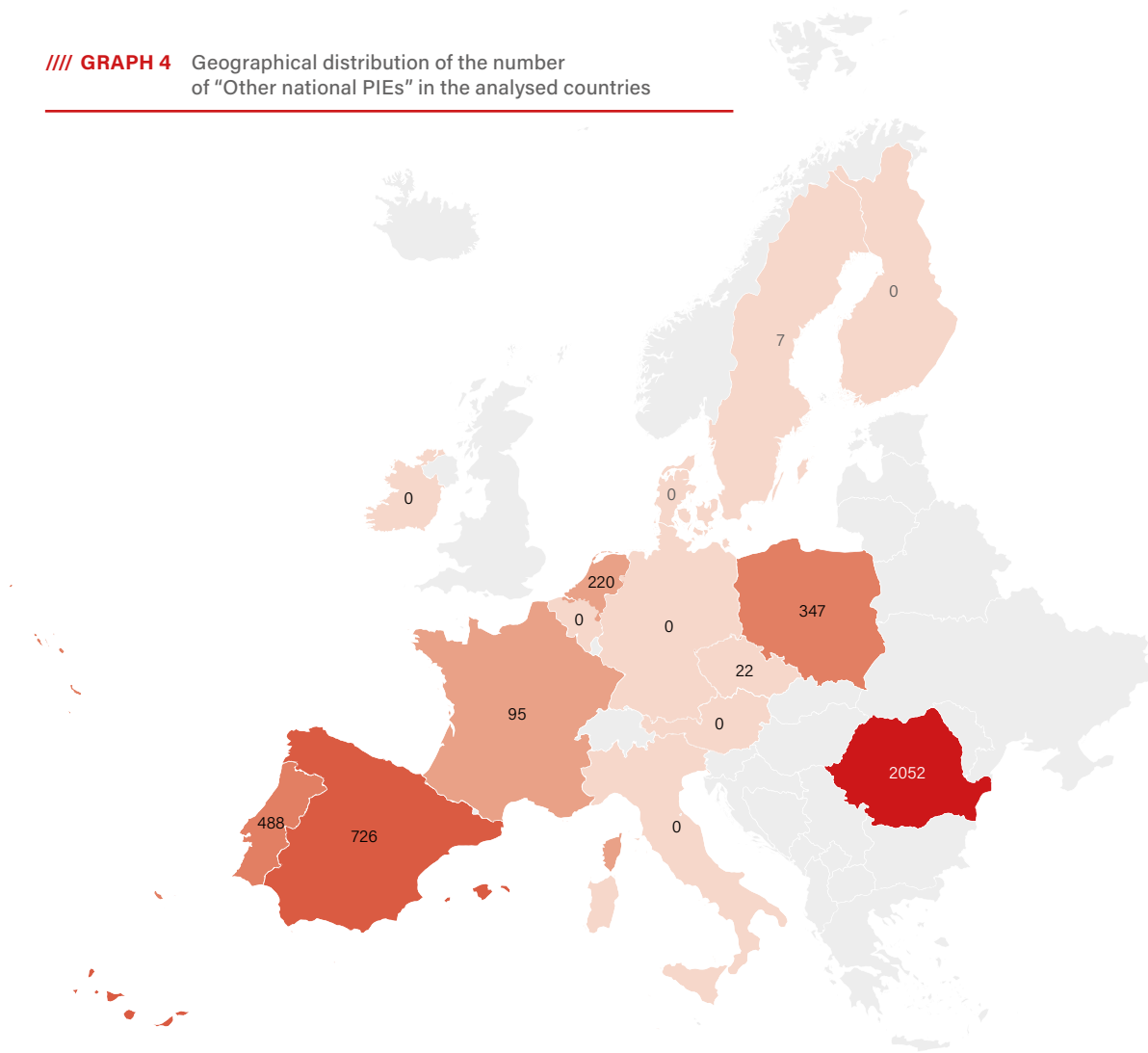
The dispersion described can be seen in a very visual way in the Graph 2 and Graph 3, which relate the number of PIEs in each country and their “Other national PIEs” to their GDP, respectively. In the first one, it can be seen that in countries with GDP levels (in millions of euros) below 1,000,000, the total number of PIEs tends to be below 1,000 entities, with Portugal, Poland and fundamentally Romania standing out clearly from this trend. With a total number of PIEs close to 1,500 entities, we find France and Spain, although their GDP levels differ significantly. Finally, Germany, with a GDP of almost 4,000,000 (million €) has a little more than 1,000 PIEs in total, and Italy, whose GDP is close to 2,000,000, declares having 833 PIEs, which places these countries at levels almost equivalent to those that are economically not so strong. Furthermore, according to a European Commission report (2021) produced using 2018 data, Germany and the UK were the two largest audit markets because they made up 65% of the EU turnover of audit firms. So, although Germany is one of the economically richest countries with the largest audit market, the definition of PIEs has been left exclusively to the categories covered by European regulations.

This situation is repeated if we assess the dispersion by looking only at the variable “Other national PIEs” (Graph 3), which allows us to appreciate important differences in the relevance of the enlarged extent of PIEs with respect to GDP. The high number of Romania, as opposed to the non-use of this option in several European countries (Germany, Austria, Denmark, Finland, Ireland, and Italy) is remarkable. In Spain, the extent of the definition of PIEs is much more demanding than in the other countries with the highest GDP and is only surpassed by Romania in terms of the number of “Other national PIEs”. This can be clearly seen in Graph 4.

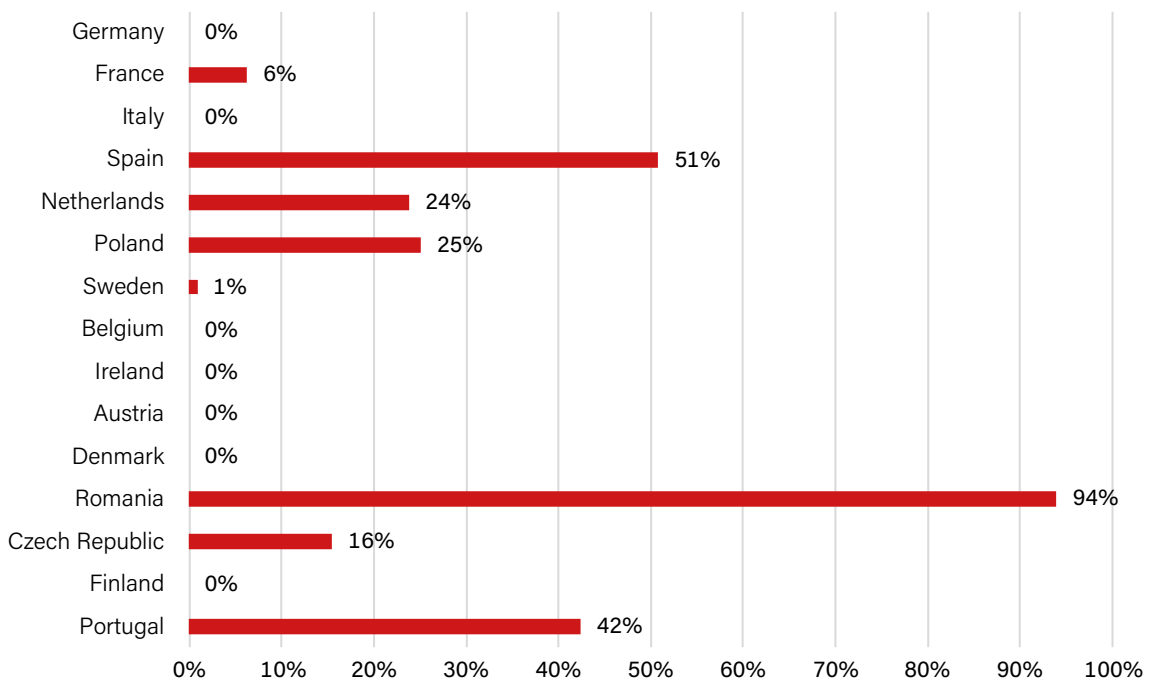
/// GRAPH 3 Ratio of “Other national PIEs” to GDP



GRAPH 4 Geographical distribution of the number of "Other national PIEs" in the analysed countries



GRAPH 5 Ratio "Other national PIEs/Total PIEs" in each country



The extent of EU requirements for each country delimitation of PIEs can be seen in the Graph 5, which shows the weight of “Other national PIEs” in the total number of PIEs identified in each country. The most demanding country in this respect is Romania, which has added a considerable number of entities to the extent of the definition of PIEs, almost doubling the number of entities affected by the audit requirements with respect to the minimum required by the regulations. Spain is in second place, with a ratio of 51%, far behind France (6%) and Germany and Italy (0%).

In addition to the higher or lesser extension given to the definition of PIEs, we have analysed which exemptions, if any, have been adopted within local regulations in relation to the alternatives offered by EU regulations, as detailed in section 2 of this study and summarised in Table 1. The country-by-country details of these issues are developed in the following sections.

4.2 Exemptions adopted in the main countries of the EU

4.2.1 *Obligation to present a corporate governance statement in the management report*

As noted above, Article 20 of the Accounting Directive 2013/34/EU requires listed PIEs to include a corporate governance statement in their management reports, on which the statutory auditor must give an opinion. However, Member States are allowed to simplify the content of this corporate report where listed PIEs have only issued securities other than shares admitted to trading on a regulated market¹⁹.

The review of the regulations in force in the 15 analysed countries (Table 5) shows that most of the local regulations (Austria, Belgium, Czech Republic, Denmark, Finland, Germany, Ireland, Italy, the Netherlands, Portugal and the Czech Republic) did adopt the exemption provided for in the Directive. Thus, in these countries, listed companies that have only issued securities other than securities admitted to trading on a regulated market simplify the information relating to the corporate governance statement.

/// **TABLE 5** Exemption for certain listed PIEs from filing a full corporate governance statement²⁰

Country	Do local regulations provide for this exemption?	Country	Do local regulations provide for this exemption?
Germany	YES	Netherlands	YES
Austria	YES	Poland	
Belgium	YES ²¹	Portugal	YES
Denmark	YES	Czech Republic	YES
Spain		Romania	
Finland	YES	Sweden	
France			
Ireland	YES		
Italy	YES		

19 Article 20(4) of Directive 2013/34/EU exempts them from the application of its paragraph 1(a), (b), (e) and (f), but paragraph 1(c) and (d) apply to them.

20 In the tables included in this section, only those cells in which the countries have made use of the exemptions or options contemplated in the European Regulations has been filled in. The criterion adopted is common to all of them.

21 In Belgium, the exemption applies only to entities with less than EUR 34 million of turnover and EUR 17 million of total assets.

4.2.2 *Obligation to have an audit committee*

In relation to the option provided for in Article 39(2) of Directive 2006/43/EC, as amended by Directive 2014/56/EU, to allow the administrative or supervisory board as a whole to perform the function of an audit committee in certain PIEs, most countries decided to allow PIEs to choose the form of their audit committee.

In this respect, Austria, Belgium, Denmark, Finland, France, Italy, the Netherlands, Portugal, Romania and Sweden did not impose an obligation to appoint an independent committee, and the audit committee can also be a committee of the board of directors or a supervisory board of the audited entity. In contrast, other Member States chose to make the existence of an independent committee mandatory for all PIEs. These include Ireland, Poland and the Czech Republic.

In between are Germany, which allows the board of directors or supervisory board of the PIE to perform the functions of the audit committee if they are SMEs, and Spain, where this option is given only to PIEs that already have a body or board with functions equivalent to those of the audit committee, that has been constituted and that functions in accordance with its applicable regulations, and to savings banks where the functions of the audit committee may be taken over by the control committee.

/// **TABLE 6** PIEs Obligation to have an audit committee. Exemptions

Country	Option that the functions assigned to the audit committee can be taken over by the management body	Option of not having an audit committee if certain requirements are met
Germany	NO ²²	YES ²³
Austria	YES	
Belgium	YES	YES ²³
Denmark	YES	YES ²⁴
Spain	NO ²²	YES ²³
Finland	YES	YES ²⁴
France	YES	
Ireland	NO ²⁵	YES ²⁴
Italy	YES	
Netherlands	YES	YES ²⁴
Poland	NO ²⁵	YES ²³
Portugal	YES	
Czech Republic	NO ²⁵	
Romania	YES	
Sweden	YES	

On the other hand, Article 39(3) of Directive 2014/56/EU contains another option whereby Member States are allowed to decide that certain PIEs are not required to have an audit committee if they meet the requirements set out in that paragraph —It basically refers to be a subsidiary or an under-

22 These Member States give the option to exempt only certain PIEs.

23 Option partially used by the Member State.

24 Option adopted in full by the Member State.

25 These Member States have made the existence of an audit committee mandatory without exception.

taking for collective investment in transferable securities (UCITS) or an alternative investment fund (AIF), or because its business is to act as an issuer of asset backed securities or because it is a credit institution whose shares are not admitted to trading on a regulated market in any Member State—.

