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Corporate Governance in Audit Firms

A comparative study at international level

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CORPORATE GOVERNANCE IN AUDIT FIRMS:
A COMPARATIVE STUDY AT INTERNATIONAL LEVEL

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Huertas, 26 - 28014 MADRID

Begoña Navallas (UAM)
Project coordinator. email: b.navallas@uam.es
Mª del Mar Camacho (UCM)
Sergio López (UCM)
Domi Romero (UAM)
Mª del Carmen Tejada (CUNEF)

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List of sections

Contents

List of tables

Executive Summary

In recent years, the independence, ethics and credibility of the auditing profession have been called into question. This report analyses the regulation of the governance of audit firms at international level, comparing regulatory frameworks in the United Kingdom, the United States, Australia, the European Union, Spain, and at the international level (IESBA). The aim of this report is to draw conclusions and recommendations applicable to the national context in order to strengthen public confidence in auditing and, consequently, in the markets.

1. Key Findings

- United Kingdom: Pioneer in the development of a governance code specifically for audit firms. Establishes the independence of external non-executive directors, transparency through dedicated reporting, and enhanced oversight of non-audit services provided by firms.
- United States: Strong regulatory response following scandals such as Enron and WorldCom. Direct oversight by public bodies (the SEC and the PCAOB), with requirements relating to independence, partner rotation and disclosure of audit quality indicators. There is no single regulatory framework regarding governance matters, and aspects such as board member profiles are not regulated.
- Australia: The case affecting PwC in 2023 highlighted serious failures in ethics and firm culture. Reforms have been proposed to separate audit and consulting functions, limit firm size, and strengthen transparency through more detailed governance requirements.
- European Union: Directives and Regulations establish minimum governance requirements (rotation, transparency reports, audit committees). However, national transposition has been uneven, and gaps in implementation remain. With some exceptions, no specific governance measures are in place.
- Spain: No specific governance code exists for audit firms. However, the regulatory framework requires measures to ensure the proper implementation of an appropriate system of quality control, as well as independence and transparency measures. For a company to be registered as an audit firm, decision-making must be in the hands of registered auditors.
- IESBA: Leading international body in the field of ethics. It is driving a global framework on culture and governance in audit firms and professional services firms, with the aim of strengthening public confidence in companies' financial information.

2. Conclusions

- There is a global trend towards stronger governance frameworks, with greater emphasis on independence, transparency and the ethical culture of audit firms.
- The challenge of aligning the public interest with the business models of large firms persists, particularly in the context of integrated services (audit and consulting).
- The response of regulatory bodies remains reactive, as most reforms have been driven by scandals affecting the profession.

- The entry of private investment into the ownership of audit firms is a controversial issue currently under discussion across different countries and international bodies, and is one of the priorities for regulators.

3. Recommendations

- Develop a specific national governance framework for audit firms, aligned with international best practices.
- Increase transparency through detailed, verifiable periodic reporting on culture, governance and quality.
- Introduce the *comply or explain* principle in the audit sector.
- Consider the inclusion of independent non-executive directors, promoting professional and gender diversity.
- Set up *whistleblowing* channels with guarantees of confidentiality.
- Strengthen the independence of audit from consulting and other services.
- Promote more effective and coordinated regulatory oversight processes at global level, aligned with IESBA proposals.
- Integrate, in a holistic manner, other risks such as sustainability and digitalisation into the governance of audit firms.
- Establish effective and dissuasive sanctions for breaches that affect public confidence.
- Promote continuous training in ethics and professional values at all levels of the firm.
- Define governance mechanisms to ensure that the entry of private equity does not affect the quality of work or the strategic decisions of audit firms.

1 Introduction

Whenever financial scandals occur worldwide, the role of auditors is affected in one way or another and, at times, the credibility of the auditing profession is seriously called into question (Sikka, 2009; Poje & Zaman Groff, 2022; Oelrich & Sielbold, 2024; Campa & Laguecir, 2025, among others). In countries such as Spain, the United States, the United Kingdom and the Netherlands, these scandals have resulted in sanctions and negative media coverage of the work of auditors. Consequently, these events have damaged the reputation of the firms involved and weakened public confidence in the profession (Whittle et al., 2016; Detzen, 2024; Ege et al., 2025, among others).

Another recent development, which is also bringing about a paradigm shift for audit firms worldwide, is the entry of private equity funds into their ownership structure. On the one hand, for potential investors, auditing is regarded as a profitable and stable sector. On the other hand, the incorporation of these funds could pose a risk, and even have a negative impact, by interfering with the quality control systems governing audit work and thereby affecting the reputation of the profession. Potential threats are being considered in two main areas, as will be discussed later: the ethics and independence of professionals.

In response to these circumstances, regulators seek to restore confidence in the work of auditors and, consequently, in the financial information issued by companies. In order to restore lost confidence, prior academic literature indicates that corporate governance measures reduce information asymmetry and agency costs arising from the separation between ownership and control, thereby enhancing investors' confidence in the financial information presented (Vander Bauwhede & Willekens, 2008; Cormier et al., 2010; Zattoni et al., 2020, among others). The aim of this paper is to analyse the different regulatory frameworks relating to the corporate governance of audit firms across jurisdictions, comparing the measures adopted in different countries with those proposed by international bodies.

The first governance code specifically for audit firms, recognised internationally, was issued in the United Kingdom in 2010 by the Financial Reporting Council (FRC). In 2022, the "*Audit Firm Governance Code*" was revised with the aim of strengthening those areas where deficiencies had been identified, providing greater clarity, promoting good governance practices, aligning with the new quality management standards, and defining the boundaries between the responsibilities of independent and non-executive directors, among other matters.

In the case of the United States, in 2002, as a result of the Sarbanes-Oxley Act (SOX), the audit regulatory framework underwent significant changes with the creation of the Public Company Accounting Oversight Board (PCAOB). Independence requirements for auditors were strengthened, particularly for entities with greater economic impact.

More recently, the Australian Parliament has begun examining a series of corporate governance and transparency measures following scandals involving professional services firms in the country. Among other measures, particular emphasis is placed on the recommendation of a corporate governance code, similar to that applicable to listed companies, and on increasing transparency regarding remuneration and the separation between audit and consulting or other engagements.

With regard to the European regulatory framework, following the adoption of the 2006 and 2014 Directives, the European Union launched new initiatives to reform the auditing profession. The Wirecard scandal in Germany in 2020 represented a turning point in audit regulation (Miller & Mintz, 2023; Möllers, 2024). In response, the European Commission reviewed the regulatory framework between 2022 and 2024, assessing measures to strengthen independence and improve the quality and oversight of audit firms. Although a specific regulatory framework for audit firm governance has not yet been established, the European Union has shown a clear intention to introduce new measures to ensure independence, quality and transparency in the sector, complemented by specific initiatives undertaken by professional bodies in certain EU countries.

In the case of Spain, although no specific governance code exists for audit firms, the legislation adopted to transpose EU Directives incorporates governance measures to ensure quality control and decision-making that safeguard auditor independence in the face of potential conflicts of interest.

In line with the above initiatives and, as a consequence of the crisis of confidence affecting the profession, the *International Ethics Standard Board for Accountants* (IESBA), the principal international standard-setter for ethics and independence, is promoting a discussion process on the appropriateness of defining a new regulatory framework in the area of governance in audit and professional services firms. In January 2025, the IESBA launched a project focused on the culture and governance of accounting and audit firms. This project aims to develop a principles-based framework that promotes ethical behaviour across all professional services provided by such firms. As part of this initiative, global roundtables were organised between March and April 2025 in various cities around the world in order to gather views from various stakeholders. Specifically, six roundtables were held—in New York, Melbourne, Brussels, Kuala Lumpur, and virtually for Africa and Latin America—with the participation of 168 representatives from different sectors (regulators, investors, academics, firm representatives, etc.). In July, the main results of these meetings were presented and will be discussed below.

The purpose of this report is to analyse and compare the different international and national regulations on the corporate governance of audit firms, highlighting the challenges and best practices in this area. To this end, a methodology based on document review and comparative analysis of regulatory frameworks in key countries and international bodies is used. The document is structured into sections focused on contextualisation, regional analysis, identification of risks and recommendations, with the aim of providing a comprehensive and up-to-date overview to inform future policy and regulatory developments.

2 The IESBA Project: *Firm Culture and Governance Working Group* (FCGWG)

The IESBA was established in 1977 as part of what was then the International Federation of Accountants (IFAC), the world's leading organisation representing professional bodies in accounting, auditing and finance. Although its structure and name have evolved, the mission of the IESBA has remained constant: to develop and issue international ethics standards for accounting and auditing professionals worldwide. Its main objective is to strengthen public confidence in the accounting profession in a broad sense by setting high-quality ethical standards that guide professional behaviour and ensure the proper functioning of global capital markets.

In particular, its core functions include issuing and updating the *International Code of Ethics for Professional Accountants*, which addresses independence requirements for audits and other assurance engagements. It also promotes integrity, objectivity, professional competence, confidentiality and ethical conduct within the profession; carries out public consultations and collaborates with regulators, academics and professional bodies; and adapts the Code of Ethics to emerging contexts such as group audits, the use of technology, sustainability and governance.

At the beginning of the millennium, financial and economic turmoil highlighted the fragility of global financial markets. The accountancy profession has been affected by significant issues relating to professional ethics[1], particularly in firms engaged in audit and consulting. Some recent cases have led to significant sanctions, substantial fines and other adverse consequences for *Professional Accountants in Public Practice, (PAPPs*) and their firms across multiple jurisdictions. These scandals have raised critical challenges for the accountancy profession and its value proposition.

Recognising the importance of these issues, the IESBA has identified firm culture and governance as a strategic priority in its Strategy and Work Plan, 2024–2027. It considers the implementation of an ethical culture and governance framework to be essential to maintaining public confidence and mitigating the risks of unethical behaviour.

