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The lobbying done by accounting profession in the policy making process: the case of the new EU audit reform

by

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Abstract

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Key Words: EU Audit Reform, Lobbying, Accounting Profession, Big Four, Theory of Profession, Mandatory Firm Rotation, Prohibition of Non-Audit Services, Capping of Fee of Non-Audit Services.

Purpose: The aim of this research is to explore the motives behind and the methods used by the accounting profession to lobby the legislative process of the new EU audit reform.

Methodology: The thesis follows a qualitative research strategy. Primary data was collected from documents issued by accounting profession and four interviews with members of the profession and one EU politician. To analyze the content and context of the data collected Qualitative Content Analysis has been used.

Theoretical Perspectives: This thesis uses the Neo-Weberian approach of the Theory of Profession in order to identify the motives behind and methods used by the accounting profession to lobby the EU institutions.

Empirical Foundation: The empirical research of the thesis was built upon the primary data collected from 46 various documents issued by accounting profession, for instance, International Federation of Accountants (IFAC), Federation of European Accountants (FEE), FAR (Sweden), The European Group of International Accounting Networks and Associations (EGIAN), PricewaterhouseCoopers (PwC), KPMG, Deloitte Touche Tohmatsu (Deloitte), Ernst & Young (E&Y) (Big Four); and mid-tier firms, such as, Grant Thornton and BDO.

Conclusions: It has been found that amongst the EU institutions, the European Commission and the European Parliament came under stronger lobbying by the accounting profession compared to the Council of Ministers. The commissioners and parliamentarians are easy to access by the lobbyists then the ministers of the Member States in the Council. The motives of the accounting profession, especially accounting firms, behind the lobbying were found to be the self-interest by protecting and maintaining of their jurisdictions; protecting of its oligopolistic status; sustaining its fee level; controlling the market for its expertise; maintaining of self-regulation and commercial interest. The methods used by accounting profession were submission of comment letters; mobilizing of different agencies; exercise of collective power through professional associations, stakeholder engagements; propagation of ideology from one institution to another institution; usage of knowledge monopoly and aggressive lobbying through threatening the EU politicians.

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List of abbreviations

EC	European Commission
ECG	European Contact Group
EGIAN	European Group of International Accounting Network and Associations
EP	European Parliament
EU	European Union
E&Y	Ernst and Young
FEE	Fédèration des Experts Comptables Européens (European Federation of Accountants)
IAASB	International Auditing and Assurance Standard Board
IESBA	International Ethics Standard Board for Accountants
IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
MFR	Mandatory Firm Rotation
NAS	Non-Audit Services
PIE	Public Interest Entities
PWC	PricewaterhouseCoopers
SEA	Single European Act
SOX	Sarbares-Oxley Act

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Introduction

This chapter introduces the topic studied in this thesis The Lobbying done by accounting profession in the policy-making process: the case of the new EU audit reform. The background in Section 1.1 explains why this topic has been chosen and the reason for the focus on accounting profession. Section 1.2 of problem discussion presents the gap found in the literature i.e. the uniqueness of the context of the EU in the lobbying by the accounting profession. Thereafter, Section 1.3 presents the scope of the thesis. Section 1.4 explains the purpose and presents the research questions. The last Section deals with the outline of the thesis.

1.1 Background

The recent financial crisis of 2007-8 lead to major corporate collapses, for instance, Lehman Brothers. The crisis initiated a comprehensive debate about the possible reasons of the crisis. Initially, the focus of the blame was credit ratings agencies, bankers, and financial regulators (Humphrey, Kausar, Loft & Woods, 2011). However, in 2008 Charlie McCreevy, the EU Commissioner for Internal Market and Services, pointed out that the discussion on the role of auditor with regards to financial crisis is not highlighted (Humphrey et al., 2011). As it was auditors, who issued 'clean' audit reports on large financial institutions just before or during the crises (EC, 2010b). At the beginning of 2010 the term of office of McCreevy ended (Humphrey et al., 2011) and a Frenchman Michel Barnier got nominated as EU Commissioner for Internal Market and Services. The change in Commissioners leads to a paradigm shift in the regulatory sphere of EU. The Irish Chartered Accountant McCreevy was known for his free market view and liberal policies, whereas, Barnier was perceived of imposing French inspired restrictive regulation across Europe (Humphrey et al., 2011). The perception turned out to be reality, when immediately after Barnier resumed the office in April 2010 it was announced

EC will publish a Green Paper on the role of auditors. In October 2010 the Audit Green Paper entitled ‘Audit Policy: Lessons from the Crisis’, was issued on 13 October 2010 (EC, 2010c).

With the issuance of the GP and the measures proposed in the paper, it became evident that Barnier is not as supportive of the accounting profession as McCreevy. The measures included: Mandatory Audit Firm Rotation (MFR) (EC, 2010b, p. 11); prohibition of providing non-audit services (NAS) to audit clients and creation of ‘pure audit’ firms (EC, 2010b, pp. 11–12); restricting the percentage of fee received from a single client (ECb, 2010c). The objective of the reform was threefold: enhance the quality of audit, increase the independence of the auditors and to reduce the market concentration of the large audit firms. The European Commission (EC) invited responses to the GP and received diversified responses to measures suggested. The responses were received from various stakeholders including accounting profession, preparers (companies), academia, audit committees, public authorities, users and others (EC, 2011b). Majority of the responses received by the EC were from the audit profession (59%) (EC, 2011b) (see Figure 1), as it is the primary supplier of audit services and direct recipients of audit regulation (Samsonova-Taddei & Humphrey, 2015). Not surprisingly, the response of the profession was extremely negative to some of the measures, for instance, MFR and Prohibition of NAS (EC, 2011b). The opposition of the profession was communicated to the EU institutions through various comment letters and other methods, classified under lobbying. Lobbying is defined as a process undertaken to influence regulators with the intention of benefiting one's self (Burnett, Chen & Gunny 2013). It was figured out that especially the large audit firms engaged in fierce lobbying (Fleming, 2013a; Fleming, 2013b).

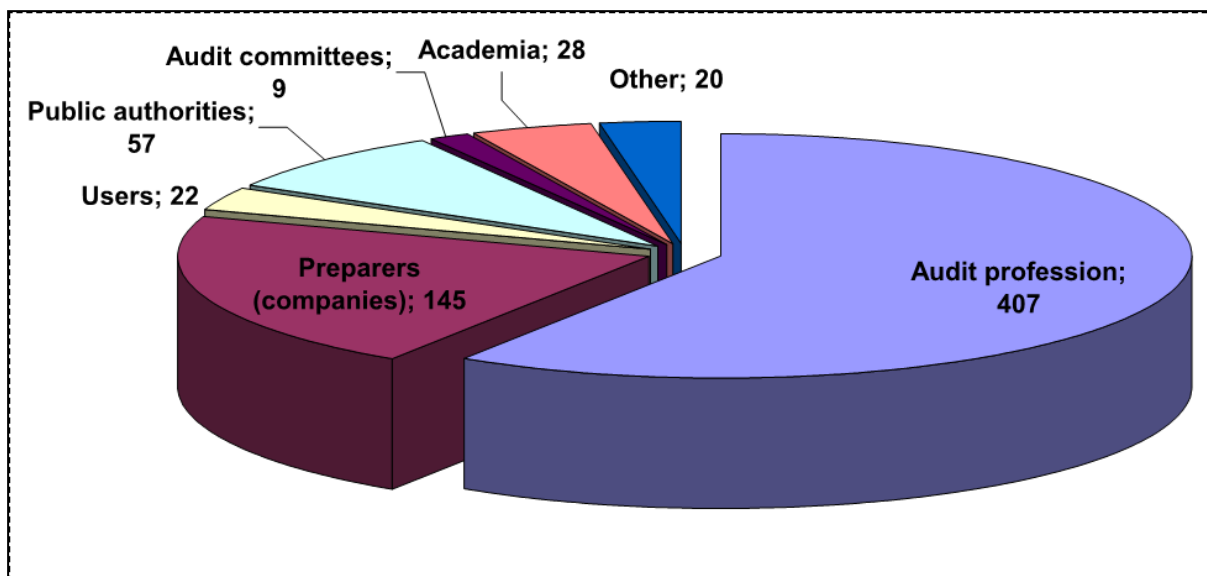


Figure 1 Responses by interest groups (EC, 2011b)

1.2 Problem discussion

Relevant studies that discuss lobbying by members of accounting profession provide evidence that multinational accounting firms are centrally involved in regulation (Cooper & Robson, 2006). They achieve this by extending their involvement in the standard setting process, by using their business connections, to ensure that the firms have substantial influence, both nationally and internationally (Caramanis, 2002). Caramanis (2002) also discussed the interconnections of international politics and accounting professionalization projects at the National level. Humphrey, et al., (2009) identifies that at international level global auditing regulation is collectively influenced by three groups namely, IFAC; International Regulators including the World Bank, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS); the Basel Committee on Banking Supervision (BCBS) (also often referred to as the Basel Committee) and the European Commission (EC); and lastly the large multinational audit firms. Prior researchers have also discussed the role and influence of actors in the accounting profession on the transnational regulatory framework (Cooper & Robson, 2006; Suddaby, Cooper, & Greenwood, 2007).