It appears from the review that this option was adopted in all cases covered by the EU Directive, by Denmark, Finland, Ireland and the Netherlands, and partially by Germany, Belgium, Spain and Poland, but with different nuances:

- In the case of Germany, PIEs that are Undertakings for Collective Investment in Transferable Securities (UCITS) and credit institutions that only issue securities with a nominal value not exceeding EUR 100 million are exempt from having an audit committee.
- In Belgium the exemption applies to certain credit institutions, Undertakings for Collective Investment in Transferable Securities (UCITS) and entities issuing asset-backed securities.
- In the case of Spain, PIEs whose sole activity is to act as an issuer of asset-backed securities, small and medium-sized PIEs are exempt from having an audit committee, provided that their functions are assumed by the board of directors, and subsidiary PIEs whose parent company has full ownership of the subsidiary, in which case the audit committee of the parent company exercises this function.
- In Poland, the cooperative banks, local government PIEs, savings and credit cooperatives, companies whose sole activity is to act as issuers of securities, and PIEs that at the end of the financial year and the previous financial year do not exceed at least two of the three thresholds —PLN 17,000,000 in total assets, PLN 34,000,000 in net income and 50 full-time jobs— are exempt.

In summary, out of the 15 countries surveyed, 8 of them have fully or partially adopted the option that certain PIEs are not obliged to have an audit committee if certain requirements are met.

4.2.3 Audit information requirements and additional report to the audit committee

As noted above, Article 28 of Directive 2006/43/EC details the content of the audit report to be drawn up by companies subject to the annual audit obligation which, in the case of a statutory audit of a PIE, is complemented by the provisions of Article 10 of Regulation EU 537/2014. In it, some minimum contents are required for the audit report of a PIE²⁶, and Member States are given the option to strengthen them, allowing them to establish additional requirements at local level.

When analysing the extent to which use has been made of the option provided for in Article 10 of the EU Regulation, we found that only Finland, France and the Czech Republic have established additional requirements for PIEs (Table 7, first column). The Czech legislation established a number of additional requirements for certain PIEs, namely banks, investment firms and insurance companies, subject to specific financial reporting requirements, which must be verified by the auditor.

For its part, France decided to maintain some specific elements already foreseen in its regulations for the audit reports of PIEs, which consist of additional verification of the consistency among the financial statements, the management reports and other documents provided to the members or shareholders, and of the presentation of information about the remuneration and profits of the company's directors.

Finally, Finland requires the same information requirements for audit reports for non-PIEs as for PIEs.

26 The European Commission's report (2022) provides detailed information on the transposition and implementation of these provisions in all EU countries.

/// **TABLE 7** Content of the audit report and additional report to the audit committee

Country	Content of the audit report	Additional Report to the Audit Committee		
	Additional requirements on the content of the audit report	Member States may also require this additional report to be submitted to the administrative or supervisory body of the PIE	Member States may authorise the audit committee to communicate this additional report to third parties as provided for by local law.	Member States may establish additional requirements concerning the content of the additional report to the audit committee.
Germany		YES		
Austria				
Belgium		YES	YES	
Denmark		YES		YES
Spain				
Finland	YES	YES		
France	YES		YES	
Ireland			YES	YES
Italy		YES		
Netherlands				
Poland		YES	YES	
Portugal		YES	YES	
Czech Republic	YES	YES	YES	
Romania				
Sweden				

On the other hand, Article 11 regulates the additional report to the audit committee to be submitted by PIEs, which also provides Member States with some options. Among them, firstly, Member States can require that this additional report is also *submitted to the administrative or supervisory board of the audited entity*. As can be seen in Table 7, in its second column, the regulatory review shows that 8 out of the 15 analysed countries chose to require that this additional report is also submitted to the administrative or supervisory board, an option which is explicitly included in the local regulations of Belgium, the Czech Republic, Denmark, Finland, Germany, Italy, Poland and Portugal.

In addition, Article 11 of the EU Regulation on the additional report of PIEs to the audit committee provides for the possibility for Member States to authorise the audit committee to *communicate this additional report to third parties outside the PIE*, as provided for by local law. As can be seen in Table 7 (third column) the countries with this option in their national legislation are Belgium, France, Ireland, Poland, Portugal and the Czech Republic. In these cases, the additional report is usually sent, upon request, to the PIE oversight authorities and to the audit supervisor, except in Poland, where the additional report must also be made available to the General Meeting, the shareholders or the owners of the audited entity.

Finally, the same Article 11 opens the possibility for Member States to establish additional requirements on the content of the additional report for the audit committee. However, as can be seen in the last column of Table 7, only two countries use this option: Denmark and Ireland.

In the case of Denmark, the additional requirements for the content of the report to the audit committee are as follows:

- Conclusion, in the cases of financial institutions, on whether the valuation of loans, loan commitments and financial guarantees by financial institutions has been carried out in accordance with the rules.
- A summary of the decisions taken by the company's board of directors during the year, together with management's comments of them.
- Indication of the total number of decisions adopted by the board of directors during the financial year.
- Statement on business risks in the case of financial institutions.

In the case of Ireland, the option was transposed by giving the *Irish Auditing & Accounting Supervisory Authority* (IAASA) the power to set additional requirements, although this possibility has not been exercised.

4.2.4 Mandatory rotation of audit firms and statutory auditors

As noted in Section II of this paper, as regards the duration of the audit engagement and rotation, the Regulation leaves a significant margin of discretion to Member States, as it provides four different options for minimum initial commitments and their maximum duration.

After establishing a general criterion of a minimum duration of one year and a maximum of ten years for the audit engagement, Article 17 of Regulation EU 537/2014 leaves open to the Member States different possibilities. We comment this regulation at the local level and summarise it in the Table 8:

/// **TABLE 8** Audit Engagement Duration: International Comparison

Country	Audit Engagement Duration				
	Minimum initial duration	Maximum duration of the engagement	Possibility of extension to 20 years in case of public tendering	Possibility of extension to 24 years in case of joint audit	Possibility of reduction of the maximum duration of 7 years for the main audit partners
Germany	1 year	10 years	YES	YES	
Austria	1 year	10 years	YES	YES	
Belgium	3 years	9 years	YES	YES	
Denmark	1 year	10 years	YES	YES	
Spain	3 years	10 years	YES	YES	YES
Finland	1 year	10 years	YES	YES	
France	6 years	10 years	YES	YES	
Ireland	1 year	10 years			YES
Italy	9 years	9 years			
Netherlands	1 year	10 years			YES
Poland	2 years	10 years			YES
Portugal	2 years	10 years			
Czech Republic	1 year	10 years	YES		
Romania	1 year	10 years	YES		
Sweden	1 year	7 years	YES	YES	

Option 1 Require that the initial engagement be for a period of more than one year.

The comparison shows that 9 of the 15 analysed countries maintained the minimum duration of 1 year set by the EU Regulation. The remaining 6 countries chose the option of extending the initial duration, although setting different minimums. For example, in Poland and Portugal it was set at 2 years, in Belgium and Spain 3 years, in France 6 years and in Italy the minimum was set at 9 years for audit firms and 7 years for statutory auditors.

Option 2 Set a maximum duration of less than 10 years.

The option to reduce the maximum duration of the audit engagement has been adopted in Belgium (9 years) and Sweden (7 years). However, in other countries we also find nuances related to the maximum duration of the engagement, for example:

- In Italy, the minimum initial engagement is the same as the maximum duration of the engagement (9 years for audit firms and 7 years for signing partners), because Italian law requires a fixed mandate for auditors of PIEs and firms subject to an intermediate regime (ESRI).
- Poland established a maximum duration of 5 years for principal statutory auditors and 10 years for audit firms.
- In Portugal the maximum duration of the audit engagement may be less than 10 years if statutory auditors are appointed for two four-year terms or three three-year terms. This maximum duration can only be extended to 10 years if, on the recommendation of the audit committee, the administrative or supervisory board proposes to renew the engagement to the general meeting of shareholders or members and the proposal is approved.

Option 3 They can extend the maximum duration to 20 years if, after the first maximum period, a public tendering process is made, or to 24 if a joint audit is carried out²⁷.

Another option to Member States is the possibility of extending the duration of the audit engagement in cases of public tendering up to 20 years. This option has been adopted in 9 of the 15 analysed countries, including Germany²⁸, Austria, Denmark, Finland, Czech Republic, Romania and Sweden.

France and Belgium also use of this option, but they limited the maximum duration to 16 and 18 years respectively.

Another way offered by Article 17 of the EU Regulation to extend the duration of the contract is to carry out a joint audit. In this case, Member States have the possibility to extend the duration of the audit engagement up to 24 years. Table 8 shows that this option has been adopted in 8 countries of the sample analysed, including Germany —although it does not allow it to be applied to banking and insurance entities—, Austria, Belgium, Denmark, Finland, France and Sweden. Spain also adopted this option but limited the maximum duration to 14 years. However, due to the modification introduced in the Audit Law (hereinafter LAC) in December 2022, the maximum with joint audit became 24 years.

Option 4 Possibility of reduction of the maximum duration of 7 years for the main audit partners.

As regards in Section II of this paper in relation to the audit partners responsible for carrying out the statutory audit, the EU Regulation establishes they must rotate after seven years at the latest, and they cannot participate again in the audit of that entity before three years. However, Member States may require the change of partners to take place before seven years. We have only seen this possibility to reduce the maximum 7-year period for responsible audit partners explicitly stated (Table 8, fifth column) in the local regulations of Spain, Ireland, the Netherlands and Poland, as they require them to cease their involvement in the statutory audit within 5 years.

From this, it can be deduced that the high degree of discretion offered by the EU Regulation in matters relating to the delimitation of the duration of the audit engagement has had the expected

²⁷ Such extensions may only be given if, on the recommendation of the audit committee, the administration or supervisory board, in accordance with national law, proposes an extension of the engagement to the general meeting of shareholders and they approve it.

²⁸ In Germany, this option does not apply to banks and insurance companies.

consequence of great disparities in these matters in the local regulations of the different analysed countries, as can be seen in Table 8.

4.2.5 *Appointment of statutory auditors and audit firms*

In relation to the appointment of statutory auditors or audit firms, as noted in section II of this paper, Article 37 of Directive 2006/43/EC offers Member States the possibility of applying alternative appointment procedures to those established in the Directive itself —appointment by the General Meeting of shareholders or members of the audited entity— as long as this guarantees the auditor's independence regarding the audited entity. In our regulatory review, we found that only Italy and the Czech Republic have used this option (Table 9).

In Italy, an alternative appointment is possible in cases of cooperative societies belonging to Federations, where the statutory audit is assigned to the Federation, which appoints its statutory auditors.

In the Czech Republic, if an entity is required to have its financial statements audited, the auditor must be appointed by the highest body of the entity. If it has no superior body, the auditor must be appointed by the supervisory body, as long as the members of the supervisory body are not members of the management body. If an unincorporated entity is required to have its financial statements verified by an auditor, the auditor must be appointed by the manager (investment fund, sub-fund, trust fund), the pension company (pension fund) or the person who has set it up (where the entity is a branch). If none of these rules apply, the entity shall appoint the auditor independently from the members of the management body of the audited entity.

On the other hand, Article 16 of Regulation EU 537/2014 offers the possibility for Member States to adopt mandatory joint audit in the case of PIEs. This option has not been widely adopted either, but only by Finland and France.

In Finland there is an obligation to appoint a deputy auditor if the principal auditor is not an audit firm. Specific legislation applying to certain PIEs requires at least one of the auditors to be an auditor or an audit firm specially approved for audits of PIEs.

In France, the French Commercial Code requires the appointment of two statutory auditors for all companies required to prepare and publish consolidated financial statements (both in relation to the audit opinion on the individual entity's financial statements and the consolidated financial statements, and to all their French subsidiaries required to prepare separate sub-consolidations). In addition, all CAC-40 (French stock market index) companies are also subject to the joint audit. The legal requirement includes a minimum of two statutory auditors, although a higher number of auditors is permitted.

/// **TABLE 9** Appointment of statutory auditors and audit firms

Country	Possibility to apply alternative designation procedures	Possibility to apply mandatory joint audits
Germany		
Austria		
Belgium		
Denmark		
Spain		
Finland		YES
France		YES
Ireland		
Italy	YES	
Netherlands		
Poland		
Portugal		
Czech Republic	YES	
Romania		
Sweden		

5. The extended concept of PIEs in Spain: main implications

As analysed in the previous sections, in Spain, the regulations have opted for an enlarged extent of the concept of PIEs. It is understood that they have significant public relevance, and therefore the following entities should be included in this concept in addition to those required by European regulations (Art. 8(1) of the Audit Regulations):

- a. Issuers of securities admitted to trading on the stock market of growing companies.
- b. Investment firms and collective investment undertakings which, for two consecutive financial years at their closing date, have at least 5,000 clients, in the first case, or 5,000 unit or shareholders, in the second case, and the management companies administering such undertakings.
- c. Pension funds with at least 10,000 members for two consecutive financial years at the end of each financial year, and the management companies managing these funds.
- d. Banking foundations, credit financial institutions, payment institutions and electronic money institutions.
- e. Those entities other than those mentioned in the preceding paragraphs whose net turnover and average number of employees during two consecutive financial years at their closing date exceeds 2,000,000,000 euros and 4,000 employees.
- f. Groups of companies in which the parent company is one of the entities referred to in the preceding paragraphs.

It should be added that Law 39/2022 on Sport, in force from 1/1/2023, states in Article 58.2 that: "For the purposes of the aforementioned law (audit law), Spanish sports federations and professional leagues are considered public interest entities".