2.1. Working group: Firm Culture and Governance Working Group (FCGWG)

In July 2023, the IESBA issued a public statement drawing attention to the need to require ethical behaviour from professional accountants, emphasising the critical importance of ethical conduct for all professional accountants and reminding them of their ethical obligations under the Interna-

1 Examples expressly cited in the report in relation to ethical issues include: Carillion and KPMG (2018), PwC Australia (2023), and exam cheating scandals (2019 and 2022-2024).

tional Code of Ethics[2]. In this context, in December 2023, the Firm Culture and Governance Working Group (FCGWG) was established. In this regard, the International Auditing and Assurance Standards Board (IAASB) considers that the impact extends beyond the profession, noting that[3] "Recent corporate failures, and high-profile fraud cases have eroded trust in financial reporting and shaken public confidence. In response, investors, regulators, and audit professionals called for stronger auditing standards".

The FCGWG project originated from growing concerns expressed by *Canadian Public Accountability Board* (CPAB) regarding the influence of internal culture and governance structures of audit firms on the quality of audit outcomes. It is recognised that:

- A firm's culture directly affects auditors' behaviours and professional judgements.
- Strong governance and leadership reinforce independence, professional scepticism and ethical compliance.

Accordingly, the primary objective of the FCGWG project is to understand how these factors influence audit quality and to identify best practices that can be implemented. In general terms, the CPAB considers this initiative essential to maintaining and enhancing public confidence in the profession, given past failures in organisational culture and oversight that significantly undermined the credibility of auditors.

In April 2024, the IESBA published its Strategy and Work Plan, 2024–2027, following consultations with various stakeholders (auditors, regulators, analysts, etc.). This document considers it essential to develop new strategic areas, such as *Firm culture and governance* and *extending the impact of the Code beyond professional accountants (PAs*), expressly referring to the different professional services offered by firms: audit, assurance, advisory or consultancy. Accordingly, this project aims to develop a culture and governance framework that promotes, supports and reinforces a high standard of ethical behaviour by firm leadership, partners and staff across all firm services.

In summary, the initiative arises in response to incidents of unethical behaviour in accounting firms that affect both their audit and consulting services, and seeks to strengthen public confidence in the accountancy profession.

2.2. Final Report of the FCGWG

The final report of the working group was published in January 2025 and sets out the conclusions of the meetings and outreach conducted up to that date. The working group is composed of professionals, regulators and academics from different geographical backgrounds. The main conclusion is that firm culture and governance affect firms' reputation, the quality of their services and public confidence in the accountancy profession. To achieve these objectives, in addition to a specific code of conduct and transparency practices, greater independence in governance bodies is required through the inclusion of non-executive directors, both Independent Non-Executives (INEs) and Audit Non-Executives (ANEs).

This issue is of great interest, especially after the recent questioning of private equity investment in audit firms. The role of non-executive directors in any company is to supervise, advise and oversee the actions of executive directors and management. In this regard, their role strengthens independence and the protection of the public interest, aspects of particular importance in auditing, which, in turn, contribute to improving transparency, accountability and users' confidence in financial informa-

2 It is important to clarify that both the IESBA Code of Ethics and the broader regulatory framework apply to Professional Accountants (PAs); they do not make explicit reference to auditors, as auditors are considered internationally to be included within the category of Professional Accountants or PAs.

3 *Fraud & Going Concern: Revised Standards to Enhance Public Trust* | IAASB (https://www.iaasb.org/focus-areas/fraud-going-concern-revised-standards-enhance-public-trust)

tion. The contribution of these independent directors brings an independent and strategic perspective to corporate governance.

Moreover, in a sector as specialised and technical as auditing, the presence of professionals as non-executive directors is key to ensuring an in-depth understanding of the business. However, some critics of ANEs point to potential issues of independence in their decision-making due to possible "corporatism" within the profession.

In addition, the report addresses three issues of particular interest:

(1) The comparative analysis of the governance models of the United Kingdom and Japan, which the working group considers essential for understanding the experience of existing codes;

(2) The key risks identified and potential mitigating factors, and

(3) The recommendations that, in the view of the working group, should be included in the draft framework.

These three key issues are set out in detail below:

1 Comparative analysis of governance models of the UK and Japan:

The working group includes, as an annex, a comparative analysis of two audit firm governance models (Audit Firm Governance Code, AFGC) from two pioneering countries: United Kingdom[4] (UK) and Japan[5].

The most relevant aspects of this analysis are set out in Table 1:

//// TABLE 1 Comparison of the governance models of the UK and Japan

Leadership Central role of leadership in ensuring the public interest function of firms.	**The UK AFGC** emphasises the need for clear accountability structures, internal controls and separation of powers. It highlights ongoing dialogue with independent non-executives. **The Japan AFGC** also requires clear leadership, with well-defined roles and supervision and evaluation mechanisms, including the use of independent third parties to enhance management.
People and culture They promote an ethical culture and an environment that supports high-quality audits. They require a **code of conduct** applied by the whole firm and an open culture that encourages consultation and idea sharing.	**The UK AFGC** places responsibility on the firm to establish a culture aligned with the public interest and sustainability. **The Japan AFGC** places emphasis on people development, talent management and performance evaluation as a means of maintaining professional competence.
Independent input They promote the inclusion of independent input in governance.	**The UK AFGC** requires the INEs and ANEs, who are expected to provide constructive challenges with a focus on the public interest, access to information and open dialogue with regulators. **The Japan AFGC** provides for the use of independent third parties with oversight on matters such as the process of election or appointment of the leadership, remuneration and policies on whistleblowing.

4 https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/audit-firm-governance-code/

5 https://www.fsa.go.jp/news/r4/sonota/20230324/03.pdf

Transparency Transparency is key to ensuring confidence in the sector.	**The UK AFGC** requires reporting on how the firm applies the principles of the Code, supported by reliable data to enable assessment of its performance and governance. **The Japan AFGC** requires firms to disclose the extent of their implementation of the Code and the effectiveness of their initiatives for the enhancement of audit quality, together with proactive dialogue with capital markets stakeholders.

↑ Source: Prepared by the authors based on information from the FCGWG.

2 Key risks identified and potential mitigating factors:

Throughout the sessions and meetings held by the working group, the key risks affecting governance and culture in firms have been identified. In addition, the IESBA proposes mitigating measures. Both aspects are set out in Table 2:

////TABLE 2 Key risks identified and potential mitigating factors in corporate governance

IDENTIFIED RISK	DESCRIPTION	MITIGATION MEASURES PROPOSED BY IESBA
Entry of external investors	Private equity or institutional capital may prioritise financial performance, weakening ethical independence.	Include explicit ethical requirements for new owners and investors; strengthen accountability and internal governance.
Structural complexity in international firms	Global networks make consistent application of ethical principles more difficult.	Establish a unified and scalable global framework across the network; promote shared accountability throughout the leadership chain.
Misaligned incentives	Performance-based bonuses that ignore ethical quality.	Design incentive systems that integrate ethical criteria; include ethical evaluations in performance reviews.
Lack of secure whistle-blowing channels	Absence of protected channels to raise ethical concerns.	Create accessible, anonymous and reliable channels; promote a culture of "open discussion and challenge" without retaliation.
Governance without external oversight	Absence of independent oversight limits transparency.	Incorporate external members or ethics oversight committees; promote good practices such as those in the United Kingdom (*INEs*).
Generational and cultural diversity	Differences in values and expectations may hinder cultural cohesion.	Develop inclusive and adaptable training programmes; promote inclusive leadership and cross-functional communication.
Difficulty in measuring culture	Culture is intangible and unquantifiable.	Develop qualitative and quantitative indicators of culture; include internal audits of ethics and organisational climate.

↑ Source: Prepared by the authors based on information from the FCGWG

3- Recommendations:

Finally, the working group sets out the following recommendations, included in Table 3, which, in its view, should be considered in the drafting of the new Standard.

//// **TABLE 3** **Recommendations of the FCGWG to be considered in the exposure draft:**

RECOMMENDATION:	CONTENTS
Development of a global regulatory framework	It is proposed to develop a new standard scalable to different firm sizes and service lines, providing clear guidelines on ethical culture and governance. This framework would serve as a basis for promoting integrity, accountability and ethical leadership in the operation of firms.
Ethical leadership	Leadership should play a central role in promoting ethical values. This implies that leaders should not only lead by example, but also integrate ethical principles into their strategic decisions, operational structures and internal and external communication processes.
Governance and *Accountability*	The IESBA emphasises the importance of firms having effective governance mechanisms to ensure: ▪ Individual and collective accountability for ethical behaviour. ▪ Inclusion of independent input within internal governance (such as external directors or advisory boards). ▪ Incentive systems aligned with ethical values. ▪ Channels for reporting ethical concerns and safe "open discussion and challenge" mechanisms for all levels of staff. ▪ Ongoing ethics training programmes. Continuous evaluation and supervision of ethical performance.
Development of Non-Authoritative Materials (NAMs)	It is recommended that the new regulatory framework be supported by practical and educational materials to facilitate its implementation. These would include examples, guidance, case studies and good practices on: ▪ How to promote a sustainable ethical culture. ▪ The role of leadership and the organisational environment. The role of external stakeholders (regulators, professional bodies, investors, etc.) in strengthening organisational culture.

↑ Source: Prepared by the authors based on information from the FCGWG

2.3. Outlook for future development

The project began in the first quarter of 2025, with key milestones including global consultations and meetings with regulators and representatives of the profession, among others. During March and April 2025, the IESBA held six roundtables with various stakeholders and the Forum of Firms[6]. In May 2025, it carried out an analysis of the results obtained from those engagements, and on 17 July, published the document *Firm Culture and Governance: Summary of Feedback from Global Roundtables*, which summarises the main conclusions from those roundtables.

Eight essential elements of an ethical culture in audit firms are identified, as set out in Table 4 below:

6 The Forum of Firms is an international association of networks of accounting firms established in 2002, whose objective is to promote consistent, high-quality standards in auditing.

