Audit Quality and Audit Regulation in European Union: A Perspective, Considering Actual and Perception Based Measures

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Abstract : Considering the entry into force of the new EU audit reform regarding statutory auditors, in effect in all member states since 2016, this research aims to identify which audit regulation rules are associated with a high-level audit quality on both its dimensions, i.e., the actual quality and the perceived quality, in relation to public interest entities, within the European Union, and whether those rules have the same impact on both dimensions. Its measurement was based on the following proxies: the quality of financial information through earnings management and the impact of qualified opinions on financial costs. We considered in the research regulation subjects such as auditors' rotation and provision of services (NAS) and also the level of market concentration. The criteria to include these issues in the research was its contemplation of the new rules. We studied the period before the audit reform (2009-2015) when the regulation measures were less uniform. Besides the consideration of both dimensions of audit quality and several regulation measures, we believe our conclusions configure an important contribution to this research field, considering the involvement of the first 15 member states of the European Union. The results consolidate the assumption that the balance between competence and independence is not the only challenge related to the regulation of the audit profession. The evidence demonstrates that the balance between actual and perceived quality is also a relevant matter. The major conclusion is that the challenge is to keep balanced both actual and perceived audit quality whilst ensuring the independence and competence of auditors.

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