In short, Spanish legislation includes a broader concept of PIEs than that of European legislation using the flexibility contained in it, and also than that included in the legislation of other European countries. As a result, the number of PIEs is higher than in other countries. The Table 10 shows, by type of entity, the number included in each of them:

/// **TABLE 10** Public Interest Entities in Spain

PIEs Type	Number
Credit institutions	114
Insurance companies	241
Entities issuing securities on official secondary markets	345
Entities issuing securities on alternative stock markets	49
Banking foundations, payment and electronic money institutions, and credit financial institutions	88
Investment firms, collective investment undertakings and management companies	383
Pension funds and management companies that manage them	178
Other entities not included in the previous sections due to their significant public importance	28
Total	1,426

↑ Source: ICAC (2022)

As a consequence 50.91% of PIEs correspond to national PIEs, which contrasts with the situation in other countries of the EU, as shown above. In fact, the European Commission report (2021) indicated that this category was 19% of all PIEs in 2018 in the EU.

This enlarged extent has various implications derived fundamentally from the restrictions and requirements established in European regulations already analysed. We refer exclusively to those aspects that may have a particular impact in the case of the PIEs included in the extended concept.

The inclusion of these entities can be justified due to the interest of investor protection, seeking to ensure auditor independence and audit quality. In any case, as all the above entities are themselves subject to the control of different bodies in charge of supervising their activity, it could be understood that this investor protection could be guaranteed even if they are not considered to be PIEs.

5.1 The audit committee in enlarged extent PIEs

One of the relevant implications of the concept of PIEs is the obligation to create an audit committee, which is responsible for monitoring the independence of the auditor, as well as the effectiveness of the company's internal control. In fact, the consolidated text of the Corporate Enterprises Act requires the committee to issue annually, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the consolidated text of the Corporate Enterprises Act or audit firms is compromised. The audit committee is also responsible for submitting to the board of directors proposals for the selection, appointment, re-election and replacement of the auditor, and it is responsible for the selection process. This obligation can have a positive effect in ensuring the auditor's independence and it can serve as coordination between the management body and the auditors, as well as between the external and internal control bodies.

However, it should be noted that not all PIEs included in the extended concept are obliged to set up the audit committee, as the third additional provision of the LAC establish some exceptions:

- a. Entities whose sole business is to act as an issuer of asset backed securities as defined in Article 2(5) of Commission Regulation (EC) 809/2004 (e.g. securitisation funds).
- b. Public interest entities referred to in Article 3.5 b) of the LAC, as long as they are small and medium-sized, and their functions are assumed by the management body.
- c. Public interest entities provided for in article 3.5 b) of the LAC, which may be exempted from this requirement under Community legislation, and which are so exempted in accordance with the regulations. The thirteenth additional provision of Royal Decree 1517/2011 of 31 October establishes that the entities to which this exemption applies are collective investment undertakings and pension funds.
- d. Subsidiary entities of other public interest entities according to Article 42 of the Commercial Code, provided that:
 - are wholly owned by the parent entity;
 - its administration is not attributed to a board of directors and the audit committee of the parent company assumes for its subsidiaries the functions of that committee and any other functions that may be attributed to it.

Therefore, although some important implications of being an PIE are linked to the constitution of this audit committee, which aims to contribute to the auditor's independence, the control of fees, the provision of external services or the rotation, among others, this is not applicable to all PIEs of the extended concept as it is not mandatory in some of the categories. It should be noted that, in the application of the remaining requirements, which are to some extent linked to the audit committee, another body or committee must perform the functions of the audit committee in this case. Logically, the report to the audit committee will not be applicable in this case either.

5.2 Fee controls and restrictions on the provision of non-audit services

In order to ensure auditor independence, both European and LAC regulations set limitations on the amount of a PIE's total fees (less than 15% of the statutory auditor's total fees in each of the last three financial years), as well as a prohibition on the provision of non-audit services, with some exceptions in certain cases.

In the case of PIEs included in the extended concept, as they are usually not big entities, the limitation on the amount of fees does not seem to be a major restriction on the participation of auditors or audit firms, although it may contribute to the concentration of the audit market.

In relation to the implication of these limitations on PIEs, which are stricter than in the case of non-PIEs, it is worth noting the positive effect that this measure has been found to have in the European Commission's report (2022), allowing for improvements in auditor independence and audit quality.

5.3 Audit information requirements and report to the audit committee

As noted above, one of the implications of the audit of PIEs is that the audit report has more content. Also, a specific report must be prepared for the audit committee. Its purpose is to ensure the quality of the audit, as well as to identify risks of material misstatement and establish measures to mitigate such risks, while preserving the auditor's independence.

These two requirements for the auditor lead to a higher complication in the conduct of the audit and will normally also have an impact on the audit fees for PIEs. In fact, the report of the European Commission (2022) finds that audit fees for PIEs are higher than for non-PIEs.

5.4 Internal audit organisation and transparency report

Both European legislation and the LAC Regulation establish certain requirements to ensure an organisational structure and size appropriate to the amount and complexity of audit work of these entities, with internal control mechanisms to ensure adequate expertise and preparation considering the size and nature of the PIEs.

On the other hand, auditors and audit firms that audit the accounts of PIEs must individually publish and present a transparency report reflecting the governance structure of the entity, internal quality control, practices regarding auditor independence and training, or the list of audited PIEs, among other aspects.

The above two requirements may limit the ability of small and medium sized auditors to participate in the audit of PIEs, as this requires a certain internal complexity that may not always be available in these entities.

5.5 Auditor rotation in PIEs and implications for independence

In order to guarantee the auditor's independence, both European and Spanish regulations establish limits on the duration of the audit engagement. In the case of Spain, the minimum duration of the initial period of engagement of statutory auditors in PIEs may not be less than three years, and the total period of engagement, including extensions, may not exceed the maximum duration of ten years established in Article 17 of the Regulation. However, once the maximum total engagement period of ten years of an individual statutory auditor or audit firm has expired, this period may be further extended up to a maximum of fourteen years, as long as the same auditor or audit firm is simultaneously engaged together with one or more other auditors or audit firms to act jointly for this additional period, or up to ten years if a public call for tenders for the statutory audit is made.

In relation to the internal rotation of auditors, the LAC establishes that, after five years from the initial engagement, the rotation of the main auditors responsible for the audit work is mandatory. In any case, a period of three years must elapse before those persons can participate again in the audit of the audited entity.

In both cases, it is a question of guaranteeing the independence of the auditor, so it has relevant implications from this perspective. In this sense, the joint audit option, which is included in our regulations, does not necessarily imply an impediment to the participation of small or medium-sized auditors, who can always participate in these joint audits.

In this respect, it is worth mentioning that the report of the European Commission (2022)²⁹ finds that, despite the measures introduced, the shift between different types of auditors has been limited, with a persistently high market share for the Big4. Non-Big4 audit firms are often invited to participate in tendering procedures, but the more complex is the firm in question (size, structure, geographical coverage, etc.), the less likely they are to participate and receive the assignment. Nevertheless, the study concludes that the mandatory rotation of audit firms and responsible auditors has contributed to improving the quality of audit services, the independence of auditors and the competition between audit firms.

5.6 Concentration of the PIEs' audit market

One of the effects of the restrictions imposed on the audit of PIEs, as observed in previous work (European Commission, 2021, 2022) is the concentration of the PIE audit market in the larger audit firms, mainly due to all the restrictions imposed and the complexity that the audit may entail in this case. Indeed, many of the reports produced by national supervisory bodies provide information on the audit market share of Big4 and non-Big4 firms and show that these firms audit a large proportion of PIEs.

In the case of Spain, this can be clearly seen in the reduction in the number of auditors of PIEs since 2020, as can be seen in Table 11.

²⁹ European Commission (2022). Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation (EU) 537/2014).

/// **TABLE 11** Evolution of the number of auditors of PIEs in Spain

	2020	2021	2022
Natural person auditors (individuals)	9	5	8
Audit firms	77	77	66
Total	86	82	74

↑ Source: ICAC (2022)

Likewise, the Table 12 shows the high degree of audit concentration in the case of PIEs compared to non-PIEs. Concentration has increased in 2022 in both categories compared to 2021. The table also shows that 14.13% of audit revenue comes from PIEs, which can be considered a high percentage.

/// **TABLE 12** Revenue volume and concentration of the audit market in Spain

	2020		2021		2022	
	PIEs	No PIEs	PIEs	No PIEs	PIEs	No PIEs
Revenues	100,922,126	595,892,402	111,611,517	717,586,430	116,837,566	709,606,171
Herfindahl-Hirschman index (HHI) ³⁰	0.2908	0.0806	0.2943	0.0716	0.3086	0.0753

↑ Source: ICAC (2022)

The ICAC report (2022, p. 34) states that there are 4 firms (0.30% of the total) each with a turnover of more than 40 million euros, which represents 61.72% of the total turnover. If we add to that the next 4 audit firms with an individual turnover between 8 million euros and 40 million euros, they reach 68.77% of the total turnover in 2022 (549.546 million of the total 799.064 million euros). The literature echoes the negative effects that the concentration of the audit market may cause due to the predominance of large multinational audit firms, that may generate risks in the quality of audit services provided by audit firms assuming an important role in the control of the financial activities of the world's largest companies, where they also act as advisers in cases where they are not appointed auditors (European Commission, 2022).

5.7 Implications for PIEs' supervisory bodies

From the point of view of supervisory bodies, we could refer to the different institutions that supervise PIEs, such as the Spanish National Bank (BdE), the Spanish National Stock Market Commission (CNMV) and the Bureau of Insurance and Pension Funds (DGSFP).

30 This index can take values between 0 and 1, with a value of 0 being attributed to zero concentration and 1 to the maximum possible concentration. The economic literature estimates that below a value of 0.15 it can be considered a market with no concentration, between 0.15 and 0.25 a moderately concentrated market, and in the presence of values above 0.25 it is considered a highly concentrated market.

In order to avoid irregularities, both the EU Regulation and the LAC oblige the auditor to report possible irregularities to the company and to the national supervisory authorities.

The auditors and audit firms that audit the annual accounts or other financial statements of the PIEs subject to the supervision and control regime attributed to the BdE, the CNMV, the DGSFP, or the regional bodies with powers of regulation and supervision of insurance entities, shall have the obligation to communicate in writing all information relating to the audited entity or institution of which they have become aware in the performance of their duties to the public bodies or institutions, as appropriate, in the following cases:

- a. a serious infringement of the laws, regulations or administrative provisions which establish the conditions for authorisation, or which specifically regulate the exercise of the activities of the public-interest entity;
- b. a threat or doubt of relative importance in relation to the continuity of the activities of the public interest entity;
- c. the refusal to issue an audit opinion on the financial statements, or the issuance of an unqualified or adverse opinion.

The deadline for submitting this report, in accordance with the LAC Regulations (RAC), is three working days from the date of knowledge of the circumstances that could give rise to these situations.

Furthermore, the LAC provides that upon request by the national supervisory authorities of the PIEs, the additional report to the audit committee shall be provided without delay by the statutory auditors or audit firms within a maximum of three working days.

Therefore, an important implication is that, in addition to taking precautions to avoid irregularities and fraud, when such irregularities are committed, the channels of communication with supervisory bodies are improved and the detection and control of irregularities is strengthened.

5.8 Implications for PIEs' audit supervisory bodies

In Spain, the ICAC is the authority in charge of supervising auditors and audit firms that carry out statutory audits of PIEs. In this respect, and as the LAC itself points out in the preamble, "the special prevalence and interest required by the audit work of PIEs implies greater specialisation, attention and dedication on the part of the supervisor, and requires the latter to properly organise and make efficient and effective use of the means available for compliance". On the other hand, as the body in charge of ensuring the auditor's independence, it may logically be affected by all the safeguards established by the regulations to try to preserve independence, and specifically, by the work assigned to the audit committee in those cases where it exists. In this respect, it should be noted that the CNMV is responsible for supervising the functions attributed to the audit committees of the PIEs, although the ICAC is ultimately responsible for the public oversight system.

The enlarged extent of the definition of PIEs, and of the number of PIEs in Spain, has important implications for the ICAC's supervisory work compared with its counterparts in EU countries, where the number of PIEs and, therefore, of audits to be supervised is much lower. The size and structure of the different supervisory bodies should be compared to analyse whether they are proportionate to the size and nature of the entities to be supervised.

The Table 13 compares the entities subject to control actions in each of the countries. It shows the high number of audits of PIEs that have been investigated or inspected in Spain, in line with the high number of existing PIEs, in addition to the complexity that their audit entails.

/// **TABLE 13** Control actions performed by audit oversight bodies

	2019		2020	
	PIEs	No PIEs	PIEs	No PIEs
Czech Republic	0	0	0	0
Germany	99	72	83	66
Spain	136	45	170	57
France	5	29	3	20
Ireland	2	235	2	88
Italy	5	0	7	1
Lithuania	1	4	0	1
Netherlands	0	1	2	2
Poland	26	230	13	111
Romania	0	3	0	2
Sweden	4	82	4	103

↑ Source: European Commission (2022)

6. Advantages and disadvantages of an enlarged extent in practice

Once identified the advantages and disadvantages that can be derived from an extended approach to the concept of PIEs, both from the perspective of the implications of the concept and from the accounting literature, this section aims to analyse the advantages and disadvantages that this extended concept has in practice in the national context, both in the auditing profession and in the entities included in the concept. To this end, we have tried to capture the opinion of both sectors by means of a questionnaire.