Further, on national level studies in the past mostly discuss the role and influence of actors of accounting profession in the accounting standard-setting in the USA (Puro, 1984; Abigail, Ramanna, & Roychowdhury, 2014; Burnett et al., 2013). Samsonova-Taddi & Humphrey (2015) discuss the European transnational audit policy-making, but only in the context of a strong campaign launched by large international accounting firms to limit civil liability for statutory auditors. In this paper, the discussion revolved around the Recommendation issued by EC in 2008.

Whereas, firstly, it has been found that the literature on lobbying by the accounting profession, using the Theory of Profession, is limited. Secondly, it has been found that lobbying the legislative process in the EU has generally attracted a lot of attention from various researchers; however, enough discussion is not found on the lobbying by accounting profession to influence the legislative process of the new EU audit reform. One reason for the lack research could be this that the reform is very new and is yet to be implemented. Thirdly, most of the literature found on the topic of lobbying by the accounting profession either studied the topic on international level or the national level, however, literature on regional level, such as, the EU is found to be very limited. Lastly, it has been found that in the past lobbying by the accounting profession to influence the accounting standard-setting, has been discussed by various researchers, however, lobbying by accounting profession on audit standard setting and policy reforms are yet to be explored.

Therefore this thesis will concentrate on the new EU audit legislation to study the lobbying done by accounting profession on regional (EU) level. The legislation comprises of Directive 2014/56/EU and Regulations 537/2014. The reform is strictly applicable to public-interest entities (PIE) (EU, 2015a) and presents a number of amendments to the previous Directive of 2006. The amendments have been introduced to improve the quality of the audit and to increase the

independence of auditors, in the wake of the financial crisis 2008, which has raised significant questions and criticisms on the role and objectivity of auditors (EC, 2010b). Some of the major amendments to the regulation included capping of fee for non-audit services to 70% of the average of the audit fee in the last three years (Article 4); Prohibition of the provision of NAS including tax, valuation and legal services, unless they are immaterial (Article 5) and mandatory audit firm rotation after every 10 years (Article 17) (EC, 2014b).

These measures, introduced in the Regulation, are the focus of this thesis as they are the most controversial ones and in the vast majority they have received negative responses from the profession (EC, 2011b). The reluctance to adhere to the amendments to the Regulation by the profession and their attempts to influence the legislative process of the new EU audit reform has attracted significant media attention; especially the collective lobbying act of the members of the accounting profession is much highlighted (Fleming, 2013a; Fleming, 2013b). The motives behind and the methods used to lobby can be explained by the Theory of Profession (Abbott, 1988, Friedson, 1970, Larson, 1977 etc). Using the Neo-Weberian approach of the Theory of Profession, the focus of the thesis will be to explore the motives behind and methods employed by the members of accounting profession to lobby the EU institutions, to influence the legislative procedure, i.e. from the drafting of the legislation by the EC to its approval by EP and the Council of Ministers.

1.3 Scope of the Thesis

This thesis will focus on some components of the accounting profession, for instance accounting firm of different scale, such as, PwC, KPMG, Deloitte, E&Y (Big Four); and mid-tier firms, such as, Grant Thornton and BDO. In addition, this study will look at professional organizations, such as, IFAC, FEE, FAR (Sweden),

ECG, and EGIAN. The responsibility of the profession is to determine what level of audit quality and professional reputation is desired by its members (Byington & Sutton, 1991). The attention of this thesis is pivoted to the three measures i.e. MFR, Prohibition of NAS and Cap on fee of NAS only, as they are the most negatively responded measures of the Regulation 537/2014.

As mentioned above, the accounting profession engaged in the act of lobbying, to influence the audit regulation. However, the thesis does not aim to establish whether the profession succeeded or not. The period chosen for data collection range between 2010 and 2014 because the debate started with the issuance of GP in 13-Oct-2010 and 16-Apr-2014, when the final act got signed. The reform comprises of the Regulation 537/2014 and the Directive 2014/56/EU. However, the three measures in question are part of the Regulation. Therefore, the thesis concentrates on the Regulation and not on the Directive.

1.4 Purpose and research question

The aim of this research is to explore the motives behind and the methods used by the accounting profession in lobbying the legislative process of the new EU audit reform. The focus of this research is three significant changes in the new reform. Firstly, MFR, secondly, prohibition of the provision of NAS and thirdly, capping of fees of NAS. As these reforms have mostly received negative responses from the members of the accounting profession and are thus, indicative of evidence of lobbying on the part of the profession (EC, 2011b). This paper will analyze the lobbying on the new EU audit reform by the accounting profession on Regional level (FEE); additionally, this thesis will also look at lobbying on International (IFAC) and National (FAR, Sweden) levels. The objective of this thesis is to contribute to the literature in the field lobbying done by accounting profession, using the Theory of Profession, to explain the motives and methods used by the

auditors to influence the audit policy making at EU level. To achieve it the thesis will investigate *how and why did the auditors lobby to influence the new EU audit reform?*

1.5 Outline of the thesis

The second chapter will describe the EU law-making process, the development of the EU audit policy making, for instance, the 8th Council Directive of 1984; the 8th Directive of 2006; and Directive and Regulation of 2014; and lobbying the EU institutions. The third chapter will deal with the methodology for the thesis, which will include sampling of responses to the Green Paper 2010 and other ways of communication used by members of the accounting profession. Further, interviews will be conducted with professional organizations, for instance, IFAC, FEE and FAR; and some politicians from the European Parliament (EP). The fourth chapter will outline the theoretical framework and literature review. The fifth chapter will present the findings of the research followed by the sixth chapter where the findings will be analyzed and discussed. The final chapter will present the summing up and implication of this study for future research.

2 The EU law-making process and the development of audit regulation

This chapter describes the EU law-making process and background of the development of the EU audit reform. Section 2.1 provides the details of the EU legislative process. Section 2.2 puts forward the how the audit reforms have been developed in the EU since 1978. Lastly, Section 2.3 explains how the different the governance institutions are lobbied.

2.1 The EU law-making process

Since the establishment of EU, under the Rome Treaty the EU has focused on the creation of the European Single Market as one of its key policy priorities (EU, 2015c). In this context, the EU has been engaged in the development of common law to create a uniform infrastructure for the functioning of the European capital markets. In addition to introduce harmonized rules for financial accounting and audit practice (EU, 2015c). This uniform infrastructure of common law comprises of both binding and non-binding legal acts. Among the three forms of binding legislation are; firstly, Regulation which represent the most direct form of EU law as they are binding in their entirety and directly applicable in all EU member states (EU, 2015d). Secondly, Directives deliver the policy objectives to be achieved by all Member States but leave it to the national authorities the choice of form and methods (EU, 2015d). Thirdly, Decisions are the legislative acts that target specific issues and are binding in its entirety upon those to whom it is addressed (EU, 2015d). However, Recommendations and Opinions are examples of non-binding legal acts (EU, 2015d). Setting of EU policy agenda and development of new or

revised legislation is dealt by the three key legislative bodies, including the European Commission (EC), the European Parliament (EP) and the Council of Ministers (EU, 2015c).

In the EU, the legislative process for a reform gets initiated by publication of a proposal (EU, 2015c). The power to make legislative proposals rest with EC, the Commission can propose Directives or legally binding Regulations; the EP and Council of Ministers being the co-legislators have the ultimate decision-making power, either to adopt or amend the legislation (EU, 2015c). The EU's standard decision-making procedure is known as 'Ordinary Legislative Procedure' (see Appendix A), that starts at the EC (EU, 2015c). However, the original idea can be initiated by the EU, European Central Bank, European Investment Bank, some Member States and even citizen. EC drafts and send the proposal to the Council and EP (EU, 2015c). The designated rapporteur is appointed to prepare a draft report that represents EPs position on the proposal (EU, 2015c). The responsible committee will then discuss and vote on the report and any subsequent amendments (EU, 2015c). Then the proposal the sent forward for the plenary debate (EU, 2015c). MEPs either adopt the law in its current form or they make amendments (EU, 2015c). In the meanwhile, simultaneously the Council prepares their position on the proposed law (EU, 2015c). They have two options, either they can accept the proposal as it is and it gets adopted into the law, or they make amendments and send a new draft back to MEPs, for second reading. MEPs have three option for the second reading, firstly, approves the council's new proposal and the law is adopted, this happens when the negotiations are completed (EU, 2015c). Secondly, they reject the amendments outright, and the act is declared null and void, then the procedure will be ended (EU, 2015c). Lastly, Parliament can make changes to the Council draft and send back to the council for the second reading (EU, 2015c). If the Council agrees to the latest amendments, the proposal is adopted as law (EU, 2015c).