////TABLE 4 Main conclusions of the essential elements of the IESBA Final Report (17/7/25)

	ESSENTIAL ELEMENTS	MAIN CONCLUSIONS
1	**Ethical leadership**	Importance of senior leadership (managing partners, firm partners, governance bodies) demonstrating ethical behaviour. Leadership should establish clear ethical values, show genuine commitment to them, and model behaviours that reinforce an ethical culture across the firm.
2	**Oversight and governance**	Effective governance requires clear oversight structures, allocation of responsibilities for ethical oversight, ongoing monitoring, and the involvement of independent bodies within or outside the firm to review practices. Oversight should not be merely formal, but integrated into day-to-day management.
3	**Independent input**	Definition of independent mechanisms, such as internal reviewers, external advisers or third parties, that can inform decision-making, identify risks of unethical behaviour, and operate without being subject to internal firm pressures.
4	**Accountability**	All levels within the firm (partners and staff) should be clearly accountable for their ethical behaviour. There should be consequences, whether negative or positive, when actions align with or deviate from ethical values. Accountability includes internal transparency regarding ethical decisions, errors and lessons learned.
5	**Incentives and rewards that align with ethical behaviour**	Incentive systems (bonuses, promotions, recognition) may be overly linked to business targets, profit and growth, and insufficiently linked to ethical values, quality and reputation. It is suggested that these incentives be rebalanced so that ethical behaviour is also rewarded and prudence or challenge is not penalised.
6	**Open discussion and challenge**	An ethical culture requires enabling channels for openly discussing ethical matters, raising concerns or challenging decisions without fear of retaliation, in an environment where raising concerns is seen as contributing rather than obstructing.
7	**Continuous ethics education and training**	Ethics training should not be a one-off event, but continuous, embedded in day-to-day activities, and adapted to the firm's context. This includes both technical training on ethics and independence standards and development of professional skills such as judgement, integrity and ethical leadership.
8	**Transparency about ethical performance**	Publication of reports or metrics on ethical performance, including how ethical issues and incidents are managed, results of internal oversight, and progress in ethical culture, with greater visibility both internally and to external stakeholders.

↑ Source: Prepared by the authors based on information from the IESBA.

2.4. Private equity investment in audit firms according to the IESBA

The entry of private equity into audit firms poses a new challenge for audit firms and regulators. Several [7] recent news items are causing concern in the market, particularly due to the potential effects they may have on the independence, integrity and quality of auditors' work, given their public-interest role. In particular, in February 2025, the FRC in the United Kingdom highlighted the high risk posed by the entry of private equity into audit firms. In this regard, the main causes of concern were:

- The possibility that the pursuit of short-term profit may compromise professional standards, particularly independence, professional judgement and public trust. .
- Potential conflicts of interest where private investors seek financial returns while audit firms must comply with requirements of technical and ethical independence.
- The risk that changes in ownership structure may result in effective control that calls into question the quality of audit work.
- Additional concerns regarding firms' ability to withstand market pressures, retain qualified staff, and continue investing in training and oversight, etc.

For these reasons, on 31 July 2025, the IESBA published a document addressed to audit firms, regulators, investors and professional bodies, warning of the ethcal and independence risks that may arise

7 https://comercio.gob.es/es-es/inversiones_exteriores/paginas/control-inversiones.aspx
https://cincodias.elpais.com/legal/2025-06-11/la-cnmc-autoriza-la-entrada-del-fondo-waterland-en-el-capital-de-auren.html
https://cincodias.elpais.com/legal/2025-03-18/los-bufetes-abren-la-puerta-a-las-inversiones-de-capital-se-acabo-el-club-privado-de-abogados.html#?rel=mas

when a firm accepts private equity investment. The IESBA recognises that private equity investment is an attractive source of capital to support business growth. In particular, investment in technology, especially following the emergence of generative artificial intelligence in business, requires significant upfront resources, which many firms can only obtain through private equity. In addition, auditing is a service characterised by stable and profitable firms with growth potential.

The IESBA highlights the following key stages requiring attention in relation to firms raising investment:

- Prior to investment, the firm should assess whether accepting private equity could compromise any of the five fundamental principles of the IESBA Code: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. For example, safeguards should be established to prevent undue pressure that prioritises short-term financial objectives over the public interest. If an investor obtains control of an audit firm, it is considered part of the firm for the purposes of the Code. Accordingly, it should also be assessed whether representatives of the investing entity may influence the decisions of the audit engagement team.
- After the private equity investment, compliance with the Code must be maintained on an ongoing basis. The audit firm must monitor changes in its structure, services, business relationships or *portfolio* composition that may give rise to new threats.

In addition, the IESBA highlights further risks associated with financial, personal or family interests that private equity investors may have with audited clients, as well as the provision of non-audit services, particularly for Public-Interest Entities (PIEs). In this context, there are increasing calls for a governance code to address risks related to conflicts of interest, reputation and concerns regarding the impact on audit quality, in order to mitigate the risk of prioritising short-term financial efficiency over the technical and ethical requirements of the profession.

In summary, these conclusions reinforce the IESBA's commitment to advancing improvements in the governance of audit firms and, consequently, to strengthening confidence in global financial markets by enhancing public trust and promoting professional behaviour aligned with the public interest. Accordingly, during 2026, it is expected that this project will continue with the development of supporting materials to assist firms in effectively implementing an ethical culture, as well as the potential incorporation of the outcomes of this project into the IESBA International Code of Ethics. The project envisaged approval of an exposure draft in December 2025. The final Standard and the supporting materials (Non-Authoritative Materials, NAMs) are expected to be approved in the first quarter of 2026.

3 United Kingdom

In the United Kingdom, the body responsible for setting auditing, accounting and corporate governance standards in order to serve the public interest is the Financial Reporting Council (FRC). Its main functions include, in addition to those already mentioned, the supervision and imposition of sanctions on firms that audit public-interest entities (Public-Interest Entities, hereinafter: PIEs). It is also responsible for publishing and updating the UK Corporate Governance Code and the Audit Firm Governance Code, whose purpose is to establish principles and best practices to ensure the independence, transparency and accountability of firms.

As regards its status, the FRC is an authority under the *Department for Business and Trade* (DBT). It is governed by a Board, all of whose members are appointed by the DBT. The Board is supported by two governance Committees and one regulatory Committee (with the support of senior advisers), which assist it in the performance of its functions. It is primarily funded through mandatory contributions from the audit profession. Other income is derived from contributions from other groups subject to its regulation, benefiting from it or required to have regard to it, such as listed companies, insurance companies and pension funds. It also generates income from the sale of publications and electronic rights.

The FRC works with international bodies and regulators to promote high-quality audit, including the European Commission, the World Bank, the IAASB, the IESBA and the PCAOB, among others.

3.1. Applicable regulatory framework

In the United Kingdom, there is a specific regulatory framework for the governance of audit firms. The first Governance Code was issued in 2010, following the 2008 financial crisis and several financial scandals that had emerged in certain countries, particularly in the United States (Enron). These scandals raised concerns about the independence and quality of audits, particularly in relation to the Big Four, and led to the introduction, for the first time, of the concept of INEs in audit firms. An INE is a member of the Board who has no material relationship with the company, is not part of the executive team and is not involved in its day-to-day operations. Their main function is to bring external expertise, independence of judgement and an objective perspective to oversee management, protect shareholders' interests and ensure sound corporate governance.

Initially, the first governance Code applied to audit firms auditing 20 or more listed companies. Subsequently, this 2010 Code was replaced by a new version in 2016, strengthening transparency, accountability and a stronger focus on the public interest. However, the scandals that subsequently took place in the United Kingdom, such as the cases of Carillion in 2018 and Thomas Cook in 2019 (Coffee, 2011, 2019; McLaughlin et al., 2021; Alkaraan et al., 2024) led to the issuance of a new version in 2022, which has been in force since then. The main new feature introduced by this new governance Code is the importance attached to the public interest and to the role of INEs in audit firms, as well as the operational separation between audit services and other services provided to clients.

The 2022 Audit Firm Governance Code applies to financial years beginning on or after 1 January 2023. As regards its scope, the Code is directed at audit firms that audit Public-Interest Entities (PIEs), and is mandatory for those that audit 20 or more PIEs or audit one or more companies within the UK stock market index known as the *Financial Times Stock Exchange* (FTSE[8]) 350. It provides an overview of the performance of a significant part of the UK market. Below this threshold, application is voluntary. The principal objectives identified in the Code are:

1. To promote audit quality.
2. To ensure firms take account of the public interest in their decision-making.
3. To safeguard the sustainability and resilience of audit practices and of firms as a whole.

The Code is structured into five sections (A–E), covering different areas (setting out, for each, the principles to be applied), and two appendices (A and B):

❖ Section A: Leadership

It sets out how management and governance structures should be organised, requiring:

- Oversight of the activities carried out by management.
- Clear division of responsibilities.
- At least half a firm's Board should be selected from among partners who do not have significant management responsibilities within the firm.
- The chair of the Board should not also chair parts of the Management structure or be the managing partner.
- Regular performance evaluations of members of management and governance structures.
- Management should ensure that, wherever possible and so far as the law allows, members of governance structures and INEs and ANEs have access to the same information as is available to Management.
- Disclosure of information on members and operations in the annual transparency report.

❖ Section B: People, values and behaviour

This section addresses organisational culture and talent management, requiring firms to:

- Define purpose and values.
- Establish a mandatory code of conduct, with compliance overseen by the Board and the INEs.
- Promote the firm's desired culture and commitment to quality work, professional judgement and service to the public interest.
- Implement policies to promote inclusion and encourage people to speak up.
- Introduce performance indicators on the effectiveness of their governance system.
- Provide secure communication channels for staff, enabling them to raise concerns, with active involvement of INEs and ANEs.

8 https://www.prorealtime.com/es/financial-instruments/ftse-uk-indices It groups the shares of the 350 largest companies listed on the London Stock Exchange (LSE).

❖ Section C: Operations and resilience

This section sets out the operational and risk management requirements to be followed:

- Annual review of internal control systems.
- Assist the FRC through the sharing of information.
- Establishment of an audit committee and publication of its composition on the website, detailing functions, appointment and independence of the firm's auditors.
- Assessment of strategic risk.
- Publication of transparency reports explaining how the principles of the Code have been applied.
- Oversight of risk management systems by INEs and ANEs.
- Disclosure of the person responsible for preparing the financial statements.