6.1 Methodology

In order to find out the advantages and disadvantages derived from the extended concept in practice, we have drawn up a questionnaire through which we tried to gather information on the positive and negative effects that the implications of the concept have both for auditors and for the entities themselves, with the aim of systematising the opinion of the professionals who are most familiar with the audit practice of these entities. A closed-ended questionnaire was used, combining closed-ended questions and questions with a 5-point Likert scale, in which professionals were asked to indicate their degree of agreement or disagreement with the advantages and disadvantages previously identified by the research team.

Given the differences in the advantages and disadvantages that the extended concept may entail for auditors and for the entities themselves, we have developed a specific questionnaire for each of them. The questionnaires have been developed both in pdf form and in the option offered by Google to develop questionnaires.

In particular, the questionnaire for auditors (in Annex I) asks their opinion on the following aspects:

- Adequacy of including or not the different categories of PIEs in the extended concept in Spain, offering the possibility for them to argue their respective answers.

- Degree of compliance of the intended objectives of the extended PIE concept.
- Implications of the restrictions and obligations imposed on the audit of PIEs: advantages and disadvantages.
- Relevance of potential drawbacks arising from restrictions and obligations imposed on the audit of PIEs.
- Extent that the PIE concept should have.
- Profile of the respondent.

Once the questionnaire had been developed, it was shared with the Spanish Institute of Certified Public Accountants (ICJCE), as well as with various auditing professionals to corroborate its suitability for the intended objectives, and especially to check that it included the main positive and negative aspects that could be derived for the PIEs, as well as the correct formulation of the questions. This allowed us to confirm the appropriateness and meaningfulness of the questions included in the questionnaire, as well as its structure.

The questionnaire was distributed through the professional associations, specifically the ICJCE and the Registry of Economic Auditors (REA), which sent the form in pdf and Google format by e-mail to their respective practising members. In both cases, the form was sent twice. Taking into account the number of practising members of both bodies, according to data published by the ICAC in its annual report for 2022, the total sample would be made up of 3,336 auditors, although we were only able to collect 40 questionnaires from auditors (1.19% response rate).

The questionnaire for the audit committees of the PIEs included in the extended concept (in Annex II) includes questions on the following aspects:

- Profile of the respondent, trying to identify the category of PIE to which he/she belongs.
- Consensus or not on including the entity in the extended concept of PIEs.
- Degree of compliance of the objectives intended by including the entity in the concept of PIEs.
- Implications of the restrictions and obligations imposed on the audit of PIEs: advantages and disadvantages.
- Relevance of potential drawbacks arising from restrictions and obligations imposed on the audit of PIEs.

The survey was intended to be filled out by the chairmen of the audit committees of the institutions included in the extended concept. In this case, the distribution of the questionnaire was more complex due to the lack of identification of the professionals under study. For this reason, it was necessary to resort to a manual search for the information via the websites of the institutions themselves and personal contacts. Despite the considerable efforts made, the response rate obtained from the audit committees was not very satisfactory, due to the fact that only 5 questionnaires could be collected.

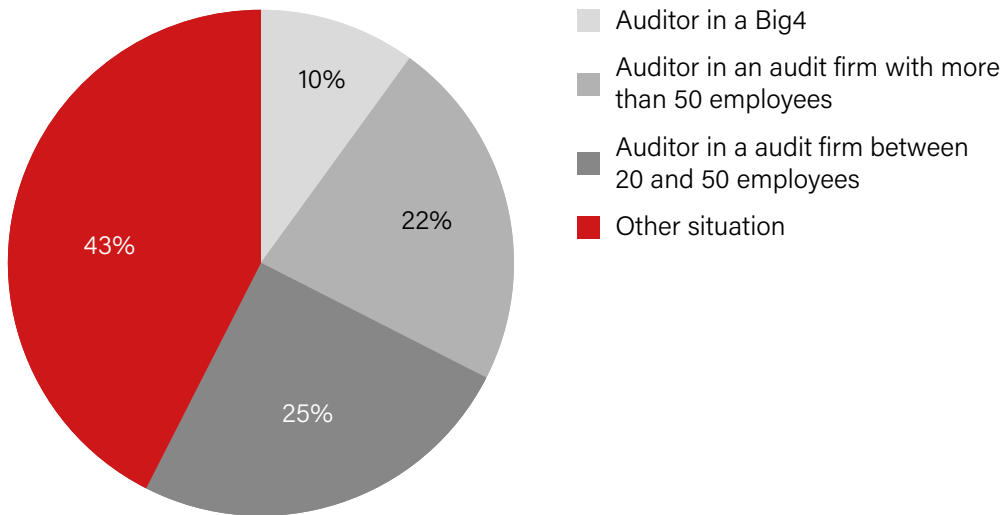
For the analysis of the results, we used the SPSS statistical package, which allowed us to obtain frequency tables that helped us to group and organise the information provided by the professionals, as well as contingency tables that inform us about the relationship between two or more questions posed in the survey.

6.2 Results of the survey to auditors

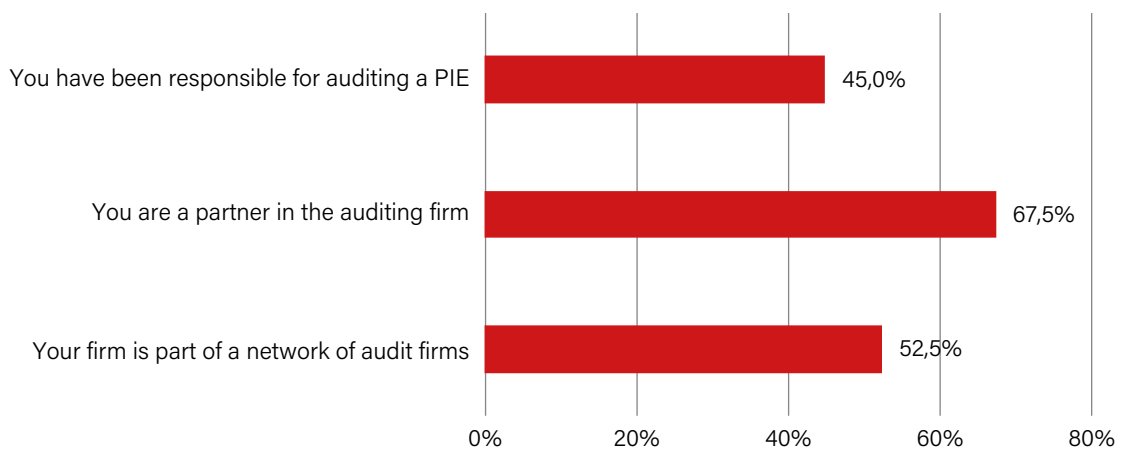
Before detailing the results obtained from the questionnaire made to practising auditors in Spain, it is worth bearing in mind the profile of the respondents who answered it. As can be seen in Graph 6, the 40 auditors who completed the questionnaire represented, in different degrees, all the groups currently auditing in Spain. The group with the highest response rate was that of auditors belonging to firms with fewer than 20 employees (42.5%, identified as "Other situations" in the tables and graphs), followed by auditors belonging to companies with between 20 and 50 employees (25%), companies with more than 50 employees (22.5%) and, to a lesser extent, auditors belonging to the Big4 (10%).

GRAPH 6 Profile of auditors surveyed. Company size

In addition to finding out the characteristics of the companies in which they worked, we were interested in finding out whether the respondents had previous experience in auditing PIEs. The Graph 7 shows that 45% of the auditors who participated in the study stated that they had been responsible



GRAPH 7 Profile of auditors surveyed. Experience and context



for audits of PIEs. On the other hand, we found that 67.5% of the respondents were partners in their audit firm and about half of the participating firms were part of a network (52.5%). In particular, 29.4% of the auditors from companies with less than 20 employees (group identified as "Other situations") indicated that their company is part of a network of audit firms, which may facilitate their access to the audit of PIEs. However, it should be noted that only 11.8% of auditors in companies with less than 20 employees, including the freelancers, have been responsible for auditing a PIE.

In the questionnaire made for auditors, the first item asked for their opinion about the adequacy of including or not the different categories of PIEs in the extended concept in Spain, offering the possibility for them to argue their respective answers. In this respect, it should be noted that the respondents show a high degree of consensus with the extended concept of PIEs adopted by the Spanish regulations, given that most of them consider their inclusion to be appropriate. In fact, as can be seen in Table 14, overall, 80% or more of the responses reflect their agreement for all categories, except for sports federations and professional leagues, where only slightly more than half of the respondents

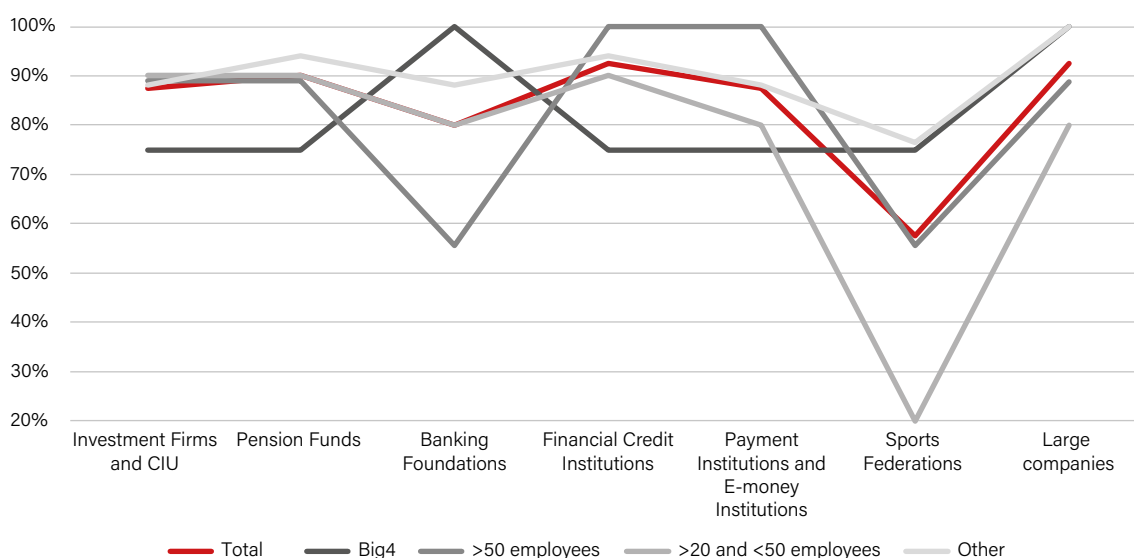
are in favour of granting them such consideration (57.5%). As mentioned above, this is a recently included category.

When we segment their responses according to the profile of the respondent (Table 14 and Graph 8), the group that seems most critical with the extended concept of PIEs adopted in Spain, compared to the rest of the segments, is the Big 4 (except in the case of banking foundations and sports federations). However, the differences are not statistically significant, except in the case of sports federations. The fact of having previously been responsible for an audit of PIEs does not lead to statistically significant differences in the opinion with respect to those without such experience.

TABLE 14 Percentage of auditors who consider it appropriate to include the different categories of national PIEs. Total and segmented results by respondent profile

SPANISH NATIONAL PIEs	Appropriate to consider them as PIEs Total	Depending on the profile of the respondent			
		Big4	>50 employees	>20 and <50 employees	Other
Investment firms and collective investment undertakings (minimum 5,000 clients/unitholders or shareholders)	87.5%	75.0%	88.9%	90.0%	88.2%
Pension Funds (minimum 10,000 members) and management companies	90.0%	75.0%	88.9%	90.0%	94.1%
Banking Foundations	80.0%	100.0%	55.6%	80.0%	88.2%
Credit Financial Institutions	92.5%	75.0%	100.0%	90.0%	94.1%
Payment Institutions and E-money Institutions	87.5%	75.0%	100.0%	80.0%	88.2%
Sports Federations and Professional Leagues	57.5%	75.0%	55.6%	20.0%	76.5%
Entities with an average net turnover and an average workforce of more than 2,000 million euros and 4,000 employees.	92.5%	100.0%	88.89%	80.0%	100.0%

GRAPH 8 Degree of agreement with the extent of the current definition of PIEs according to the profile of the surveyed auditor



Among the arguments in favour of their inclusion, the respondents point to the following: greater transparency, looking after the interests of users, guaranteeing investors, they should be more “watched” than any other because of their public interest —public relevance, exposure to fraud, the impact that their possible insolvency could have on society, the repercussions that those entities have on the economic system and/or on society—.

However, it is interesting to note an opinion that warns that there are companies such as payment or electronic money institutions, mutual insurance companies and sports federations that are very small in size and for which it does not seem appropriate to consider them as PIEs, pointing out that it would be desirable to make their inclusion conditional on some size criterion, as occurs in the case of investment companies or collective investment undertakings.

The second question of the questionnaire addresses the degree of compliance with the objectives intended for the extended concept of PIEs. Auditors were asked to judge the extent to which (on a Likert scale of 1 to 5, with 5 indicating the highest compliance) including the above categories in the concept of PIEs facilitated the achievement of the various objectives outlined in Table 15.