If the consensus on the proposed amendment is not reached, then the representatives of the EP and Council meet to make new text that is acceptable to both institutions (EU, 2015c). The EC is also involved in this stage to try and reconcile both positions if a compromise cannot be reached the process ends (EU, 2015c). However, if the Parliament and the Council can agree on the text, then the proposition goes for a third reading (EU, 2015c). To be adopted both the Council and the EP give the final draft of their approval, if not then the process ends (EU, 2015c). The whole legislative procedure should start from the beginning if consensus cannot be reached (EU, 2015c).

2.2 Background of development of the EU audit regulations

The statutory audit has been a concern of the EU regulators since 1978 in the Article 51, 4th Council Directive 78/660/EEC (EU, 2015a). According to this Directive companies' annual reports must be audited by members authorized by the national law, also to verification of consistency annual report and annual accounts (EC, 1978). The Directive and its requirements continued to develop with the growth of accounting and auditing profession in the EU. In this wake the 7th Directive was issued in the year 1983, which expanded on the requirements of the 4th Directive to incorporate the audit of consolidated accounts and verification of its consistency with consolidated annual report, by the authorized auditors (EC, 1983). Further, in 1998 the EU's 8th Directive was issued, which completed the series of Directives regarding company accounts and defining the required qualifications of persons authorized to conduct the statutory audits of the accounting documents, as specified in the 4th and 7th Directives (Humphrey & Loft, 2011). The 8th Directive did not contain any specific guidance regarding independence requirement and the discussion concerning the independence of the auditors, was limited (Evans & Nobes, 1998). Collectively, these three Directives

served the purpose of promoting harmonization of accounting and auditing across the EU (Humphrey et al., 2011). Publishing of companies' financial information together with verification of companies' accounts by independent and qualified auditor resulted in increased transparency, as well as, increased reliability and confidence in the information released by companies across the EU (EC, 1996).

However, in 1990 the role, function and independence of statutory auditor came under strong scrutiny of the EC, particularly after numerous financial failure and corporate scandals (Humphrey et al., 2011). Major corporate scandals, for instance, in 2001 Enron, Worldcom and Parmalat prompted the need in the USA and Europe to undertake detailed examination of its financial reporting, statutory audit and corporate governance regulations (Dewing & Russell, 2004; EC, 2003). In addition, these financial failures and scandals raised criticisms towards the attitude and actions of the auditors, that indicated deteriorating auditor independence (Humphrey et al., 2011) and the lack of harmonized approach to statutory auditing in the EU (EC, 2003). At that point, the EU regulatory framework for statutory auditors was considered "incomplete" to deal with this rising issue (EC, 1996). In this context, in 1996 the EC published a Green Paper for consultation on "The Role, Position and Liability of the statutory auditors within the European Union" (Humphrey et al., 2011). As a result of the consultation process the lacking in the regulation governing statutory auditors at EU level and the need for further regulations in the area of auditor independence became highlighted (Humphrey et al., 2011). The auditor independence became questionable as a result of a variety of consultancy services provided by the audits firms to their audit clients and long term association of the firm's with clients (Humphrey et al., 2011). Furthermore, the Green Paper 1996 pointed to the importance of the creation of an audit committee and proper functioning system of internal control in order to "improve the system of checks and balances within the company" (EC, 1996, p.25). These issues ultimately lead to the issuance of a new EU Directive in 2006. The overall objective of this Directive was to improve and harmonize the quality of the

statutory audits by focusing on external quality assurance, auditing standards and auditor independence and to restore public confidence in the function of statutory audit and the accounting profession (EC, 2003). The new Directive proposed the adoption of International Standards on Auditing (ISA) as EU standard for audit and rotation of audit partner within the same audit firm, as a measure to improve quality audit and independence of auditors (EC, 2006).

Moreover, in the backdrop of the relatively recent financial crisis of 2008 the new regulatory framework for statutory audit was introduced. One of the major reasons for the new crisis was discussed in the Green Paper 2010 as the limited attention given to enhancement of the audit function that can lead to increase in the financial stability. It was after McCreevy, the EU Commissioner of Internal Market and Services, in 2008 pointed out that the discussion on the role of auditor with regards to financial crisis is not highlighted, by 2010 the criticism on the role of auditors substantially increased (Humphrey et al., 2011). The criticism on the role and independence of auditors increased as a result of inability of auditors to scrutinize the intrinsic financial weaknesses of the large financial institutions and issuance of 'clean' audit reports for those institutions just before the crises (EC, 2010b). The aim of the new EU legislation on statutory audit including Directive 2014/56/EU and Regulation 537/2014 is to improve the quality of statutory audit, increasing the independence of auditors, improving audit supervision and enhance the informativeness of the audit report (EU, 2015a). The regulation is more strictly applicable on public-interest entities (PIE) (EU, 2015a). Some of the major amendments to the Regulation included capping of fee for non-audit services to 70% of the average of the audit fee in the last three years (Article 4); Prohibition of the provision of NAS including tax, valuation and legal services, unless they are immaterial (Article 5) and mandatory audit firm rotation after every 10 years (Article 17) (EC, 2014b). This new regulatory framework for statutory audit will become applicable in 2016 (EU, 2015a).

2.3 Lobbying the EU Institutions

Lobbying is defined as any activity, which is aimed to influence legislation process in the European institutions (EC, 2006). However, in several EU Member States lobbying as a word is related to negatively perceived. Recently the terminology of lobbying is replaced by words like 'legal representation' (EP, 2003) and 'interest representation' (EC, 2006). In the EU, the “decision-making triangle” (the EC, the EP and the Council of Ministers) is subjected to most of the lobbying activities. Firstly, the EC is considered to face the majority of the lobbying activities, as it is responsible for agenda setting and has an initiative power to make a proposal for the legislation (EP, 2003). In addition, it manages the implementation of the policy in EU. Therefore, the Commission is ‘a crucial target for private interests’ (Coen & Richardson, 2009, p. 33). Moreover, as it is convenient to access the Commissioner, due to their lower ranks and need of expert knowledge for the Commission's legislative work, the lobbyist finds it easy to target the Commission through its Commissioner. The Commission relies on the lobbyists for valuable information, as it can only forward well-prepared proposal to other institutions (Marziali, 2006). Therefore, it appears a balanced give and take lobbying activities (OECD, 2008).

Previously the EP was not the focus of lobbying activities, as it did not that enough legislative power. However, a significant change occurred in the role of the Parliament by the Single European Act (SEA) in 1986 (Coen & Richardson, 2009). It introduced the co-decision and consultation procedure, after which the legislative power of the Parliament grew to the same level as the Council. Thereafter, the attention of lobbyists got diverted to the growing competence and power of the Parliament (Coen & Richardson, 2009). Even though the Parliament does not have the authority to initiate proposals on its own, it cannot be assumed that it cannot be lobbied. Rather it holds a unique position for strategic lobbying because every

MEPs can be a subject of lobbying and the Parliament itself contributes to the legislation process by proposing amendments (Coen & Richardson, 2009).

The Council provides the EU with the necessary impetus for its development and defines the general political guidelines (Peterson & Shackleton, 2006). It is argued that lobbying in the Council rarely takes place as it is difficult for the lobbyist to access the ministers and the high-level setup fragmentation (Peterson & Shackleton, 2006). The Council meets in nine different compositions and the state authorities visit Brussels only for a limited period. Because of the tense schedules of the council members they have no time for additional meetings with lobbyists (Peterson & Shackleton, 2006). Therefore, lobbying activities directed to the Council differs in a manner from that of the EC and the EP. However, the fact that Council also becomes a target for the lobbying cannot be denied.