❖ Section D: INEs and ANEs

This section regulates the role and responsibilities of INEs and ANEs, stating that there should be at least three INEs in relevant firms (depending on the number of PIEs audited), appointed for specified terms with a maximum duration of nine years. Their main functions include:

- Formal participation in governance structures.
- Oversight of culture, risk and audit quality.
- Participation in the nominations committee (at least one INE) for the appointment of INEs and ANEs.
- Engagement with audit committees and investors.
- Direct communication with the regulator to raise potential breaches of the Code and express concerns.

❖ Section E: Operational separation

This section regulates the specific rules for large firms (*Big Four*) where there is operational separation between audit and non-audit practices. In particular:

- Establishment of an Audit Board with a majority of ANEs.
- ANEs assume the responsibilities of INEs in relation to the audit practice.
- ANEs focus on the audit practice.
- There should be coordination between INEs and ANEs, with the sharing of relevant information for oversight of the audit practice, with INEs responsible for independent oversight of strategy and audit quality plans.

❖ Appendix A (INEs and ANEs)

This section sets out provisions relating to the responsibilities and independence of both groups. In particular, it includes clarifications on:

- The position and legal responsibilities of INEs and ANEs (who are not partners or directors, but owe a duty of care).
- The criteria for assessing the independence of INEs/ANEs, which must be disclosed by firms, with particular emphasis on their independence from the firm and from the entities audited by the firm.

- The maximum term of appointment, set at nine years to safeguard independence.
- The need for an objective mindset and independent thinking. Their primary role is to act as "guardians" of the public interest.

❖ Appendix B (Transparency Reports)

This section addresses transparency reports as a key element in enhancing confidence in audit and in the application of the principles of the Code, requiring firms to:

- Publish annual reports on how they apply the Code.
- Explain compliance with, or justify departures from, the Principles (the "comply or explain" approach).
- Disclose the names and positions of all members of the firm's governance structures and management. They must also describe how they are selected or appointed and the duration of their term of office.
- Improve the usefulness of these reports, avoiding repetitive and overly lengthy disclosures that are not relevant to users.

In summary, the regulatory effort undertaken by the FRC in relation to governance of audit firms through the issuance of different Codes has been significant since 2010, when the introduction of independent non-executives began, culminating in the issuance of the current Code in force in 2022, which incorporates operational separation between audit and non-audit practices. The financial scandals that have taken place in the United Kingdom, as in the rest of the world, have acted as a catalyst to: (i) strengthen public trust in audit; (ii) improve independence and internal control within audit firms; and (iii) ensure that audit serves the public interest.

3.2. Private equity investment in audit firms in the United Kingdom

The United Kingdom is the most active European market for private equity investment in professional services firms, with strong growth since 2021. Although permitted, regulation requires that audit firms remain majority-controlled by auditors. At present, in the UK audit market, the entry of private equity entities mainly affects smaller firms. However, the UK regulator has observed growing interest in external capital participation in the audit market, which has led the FRC to include this issue as a topic in its three-year Strategy 2025–2028[9].

The regulatory framework governing, among other aspects, ownership in audit firms in the United Kingdom comprises:

1. Companies Act 2006.
2. Statutory Auditors Regulations 2016 (transposing Directive 2014/56/EU and Regulation (EU) No 537/2014).
3. Various audit regulations issued by recognised professional bodies (ICAEW, ICAS, ACCA, CAI), which work with the FRC in supervising audit firms.
4. Ethical standards issued by the FRC (last updated June 2024)[10].

9 FRC 3-Year Strategy: 2025-28

10 frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/ethical-standard-for-auditors/

5. Various letters published by the FRC in 2024 and 2025.

Although the FRC does not oppose the participation of external capital in audit firms traditionally owned by partners, UK regulation establishes certain limitations:

1. Qualified auditors must hold a majority of the voting rights in all matters relating to professional policy and control of the firm[11].
2. Firms considering the introduction of private equity must notify the FRC and the relevant supervisory bodies for approval as soon as possible, thereby ensuring compliance with the regulatory framework and independence requirements.
3. External investors holding an equity interest in an audit firm must not be audited by that firm.[12].

In summary, the FRC updated its position in March 2025 through a letter[13] addressed to audit firms and supervisory bodies, stating that any change in the capital structure of firms must ensure independence, auditor integrity and duties towards the public interest. However, the regulator also recognises the potential benefits of allowing external capital, such as expansion, access to funding and investment in technology, provided that this does not affect compliance with regulatory standards, ethics and independence.

3.3. Outlook for future development

Despite the regulatory efforts undertaken to improve governance in UK audit firms, the various financial scandals that have occurred demonstrate that the intended objectives have not been fully achieved. In response, the creation of a new regulator has been proposed to replace the current FRC, known as the Audit, Reporting and Governance Authority (ARGA). This initiative was launched in 2019, but has not yet been implemented. The financial scandals that occurred in the United Kingdom that year, such as the cases of Carillion, Thomas Cook and Patisserie Valerie, prompted the UK government to announce the gradual replacement of the FRC with this new regulator, which would have stronger enforcement powers and a particular focus on ensuring the protection of the public interest and the independence of audits. Since then, the FRC has published several strategic plans outlining the transition to the new regulator, but the necessary legislative changes have not yet been enacted, delaying its effective implementation. Initially, the transition was expected to take place from 2024, but the lack of legislative approval has prevented ARGA from being operational as of October 2025. In its three-year Strategy 2025–2028[14], the FRC states that it expects the transition to ARGA "to become a reality" by 2028. However, it acknowledges that it will only be able to finalise and consult on operational procedures once there is greater legislative clarity. Despite these challenges, the FRC affirms its commitment to working with stakeholders and strengthening the regulation of the audit sector in the United Kingdom.

Table 5 summarises the content of the country's regulatory framework:

11 Eligibility Criteria for Statutory Auditors

12 Private equity investment in audit firms | ICAEW

13 Financial Reporting Council Updates Position on Capital Restructuring at UK Audit Firms

14 FRC 3-Year Strategy: 2025-28

//// TABLE 5 Regulatory overview – UK

Applicable framework	Mandatory for firms auditing ≥20 PIEs or at least one FTSE 350 company; voluntary below that threshold (Audit Firm Governance Code 2022, FRC).
Firms affected	Mainly *Big Four* and other firms that audit PIEs.
Governance Code	Yes. There is a specific Governance Code for audit firms. First issued in 2010 and 2016 and updated in 2022 (in force). Objectives: (i) promote audit quality; (ii) ensure firms take account of the public interest in their decision-making, particularly in audit; (iii) safeguard the sustainability and resilience of audit practices. Main new feature of the Code: Introduce operational separation of audit practices in the largest firms (*Big Four*).
Regulation of organisa-tional structure	Yes. Operational separation between audit and other services is regulated in the Big Four. The largest audit firms must establish a separate Audit Board, with a majority of ANEs, to oversee audit quality and audit practice activities.
Board composition	Yes. The Code requires a mixed composition including non-executive partners, oversight by INEs and active participation by ANEs. The Chair of the Board must not be the managing partner nor chair management structures. Mechanisms must be established to determine the remuneration and progression of Board members that support and promote the evaluation of management performance. Members of governance structures and management are subject to formal, rigorous and ongoing performance evaluation and are periodically subject to election or re-election.
Transparency measures	Mandatory annual reporting on the application of the Code; "comply or explain" approach. Obligation to publish annual transparency reports covering different aspects.
Requirements for entry of private equity	Qualified auditors must hold a majority of voting rights in relation to professional policy and control of the firm.

↑ Source: Prepared by authors.

4 Australia

Corporate governance in audit firms has gained significant prominence in Australia in recent years, driven by various scandals that have called into question the integrity, independence and ethical culture of firms in the sector. These developments have undermined public trust in the profession and have highlighted deficiencies in internal controls, oversight and a corporate culture oriented towards the public interest.

A turning point occurred with the scandal involving PwC Australia in 2023, when a tax partner breached his duty of confidentiality by using confidential information from the Australian Treasury on forthcoming tax reforms—obtained in the framework of government consultations—to advise clients of the firm on how to circumvent the new legislation, prioritising commercial benefit over professional ethics.

The consequences were immediate: PwC suffered significant reputational damage, announced the sale of its consulting division, the partner involved was disqualified, a new *CEO* was appointed and *PwC* International commissioned an external report (*Linklaters* Report) to review the causes of the incident. However, PwC's limited cooperation with the parliamentary inquiry triggered a strong public and political reaction, reinforcing the perception that control structures within firms were insufficient.

This case demonstrated how an organisational culture focused on profit can lead to breaches of fundamental principles of professional ethics and confidentiality, undermining the public interest underpinning the audit function. It also highlighted structural conflicts of interest in organisations combining audit activities with highly profitable consulting services.

Following this scandal, the Parliamentary Joint Committee on Corporations and Financial Services prepared the report "*Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry*" (November 2024), which analysed the ethical and structural problems of the sector, especially in the *Big Four* (KPMG, Deloitte, EY and PwC). Among its proposals were the operational separation of audit and consulting, the imposition of limits on partnership structures, and the application of corporate governance principles to large firms.

////TABLE 6 Structure of the report of the Parliamentary Joint Committee on Corporations and Financial Services

Chapter 1	Introduction
Chapter 2	The PwC breach of confidentiality obligations
Chapter 3	Structural and governance challenges in the Big Four firms.
Chapter 4	Update on the regulation of auditing in Australia inquiry
Chapter 5	Rationalising the regulators for audit and accounting
Chapter 6	Professional bodies and standards
Chapter 7	Protection of whistleblowers
Chapter 8	Competition in the audit sector

In addition, the report sets out 40 recommendations, some classified as priority or requiring immediate action, and others to be considered by the government in the medium term. Accordingly, it recommends imposing exemplary sanctions, such as temporarily excluding PwC from the public sector; implementing structural reforms, such as limiting firm size, separating audit activities or requiring financial transparency; strengthening the role of regulators; addressing conflicts of interest; and promoting internal reporting. All of this is focused on restoring trust. In summary, the report sets out an ambitious roadmap to strengthen ethics and professional accountability in a sector which, due to its size and influence, must prioritise and contribute to the public interest.