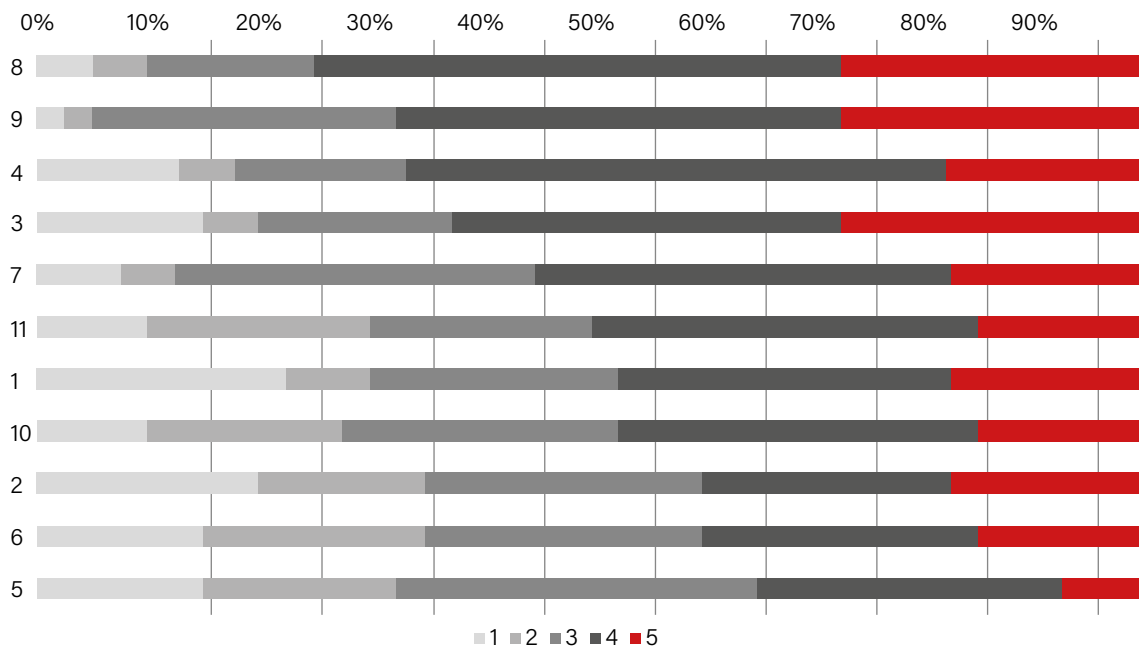
/// TABLE 15 Extent to which it favours the achievement of the objectives pursued for the extended concept of PIEs for auditors

	Average	Standard deviation
1. It guarantees a greater independence in the external audit of the Annual Accounts	3.13	1.418
2. It improves the quality of the external audit in the company	3.03	1.387
3. It improves the external auditor’s communication with the Board of Directors	3.55	1.358
4. It reinforces the importance of internal audit	3.54	1.232
5. It ensures the identification of risks and strategies to reduce them	2.95	1.176
6. It reduces the risks of irregularities and fraudulent activities within the company	3.05	1.3
7. It increases the effectiveness of the management body’s oversight work	3.53	1.086
8. It ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance	3.88	1.042
9. It reinforces the work of the Supervisory Bodies	3.88	0.939
10. It improves the effectiveness of irregularities reporting channels	3.25	1.214
11. It ensures a greater reliability in the financial information provided	3.25	1.235

As can be seen, the means for virtually all items are in the range of about 3, suggesting that responses are around the midpoint of the Likert scale. It may indicate that, in general, respondents are not strongly inclined towards either extreme. However, if the responses are analysed in detail (Graph 9), we can see that the objectives that are rated as fairly or very well achieved (Likert scale scores 4 and 5) by most respondents are, in this order:

- Objective 8: It ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures, and good corporate governance (75% of respondents).
- Objective 9: It reinforces the work of the Supervisory Bodies (67.5%).
- Objective 4: It reinforces the importance of internal audit (65%).
- Objective 3: It improves the external auditor’s communication with the Board of Directors (62%).
- Objective 7: It increases the effectiveness of the management body’s oversight work (55%).

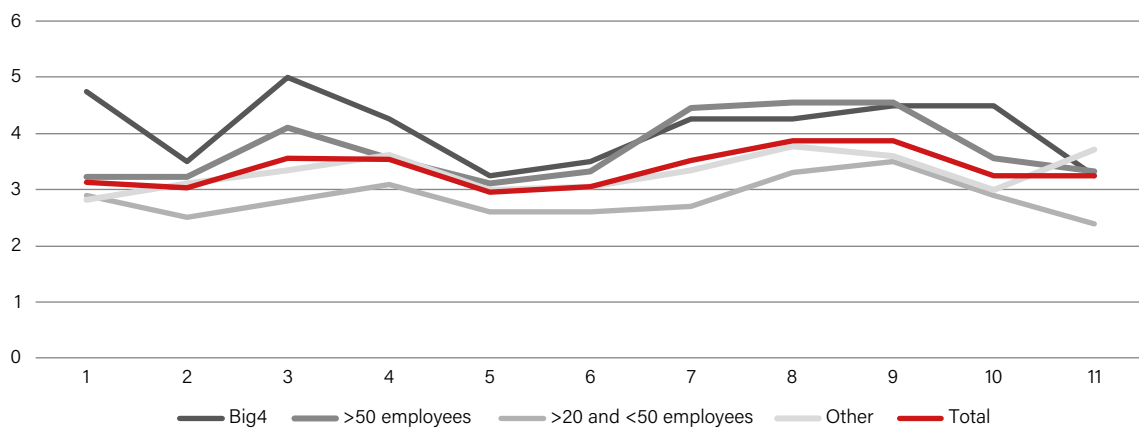
GRAPH 9 Assessment of the extent to which it favours the achievement of the objectives pursued for the extended concept of PIEs for auditors



For the remaining objectives, with lower means and higher standard deviations in general, respondents' opinions are more negative or unsure of the benefit of the extended concept, particularly with regard to objectives 2, 6 and 5 (It improves the quality of the external audit in the company, it reduces the risks of irregularities and fraudulent activities within the company and it ensures the identification of risks and strategies to reduce them, respectively).

When segmenting the responses of the group of respondents according to their profile, we observe that there are some statistically significant differences: the Big4 and companies with more than 50 auditors seem to be somewhat more optimistic in terms of facilitating the extended concept to achieve the stated objectives³¹, as can be seen in the Graph 10.

GRAPH 10 Degree to which it favours the achievement of objectives according to the profile of the respondent auditor



31 The Krusal Wallis test indicates that differences according to profile are significant for objectives 1, 3, 7, 8, 9, 10 and 11.

The third of the questions asked aims to analyse the implications of the main requirements and obligations imposed on PIEs in Spain, assessing to what extent they are perceived by auditors as advantages or disadvantages (Table 16). Among all of them, auditors value as main advantages, in this order: the creation of an audit committee (90%, item 1), the additional report to the audit committee (80%, item 3), the report to the supervisory authority of the PIE in case of possible irregularities (77.5%, item 8) and even the additional requirements on the content of the audit report (72.5%, item 2).

Regarding the rest of requirements, which restrict their work as auditors in different areas, the levels of consensus are lower. For example, the rotation of the signing auditor is seen as an advantage by only 67.5%, the additional requirements for the designation of external auditors and the audit firm's transparency report by only 62.5% and the time-limited duration of the audit engagement by 60%. Finally, more than 40% of respondents consider the internal organisation and work requirements of the audit firm, as well as restrictions on the fee structure and on the provision of non-audit services, to be disadvantages.

/// **TABLE 16** Advantages and disadvantages of the implications of the requirements imposed on PIEs for auditors in Spain

Requirements imposed on PIEs in Spain	Advantage	Disadvantage
1. The creation of an Audit Committee within the company	90.0%	10.0%
2. Additional requirements on the content of the audit report	72.5%	27.5%
3. The Additional Report to the Audit Committee	80.0%	20.0%
4. The limited time period of the audit engagement	60.0%	40.0%
5. The rotation of the signing auditor	67.5%	32.5%
6. The additional requirements on the designation of external auditors	62.5%	37.5%
7. The audit firm's transparency report	62.5%	37.5%
8. The report to the supervisory authority of the PIE (possible irregularities)	77.5%	22.5%
9. The internal organisation and work requirements of the audit firm	57.5%	42.5%
10. The restrictions on the fee structure and on the provision of outside services	55.0%	45.0%

/// **GRAPH 11** Favourable view (advantages) of the requirements imposed on PIEs according to the profile of the surveyed auditor



To differentiate whether these requirements are seen as particularly beneficial or burdensome by some sectors of auditors, we have segmented the above responses according to the profile of respondents. The Graph 11 shows the percentage of respondents who value positively (advantages) each of the above 10 items according to respondent profile. It can be seen that, except for the first two items, the perception of the different surveyed groups shows some divergences³². For example, Big4 auditors are particularly critical of the limited duration of the engagement (item 4), while they consider items 1, 6, 7, 9 and 10 (creation of the audit committee, additional requirements on the designation of external auditors, the transparency report, the internal organisational requirements of the audit firm and even the restrictions on fees and the provision of external services) to be of full advantage.

On the other hand, the group of auditors working in firms with less than 20 employees, identified item 10 (restrictions on fees and the provision of non-audit services), as the main disadvantage, followed by the internal organisation and work requirements of the audit firm (item 9).

The previous sections of this paper have indicated some of the drawbacks pointed out in the literature in relation to the consideration of an entity as a PIE. The fourth question of the questionnaire tried to assess the relevance of these aspects for the auditors. They were asked to assess the extent to which the items listed in Table 17 constituted a disadvantage arising from or associated with categorising an entity as a PIE.

The analysis of the answers collected in this respect shows that the aspect that most concerns the profession is that it hinders the participation of smaller firms in the audit of PIEs, with 77.5% of respondents rating this aspect as fairly or very relevant (values 4 and 5 on the Likert scale) and with an average value of 4.25 with a low standard deviation. Also 75% of the sample is quite or very concerned about the high concentration of the audit market that this may generate (average 4.2) or the increased supervision over the audit firm (67.5% rate it as 4 or 5, and average of 4).

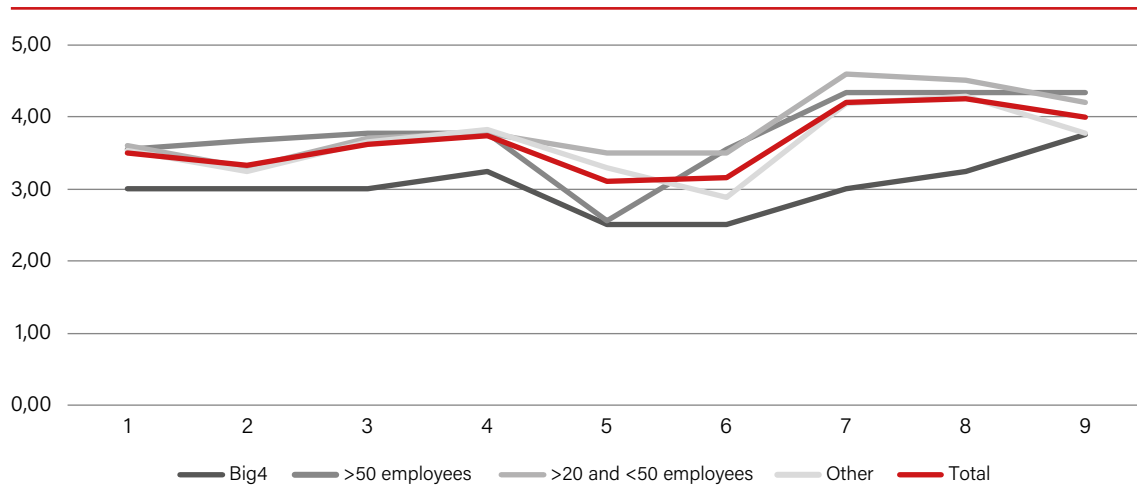
/// **TABLE 17** Relevance of the disadvantages associated with the consideration of an entity as a PIEs for auditors

	Average	Standard deviation
1. It increases the cost for audit services	3.5	1.038
2. It increases the corporate structure (Audit Committee,...) and overhead costs	3.33	0.917
3. It increases the audit complexity	3.63	1.005
4. It increases report preparation and information requirements	3.74	0.85
5. It adds complexity to the relationship between the external auditor and the Board of Directors	3.1	1.15
6. It adds complexity to the relationship between the management of the institution and the supervisory body	3.15	1.099
7. It increases the concentration of the audit market	4.2	1.043
8. It complicates the participation in PIES for smaller audit firms	4.25	0.981
9. It increases the oversight over the audit firm	4	1.062

However, we believe that these aspects may be conditioned by the profile of the respondent, in which small firms have a high presence (Graph 6). We contrast it below by segmenting the responses according to profile.