The matters on which decision are taken and policies are made by EU affects its citizens, businesses and the industry or the sector concern. Therefore, it needs to be as transparent as possible. Since, EU decision and policies affect various stakeholders it is necessary for EU institutions interact with the groups and organizations that represent the specific interest of these stakeholders. The EU takes into consideration the interest of its stakeholders in its decision-making process, as it is legitimate and to ensure that EU policies reflect and are effective in catering to the real needs of its stakeholders. To ensure transparency and to allow for proper scrutiny the EP and the EC are committed to being open about the groups and organizations with which they interact. To facilitate this process the EP and the EC operate a joint system of the Transparency Register, which has been set up to answer question and queries, such as, what interests are being pursued, by whom and with what budgets (Europa, 2015a). Moreover, the register also discloses the names of the individual who had access to the EP premises, on behalf of the entities whose interest they are representing.

3 Research design and methodology

In this chapter Section 3.1 presents the choice of research approach. Section 3.2 illustrates how the research will be conducted, followed by, Section 3.3 presents the details about the collection of data and its sources i.e. official documents sent by the profession to EU and the interviews. Section 3.4 illustrates how the research approach chosen will be used to analyze the information extracted from the data collected. Section 3.5 explains and illustrates the process of coding undertaken. Section 3.6 presents the ethical considerations followed during of the research and the last Section presents the limitations of the research methodology.

3.1 Research strategy

This thesis will adopt a qualitative interpretive research strategy, as it relies on the linguistic of the text rather than the numerical data, and uses meaning-based rather than quantitative forms of data analysis (Bryman & Bell, 2007). This approach allows the researcher to understand the context of the reaction of the actors relevant to the study (Bryman & Bell, 2007). Moreover, the focus is on individuals interpretative skills, based on the context of the information gathered (Bryman & Bell, 2003). Qualitative interpretive research approach will be followed, as it allows for development of deeper understanding of the motives behind and methods used by the profession to lobby, rather than merely focusing on probability of these words occurring in the text. However, the research needs to be supported by the theory, in order to justify its relevance.

The authors have chosen the Theory of Profession to understand the arguments presented by various members of the accounting profession in the documents published by them. In addition the theory will help to draw and explain the motives behind and methods used by the accounting profession to influence the EU institutions during the legislative process of the audit reform.

The analysis of the content using this approach will begin with comment letters and all the publicly available communication held between the members of the accounting profession and the EU regulators. Further, four qualitative interviews will be conducted, to strengthen the arguments for and against the data collected and to develop in-depth understanding of the official documents released publicly. Afterwards, through the coding process pattern of responses will be developed. At the stage of analyses, the theory will help in explaining the findings and the findings that are not explained by the theory will formulate the contribution of this research to the Theory of Profession.

3.2 Research Design

The goal of this thesis is to identify the motives and methods used by members of the accounting profession to influence the policy making-process of the new EU audit reform. In this context, the research will be divided into two parts. Firstly, to capture the attitude and reaction of the accounting profession analysis of the documents will be conducted, that will include responses to the Green Paper 2010, comment letters and various other forms of communication taking place between members of the profession and the EU between October 2010 and April 2014. The analysis and incorporation of the comment letters and other supporting documents will highlight the motives and present the methods of lobbying by the accounting profession.

According to Königsgruber (2009) comment letters as a tool for lobbying, is most often used by prior research as their empirical evidence (Allen et al., 2014; Samsonova-Taddei & Humphrey, 2015; Manson & Zaman, 1999). Moreover, Georgiou (2004) found the correlation between the usages of comment letters with the usages of other means of lobbying. This justifies the use of comment letters as a proxy for professions overall lobbying position (Königsgruber, 2009). However, the usage of comment letters and official documents do not account for informal or “behind the scenes” lobbying, which might include monetary contributions to politicians and standard-setters (Königsgruber, 2009). In this context, the evidence of informal lobbying is found in the case of funding provided by large audit firms to IFAC, the global audit standard setter (Humphrey & Loft, 2011). Therefore, second step of this thesis is to conduct semi-structured interviews with members of the profession who were involved in influencing the EU audit policy making and European politicians, who directly observed the legislative process in the EP.

The reaction and the lobbying done by the accounting firms through professional organizations including IFAC, FEE, FAR, ECG, EGIAN will be analyzed. IFAC is the global organization for the accounting profession (IFAC, 2015a). FEE represents the accounting profession in the Europe and it is also a member of IFAC (FEE, 2015a). FAR (Sweden) represents accountancy profession at local level. In addition, FAR also contributes actively to the work of IFAC and FEE (FAR, 2015a). Furthermore, ECG represents the firms in their dealings with European governance institutions, particularly the EC and the EP (Samsonova-Taddei & Humphrey, 2015). EGIAN, “provides a forum for the members to develop common positions on specific technical and legislative issues and to debate these issues with key professional stakeholders and regulators such as the EU” (EGIAN, 2015, online). In addition, large multinational accounting firms including 'Big Four' plus two leading mid-tier firms (Grant Thornton and BDO), as they dominate the global market for the audit for the listed companies (Samsonova-Taddei & Humphrey,

2015). Moreover, the interviews with the professional bodies such as IFAC, FEE, FAR and European politicians will be conducted.

3.3 Data Collection

Collection of data for research purpose is often divided into two categories depending how it is collected. If the research is based on the use of material that originated in the course of another research, or collected by someone else is referred to as secondary data. This data collection technique contrast with the primary data collection, where the information is self-gathered (Arbnor & Bjerke, 1994). This thesis is mainly constructed from information collected from primary sources, to answer the research question. The data gathering consist of a collection of comment letters, various other ways of communication between profession and EU institutions and interviews with members of the accounting profession and EU politicians.

3.3.1 Text Documents

To begin with the responses of accounting profession to the Green Paper 2010 will be collected. Other methods of communication, such as, news release and letters to the EC etc from 2010 to 2014 will be analyzed, as the debate started with the issuance of GP in 13-Oct-2010 and 16-Apr-2014, when the final act got signed. Firstly, the comment letters written in response to the Green Paper 2010 by Big Four and two leading mid-tier firms Grant Thornton and BDO; professional organizations and EGIAN are gathered from the database “Consultation on audit policy - Lessons from the Crisis available” available on the EC web-library (EC, 2010c). Secondly, other modes of communication include information from IFAC published on its website (IFAC, 2015b). Further, FEE's summary on reform of audit market will be analyzed, which includes news release, letters to the EC,

articles in professional journals, policy statements, speeches in the EP and briefing papers (FEE, 2015 b). Moreover, FAR's debate articles on their website, professional magazines and financial newspaper, such as, Balans and Dagens Industri respectively; FAR position paper on EU audit reform will be incorporated; and EGIAN's position papers were found on its website (EGIAN, 2015). To further analyze the individual reactions of the direct recipients of the audit reform i.e. the Big Four audit firms and the two mid-tier firms BDO and Grant Thornton, this thesis will focus their press release and published viewpoints from the websites (see Appendix B). The documents incorporated in the analysis were selected using two criteria that were some specific words related to the topic were used, for instance, “the EU audit reform”, “EU audit regulation”, “Directive and Regulation 2014”, “Audit reform” between the selected period of 2010-2014. Secondly, the relevant documents were looked for the three measures: MFR; prohibition of NAS and Capping of fees. Moreover, to find the details of lobbying by the relevant members of the accounting profession the Transparency Register will be used. (see Table 1).

Member of profession	Number of documents studied
IFAC	3
FEE	9
FAR	7
PWC	10
Deloitte	3
Ernst & Young	6
KPMG	2
BDO	2
Grant Thornton	1
EGIAN	3
Total	46

Table 1 Documents studied

3.3.2 Semi-structured interviews

The next step is to interview the members of the accounting profession, such as IFAC, FEE and FAR and one European politician will be conducted. The motivation and the purpose of interviewing member of the profession are to develop in-depth understanding of underlying motives and methods used in order to influence the policymaking process. In addition, the interview with European politician is conducted in order to investigate the different methods and intensity of lobbying that they have witnessed, by being present in the EP. The motivation behind using interviews in combination with document analysis is to compare the responses of the interview participants with information published in the documents mentioned above, to verify it or it can also lead to new discoveries of responses to the reform if found contradictory with the content published (see Appendix C and D).

The choice of the semi-structured interview was made, as it allows the interviewer explore in the topic in diverse directions, to enrich the analysis (Bogner, Littig & Menz, 2009). Moreover, during the document study the choice of interviewees were made, based on their media interaction and remarks, involvement in presenting the view of their organization on the reform and their publications in the professional journals.

Initially the choice of the interviewees was Mr. Dan Brännström for FAR, as he published some critical articles regarding the EU audit reform in Swedish professional journals. For FEE, it was Mr. Olivier Boutellis-Taft, as he was actively involved in the communication and meetings to represent FEEs critical views regarding the reform. For IFAC, Mr. Gary Pflugrath was chosen, as he presented IFACs official opinion regarding the reform. Cecilia Wikström (MEP) was selected as she was present in the EP when the new EU audit reform was voted. Additionally, she witnessed and commented on aggressive lobbying done by Big

Four globally during 2010-2014 (Lennartsson, 2014). Finally, Syed Kamall (MEP) was chosen as he was active in the legislative procedure of the reform. However, except Gary Pflugrath, the authors could not conduct interviews with the selected people, due to different reasons. Instead close colleagues who had relevant knowledge of the reform were recommended by the interviewees mention above (see Table 2).