The dissemination of these developments generated broad public and regulatory debate in Australia. In parallel, the Australian Treasury launched consultations on independence, transparency, conflict of interests and whistleblower protection, while the *Australian Securities and Investments Commission* (ASIC) strengthened its supervisory approach. The PwC scandal thus served as a catalyst for a reform process that seeks to strengthen governance, ethics and accountability in the Australian audit profession.

In response, the Australian Senate has proposed significant reforms to strengthen governance in audit and consulting firms. The recommendations include:

- Operational separation: Functional separation between audit and consulting divisions within firms is proposed to avoid conflicts of interest.
- Limits on partnership structures are proposed, suggesting a maximum of 400 partners, with the aim of improving oversight and internal accountability.
- The obligation for firms with more than 3,000 employees to comply with the Australian Stock Exchange (ASX) Corporate Governance Principles.

4.1. Applicable regulatory framework

The current legislation in Australia relating to audit and corporate governance is based on three main pillars:

- ***Corporations Act 2001*****:** this Act, which entered into force on 1 July 2001, regulates companies and financial services in Australia, including the requirement for all public companies and large proprietary companies to submit audited financial reports to the Australian Securities and Investments Commission. In the audit field, there are key obligations, such as the mandatory rotation of audit partners (every five years) and the annual publication of transparency reports for large firms, with the aim of preserving independence and public trust in financial audit. In 2024, minor technical clarifications were introduced into the legislation regarding the application of rotation to audit firms and companies, through the *Treasury Laws Amendment (Delivering Better Financial Outcomes) 2024*. There were no substantive changes to governance, although it has remained the core regulatory pillar since its enactment. As of April 2025, there have been no further significant structural reforms in relation to the corporate governance of audit firms. ASIC still lacks legal powers to sanction failures in firm culture or internal governance at firm level.
- **The Australian Standard on Quality Management 1** (**ASQM 1**): in force since December 2022, introduces a quality management system for audit firms. It requires firms to identify, assess and respond to risks that may affect the quality of their services, with emphasis on leadership and governance within firms, assigning clear responsibilities to those leading the firm to maintain a culture of quality.
- **The APES 110 Code of Ethics:** particularly following its 2023 amendments, strengthens the principles of independence, integrity and objectivity. It expressly prohibits financial incentives being offered to audit partners for consulting services provided to audited clients and expands restrictions on services that may give rise to conflicts of interest.

In summary, these regulations form a legal framework that promotes transparency, independence and quality through clear regulatory obligations and robust ethical standards. The combination of the *Corporations Act 2001*, *ASQM 1* and the *APES 110 Code of Ethics* shapes the current governance environment for audit firms in Australia. However, there remains a need to strengthen enforcement powers and pursue structural reforms.

4.2. Private equity investment in audit firms in Australia

In Australia, investment funds may participate in the capital of audit firms, but only to a limited extent and subject to strict conditions. Where a firm is registered as an audit company, directors must be authorised auditors and the majority of voting rights must remain in the hands of registered auditors. In addition, each share must be held in the name of a natural person, meaning that funds cannot be registered as direct shareholders. As a result, they may only hold minority interests through natural persons linked to the investor (cf. *Commonwealth of Australia*, 2001).

In the case of professional *partnerships* with shared objectives or purposes, it is required that at least one partner be a registered auditor and that professional control be maintained at all times, ensuring that independence and audit quality are not compromised (cf. *Treasury of Australia*, 2024).

The Accounting Professional & Ethical Standards Board (APESB) does not explicitly prohibit the entry of investment funds, but requires that ethical threats arising from such relationships be identified and mitigated, including potential conflicts of interest with clients in which the fund has an interest, self-interest threats or external pressures.. In addition, the APESB closely monitors the impact of *private equity* given the risks it may pose to ethical culture and professional independence (cf. APESB, 2023).

Recent parliamentary proposals have addressed the possibility of introducing limits on the number of partners, operational separation between audit and consulting, and enhanced transparency requirements, but none currently provides a direct rule permitting or prohibiting the participation of investment funds as institutional shareholders (cf. *Parliamentary Joint Committee*, 2024).

The Australian Treasury has an ongoing public consultation on the creation of authorised audit companies. However, it has not yet been determined whether institutional investors will be permitted to participate in their capital. Similarly, ASIC updated its Regulatory Guide 34 (RG 34) in September 2025 on auditors' reporting obligations, without introducing any references to the ownership structure of audit firms.

In summary, as of January 2026, there are no Australian laws that expressly prohibit or permit the entry of investment funds into the capital of audit firms. However, professional independence requirements and restrictions on control by registered auditors act as de facto barriers. At the same time, the country is experiencing a broad regulatory strengthening—across audit, ethics, sustainability and governance—driven by ASIC, the Treasury and Parliament, with a focus on transparency, independence and accountability as the core elements of governance reform in the Australian audit profession.

4.3. Outlook for future development

Despite these developments, no structural legislative reforms have yet been introduced in the area of governance of audit firms. However, a reform agenda is underway, driven in part, as noted above, by the 2023 scandal, which reignited the debate on professional ethics and accountability (Chenoweth, 2023).

In this context, the report of the Parliamentary Joint Committee (PJC) entitled "*Ethics and Professional Accountability"* (2024) proposes significant changes through the measures set out in its recommendations. These include the application of corporate governance principles, the establishment of a cap of 400 partners in partnership models, operational separation between audit and consulting, strengthening the enforcement powers of the Australian Securities and Investments Commission (ASIC), and enhanced transparency requirements regarding fees, auditor tenure and internal financial controls (PJC, 2024; Moore et al., 2006). These recommendations are complemented by public consultations led by the Treasury, addressing key issues such as independence, competition, whistleblower protection and conflicts of interest. Reform of governance is called for in order to ensure improvements in accountability and institutional independence. In fact, a merger of the country's three main standard-setting bodies—the Australian Accounting Standards Board (AASB), the Auditing and Assurance Standards Board (AUASB) and the FRC—into a single entity responsible for issuing and overseeing standards is currently at the planning stage (Treasury, 2024).

It can be concluded that the Australian regulatory framework is in a phase of transition, with significant challenges ahead in relation to governance and oversight. The evolution of these reforms will be crucial, as prior literature consistently highlights that the regulatory framework is key to ensuring public trust in the audit sector and preserving the integrity of the financial system (Habib & Azim, 2008; Christensen et al., 2010; Hay et al., 2017).

Table 7 summarises the content of the country's regulatory framework:

//// **TABLE 7** **Regulatory overview – Australia**

Applicable framework	Mandatory; applicable standards include APES 110, ASQM 1 and the Corporations Act 2001.
Firms affected	Mainly Big Four and large firms (>3,000 employees) under proposed reforms; however, existing standards apply to all firms providing regulated audit services (PJC Report 2024 and other reforms under discussion as of April 2025).
Governance Code	No specific "Code" exists, although governance principles are proposed in the reforms.
Regulation of organisational structure	Yes; proposal for operational separation between audit and consulting; quality standards reinforce leadership responsibilities.
Board composition	There are no rules directly governing the composition of governance bodies in audit firms.
Transparency measures	Yes; requirements include transparency reporting, auditor tenure, fees and internal financial controls.
Requirements for entry of private equity	Private equity may participate in firms' capital, but the majority of voting rights must remain in the hands of registered auditors.

↑ Source: Prepared by authors.

5 United States

The US context provides a paradigmatic example of regulatory response to the loss of confidence in the audit profession. Over recent decades, the audit profession in the United States has faced significant challenges, mainly arising from financial scandals that seriously undermined its public credibility (Cunningham, 2006, 2012; Pozner et al., 2023). Cases such as Enron, WorldCom and Lehman Brothers not only exposed serious audit failures, but also revealed deficiencies in the internal governance of audit firms, leading to a profound crisis of confidence in the financial system and in financial markets. The creation of the PCAOB was a direct response to these scandals (Boster, 2007; Orin, 2008).

5.1. Applicable regulatory framework

The regulation of the audit profession in the United States originated in the Great Depression, when the Securities Act of 1933 and the Securities Exchange Act of 1934 were enacted, establishing the Securities and Exchange Commission (SEC), responsible for overseeing securities markets and requiring independent audits of public companies. In subsequent decades, the American Institute of Certified Public Accountants (AICPA) took on a central role in issuing professional standards, consolidating the Generally Accepted Accounting Principles (GAAP) as the technical reference framework for the profession. Subsequently, in 1977, the passage of the Foreign Corrupt Practices Act strengthened companies' obligation to establish effective internal controls and increased auditors' responsibility in detecting irregularities. During the 1980s and 1990s, self-regulation was encouraged through AICPA standards and peer review systems, although these measures were heavily criticised following the Enron and WorldCom scandals. A turning point came in 2002 with the enactment of the Sarbanes-Oxley Act (SOX), which introduced stricter requirements on independence, control and accountability. As part of this legislation, the Public Company Accounting Oversight Board (PCAOB) was established, a non-profit organisation created by the US Congress to oversee the audits of public companies, with the aim of protecting investors and promoting the public interest in the preparation of informative, accurate and independent audit reports. Since then, it has directly overseen audit firms of listed companies. In subsequent years, PCAOB standards became the benchmark in the United States, coexisting with International Standards on Auditing (ISAs) amid increasing global regulatory convergence.

The PCAOB also oversees audits of brokers and dealers registered with the SEC, including compliance reports filed under federal securities laws. The SEC has oversight authority over the PCAOB, including approval of its rules, standards and budget.

Another relevant piece of legislation is the *Dodd-Frank Wall Street Reform and Consumer Protection Act* of 2010, aimed at enhancing transparency and accountability in the financial sector, also impacting audit practices.

In summary, the two key regulatory instruments are:

- SOX 2002, which established new requirements for the audit of public companies, including the creation of the PCAOB, auditor independence requirements and management accountability.

- *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010*, which introduced additional reforms to improve transparency and accountability in the financial sector, also affecting audit practices.

In addition to these laws, PCAOB regulations are highly stringent and govern matters relating to independence.

5.1.1. *Securities and Exchange Commission* (SEC)

The SEC is the federal agency responsible for regulating securities markets in the United States. Established in 1934, its primary objective is to protect investors, ensure fair and efficient markets, and facilitate capital formation. It directly oversees public companies and, by extension, their external auditors. It has ultimate authority over the PCAOB (including approval of its rules and budget).