32 These differences are only statistically significant in the case of items 9 and 10.

/// **GRAPH 12** Relevance of the disadvantages associated with the consideration of PIEs according to the profile of the surveyed auditor



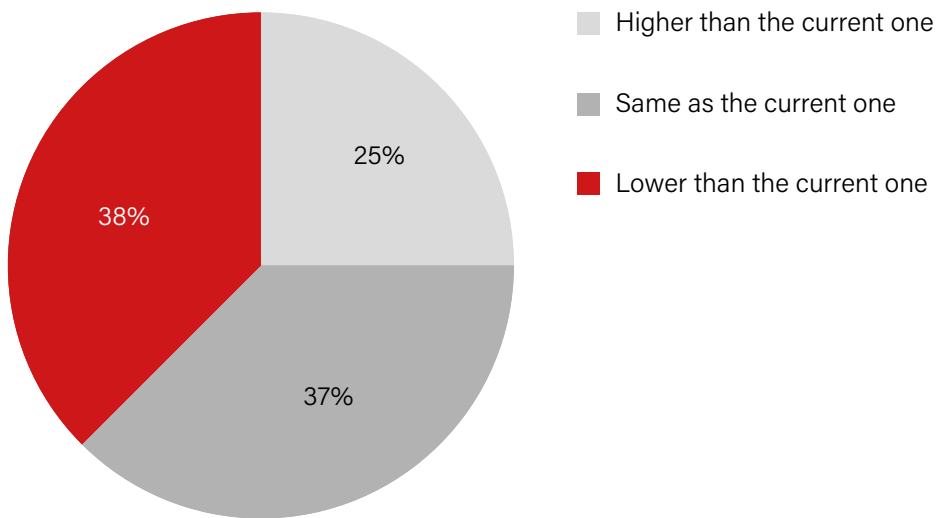
When we analyse the responses differentiated according to respondent profile (Graph 12) we find that Big4 auditors are indeed less concerned about the disadvantages³³ due to their predominant position in the audit market. Among the other segments there are no notable differences. They share particularly their concern about the increased concentration of the market (item 7), the difficulty for smaller firms to participate in auditing PIEs (item 8) and the increased supervision of the audit firm (item 9). This last aspect, supervision, is considered as a relevant disadvantage by all segments of auditors in the market. This contrasts with the results obtained by García-Hernández et al. (2023), who observe that the internal and external safeguards introduced in the regulation, including the control of supervisory bodies, improve the perception of auditors' independence.

In the last question, auditors were asked their opinion about the extent that the concept of PIEs should have in Spain, showing their preference for it to be extended (greater than the current extent), maintained in its current state (the same as the current extent) or reduced (less than the current extent). The results obtained do not show unanimous opinions among auditors, given that they are equally divided between maintaining its current extent and reducing it (Graph 13). However, a minority (25%) are in favour of extending the concept with respect to its status under current regulations.

/// **TABLE 18** Extent that the PIE concept should have in Spain. Auditors' perspective

	Total	Depending on the profile of the respondent			
		Big4	>50 employees	>20 and <50 employees	Other
Higher than the current one	25.0%	25.0%	33.3%	30.0%	17.6%
Same as the current one	37.5%	50.0%	11.1%	30.0%	52.9%
Lower than the current one	37.5%	25.0%	55.6%	40.0%	29.4%

33 However, these differences are only shown to be statistically significant for item 7, market concentration.

/// **GRAPH 13** Extent that the PIE concept should have in Spain according to the auditors perspective

When we segmented their responses according to respondent profile (Table 18), the groups most in favour of maintaining the current status are the Big4 and other auditors. Those belonging to firms with more than 50 employees are mostly in favour of reducing the extent of PIEs in Spain.

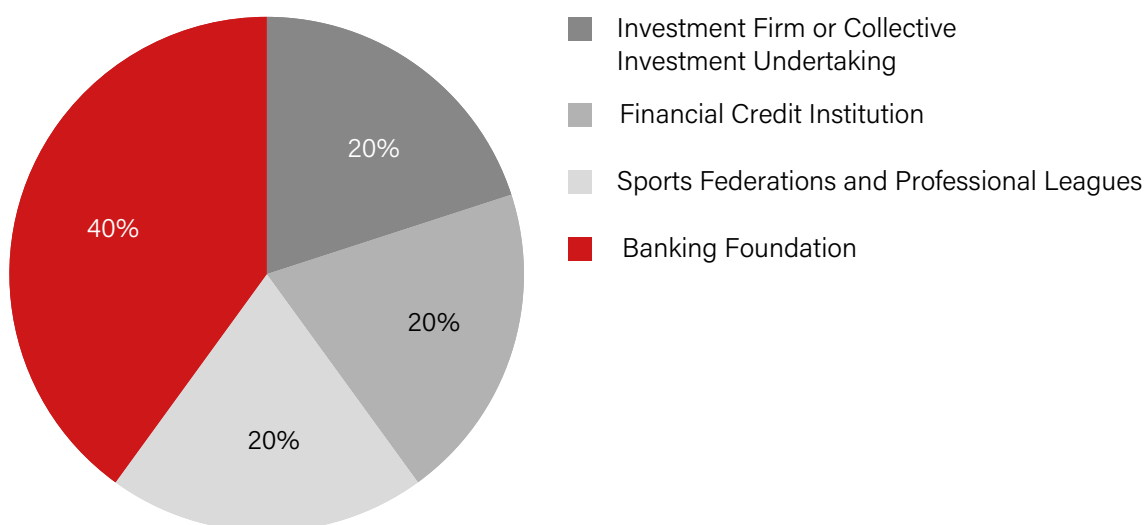
6.3 Results of the survey to audit committees

As mentioned above, to understand the advantages and disadvantages deriving from the extended concept in practice, we believe that it is of interest to know the opinion not only of auditors, but also of the entities classified as “national PIEs” in Spain.

In this case, the survey was intended to be filled out by the chairmen of the audit committees of the institutions included in the extended concept. It, as has been shown, covers a wide and diverse catalogue, including pension funds, collective investment undertakings, electronic money institutions, large unlisted companies, sports federations, banking foundations, ...

Given the heterogeneous nature of this group, the distribution of the questionnaire was certainly complex as it was necessary to locate the professionals linked to the audit committees of these institutions, which was mainly carried out by means of a manual search for information through the institutions’ own websites and personal contacts. Approximately 150 e-mails were sent, but only 5 replies to the questionnaires sent could be collected, which is a limitation of the results presented below, given that they cannot be extrapolated to the population.

The questionnaire sent to the audit committees of the PIEs included in the extended concept first included a question seeking to identify the category of PIE to which the respondent belonged. In this respect, the following groups are represented in the responses collected: Investment companies or collective investment undertakings (1), Financial Credit Institution (1), Sports Federations and Professional Leagues (1), and Banking Foundations (2), which translates into the percentages shown in Graph 14.

/// **GRAPH 14** Profile of the respondent of the audit committees

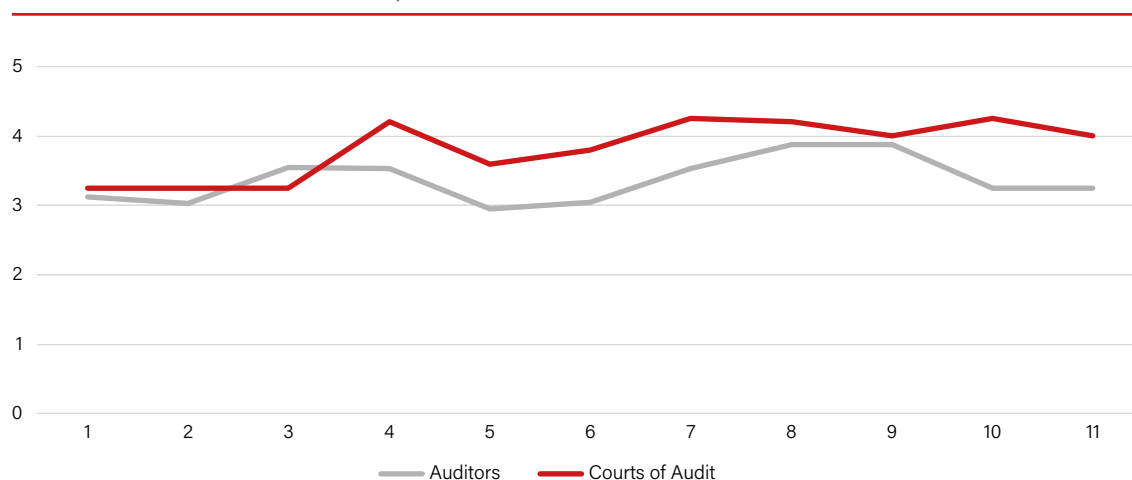
They were then asked the following question: Do you consider that including your entity as Public Interest Entity is appropriate from an audit perspective? The answer was unanimous in all cases. All of them considered it appropriate to be classified as such and, therefore, they implicitly recognised the significant public importance of their entity.

The third question focused on the degree of compliance with the objectives pursued by including the entity in the PIE concept to verify whether the entities themselves perceived that it favoured compliance with these objectives and to contrast their opinions with those previously expressed by the auditors (Table 15).

/// **TABLE 19** Extent to which it favours the achievement of the objectives pursued for the extended concept of PIEs. Perspective of the audit committees

	Average	Standard deviation
1. It guarantees a greater independence in the external audit of the Annual Accounts	3.25	0.957
2. It improves the quality of the external audit in the company	3.25	0.957
3. It improves the external auditor's communication with the Board of Directors	3.25	0.957
4. It reinforces the importance of internal audit	4.20	1.304
5. It ensures the identification of risks and strategies to reduce them	3.60	1.140
6. It reduces the risks of irregularities and fraudulent activities within the company	3.80	1.095
7. It increases the effectiveness of the management body's oversight work	4.25	0.500
8. It ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance	4.20	0.447
9. It reinforces the work of the Supervisory Bodies	4.00	1.414
10. It improves the effectiveness of irregularities reporting channels	4.25	0.500
11. It ensures a greater reliability in the financial information provided	4.00	0.816

/// **GRAPH 15** Assessment of the extent to which it favours the achievement of the objectives pursued for the extended concept of PIEs. Auditors vs. audit committees



Although the low response rate obtained in the case of audit committees does not allow us to obtain robust results, we can establish an incipient comparison between the opinions expressed by the two groups surveyed: auditors and audit committees, which are summarised in Graph 15. In general terms, the representatives of the national PIEs are more optimistic about the improvements and compliance of the objectives of being classified as PIE, despite the fact that the average values summarised in Table 19 show that they are conditioned or reduced by the effect of the indecision or insecurity in their compliance expressed by the representatives of the Banking Foundations (they value their compliance very low or do not answer the question). We can say that both surveyed groups coincide in judging an average compliance with objectives 1, 2 and 3 and a higher compliance with objective 9.

The next question posed to the audit committee representatives was like the question posed to the auditors in relation to the implications of the restrictions and obligations imposed on the audit of PIEs to assess whether these restrictions were seen by the entity as advantages or disadvantages in practice. The responses collected are summarised in Table 20. Here, some respondents were undecided (NR/DK).

/// **TABLE 20** Implications of the requirements imposed on PIEs in Spain. Advantages and disadvantages according to the audit committee

Requirements imposed in PIEs in Spain	Advantage	Disadvantage
1. The creation of an Audit Committee within the company	100%	
2. Additional requirements on the content of the audit report	100%	
3. The Additional Report to the Audit Committee	100%	
4. The limited time period of the audit engagement	100%	
5. The rotation of the signing auditor	100%	
6. The additional requirements on the designation of external auditors	80%	20%
7. The audit firm's transparency report	100%	
8. The report to the supervisory authority of the PIE (possible irregularities)	60%	20%
9. The internal organisation and work requirements of the audit firm	100%	
10. The restrictions on the fee structure and on the provision of outside services	80%	

Again, when comparing the opinions expressed by the auditors and by the audit committees (Graph 16), the latter are more optimistic than the auditors, as they are more unanimous in their positive assessment of most of the implications mentioned.

/// **GRAPH 16** Favourable view (advantages) of the requirements imposed on PIEs. Auditors vs. audit committees

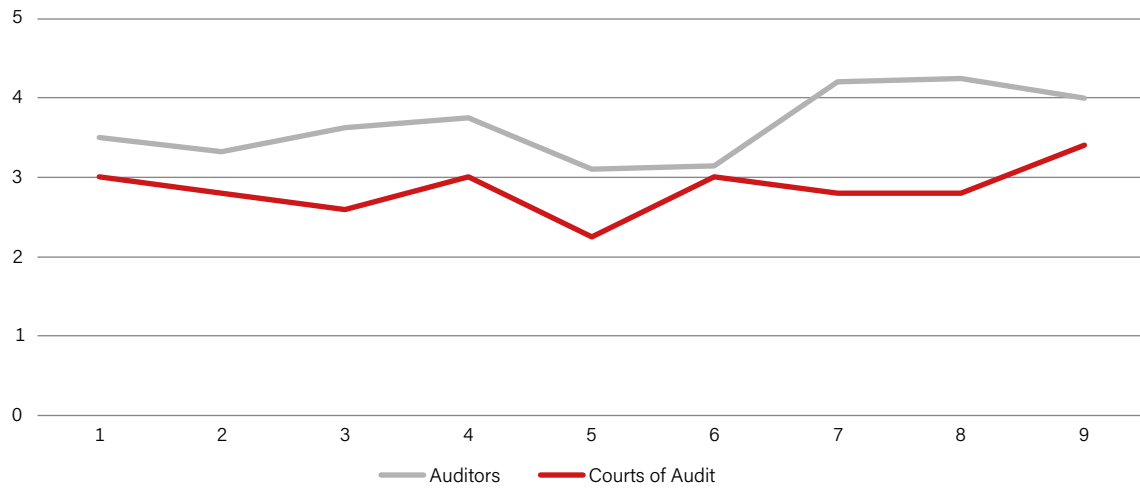


Finally, representatives of national PIEs were also asked about the relevance of possible disadvantages arising from the restrictions and obligations imposed on the audit of PIEs, along the same lines as the auditors. The responses collected are summarised in Table 21

/// **TABLE 21** Relevance of the disadvantages associated with the consideration of an entity as a PIEs according to the audit committees

	Average	Standard deviation
1. It increases the cost for audit services	3.00	1.581
2. It increases the corporate structure (Audit Committee,...) and overhead costs	2.80	0.837
3. It increases the audit complexity	2.60	0.548
4. It increases report preparation and information requirements	3.00	1.000
5. It adds complexity to the relationship between the external auditor and the Board of Directors	2.25	0.500
6. It adds complexity to the relationship between the management of the institution and the supervisory body	3.00	0.707
7. It increases the concentration of the audit market	2.80	0.837
8. It complicates the participation in PIES for smaller audit firms	2.80	1.304
9. It increases the oversight over the audit firm	3.40	1.140

/// **GRAPH 17** Relevance of disadvantages associated with the consideration of PIEs. Auditors vs. audit committees



Like the comparison made for the previous questions, auditors vs audit committees, we can see in Graph 17 that the assessment expressed by the representatives of the PIEs regarding the possible disadvantages associated with the classification of their entity as a PIE is lower than that of the auditors, since all the items are rated lower. It is equivalent to giving these potential disadvantages less importance.