Interviewee	Organization	Position	Date of the interview	Duration of the interview
Noémi Robert	FEE	Manager Integrity & Assurance (since 2012)	24.04.2015	45 min
Harry Cooper	European politician	Former accredited parliamentary assistant to Syed Kamall (MEP) (2010-2014)	05.05.2015	46 min
Gary Pflugrath	IFAC	Director, Public Policy & Regulation	11.05.2015	30 min
Helene Agélie	FAR	General counsel at FAR	12.05.2015	35 min

Table 2 Interview details

3.4 Analysis of information

In order to analyze and evaluate the above-mentioned documents and the information obtained from the interviews; this thesis will adopt the method of Qualitative Content Analysis (QCA). It is one of the numerous research methods that are used to analyze text data (McTavish & Pirro, 1990; Tesch, 1990). The research using QCA focuses on the characteristics of language as communication with attention to the content and contextual meaning of the text (Hsieh & Shannon, 2005). QCA is used for text data which might be in verbal, print, or electronic form

and might have been obtained from narrative responses, interviews, observations, or print media such as articles and book (Hsieh & Shannon, 2005). The choice of this particular method is made on the basis that it is relevant to the analysis of the data gathered for this thesis. It directly deals with the written and verbal responses and communication between the accounting profession and the EU institutions. Additionally, it also incorporates answers of European politician. Moreover, QCA goes beyond merely counting relevant words or taking information as it is, to examine the language used. It allows for understanding of the content of the text as well as the context in which the text is produced. This facilitates the process of classifying the vast amount of text and data into categories, to ease the process of coding, drawing of pattern from the data, interpretation and to check whether the Theory of Profession explains the findings or not.

The use of QCA will allow gaining direct information from research data and the unique perspectives of the European politician, based on their experiences and observations of the attitude and activities of the accounting profession, during the legislative procedure of the audit reform. Collection of first-hand data will add to the originality of the study, as well as, might make it relevant for future research. Further, conducting interviews with people concern will verify and add reliability to the data collected for the thesis.

To find the link between the empirical data collected, that are the arguments and methods of lobbying used by the profession, and the theory used to explain these findings, the authors begin by codifying both the verbal and the text data. In the next stage, the closely related arguments and methods were merged and classified under the same heading. Employing the qualitative interpretive research strategy and QCA enabled the authors to perform an in-depth analysis of the arguments presented by the members of the profession and the methods of lobbying used by them during the entire legislative procedure. Taking the interpretive approach to qualitative research and analysis of content as well as meaning (context) of the

empirical data will help the authors to identify the underlying motives of the profession to lobby against the audit reform. At this stage, the theory of profession will contribute to this study by presenting explanation of the motives that the profession might be aiming to attain and the methods they use for it. The theory of profession is employed, as it provides clear and appropriate headings for the actual motives and the methods of the profession behind the lobbying. The classification and explanation of the motives and methods provided by the theory and the deep understanding of the arguments and methods developed through the chosen research strategy will enable the authors to link the empirical findings with the theoretical motives and methods identified through the theory of profession.

3.5 Coding process

As mentioned in the earlier sections that the data collected for this thesis include the source of official documents, as well as, the interviews. The interviews conducted were semi-structured, that provided some room for cross-questioning to the interview participants. The purpose of cross questioning was to capture the participant's and their organizations specific viewpoints and comments on the matter of the three relevant articles. The coding process started with reading all the communication documents repeatedly and transcription the interviews. Then, data collected was read very carefully, to find the words that capture the key arguments presented by the profession and the interviewees in response to the measures in question. In addition, the type and timing of documents issuance and other method of lobbying discovered from the interviews was also taken into consideration, to account for the various methods used by the accounting profession to influence the EU institutions.

In the next stage, notes were taken on the key arguments and the methods of the influence were identified through the data collected. The findings (arguments) were

arranged on three levels, for instance, level 1 – objective; level 2 – argument; level 3 – reasoning for the argument (see Table 3). The arguments were divided in seven categories, such as Achievement of objectives; Difficult to implement and practice; Cost and administrative burden, Risk putting Europe at a competitive disadvantage; Unclear definitions of NAS, Reduce audit firm's ability to attract talent; and Commercial interest of the accounting firms.

Level 1	Level 2	Level 3	Measure
Achievement of objectives	Decrease in audit quality	“audit quality could be undermined as there is an increased threat to audit quality in the first years of audit, due to reduced knowledge of client operations (for the ‘new’ auditor)” (FEE, 2010).	MFR
	Decrease in audit independence	“A cap on non-audit fees does not make sense. Independence is not determined by an arbitrary monetary amount” (PWC, 2013d).	Cap of fee
	Increase in market concentration	“Mandatory rotation of audit firms has been shown (in Study on Mandatory Rotation of Audit Firms) to increase market concentration in the large firms” (FEE, 2010)	MFR

Table 3 Example of coding (arguments)

The findings (methods) were codified in two levels: level 1 is a general category of methods and level 2 provides specific components of the methods that forms level 1. Further the methods divided into five categories such as Official publications by the profession, Communication with MEPs and national representatives in EU, Stakeholders engagements, Propagation of ideology of audit firms from institution to institution, MEPs & MEPs’ assistants meet profession to acquire technical knowledge (see Table 4).

Level 1	Level 2
Official publications by the profession	Responses to Green Paper
	Press releases
	Point of views
	Briefing papers
	Debate articles in professional journals
	Policy statements
	Letters to EC
	Other documents
Communication with MEPs and national representatives in EU	Meetings with MEPs
	Meetings with MEP's assistants
	Phone calls
	E-mails
	Meetings
	Round tables

Table 4 Example of coding (methods)

3.6 Ethical considerations

Ethical considerations were given high level of importance through the whole research process, particularly due to the sensitivity of the topic, as lobbying is related to some negative connotation by various stakeholders of the audit reform in question. In the phase of data collection, the attention was focused on gathering the data from original sources and for interviews confidentiality and objectivity were the prime focus. Before the commencement of the interviews, permission was seek from each interviewee on the matters of recording the interview; disclosing their names in the list of interviewees; quoting them and if they would like to see or approve the materials gathered from the interviews and incorporated in the thesis. All the four interview participants replied positively to the four ethical matters discussed above (see Appendixes C and D). Thereafter, the next consideration was to present the findings from the interviews as impartially as possible, so as to avoid

chances of hampering the objectivity of the thesis. In the last stage, when the thesis is finalized it will be sent to the interviewees for their approval.

3.7 Limitation of methodology

The limitation of the research methodology is that the motivation and extent of lobbying cannot be measured reliably, as it is difficult to trace evidence of lobbying done through informal sources (Georgiou 2004). The activities of the above mentioned professional bodies and firms in influencing the policy making of new EU audit reform will be limited to three important articles of the Regulation 537/2014, which directly affect the dynamics and economic of the business of the auditors in EU. These articles include Capping of non-audit fee (article 4), Prohibition of provision of non-audit services (article 5) and Mandatory audit firm rotation (article 17). As these articles appear to be the most controversially discussed because they seem have negative impact on the status quo and it holds the potential to change structure and scope of the existing audit market on a large. All selected interviewees except IFAC could participate in the interviews rather their close colleagues answer the questions. Finally, the publications of the ECG are accessible only for its members not to general public.

4 Theoretical framework and literature review

The Section 4.1 discusses the characteristics and attributes that are found in the profession, in the light of Neo-Weberian approach of the Theory of Profession. The theories of the profession are used to understand the characteristics of the subject of this thesis i.e. the accounting profession, the motives behind their activities and the methods they use to achieve their objectives. Section 4.2 outlines the prior literature that has built upon and indicated some of the shortcomings in the theory. It also provides deeper understanding of the theory discussed. Lastly, Section 4.3 presents the framework of the thesis that will guide the authors to answer the research question of the thesis.

4.1 Theory of Professions

Professions are identified as associations of gentlemen that emerge autonomously, to institutionalize and regulate a specific area of practice (Johnson, 1972; Larson, 1977). Moreover, Friedson (1970) defines a profession as, an occupation that has assumed a dominant position so that it gains control determining the substance of its work and services. This is aimed to attain professional autonomy and self-direction (Friedson, 1970). In sociology, there are two dominant theories of profession in sociology Functionalist and Neo-Weberian (Brante, 1988). The well-known theorist of Functional theory Parsons stressed the importance of the profession in industrial society and developed the conceptual framework for the analysis of the profession (Brante, 1988). Parsons compared professional to other occupational groups and found that professions are "functionally specific" i.e.