With regard to the audit sector, the SEC:

- Defines and enforces independence requirements for auditors of public companies.
- Oversees and approves PCAOB standards, including those relating to professional ethics, quality control and independence.
- May investigate and sanction auditors and audit firms for misconduct.
- Requires transparency in the relationship between audit firms and their public company clients.

5.1.2. *Public Company Accounting Oversight Board* (PCAOB)

The PCAOB has authority to set standards in auditing, ethics and independence, and, above all, to conduct periodic inspections of registered firms and impose disciplinary measures in cases of non-compliance. Internally, the organisation is governed by a Board composed of five members appointed by the SEC, and includes technical divisions responsible for areas such as standard-setting, quality inspections and enforcement. The PCAOB marks a significant shift from the previous model of self-regulation, establishing a system of external and independent oversight. Additionally, it carries out the registration of firms that audit public companies in the United States

Within the extensive body of regulation issued by the PCAOB regulating the audit profession, many of its *rules* implicitly address firm governance matters, as set out in Table 8:

//// **TABLE 8** **PCAOB rules related to the governance of audit firms**

PCAOB RULE	CONTENTS	IMPLICATION FOR FIRM GOVERNANCE
Rule 3520 "*Auditor Independence*"	The audit firm and its associated persons must be independent of the audit client throughout the audit period.	Policies, procedures and internal controls must be adopted to prevent relationships that may impair independence.
Rule 3523 "*Tax Services for Persons in Financial Reporting Oversight Roles*"	Limits the provision of tax services to persons with financial reporting oversight responsibilities at the client.	Each firm must establish internal systems to detect and prevent the provision of certain professional services under specific circumstances.
Rule 3502 "*Responsibility Not to Knowingly or Recklessly Contribute to Violations*"	Defines that associated persons of the firm must not, through act or omission, *knowingly or recklessly* contribute to violations of provisions, laws, regulations or PCAOB rules.	Since late 2024, this rule has been amended to allow sanctions based on negligence, lowering the threshold for personal liability.
Section 3, Part 2: "*Quality Control Standards*" PCAOB	Firms must have quality control systems to ensure, among other things, that their personnel maintain independence, that there is training, internal inspection, formal policies and internal disciplinary procedures.	Quality control standards require firms to have internal training policies, internal reviews (inspections and testing), disciplinary structures, and transparency with audit committees and regulators. This strengthens the institutional structure of the firms, their culture of quality, and their responsibility to stakeholders (clients, investors, regulators).

↑ Source: Prepared by authors.

5.1.3. American Institute of Certified Public Accountants (AICPA)

AICPA is the leading professional for the public accounting profession in the United States. Founded in 1887, it represents accounting professionals across multiple areas, including auditing, taxation and advisory services. Although the AICPA does not directly regulate audits of public companies, a function carried out by the SEC and the PCAOB, it plays an essential role in establishing professional and ethical standards for the audit of private entities. The main functions of the AICPA in relation to auditing are to:

- Issue the *Statements on Auditing Standards* (SAS) applicable to audits of non-listed companies.
- Establish ethical principles through its Code of Professional Conduct, highlighting fundamental values such as independence, objectivity, integrity and professional responsibility.
- Provide ongoing training, certification and professional development programs for *Certified Public Accountants* (CPAs[15]).

The AICPA Code of Professional Conduct was initially approved in 1988 by the *Professional Ethics Executive Committee* (PEEC), although its origins date back to earlier, more general codes, and it has since undergone multiple revisions and updates to adapt to changes in the accounting and auditing profession. This ethical framework establishes the fundamental principles governing the conduct of public accountants, including responsibility to the public interest, integrity, objectivity and independence. With regard to the governance of audit firms, the Code requires the implementation of policies and procedures to ensure independence from clients, appropriate human resource management, oversight of compliance with technical standards, and management responsibility for promoting

15 The CPA designation does not exist in Spain. It refers to professionals legally authorised to perform audits, issue assurance reports and act as accounting and tax experts in the United States.

a culture of ethics and quality. Accordingly, the Code not only regulates the conduct of individual professionals, but also directly influences the internal organisation and control mechanisms of audit firms.

5.1.4. State Boards of Accountancy

In the United States, each state has its own Board of Accountancy, responsible for regulating the accounting profession within its jurisdiction. The main responsibilities of these Boards include:

- Granting licences to professionals such as CPAs.
- Overseeing the professional conduct of CPAs and, in some cases, audit firms.
- Imposing disciplinary sanctions for ethical or professional breaches, ranging from fines to suspension or revocation of licences.

Although their scope is limited to the state level, *Boards of Accountancy* bolster the system of safeguards within the accounting profession, contributing to the governance of firms through control of entry into the profession, continuing professional education requirements and oversight of ethical compliance. The *Boards* are also partly coordinated through the *National Association of State Boards of Accountancy* (NASBA), which helps align requirements and best practices across the country. While their impact is most evident at the individual level (CPAs), their oversight and disciplinary role also contributes to stronger internal governance and higher audit quality within firms (NASBA, 2025).

5.2. Private equity investment in audit firms in the United States

Private equity has been active in the US audit sector for longer and typically operates through Alternative Practice Structures[16], which separate audit from non-audit services. This allows external investment without breaching independence requirements. The regulatory framework does not prohibit such investment, but safeguards independence primarily through organisational separation rather than formal ownership limits. As a result, private equity investment in audit firms is subject to a strict regulatory environment designed to protect auditor independence and the public interest. SOX, together with PCAOB and SEC requirements, places significant constraints on the ownership and control of registered firms. In particular, US rules require that a majority of voting rights and ownership remains with CPAs and that key decisions relating to audit activities are controlled by qualified audit partners. These restrictions are intended to safeguard professional independence and prevent external financial interests from influencing audit judgements or relationships with audit clients (Cunningham, 2012; Coffee, 2019).

Unlike in other countries, PCAOB requirements do not permit institutional investors or private equity funds to make direct investments in registered firms, except through tightly constrained structures under professional control. As a result, most investors have taken an indirect route, investing in non-registered affiliates such as consulting, technology or *forensic accounting* divisions, where regulatory constraints are less restrictive. These arrangements allow firms to attract investment without undermining the independence requirements applicable to audits of public companies.

However, the question of opening up ownership has gained prominence in recent years. Some analysts and professional bodies argue that the traditional *partnership* model limits firms' ability to invest in critical areas such as artificial intelligence, advanced analytics and cybersecurity, which are increasingly important for maintaining audit quality and competitiveness. However, US regulators

16 "a form of organization in which an accounting firm that provides attest services is closely aligned with another public or private organization that performs other professional services" (The AICPA Code of Professional Conduct)

have adopted a cautious stance, warning that any relaxation could weaken the ethical and independence foundations of the system (PCAOB, 2024). In this context, both the SEC and the PCAOB have stressed that independence must be assessed not only at the level of individual auditors, but also at the structural level, including firms' funding sources, governance arrangements and economic incentives. The priority remains to protect the credibility of audit reporting and uphold the public interest, even if this restricts access to external capital.

Overall, the US model continues to impose meaningful limits on private equity participation in registered audit firms. Despite market pressure and international developments pointing towards greater flexibility, regulators continue to favour a cautious approach grounded in SOX principles and PCAOB oversight, with independence, ethics and audit quality taking precedence over growth or financial returns.

5.3. Outlook for future development

The US framework is one of the most consolidated internationally, but in recent years, there has been growing debate about its ability to respond to emerging structural challenges. These threats include: the concentration of the audit market in a small number of Big Four firms; increasing conflicts of interest arising from the joint provision of audit and consulting services; and the need for greater transparency in firms' internal governance. In this context, the PCAOB has recently put forward new initiatives on audit quality indicators (AQIs), improvements to the transparency of inspection reports, and stronger accountability mechanisms for firm leadership. There is also ongoing discussion about moving towards more standardised reporting on internal governance, similar to the approach already developed in jurisdictions such as the United Kingdom and Japan, where specific audit governance codes are in place.

At the same time, several academic and professional commentators have called for changes to internal incentive structures, a review of the prevailing *partnership* model and stronger internal whistleblowing channels as a means of preventing future scandals.

Overall, the US case shows how a strong institutional response to past scandals has led to the development of a demanding and highly structured system of public oversight. The presence of bodies such as the PCAOB and the SEC, together with legislation arising from the Sarbanes-Oxley Act and the Dodd-Frank Act, has raised standards of governance, independence and control among audit firms operating in capital markets. However, significant challenges remain: adapting the framework to new risks, safeguarding audit integrity in an environment of integrated services, and strengthening internal mechanisms relating to ethical culture and accountability. Future developments will depend to a large extent on regulators' ability to respond to these challenges without undermining the credibility built up over decades of reform.

Finally, recent PCAOB *Firm Governance* requirements, covering its work programme for 2023–2025, should be noted. The PCAOB has begun strengthening requirements for large firms to adopt internal policies on risk oversight, quality control and internal audit review processes.

The regulatory framework in this country is summarised in Table 9.

//// **TABLE 9** Regulatory overview – United States

Applicable framework	Mandatory. Based on federal legislation (Sarbanes-Oxley Act 2002, Dodd-Frank Act 2010), PCAOB rules and SEC rules.
Firms affected	Firms auditing public companies, particularly the Big Four and others registered with the PCAOB.
Governance Code	There is no single "Code", but multiple rules and principles governing firm governance from different sources (PCAOB, SEC, AICPA).
Regulation of organisational structure	PCAOB requirements on internal control, partner oversight, independence and disclosure of audit quality metrics.
Board composition	Board composition is not directly regulated, but individual responsibilities and professional oversight mechanisms are imposed.
Transparency measures	Requirement to disclose audit quality metrics, independence, staff experience, conflicts of interest and internal controls.
Requirements for entry of private equity	The entry of private equity is restricted; control and a majority of ownership must remain with CPAs.

↑ Source: Prepared by authors.