Conclusions

The concept of Public Interest Entity emphasises the relevance of its audit to the general interest, mainly due to the diversity and breadth of its stakeholders, as well as its effects and importance in the economy and the potential economic and social impact that could result from possible financial difficulties of these entities. As a result, the regulations governing the audit of these entities establish certain restrictions and requirements aimed at reinforcing the independence of auditors and improving stakeholder confidence in the entity's financial statements. In short, the aim is to ensure the quality of the financial information so that it can be used reliably to assess the entity's financial condition, trying to avoid accounting irregularities or unethical practices.

The pronouncements of international organisations, such as the IESBA, have attempted to delimit which entities should be included in this concept, basically on the basis of their characteristics, but on the understanding that the concept may vary from one economy to another. Thus, in most cases, it has been decided to define a minimum list of entities to be included and to leave the option for national regulations to contemplate additional categories, depending on local characteristics.

European legislation has opted for this approach, defining three categories of entities that must be included in all Member States and leaving flexibility for Member States to decide which other categories are considered to be in the public interest based on their characteristics, users involved or relevance in the economy, to give some examples. Specifically, Directive 2006/43/EC, as amended by the Audit Directive 2014/56/EU, establishes three mandatory categories for all countries: entities whose securities are admitted to trading on a regulated market in any member state, credit institutions and insurance undertakings, leaving the option for member states to extend the list. In this way, each Member State has defined in its own regulation whether to extend the concept of PIE.

The analysis carried out in the framework of this work reveals the heterogeneity that exists within the EU in terms of the categories of entities included in the concept of PIE. Specifically, the paper has analysed the main 15 countries of the EU in terms of GDP. The results show that in 6 of the 15 compared countries, the extent of the definition of PIEs has not been enlarged beyond the basic typology contemplated by European legislation. In particular, Germany, Denmark, Finland and Ireland have not included in their local legislation the possibility of designating other PIEs in addition to the three basic categories, while Austria provides for this possibility, although it has not developed it at the level of national federal law. Italy has chosen to create a new intermediate category called "*Intermediate Regime Entities* (ESRIs)", previously considered as PIEs, to which only some of the requirements of European law apply.

In the 9 countries where the concept has been extended, the categories of entities to be included vary, with the following groups of entities standing out:

- Pension funds (included in 8 of the 9 countries), in some cases conditional on size criteria (Spain and the Netherlands).
- Undertakings for collective investment in transferable securities and investment undertakings (5 out of 9 countries), conditional on size criteria in three countries (Spain, France and Poland).
- Payment and e-money institutions (3 out of 9 countries).
- Clearing or settlement institutions (2 out of 9).

On the other hand, some countries have included entities in sectors considered strategic, such as electricity grid operators, real estate companies with more than 5,000 rental units and scientific research institutions in the Netherlands, or sports federations and professional leagues in Spain. It should also be noted that banking foundations are only considered as PIEs in Spain, possibly because they are not very well developed in the EU.

Another option used exclusively in Spain is the size of the institutions. The concept of PIE includes in it those institutions that have a net turnover and average workforce for two consecutive financial years of more than 2,000 million euros and 4,000 employees.

The comparative analysis of the regulations shows that Spain is one of the countries that has made the greatest use of the flexibility allowed by European regulations, including various additional categories in the concept of PIEs. As a result, the number of national PIEs in Spain is much higher than in other countries.

The study compared the number of PIEs in the 15 analysed countries, differentiating between the categories of European and national regulations and showing that the number of PIEs is not related to GDP: Germany, which has not made use of the enlarged extent, has a low number of PIEs relative to GDP, while the ratio is much higher in Romania and Portugal, which are among the countries with the lowest GDP. If we focus exclusively on the PIEs added in national regulations, we can observe that the high number of national PIEs relative to GDP stands out in Romania, followed by Spain. Specifically, in Romania, the number of national PIEs is almost the double of the number of entities with respect to the minimum required by the regulations. In Spain, national PIEs represent 51% of the total, so half of the PIEs correspond to entities included in the extended concept, far from 6% in France and 0% in Germany and Italy. In any case, it should be noted that the total number of PIEs has decreased in most countries compared to those shown in the work of Accountancy Europe (2019), except in Romania, where a very significant increase is observed, the Netherlands and Sweden. According to the report of the European Commission (2021), this decreasing trend was particularly relevant in previous years, mainly as a consequence of changes in local regulations that reduced national requirements.

The main reason for defining these entities in the audit regulatory framework is precisely to establish some restrictions on the legal audit in order to meet stakeholders' expectations about auditor independence and to enhance stakeholder confidence in the entity's financial statements. In short, the aim is to ensure the quality of the financial information made available to stakeholders.

The European heterogeneity in the definition of entities included in the concept of PIEs is also reproduced in the requirements applicable to these entities in those cases in which the Directive allows for exemptions in the application of specific regulations by the Member States. Specifically, the analysis of the regulations of the 15 countries included in the study reveals differences in the obligation to provide information relating to the corporate governance statement by listed companies that have only issued other than securities admitted to trading on a regulated market.

Another area of diversity concerns the obligation to have an audit committee, as European regulation allows the administration or the supervisory board to perform the function of an audit committee in certain PIEs. Most countries decided to allow PIEs to choose the form of their audit committee, although Ireland, Poland and the Czech Republic opted to make the existence of an independent committee mandatory for all PIEs. In Spain, this option is contemplated for entities that have a body or board with equivalent functions to those of the audit committee, that has been constituted and that functions in accordance with the applicable regulations, and for savings banks where the functions of the audit committee may be assumed by the control committee. In addition, some countries allow certain institutions to be exempted from setting up an audit committee, always within the options provided for in European legislation.

The extended content of the audit report is another requirement in the European regulation for PIEs, but there is diversity within the EU, with Member States being allowed to set additional requirements at local level. Furthermore, the additional report for the audit committee, with a minimum content in the European regulation, has been extended in Denmark and Ireland. There is also no unanimity as to the addressees of it, since in some countries it is also required to be submitted to the administrative or supervisory body of the PIE.

One of the most relevant audit requirements for PIEs is the mandatory rotation of audit firms and statutory auditors. The EU Regulation sets a general criterion of a minimum duration of one year and a maximum of ten years for the audit engagement, but it allows some exceptions. As a result, in some countries the minimum duration has been extended and in others the maximum term has been reduced to 9 years. In addition, it allows the maximum duration to be extended to 20 years if, at the end of the first maximum period, a public call for tenders is issued, or to 24 years if a joint audit is

carried out, an option provided for by some national regulations, such as Austria, Belgium, Denmark, Germany and, from 1 January 2023, Spain.

As regards the rotation of the auditors responsible for carrying out the statutory audit of PIEs, a general term of 7 years is established, but with the possibility of reducing it. Spain, Ireland, the Netherlands and Poland have established the mandatory termination of the responsible auditor within 5 years.

Finally, it is worth noting the limitations on audit fees and on the provision of additional non-audit services to PIEs, with some options open to Member States when implementing them. As a general criterion, it is required that the amount of total fees of a PIE in relation to the total fees of the auditor, in each of the last three consecutive financial years, must be less than 15% in order to avoid financial dependence on a single client and thus ensure the auditor's independence. However, there is an option for the audit committee to allow the 15% limit to be exceeded for a maximum period of 2 years, which is used in 9 of the 15 EU countries analysed (Condor et al., 2022). Fees for the provision of non-audit services may not exceed 70% of the average fees paid in the last three consecutive financial years for the audit of the audited entity, although Member States may allow this 70% limit to be exceeded for a period not higher than two financial years, so there is no unanimity in the countries analysed.

The above restrictions and limitations imposed on the audit and auditors of PIEs have a clear objective of ensuring auditor independence and increasing audit quality, with the ultimate aim of protecting the user of financial information, cornerstones of the audit reform carried out in the EU with the 2014 Directive. However, it seems that differences between Member States, not always justified in an EU single market context, could raise doubts about the objective of harmonisation between Member States.

If we just analyse the situation in Spain, as already indicated, the category of entities included by national legislation within the concept is very broad, so that almost half of the PIEs correspond to this extended concept compared to the 19% that in average terms had been indicated by the European Commission (2021) for the EU (with respect to the total number of PIEs). This enlarged extent has various implications derived fundamentally from the restrictions and requirements established in European regulations already analysed. In any case, it should be noted that the audit committee, one of the aspects considered to be advantageous in PIEs (European Commission, 2022), is not mandatory for all entities included in the concept, which leaves some flexibility that allows another body to perform the functions carried out by it.

One of the implicit implications of the PIE concept is that it increases audit complexity and audit costs. Limitations on fees and a prohibition on the provision of non-audit services could be positive drivers to ensure independence and to increase audit quality in these cases, although the literature does not provide unanimous results that can be considered conclusive in this respect (Van Liempd et al., 2019; European Commission, 2022).

In addition, restrictions on internal organisation, transparency report, and restrictions on fee structure and on the provision of non-audit services may limit the ability of small and medium-sized auditors to participate in the audit of PIEs, as this requires a certain internal complexity that will not always be available in these entities. In fact, one of the effects observed in previous works (European Commission, 2021, 2022) is the concentration of the PIEs audit market in larger audit firms, also observed in the case of Spain by the ICAC (2022).

On the other hand, an important effect is that the restrictions established serve as a precaution to avoid irregularities and fraud, and that when such irregularities are committed, the channels of communication with supervisory bodies are improved and the detection and control of irregularities is strengthened. In this respect, it should be noted that the ICAC, as the authority in charge of supervising auditors and audit firms carrying out statutory audits of PIEs, is undoubtedly one of the entities with the greatest involvement arising from the enlarged extent of the concept, as it has to undertake the supervision of a very large number of entities, with the consequent investigative work, which requires adequate human and financial resources.

In order to compare the main advantages and disadvantages of the extended concept of PIE in Spain, auditors and members of audit committees were surveyed to assess the impact of considering an

entity as a PIE, both for auditors and for the entities themselves, in an attempt to ascertain the opinion of the professionals who implicitly have a better understanding of the audit practice of these entities.

The results of the questionnaire to auditors show, firstly, that there is a high degree of consensus among professionals on the appropriateness of the extended concept of PIEs adopted by Spanish regulations, given that most of them consider the inclusion of the categories adopted in the national regulations to be appropriate, with the exception of sports federations and professional leagues, where the percentage of auditors in favour of including this category decreases. There is a high degree of agreement on the inclusion of the category of large unlisted entities, as 92.5 of the auditors consider it appropriate to include them in the PIE concept.

For auditors, the inclusion of these entities can be justified due to the interest of investor protection, seeking to ensure auditor independence and audit quality. It is in the Big4 auditors' segment that the percentage of agreement with the categories decreases, except in banking foundations, where 100% agree, although it should be noted that only 4 auditors belong to this group.

In terms of the beneficial effects of considering an entity as a PIE for compliance with the objectives in these entities, the auditors particularly value the following: it ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance; it reinforces the work of the Supervisory Bodies and it reinforces the importance of internal audit; it improves the external auditor's communication with the Board of Directors, and it increases the effectiveness of the management body's oversight work. The larger companies (Big4 and companies with more than 50 auditors) are most optimistic in this respect, and they value most the impetus of the restrictions imposed to meet these objectives.

Among the restrictions and limitations imposed, those with the greatest beneficial effect, in the auditors' view, are the following: the establishment of an audit committee, the additional report to the audit committee, the report to the supervisory authority of the PIE in case of possible irregularities, and the additional requirements on the content of the audit report. The assessment decreases for the rotation of the signing auditor, the additional requirements for the designation of external auditors or the limited time period of the audit engagement. Finally, more than 40% of respondents consider the internal organisation and work requirements of the audit firm, as well as restrictions on the fee structure and on the provision of non-audit services to be disadvantages. In this respect, it should be noted that there are some significant differences depending on the size of the company to which the auditor belongs, as Big4 auditors do not consider them to be disadvantages.

In relation to the auditors' assessment of the possible disadvantages identified throughout the study, it should be noted that the main is that it makes it difficult for smaller firms to participate in the audit of PIEs, followed by the effect of high concentration in the audit market. Auditors belonging to the Big4 do not consider these disadvantages too relevant, and the rest of the groups has a similar opinion. One of the disadvantages on which there is considerable consensus is that it increases the supervision of the audit firm, an aspect that could also be seen as a tool to reinforce the auditor's independence (García-Hernández et al., 2023).