"their authority is restricted to particular technical competence, bureaucratic measure, or contractual agreement" (Brante, 1988, p.121). On the other hand, Neo-Weberian theorists Johnson, (1972) and Larson (1977) associated activities of the professionals to exercise of power and pursuit of self-interest by elite groups that seek to create a monopoly for their services and restrict numbers in a profession so as to maintain fee levels and social standing. From the perspective of the subject of this thesis, the Neo-Weberian approach appears more realistic and suitable, as it explains profession's aim to promote self-interest behind its activities (Brante, 2009), whereas, Functionalistic framework is considered to be "naive and neutral", as it emphasizes that profession is driven but altruistic motive and integrated collective ethics (Brante, 2009).

The Neo-Weberian approach can be used to explain the characteristics, motive and methods of the accounting profession in the context of the subject of this thesis i.e. the influence of the profession on the policy-making of the new EU audit reform. The motive behind profession's act to influence such a regulatory process can be associated to and explained by the Theory of Profession. For instance, Faulconbridge & Muzio, (2011) claims that actors of the profession exercise their individual and collective power in pursuit of self-interest. In order to achieve this elites of the profession form a group within, that seeks to monopolize the industry for their service and to strengthen barriers to entry, so as to restrict market competition for them and to maintain the status-quo and the level of fee (Johnson, 1972; Larson, 1977). Larson (1977) explained professionalism as the process through which producers of special services aim and try to create, protect and control a market for their expertise. Furthermore, Larson (1977) in her book *The Rise of Professionalism* argued that the profession do not only aim to exercise the control to raise their ethical standard but might be out of their selfishness. In addition, members of professions are often driven by self-interest to create associations in order to dictate their working conditions, pays and status (Faulconbridge & Muzio, 2011).

However, Abbott (1988) revolutionized the study of profession by arguing that professions do not operate independently, nor do they exist in isolation, rather professions exist in a broader "system" (Abbott, 1988). He focused more on the interprofessional competition compared to the early professions theorists. By the ecology or the system of profession Abbott (1988) referred to competition between various professions, as they seek to secure a strong position in the market. In Abbott's (1988) view, the key to understanding professions is to see them in competition over jurisdictional disputes. Jurisdiction is the link between the profession and its work (Abbott, 1988). Jurisdiction can also be defined as a right to control the provision of particular services and activities (Abbott, 1988).

Jurisdictional claim to public refers to the claim of legitimate control of profession on how to perform a particular kind of work, as well as, a right to exclude workers from the profession, to control and dominate the definition of the jurisdiction (Abbott, 1988). The second arena of jurisdictional claim is on the legal system, "which can confer formal control of work" (Abbott, 1988, p. 60). Contest of legal jurisdiction occur in three places: firstly, the legislature, which in some countries grant statutory rights to certain professional groups (p. 60). Secondly, the court, where such rights are enforced and the actual boundaries of loose legislative mandates specified (p. 60). Thirdly, the administrative or planning structure where legal jurisdiction can be contested (p. 60). Equally important but less discussed arena is workplace, claims made in the workplace blur and distort the official lines of legally and publicly established jurisdiction (p.60).

In the case of accounting profession, Abbott's idea of jurisdictional claim on the legal system is directly applicable, as it has provided an essential monopoly on audit services and allowed the profession considerable discretion in control of their work environment through licensing and self-regulation (Reiter & Williams, n.d.). Moreover, the accounting profession also portrays a shift in the economically desirable work focus away from the statutory auditing to management and

technology consulting (Reiter & Williams, n.d.). Consequently, the large accounting firms have specialized in these non-audit services in order to develop into multi-professional organizations (Reiter & Williams, n.d.) and to claim jurisdiction on non-audit services, along their core activity.

Abbott (1988) claims that the power build up administrative task and external co-optation is exercised in all three settings of jurisdictional endeavour - before the state, before the public and in the workplace (p. 138). Before agencies of the state, power is exercised by lobbying legislatures to establish licensing boards, by using those licensing boards against competing profession, by seeking statutory and judicial monopoly of services (p.138). Before, the public power is exercised through various forms of media coverage. In the workplace, power is exercised through attempts to enforce legal jurisdiction, through control of professional language, through direct and symbolic subordination (p.138).

In relation to the subject of this study, Abbott's (1988) claim that before agencies of the state profession exercise its power by lobbying the law-makers or in public extensive power can be exercised by the profession through various form of media coverage (p.138). This exemplifies the methods adopted by the profession to maintain and control their jurisdiction on the core and non-activities, as in the case of accounting profession.

Friedson (1986) reflects how professional powers grew out of their 'market shelters'. He identified knowledge monopolies as a major source of power. The tacit knowledge of the profession enables it to control its work and how the work is to be conducted, which is labeled as 'technical autonomy.' This in turn leads to situationally specific knowledge monopolies. For instance, in the case of this thesis it is specialist and technical knowledge of the accounting profession, which enables it to regulate itself. Whereas, for regulators it might be too technical to govern or regulate the accounting profession, as regulators do not possess and, in fact, rely on

the profession for technical knowledge related to regulate it. Larson (1977) states that the power approach focuses on the political and social processes, that the professions secure and reproduce their privileged position in society.

The similarities drawn from the general characteristics and definitions of profession by Theory of Profession can be useful in studying the accounting profession in particular. These characteristics explicitly point towards some of the common motives methods that shape the profession. For instance, to exercise their control and dominance on the jurisdiction, to secure self-regulation, compete with other professions to strengthen their position in the market. In addition, they form groups within the profession to monopolies the industry and lastly, they compete between professions to claim their own jurisdiction. These characteristics will be used to explain the motives and methods of the accounting profession behind their act to influence the regulators.

4.2 Literature review

4.2.1 Studies using the theory of profession

The following section will outline research literature that has used the Theory of Profession to find the characteristics and traits of profession that either explains or contradicts their findings. To begin with, slightly similar to the subject of this thesis is the research conducted by Reiter & Williams (n. d.) who discuss the conflict between the large accounting firms (the profession) and the Securities and Exchange Commission (the regulator) on the proposals to prohibit certain types of work for audit clients. They examine the crisis in the public accounting profession in light of Abbott's (1988) theory of the system of professions. They use the theory to understand the dynamics of the controversies in accounting, which center around the key professional concept of independence. In the study Reiter & Williams (n. d.) supported Abbott's view that professions struggle continuously to maintain and

control of their professional jurisdiction. However, it has not been discussed in the article how does the profession try to achieve the control or aims to maintain its jurisdiction.

Further, Reiter and William (2012) conducted another study using theories of professionalism by Friedson (1986, 1994, 2001) and Abbott (1988), to help in understanding the implication of Sarbanes-Oxley Act (SOX) for the accounting profession as well as for the public interest. The article also explains why the public interest orientation of the profession is of importance and how the takeover of auditing standards by the government can potentially diminish the accounting profession's commitment to the public interest. In light of the Abbott (1988) and Friedson (2001) the authors discuss their finding as implication of SOX can have serious consequences for the accounting profession as it loose control as well as its economic monopoly on its professional work. With reference to the sociological theories of professions, they explained that it is the economic interests that is at the core of the professional project and when the perceived economic value of non-core services, such as information technology and management consulting outweigh the economic value of the core activity (auditing), the problems arise (Reiter & Williams, 2012). At this point, the motivation of the accounting profession to secure the value of its core activity diminishes (Reiter & Williams, 2012). Moreover, they also discuss that as a consequence of SOX the jurisdiction of auditors will become limited to merely policing the corporations.

Bianic (2003) discusses the role of the state in professionalization, in the context of France. In addition, the relationship between state and the profession. He uses the work of the Neo-Weberian theorists including Friedson (2001), Larson (1977) and Abbott (1988) to analyze the uniqueness of the French model of professionalization. Where, Friedson's and Abbott's claim that the state plays a secondary role in professionalization is discussed. The author found that there are at least three important issues regarding the relations between state and profession.

At the first stage, Bianic (2003) figured out that professions do not only depend on jurisdictional struggle and the state has a much important role in the activities of the ecology of the profession. These finding contrasted and therefore, questioned the theory proposed by Abbott (1988). At the second stage it was found that the contrasting degree of state involvement in Continental countries and Anglo-American countries should not be overstated. At the final stage it was discussed that to understand the relationship between state and profession not only nation-state context should be considered, rather international regulation should also be taken into consideration as it governs the jurisdictional claims.