6 European Union

The development of European Union (EU) legislation follows a highly regulated institutional process, which varies depending on the type of instrument (Regulation, Directive, Decision, etc.) and is inherently complex, as it must accommodate the specificities of the 27 Member States. This complexity is reflected not only in the large volume of applicable rules, but also in delays and failures by Member States to transpose EU legislation into national law. According to a recent Commission report[17], 26 countries have yet to notify full measures to transpose five EU Directives in areas as diverse as financial stability, the environment and justice, requiring the initiation of formal infringement proceedings.

In 2014, the European Union began reforming the audit regulatory framework in response to the effects of the 2008 global financial crisis, which had a significant impact on audit firms. As a result, Directive 2014/56/EU and the subsequent Regulation (EU) No 537/2014 were adopted. However, the transposition of Directive 2022/2464/EU, which builds on the previous framework, has not yet been completed in all Member States.

6.1. Applicable regulatory framework

The current Directive, 2014/56/EU, building on the framework established by Directive 2006/43/EC, aims to improve audit quality and public confidence in the work of auditors. With regard to the corporate governance of audit firms, Article 40 sets out organisational requirements for firms auditing PIEs. This Article provides that: "*Member States shall require that audit firms carrying out statutory audits of public-interest entities:*

a) *have robust, effective and appropriate internal quality control systems;*

b) *establish appropriate policies and procedures to ensure that management and staff comply with applicable requirements on independence and quality control;*

c) *adopt policies and procedures that promote the continuing professional development of staff;*

d) *establish appropriate organisational structures to safeguard independence and prevent conflicts of interest;*

e) *are subject to sound governance arrangements, with a clear separation of responsibilities between executive management and oversight functions;*

f) *have procedures in place to identify and address risks of non-compliance with regulatory requirement;*

g) *publish an annual transparency report*".

Regulation (EU) No 537/2014 further develops these provisions, requiring audit firms that audit PIEs to prepare an annual transparency report including information such as their legal and ownership structure, the composition and responsibilities of management and supervisory bodies, internal oversight mechanisms, a description and assessment of the quality control system, disaggregated financial information, and internal policies on independence and supervisory procedures. Furthermore, Article 16 of that Regulation establishes that audit firms of PIEs must have a robust governance structure, with a focus on risk control, independence and quality management.

17 https://ec.europa.eu/commission/presscorner/detail/en/inf_25_1842.

As regards the definition of PIEs, the European Directive establishes a "mandatory minimum core", including entities listed on regulated markets, credit institutions, insurance undertakings and others designated by Member States on the basis of their public relevance, size or economic impact. This definition is supplemented in some countries, such as Spain, Germany or France, which introduce specific criteria to broaden the classification of PIEs, including companies with a significant impact on the economy or society.

With regard to the mandatory requirements for auditing PIEs, the European Union, through Regulation (EU) No 537/2014 and Directive 2014/56/EU, establishes:

- External quality review: Auditors of PIEs must be subject to quality reviews organised by the competent authorities at least every three years.
- Independence and objectivity: The requirements relating to auditor independence and objectivity are strengthened.
- Audit committees: PIEs are required to have independent audit committees.
- Auditor rotation: Rules governing auditor rotation are introduced to strengthen independence.
- Prohibition of certain non-audit services: Certain non-audit services are prohibited in order to prevent conflicts of interest.

These requirements are mandatory in all EU Member States, although each country may implement additional or specific provisions according to its national needs.

In the area of sustainability, the European Commission issued in February 2025 the *Omnibus Simplification Package on Sustainability Simplification*, known as the "Omnibus", which was approved by the European Parliament and the Council of the EU in April. Its objective was to reduce compliance costs and administrative burdens for European companies in applying Directive (EU) 2022/2464 on sustainability, particularly affecting the assurance of sustainability reporting in audit, by postponing its entry into force by two years.

Finally, the European Union has undergone a significant transition in audit quality control with the implementation of the IAASB's *International Standard on Quality Management 1 (*ISQM 1) and *International Standard on Quality Management 2* (ISQM 2), which introduce risk-based quality management systems, ethical leadership and quality culture (*tone at the top*), strengthening the independence and efficiency of internal reviews.

With regard to corporate governance codes for audit firms, only two EU countries have specific codes:

- Ireland, with the *Irish Audit Firm Governance Code* adopted since 2013, inspired by the British code, which includes public interest committees, annual transparency reports and quality reviews. It is not mandatory in the strict sense, but is widely adopted by the major auditing firms in that country.
- The Netherlands, where the code issued by the Royal Netherlands Institute of Chartered Accountants and overseen by the Authority for the Financial Markets complements statutory requirements and requires appropriate governance structures, independence and quality control.

These codes, while not strictly mandatory, are widely adopted by the leading firms in those countries and represent advanced practice in audit firm governance.

6.2. Private equity investment in audit firms in the EU

Accountancy Europe[18], the organisation representing the accountancy profession in Europe and speaking for nearly one million accountants, auditors and advisers across more than 37 countries, published in June 2025 a report on private investment in European audit firms. The report shows that private equity investment tripled in 2023 and quadrupled in 2024, indicating growing investor interest in the sector despite regulatory constraints. On 27 November 2025, it published a further Information Paper[19] on the risks and opportunities associated with capital investment in audit firms, explaining how such investors acquire stakes in accountancy and audit firms. In countries such as Belgium, France and the Netherlands, private equity firms are steadily increasing their presence through minority shareholdings and by driving merger processes. In other countries, such as Germany, entry is more limited due to a particularly restrictive legal framework.

The European Union is monitoring with caution the increasing inflow of ***private equity*** into audit firms, as it considers that this trend may affect independence, audit quality, ethical standards and internal governance, which are essential to protecting the public interest in financial markets. To date, there has been no specific regulatory initiative in this area. However, regulators in several European countries, including Germany[20] and the Netherlands[21], have warned of the risks associated with private equity investment and have proposed measures such as enhanced supervision and greater transparency. At EU level, it is recognised that external investment can provide resources for innovation, digitalisation and expansion. However, it is also acknowledged that the profit-driven logic and shorter investment horizon of financial capital may conflict with the ethical duties and independence required of the audit function.

6.3. Outlook for future development

With regard to specific governance codes for audit firms, although only two countries have established a formal, dedicated governance code, many others have strengthened their regulatory frameworks and professional guidance to improve key areas such as independence, mandatory rotation and transparency. These measures are primarily based on Directive 2006/43/EC and Regulation (EU) No 537/2014, which lay down minimum requirements and public oversight mechanisms to ensure sound governance and audit quality across the sector.

In this context, although formal governance codes are limited, most Member States apply a robust set of regulatory requirements and professional guidance that ensures high standards in ethics, transparency and quality control.

In summary, the current situation in the EU is set out in Table 10 and is as follows:

18 Private equity investments in accountancy firms - Accountancy Europe

19 https://accountancyeurope.eu/publications/beyond-private-equity-third-party-ownership-in-the-accountancy-and-audit-sector/

20 Private Equity: Statement by the Board of Management [Vorstand] of the German Chamber of Public Accountants [WPK] on the Audit Market

21 https://www.afm.nl/en/sector/actueel/2025/apr/sb-private-equity

//// **TABLE 10** Regulatory overview – EU

	The Netherlands	Ireland	Rest of the EU (25 Member States)
Applicable framework	*Dutch Audit Firm Governance Code/ Een Code voor Accountantsorganisaties met een OOB-vergunning*	*Irish Audit Firm Governance Code*	Directive 2006/43/EC and Regulation (EU) No 537/2014
Firms affected	Firms auditing PIEs	Firms auditing PIEs in Ireland	All audit firms, with enhanced obligations for those auditing PIEs.
Governance Code	Yes	Yes	No
Regulation of organisational structure	Requires a clear governance structure, separation between management and supervision, and policies on quality and independence; aligned with the Wta (Wet toezicht accountantsorganisaties).	Requires firms to adopt formal governance structures, clearly defined roles and collective responsibility.	National regulation: authorisation requirements, quality control systems, independence and partner rotation.
Board composition	Requires a supervisory body including external members (INEs).	Requires the appointment of INEs and the establishment of a Public Interest Committee (PIC).	–
Transparency measures	"T*transparency Report*" mandatory for firms auditing PIEs (Art. 13 of Reg.). 537/2014).	"*Transparency Report*" mandatory for firms auditing PIEs (At. 13 of Reg.). 537/2014).	"*Transparency Report*" mandatory for firms auditing PIEs (Art. 13 of Reg.). 537/2014).
Requirements for entry of private equity	Auditors must hold the majority of voting and decision-making rights. The regulator considers the presence of *private equity* as a risk factor affecting quality inspections.	Auditors must hold the majority of voting and decision-making rights.	Essentially, they require that statutory auditors hold the majority of voting rights.

↑ Source: Prepared by authors.

7 Spain

Audit activity in Spain originated in the private sector, with the submission, from the mid-1940s onwards, of account verification reports prepared by members of the Institute of Chartered Accountants of Spain (ICJCE). This institute, established in 1942, is a private body with legal personality that brings together statutory auditors and audit firms, represents their collective interests and collaborates with public and private regulatory bodies in Spain.

During the 1980s and 1990s, significant accounting and commercial reforms were introduced to align Spanish legislation with European Directives. Act 19/1989 transposed the Fourth and Seventh Directives of the then European Economic Community, leading to the adoption of the Consolidated Text of the Public Limited Companies Act (1989) and the Limited Liability Companies Act (1995). Furthermore, in 1988, the Accounting and Auditing Institute (ICAC) was created by Act 19/1988 of 12 July 1988, and in 1990, the mandatory General Accounting Plan was issued, and the first auditing law regulating the profession was enacted.

In 2015, a new Audit Act, Act 22/2015 of 20 July on Auditing of Accounts, was adopted, representing a significant reform of the previous regulatory framework. Its purpose was to align Spanish legislation with Directive 2014/56/EU and Regulation (EU) No 537/2014. The main new features include: strengthening auditor independence through the extension of incompatibilities and restrictions on non-audit services; enhanced transparency through the requirement, in certain cases, to publish annual transparency reports; and revisions to the supervisory framework granting the ICAC broader enforcement and quality control powers. The Act also introduced a differentiated regime for PIEs compared with other audited entities, increasing requirements on auditor rotation, communication with audit committees and the content of the audit report.