As a summary of the auditors' opinion, it should be noted that there is a varied opinion regarding their degree of consensus with the current situation in the definition of the PIE concept: 37.5% are in favour of maintaining the current situation (mainly Big4 auditors), while the same percentage consider it more appropriate to reduce it (mainly those belonging to firms with more than 50 employees and that are not Big4 or the group between 20 and 50 employees) and 25% are in favour of extending the concept.

In the survey of audit committees, we had a low number of responses, so the results cannot be considered generalisable to the whole group. In any case, it is worth noting that all 5 respondents agree that their respective entities should be considered PIEs. They are more optimistic than auditors regarding the advantages of being part of this category for the compliance of the audit objectives, particularly valuing the effects of increasing the effectiveness of the supervisory work of the management body and of the channels for reporting irregularities. It also ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance.

This same more optimistic view is reproduced when assessing the implications of the restrictions imposed on auditors and auditing in these entities with respect to the opinions expressed by the auditors' collective, as they value as advantageous most of the implications mentioned and more unanimously: the creation of an audit committee, the additional report for the audit committee, the limited duration of the audit engagement, or the rotation of the signing auditor.

Finally, the assessment of the possible disadvantages of being a PIE is also lower for audit committee members than for auditors. They do not consider relevant the disadvantages related to the difficulty for smaller audit firms to participate in the audit of PIEs or the higher concentration of the audit market. They do not see the increased costs for audit services as a major disadvantage and they consider as possible drawbacks those of increased audit firm oversight, although still at low values.

To conclude, the study finds that Spain is among the Member States that have made the greatest use of the extended PIE concept within the countries of the EU with the greatest economic relevance, which leads it to have a high number of national PIEs, compared to other countries where this option of extending the concept has not been used. The limitations and restrictions imposed, both on the auditor and the audit activity and on the entities themselves, entail various implications, sometimes advantages, such as ensuring greater regulatory compliance, greater independence of auditors or increasing the effectiveness of the supervisory bodies' controls, and sometimes disadvantages, among which may be mentioned the increase in audit costs, the difficulty for small entities to participate, or the concentration of the audit market. In practice, both auditors and members of audit committees show a broad consensus with the option adopted by national regulations for the different types of entities, except for sports federations and professional leagues, but they do not significantly value any of the mentioned disadvantages although they are not overly convinced of the potential advantages of being part of this category.

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DENMARK

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Danish Law on Financial Statements. (*Bekendtgørelse af årsregnskabsloven*).

SPAIN

Law 22/2015, of 20 July, on the Audit of Accounts.

Royal Legislative Decree 2/2021, of 12 January, approving the Regulations implementing Law 22/2015, of 20 July, on Audit of Accounts.

Royal Legislative Decree 1/2010, of 2 July, approving the recast text of Law on Audit of Accounts.

FINLAND

Auditing Act (1141/2015)

Accounting Act (1336/1997).

Accounting Decree (1339/1997).

FRANCE

Commercial Code. (*Code de commerce*).

Code of professional ethics of the auditor (*Code de déontologie de la profession de commissaire aux comptes*).

ANC Regulation No. 2014-03 relating to the general chart of accounts - consolidated version as at 1 January 2019. (*Reglement ANC N° 2014 03 relatif au Plan Comptable General – Version consolidee au 1er Janvier 2019*).

IRELAND

Companies Act 2014 revised. Updated to 15 December 2021

ITALY

Civil Code. October 2021 edition. (*Codice Civile. Edizione ottobre 2021*).

Legislative Decree of 27 January 2010, no. 39 -Consolidated text to Legislative Decree of 17 July 2016 No. 135. (*Decreto legislativo 27 gennaio 2010, n. 39 – Testo consolidato con il decreto legislativo 17 luglio 2016, n. 135*).

NETHERLANDS

Law of 19 January 2006 on the supervision of audit firms (*Wet van 19 januari 2006, houdende het toezicht op accountantsorganisaties*).

Decree of 16 August 2006, containing rules concerning the implementation of the Audit Firm Supervision Law. (*Besluit van 16 augustus 2006, houdende regels ter zake van de uitvoering van de Wet toezicht accountantsorganisaties*).

Civil Code. (*Burgerlijk Wetboek*).

Regulation on the independence of accountants in assurance work. (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*).

POLAND

Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

Act of 29 September 1994 on Accounting (*Ustawa z dnia 29 września 1994 r. o rachunkowości*).

PORTUGAL

Law No. 148/2015 of 9 September. Legal Regime on audit supervision. (*Lei n.º 148/2015, de 09 de Setembro. Regime Jurídico de Supervisão de Auditoria*).

Law No. 140/2015 of 7 September. Statute of the Order of Statutory Auditors. (*Lei n.º 140/2015, de 07 de Setembro. Estatuto da Ordem dos Revisores Oficiais de Contas*).

Code of Commercial Companies. Decree-Law No. 262/86 of 2 September 1986. (*Código das Sociedades Comerciais. Decreto-Lei n.º 262/86, de 2 de setembro*).

CZECH REPUBLIC

Act No. 93/2009. Act on auditors and amendment of certain laws (*Zákon č. 93/2009 Sb. Zákon o auditorech a o změně některých zákonů*).

Act No. 563/1991 Accounting Act (*Zákon č. 563/1991 Sb. Zákon o účetnictví*).

Decree No. 500/2002. Decree implementing certain provisions of Act No. 563/1991. Compilation concerning accounting, as amended, for accounting entities which are entrepreneurs accounting in the double-entry accounting system. (*Vyhláška č. 500/2002 Sb. Vyhláška, kterou se provádějí některá ustanovení zákona č. 563/1991 Sb., o účetnictví, ve znění pozdějších předpisů, pro účetní jednotky, které jsou podnikateli účtujícími v soustavě podvojného účetnictví*).

ROMANIA

Law no. 162/2017 on the statutory audit of annual financial statements and consolidated annual financial statements and regulatory amendments (*Legea nr. 162/2017 privind auditul statutar al situațiilor financiare anuale și al situațiilor financiare anuale consolidate și de modificare a unor acte normative*).

Accounting standards of 29 December 2014 (updated) (*Reglementările Contabile din 29 decembrie 2014 (*actualizate*)*).

SWEDEN

Auditors Act SFS 2001:883. (*Revisorslag SFS 2001:883*).

Annual Accounts Act (1995:1554). (*Årsredovisningslag (1995:1554)*).

RELEVANT STUDY:

<https://www.ceps.eu/download/publication/?id=38935&pdf=study-on-the-audit-directive-directive-200643ec-as-EV0120603ENN.pdf>

Annex I. Questionnaire sent to auditors practising in Spain

Do you consider that including these entities as Public Interest Entities is an advantage or a disadvantage from an audit perspective?

	Advantage	Disadvantage
1 Investment firms and collective investment undertakings (minimum 5,000 clients/unitholders or shareholders)	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
2 Pension Funds (minimum 10,000 members) and their management companies	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
3 Banking Foundations	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
4 Credit Financial Institutions	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
5 Payment Institutions and E-money Institutions	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
6 Sports Federations and Professional Leagues	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		
7 Entities with an average net turnover and an average workforce of more than 2,000 million euros and 4,000 employees.	<input type="radio"/>	<input type="radio"/>
Basis for your opinion:		

Including an entity as a PIE favour achieving the following objectives (1-not at all, 5-a lot)

	1	2	3	4	5
1 It guarantees a greater independence in the external audit of the Annual Accounts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 It improves the quality of the external audit in the company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 It improves the external auditor's communication with the Board of Directors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 It reinforces the importance of internal audit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 It ensures the identification of risks and strategies to reduce them.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 It reduces the risks of irregularities and fraudulent activities within the company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 It increases the effectiveness of the management body's oversight work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Including an entity as a PIE favour achieving the following objectives (1-not at all, 5-a lot)

8	It ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	It reinforces the work of the Supervisory Bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10	It improves the effectiveness of irregularities reporting channels	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11	It ensures a greater reliability in the financial information provided.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

For the following requirements and obligations imposed on PIEs in Spain, indicate to what extent they constitute an advantage or a disadvantage

		Advantage	Disadvantage
1	The creation of an Audit Committee within the company.	<input type="radio"/>	<input type="radio"/>
2	Additional requirements on the content of the audit report.	<input type="radio"/>	<input type="radio"/>
3	The Additional Report to the Audit Committee.	<input type="radio"/>	<input type="radio"/>
4	The limited time period of the audit engagement.	<input type="radio"/>	<input type="radio"/>
5	The rotation of the signing auditor.	<input type="radio"/>	<input type="radio"/>
6	The additional requirements on the designation of external auditors.	<input type="radio"/>	<input type="radio"/>
7	The audit firm's transparency report.	<input type="radio"/>	<input type="radio"/>
8	The report to the supervisory authority of the EIP (possible irregularities).	<input type="radio"/>	<input type="radio"/>
9	The internal organisation and work requirements of the audit firm.	<input type="radio"/>	<input type="radio"/>
10	The restrictions on the fee structure and on the provision of outside services.	<input type="radio"/>	<input type="radio"/>

Please rate the extent to which the following aspects constitute a disadvantage associated with the consideration of an entity as a PIE (1-Not at all, 5-A lot)

		1	2	3	4	5
1	It increases the cost for audit services.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	It increases the corporate structure (Audit Committee,...) and overhead costs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	It increases the audit complexity.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	It increases report preparation and information requirements.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	It adds complexity to the relationship between the external auditor and the Board of Directors.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	It adds complexity to the relationship between the management of the institution and the supervisory body.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	It increases the concentration of the audit market.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	It complicates the participation in PIEs for smaller audit firms.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	It increases the oversight over the audit firm.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Based on your perception and/or knowledge, and without resorting to other sources of information, you consider that the extent of PIEs in Spain should be...

Higher than the current one

Same as the current one

Lower than the current one

Respondent profile (mark the option that describe your situation):

- Big4 Auditor

- Auditor in a company with more than 50 employees (without considering possible network)

- Auditor in a company with 20 to 50 employees (without considering possible network)

- Other situations

YES NO

- Your firm is part of a network of audit firms.

- You are a partner in the auditing firm.

- You have been responsible for the audit of a PIE.

Annex II. Questionnaire sent to the audit committees of the PIEs belonging to the enlarged concept (“other national PIEs”)

1. Respondent profile (mark the option that describe your situation):

You are part of the Audit Committee of:

- Investment Firm or Collective Investment Undertaking.*
- Pension Funds
- Banking Foundation*
- Credit Financial Institutions.
- Payment Institutions and E-money Institutions.
- Sports Federations and Professional Leagues.
- Entities with an average net turnover and an average workforce of more than 2,000 million euros and 4,000 employees.

2. Do you consider that including your entity as Public Interest Entity is appropriate from an audit perspective?

- | | |
|-----------------------|-----------------------|
| Appropriate | Not appropriate |
| <input type="radio"/> | <input type="radio"/> |

3. If you wish, you can provide us with the basis for your opinion as stated in the previous question:

4. Including an entity as a PIE favour achieving the following objectives (1-not at all, 5-a lot)

	1	2	3	4	5
1 It guarantees a greater independence in the external audit of the Annual Accounts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 It improves the quality of the external audit in the company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 It improves the external auditor’s communication with the Board of Directors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 It reinforces the importance of internal audit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 It ensures the identification of risks and strategies to reduce them.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 It reduces the risks of irregularities and fraudulent activities within the company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 It increases the effectiveness of the management body’s oversight work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8 It ensures a greater regulatory and operational compliance in relation to disclosure, policies, procedures and good corporate governance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

4. Including an entity as a PIE favour achieving the following objectives (1-not at all, 5-a lot)

9	It reinforces the work of the Supervisory Bodies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10	It improves the effectiveness of irregularities reporting channels	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11	It ensures a greater reliability in the financial information provided.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

5. For the following requirements and obligations imposed on PIEs in Spain, indicate to what extent they constitute an advantage or a disadvantage

		Advantage	Disadvantage
1	The creation of an Audit Committee within the company	<input type="radio"/>	<input type="radio"/>
2	Additional requirements on the content of the audit report	<input type="radio"/>	<input type="radio"/>
3	The Additional Report to the Audit Committee	<input type="radio"/>	<input type="radio"/>
4	The limited time period of the audit engagement.	<input type="radio"/>	<input type="radio"/>
5	The rotation of the signing auditor	<input type="radio"/>	<input type="radio"/>
6	The additional requirements on the designation of external auditors	<input type="radio"/>	<input type="radio"/>
7	The audit firm's transparency report	<input type="radio"/>	<input type="radio"/>
8	The report to the supervisory authority of the EIP (possible irregularities)	<input type="radio"/>	<input type="radio"/>
9	The internal organisation and work requirements of the audit firm	<input type="radio"/>	<input type="radio"/>
10	The restrictions on the fee structure and on the provision of outside services	<input type="radio"/>	<input type="radio"/>

6. Please rate the extent to which the following aspects constitute a disadvantage associated with the consideration of an entity as a PIE (1-Not at all, 5-A lot)

		1	2	3	4	5
1	It increases the cost for audit services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	It increases the corporate structure (Audit Committee,...) and overhead	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	It increases the audit complexity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	It increases report preparation and information requirements.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	It adds complexity to the relationship between the external auditor and the Board of Directors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	It adds complexity to the relationship between the management of the institution and the supervisory body	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	It increases the concentration of the audit market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8	It complicates the participation in PIES for smaller audit firms	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	It increases the oversight over the audit firm.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



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Auditoría de cuentas

2023

**EXTENT OF THE DEFINITION OF PIEs
IN OTHER COUNTRIES**