Sikka and Willmott (1995) describe that accountant are part of the system that was introduced by Abbott (1988) as “the system of professions”. They begin by discussing Abbott's view, that like other professional groups accountants also struggle to diversify and protect their area of jurisdiction to compete with their rival profession. However, they argue that in doing so accountancy profession face challenges from those who seek to occupy its territory. Moreover, journalists, academics and politicians advance some competing discourses that may disrupt and weaken the profession’s capacity to secure and expand its domain. The paper also argues that in trying to define, defend and extend its jurisdiction, concerns get attached to accounting profession "independence". Therefore, profession uses variety of tactics, such as, revising its ethical guidelines, refining its disciplinary arrangements, as well as by mobilizing other agencies, including the state, politicians, media, accounting academics, etc., in order to support its claims, to reduce threats to its self-regulation and to redefine the terrain on which it combats its challengers.

4.2.2 Prior research on lobbying by auditors

This section particularly highlights the ways adopted by the accounting profession, in order, to fulfill its motives identified in the previous two sections. A substantial

amount of literature in the past is focused on studying the lobbying act, motive and methods used by accounting profession in the context of accounting standard-setting in the USA. A more recent study conducted by Allen et al., (2014) discusses lobbying and the role of Big N auditors, over Generally Accepted Accounting Principles (GAAP) for initial thirty-four years of the Financial Accounting Standard Board (FASB) (1973-2006), in the U.S.A. They generally describe the lobbying incentives for auditors in three broad categories i.e. catering to client's preferences for flexibility in the regulation, in their self-interest and being conceptually aligned with the FASB. The method of lobbying they use in their analysis is the submission of comment letter to FASB. Their findings indicate that expected litigation costs and the threat of regulatory scrutiny as a reason behind auditor lobbying. Linked to audit firms private interest and client's interest Puro (1984) discusses auditors lobbying behaviors at the time when new standard are considered by FASB. To explain both of the interests Puro (1984) uses the model of the economics theory of regulation (Stigler, 1975) and the agency theory perspective (Jensen & Meckling 1975), respectively. Puro (1984) argues that lobbying is done when the lobbying party expects large financial benefits.

Similarly, Burnett et al (2013) discusses the indirect form of lobbying done by accounting firms by influencing politicians and regulators, and the direct form by submission of comment letter, to promote the interest of their audit client. In the context of U.K, Georgiou (2004) discusses corporate lobbying through auditors to influence the Accounting Standard Board (ASB) in the U.K. This article discuss the method of lobbying employed by corporate managers which includes appealing to their auditors, private meetings with Accounting Standard Board (ASB) members and staff and submission of comment letters. Manson and Zaman (1993) studies lobbying of accounting firms with respect audit standard setting. To understand the nature, kind of responses and argument auditors advance to strengthen their position. They use the comment letters issued by the profession to the Consultative Paper and the Exposure Draft, to examine the form of lobbying.

Studies have mostly focused on the U.S, as the lobbying profession there is much older and thus more developed. However, in the EU context lobbying profession started to develop much later, thus the literature available is also limited. Moreover, the studies conducted on audit reforms and policy-making in the EU is also found to be limited. However, the most significant studies discussing and contributing to the literature on regulating audit in EU are Humphrey et al, 2011 and Samsonova-Taddei & Humphrey, 2015. Samsonova-Taddei & Humphrey (2015) is one of the few studies that discuss the policy campaign launched by large international accounting firms, to limit the civil liability for statutory auditors after the incident of collapse of Arthur Andersen. The study further analyses the European transnational audit policy-making processes through which such decisions are made and the factors that restricted firms from securing the exact EU-wide solution with respect to limiting auditor liability in the professions private interest (Samsonova-Taddei & Humphrey, 2015). This study discusses the influence of accounting profession in EU policy making with respect to the 8th audit Directive 2006 and found that the large accounting firms tried to mobilize relevant EU institutions with the aim of changing the Member States' auditor liability arrangements. However, they the firms failed in their struggle (Samsonova-Taddei & Humphrey, 2015).

Prior literature on standard-setting and policy making has discussed the concept of power as an important feature for lobbying. As it is the amount of power that gives the lobbyists ability to influence the due process in their self-interest or the interest they are pursuing. Therefore, in order to synergies their power, the large accounting firm made significant development in the 1990 by creating associational organizations, both in the EU and the US (Humphrey et al., 2009). In Europe, the associational body became known as the European Contact Group (ECG) (Humphrey et al., 2009). The objective behind its formation was to coordinate the opinions of the firms, so that a united and a more strong opinion can be presented to the EC on various proposed audit regulatory initiatives (Manardo, 1996 and

Røder, 2001). Later, the accounting firms collectively establish a Global Steering Committee (GSC) on the model of ECG, to deal with their common concerns relating to regulatory and professional issues on a global basis (Morris, 2001). An important project for the GSC was to strengthen IFAC both as the self-regulatory body for the international profession and as global audit standard setter (see Humphrey et al., 2009). The accounting firms pursued this interest by making substantial direct contributions to IFAC's budget, and were allocated seats on each of IFAC's standard-setting boards to become centrally involved with IFAC's reforms (see Humphrey et al., 2009). To increase the involvement in international regulatory affairs the large accounting firms' extended the scale of their financial support to IFAC, which now receives approximately one-third of its funding from the large firms (Humphrey & Loft, 2011). Later, ECG together with FEE played a major role in advocating the professions case for limiting the auditors liability with respect to the EU 8th audit Directive 2006 (Samsonova-Taddei & Humphrey, 2015). The examples mentioned above provides evidence of exercise of power by accounting profession, through different sources and regulatory bodies, to influence the policy making in their private interest or least to reduce the magnitude of the effects, the new reform can have on the economics of their business.

Moreover, the new EU audit reform of 2014 is only discussed by few researchers. A significant debate appears in Humphrey et al. (2011) which provide a critical stance on the important issues raised in the Green Paper 2010, to be included in the new EU audit reform of 2014. This research is aimed at enhancing the understanding of the contemporary regulatory mindset of the EC and to contribute to the policy debate. However, the influence of accounting profession in the policy making of the new EU audit reform is not discussed yet. In addition, to the objective of contributing to the research landscape by addressing this gap, it is particularly interesting to study the response and influence of accounting profession, as Samsonova-Taddei & Humphrey (2015) emphasized that they are the direct recipient of the reform. Furthermore, most commonly used method in the

prior literature, with exception to Georgiou (2004) and Samsonova-Taddei & Humphrey (2015), is the analysis of the comment letters, which only provides one-sided information. This thesis aims to conduct interviews with people concerned and analyze a range of documents in order to make a more reliable and complete analysis.

4.3 Analytical framework

In light of the general theories of profession described in Section 4.1, this thesis will draw upon and study the characteristics of the accounting profession, in order to understand the possible motives that the profession might be willing to achieve by influencing the EU audit reform. Additionally, studies using Theory of Profession in Section 4.2 will contribute towards developing a deeper understanding of what are the motives of the accounting profession to lobby. Drawing from the findings and discussions of these researchers, this thesis will build upon its arguments to answer the first part of its research question i.e. why do the accounting profession lobby against new EU audit reform. Further, the shortcomings found and the critique presented by Bianic (2003) and Sikka and Willmott (1995) to Abbott's theory of profession, indicates that theory of profession might not be applicable in every case, for instance, Bianic (2003) claims that in discussing the relationship between state and profession with nation-state context, international regulation should also be taken into consideration as it governs the jurisdictional claims. This will help the authors in having a more nuanced view to developing and supporting the pro and contra arguments, in relation to the relevance of the theory to their findings and analysis.

Further, the most common method adopted by accounting profession in order to exercise their influence, is to submit comment letters, as evident from studies mentioned above. Other methods include, directly influencing the standard setters

by conducting meetings with them; creation of organizational associations, such as, ECG in the EU to collectively and more strongly advocate the interest of the accounting profession; funding provided by the profession to standard setting and regulatory bodies, such as, IFAC and securing seats on the board of these bodies to directly influence the decision making of these bodies. Drawing from the literature mentioned above and the Theory of Profession, this thesis aims to answer the second part of its research question i.e. how does the accounting profession lobby against the new EU audit reform and identify the method used by the accounting profession (see Fig. 2). In addition, the EU law making process and lobbying EU institutions described in chapter two will help identifying different types and extent of lobbying EU institutions are subjected to.