In 2021, Royal Decree 2/2021 of 12 January approved the implementing regulation of Act 22/2015, further developing and clarifying its provisions, particularly in relation to auditor independence, thereby completing the current Spanish regulatory framework.

7.1. Applicable regulatory framework

In Spain, there is no specific regulation governing corporate governance measures for audit firms. The Spanish regulatory framework is primarily based on Act 22/2015 and its implementing regulation, together with Regulation (EU) No 537/2014. It focuses in particular on auditor independence, including restrictions on the provision of certain non-audit services, especially in the case of PIEs, and limits on fees derived from such services. Another key measure is mandatory rotation. For PIEs, the maximum duration of audit engagements with the same firm is 10 years (Article 40 of Act 22/2015), which may be extended on an exceptional basis to 14 years in the case of joint audits, or up to 24 years where a public tender is carried out in accordance with the European Regulation. In addition, key audit partners must rotate every five years, with a cooling-off period of three years before they may be reappointed.

With regard to transparency, Act 22/2015 requires audit firms auditing PIEs to publish an Annual Transparency Report containing detailed information on their governance structure, internal quality control system, independence policies, the results of internal and external inspections, and a breakdown of revenue from audit and non-audit services. This report is a key accountability mechanism for both the market and supervisory authorities.

The regulatory framework also includes governance requirements applicable to PIEs themselves, notably the obligation to establish an independent audit committee with specific responsibilities in relation to the external auditor. The committee's functions include overseeing the audit process, selecting the auditor and receiving additional reports. Taken together, this framework is intended to strengthen external oversight, mitigate threats to independence and promote a culture of accountability and confidence in the quality of financial reporting.

7.2. Private equity investment in audit firms

In Spain, capital structure and governance arrangements are regulated under Article 11 of Act 22/2015, which provides that commercial companies may be registered in the ROAC (Official Register of Account Auditors) as audit firms provided they meet the following requirements:

a) The individuals who perform audit work and sign audit reports on behalf of an audit firm must be authorised to carry out statutory audit activity in Spain.

b) A majority of voting rights must be held by statutory auditors or audit firms authorised to carry out statutory audit activity in any Member State of the European Union.

c) A majority of the members of the management body must be statutory auditor partners or audit firms authorised to carry out statutory audit activity in any Member State of the European Union.

This means that, in order to qualify as an audit firm in Spain and be registered in the ROAC, a majority of the members of the board of directors must be auditor partners, and a majority of voting rights must be held by auditors, whether individuals or firms. In summary, Spanish legislation does not impose specific restrictions on the entry of private equity, but it does require that decision-making bodies remain under the control of registered auditors. It should be noted, however, that Article 11 of Act 22/2015 does not specify whether auditor members of the board must be practising or non-practising, nor does it address the possibility of appointing independent auditor directors, unlike the position in some other jurisdictions.

7.3. Outlook for future development

Although Spain has a robust regulatory framework aligned with EU legislation, recent developments at both EU and national level point towards potential further strengthening in areas such as supervision, independence and the sustainability of the audit sector. In particular, the European Commission has initiated reviews of the audit Directives and Regulations with a view to improving the quality of statutory audit following failures to detect systemic risks. At national level, the ICAC continues to issue guidance, consultations and technical interpretations that clarify and develop practical aspects of auditor independence. There is also a growing trend towards alignment with international ethical standards (IESBA Code) and closer coordination of supervision with other European regulators.

In summary, Spain has established a regulatory framework focused on independence, transparency and accountability of audit firms, which, although it does not include a specific "governance code" such as the UK model, pursues the same objectives: strengthening public trust, protecting the public interest and enhancing audit quality as a key function for the stability of financial markets. A summary of the current regulations is given in Table 11:

//// **TABLE 11** **Regulatory overview – Spain**

Applicable framework	Act 22/2015 of 20 July on Auditing of Accounts and the implementing regulation approved by Royal Decree 2/2021 of 12 January.
Firms affected	All audit firms, with enhanced requirements for those auditing PIEs.
Governance Code	There is no specific code as in other countries, but there are legal requirements relating to governance, independence, rotation and transparency.
Regulation of organisational structure	Internal quality control requirements for audit firms.
Board composition	No formal requirement for INEs/ANEs, but safeguards relating to independence and risk control are required. Decision-making must remain in the hands of registered auditors.
Transparency measures	Annual Transparency Report required for firms auditing PIEs.
Requirements for entry of private equity	There are no specific requirements, except that control of the board of directors must remain in the hands of registered auditors.

↑ Source: Prepared by authors.

8 Final conclusions and recommendations

Audit is a public-interest profession that must safeguard the proper functioning of markets in particular, and of the economy more broadly. However, in light of the major financial scandals of this century, the audit profession has repeatedly been called into question. As has been the case with listed companies, audit firms could benefit from the existence of corporate governance codes that ensure independence, quality and professional ethics. At the international level, several initiatives are underway along these lines.

The first specific corporate governance code for audit firms was introduced in the United Kingdom in 2010 and was revised in 2022. It applies to all firms carrying out audits of PIEs in the UK. This code introduced key elements such as the inclusion of independent non-executives (INEs), financial and audit quality transparency reporting, as well as the promotion of an ethical culture and a commitment to sustainability.

In 2012, based on the UK model, the Irish professional body CARB introduced a code centred on the establishment of supervisory committees with INEs and transparency requirements, with the aim of enhancing public confidence in audit. This code is mandatory for firms auditing PIEs in Ireland. In the same year, for Dutch firms, the regulator (AFM) and the professional body (NBA) issued a national code requiring firms to establish supervisory bodies with external members, strengthen independence, ethical culture and transparency, and produce detailed *Transparency Reports*.

In the rest of the EU, governance is regulated through the European legal framework (Directive 2006/43/EC and Regulation (EU) No 537/2014) and national audit legislation. A common feature across the EU is the requirement for all firms auditing PIEs to publish transparency reports, though the level of detail varies between countries and firms. Where governance measures exist, such as in the Netherlands and Ireland, independent oversight bodies (INEs, PICs) are required to strengthen public confidence in audit quality. Spain, as an EU Member State, incorporates the requirements of the Directive and the Regulation, although no specific framework governing the corporate governance of audit firms has been developed.

Outside the European context, the US has been a benchmark in the application of public oversight measures through the PCAOB since 2002, as well as in the requirement for transparency and audit quality measures. As regards governance requirements for audit firms, there is no single corporate governance code comparable to the UK's. Instead, audit firm governance is structured through several regulatory frameworks: PCAOB rules on quality control and oversight, SEC rules, particularly on independence and transparency, and the AICPA Code of Professional Conduct. Finally, in Australia, there is a legislative initiative aimed at reducing conflicts of interest and improving transparency through the introduction of a specific corporate governance code for professional services firms engaged in audit activities.

As final recommendations, the research group considers it urgent to move towards a consistent international governance framework for audit firms, developed by the IESBA and supported by other stakeholders, such as the *International Organization of Securities Commissions* (IOSCO)[22]. This

22 IOSCO is the International Organization of Securities Commissions, a global body that brings together securities market regulators with the aim of developing and implementing international standards for regulation, supervision and enforcement. Its main objectives are to protect investors, ensure fair and efficient markets, and maintain financial stability.

would involve progressing towards the creation of an "International Governance Code for Audit Firms" to support financial stability and protect global financial markets. These possible measures include support from the IFAC, notably through the IAASB. This code should address the following aspects:

a) Require firm governance bodies to include INEs and ANEs, as well as professional and gender diversity.

b) Define the content of the "Transparency Report" for firms auditing PIEs, including clear and mandatory information on matters such as legal structure, quality indicators, sustainability policies, and the firm's ethical culture.

c) Establish a *whistleblowing* channel to allow the reporting of potential issues on an anonymous basis, with appropriate safeguards for confidentiality.

In addition, it is recommended that international regulators:

a) Improve regulatory oversight processes in a more coordinated and effective manner.

b) Unify the codes of ethics for audit professionals at the international level in line with the IESBA's proposals.

c) Integrate other risks such as sustainability and digitalisation into the governance of audit firms in a holistic manner, ensuring that all risks arising from the use of artificial intelligence, for example, or cybersecurity, among others, are properly addressed.

In light of current challenges in the audit market, further research is needed to advance improvements in corporate governance regulation, with the aim of strengthening the public-interest role of the profession as a guarantor of the quality and transparency of corporate reporting.

With regard to the entry of investors such as *private equity* investors, we consider it essential that regulators maintain the principles of professional control while requiring greater transparency, early engagement and more robust governance frameworks, rather than adopting more restrictive measures. Ultimately, the development of the sector will depend on the ability to balance the contribution of capital and innovation with the protection of the public interest, independence and service quality.

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Glossary

AASB: Australian Accounting Standards Board

ACCA: Association of Chartered Certified Accountants

AFGC: Audit Firm Governance Code

AFM: Authority for the Financial Markets, Netherlands

AICPA: American Institute of Certified Public Accountants

ANEs: Audit Non-Executives

APESB: Accounting Professional & Ethical Standards Board

AQI: Audit Quality Indicators

ARGA: Audit, Reporting and Governance Authority

ASIC: Australian Securities and Investments Commission

ASQM 1 (Australian Standard on Quality Management 1)

ASX: Australian Securities Exchange

AUASB: Auditing and Assurance Standards Board in Australia

CAI: Chartered Accountants Ireland

CARB: Chartered Accountants Regulatory Board

EEC: European Economic Community

CPAB: Canadian Public Accountability Board

CSRD: Corporate Sustainability Reporting Directive

DBT: Department for Business and Trade

EFRAG: European Financial Reporting Advisory Group

PIE: Public-Interest Entities

EU: European Union

FASB: Financial Accounting Standards Board

FCGWG: Firm Culture and Governance Working Group

FRC: Financial Reporting Council

IAASB: International Auditing and Assurance Standards Board

IASB: International Accounting Standards Board

ICAC: Instituto de Contabilidad y Auditoría de Cuentas [Accounting and Auditing Institute]

ICAEW: Institute of Chartered Accountants in England and Wales

ICAS: Institute of Chartered Accountants of Scotland i/c/a/c/ Instituto de Contabilidad y Auditoría de Cuentas