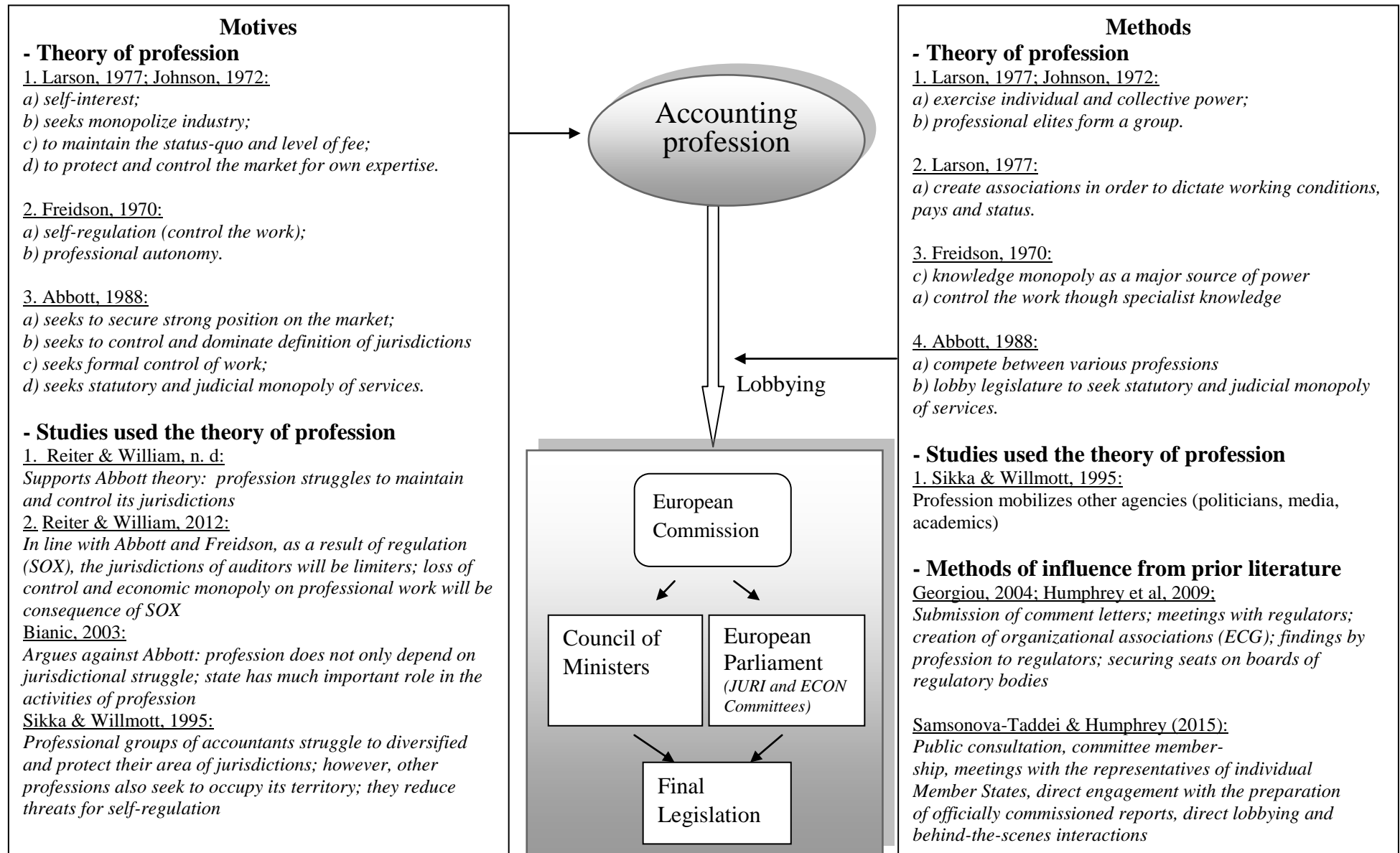


Figure 2 Framework of the Thesis

5 Empirical Evidence and Findings

This chapter will present the findings that are driven from the data collected. The findings will be divided into two parts, based on the research question of this thesis. Section 5.1 will outline the apparent and embedded motives and reasoning presented by members of the accounting profession, identified in earlier sections. Subsequently, Section 5.2 will present the various ways adopted by the profession to channelize their concerns and to exercise their influence on the regulators, so as to get their voices heard. Each of the sections will include evidences collected from the text and the verbal documents issued and the interviews. Lastly, Section 5.3 will summarize the finding and give a direction leading to the analysis chapter of this thesis.

5.1 Arguments by accounting profession

In the course for studying the general response of the profession towards the proposal of the EU audit reform, it was found that the profession supports and welcomes the initiative. However, some of the articles, as discussed in earlier sections, came out to be more controversial and got strongly opposed by the accounting profession. These articles include, MFR; prohibition of NAS and capping of fees on NAS.

5.1.1 Findings from verbal and text data

In the process of channelizing the response to the proposal and opposing the controversial articles the profession issued various documents, for instance,

response to the Green Paper, point of views, briefing papers, press releases and letters to the EC. Apparently, there were many reasons that come to the surface for opposition of the above-mentioned articles, but some reasons were put forward repeatedly and appeared to be much more emphasized upon compared to others.

- Achievement of objectives
 - Decrease in audit quality

The reason that takes the lead for the opposition is that MFR and prohibition of NAS will directly have negative consequences on the quality of the audit performed (FAR, 2010, 2011; FEE, 2010; KPMG, 2012; PwC, 2012; EY, 2014a). EGIAN in their position paper mention that the profession argues that audit firm rotation of 6 years, as proposed in the Green Paper (GP) is a very short time span (EGIAN, 2012). According to the members of the profession this will lead to adverse effects on audit quality as to the companies were firms are doing first year audit, will not have enough knowledge of the business (FEE, 2011a), its environment and the risks it is exposed to (Deloitte, 2011). Therefore, first year audit will be of lower quality, which might lead to even more financial failures. This implies that knowledge of business obtained over years lead to better quality of audit being performed. Therefore, various suggestions have been made to EC to extend the rotation period by the different members of the profession.

The prohibition of NAS has also received strong opposition from the profession, as it believes that complex audits require expertise and competence of multi-disciplinary teams (Grant Thornton, 2010 and Deloitte 2010), as they can offer a combination of experience, judgment and specialist skills, such as, actuaries, taxation experts, valuation experts etc, for performing high quality audit. These teams will simply not be maintained in house with the 'audit-only' status of the firms. Therefore, if audit firms will not be able to provide these services, they will

have to rely on the work of external experts (IFAC, 2011), for which the quality of work, ethical considerations and reliability cannot be assured. In this regard, a collective suggestion was made by the profession to adopt IESBA's Code of Ethics and to follow a 'threat and safeguard' approach to providing NAS, instead to prohibiting them completely. The profession thus, claims that these articles will not achieve EC's objective of improving audit quality, rather will have undesirable consequences on audit quality. Moreover, introduction 10% fee cap in the proposal 2011 on permissible non-audit services has also faced negative response from the profession (FEE, 2011b).

MFR and prohibition of NAS was further opposed by mainly the professional bodies and the audit firms, because it will lead to loss of knowledge of the previous clients and the expert skills and competencies that were maintained in the audit firms (FEE, 2012a; KPMG, 2014; FAR, 2012d), prior to these articles coming into effect. In addition, mandatory rotation will lead to constant disruption in the operations of firms after every fixed interval (PwC, 2013a; FEE, 2011b and FEE, 2011c).

Furthermore, in the studies conducted by FAR and PwC it became evident that the vast majority of the respondents opposed the three articles (PwC, 2011a and FAR, 2012c) expressing their concerns on the far-reaching impacts of these articles, as they believe that the results might be counterproductive (FEE, 2011b), in terms of audit quality, cost and flexibility and choice available to the businesses (PwC, 2011a).

➤ Decrease in audit's independence

Secondly, these articles came under mild opposition by the profession on the matter of assuring auditors independence (FAR, 2012b; Deloitte 2012; FEE, 2014a) which was one of the prime reasons for EC to issue the proposal of the audit reform. The

article of mandatory firm rotation was introduced to eliminate the possibility of development of over-familiarity between the audit firms and its clients, which can hamper objectivity and professional skepticism of the auditor while performing the audit. However, audit firms argue that many countries do not have such requirements, but some who have like Italy provides little or no evidence that mandatory firm rotation can improve audit quality or increase auditor's independence (Deloitte, 2012). Further, the profession claims that in the Code of Ethics requirement of audit partner rotation in 7 years already exist and is sufficient (FAR, 2010; PwC, 2010; KPMG, 2010).

In addition, as a reason to oppose MFR, the profession puts forward that the studies suggest that mandatory audit firm rotation at regular arbitrary intervals will significantly add to the cost of the business that will outweigh any perceived benefits of the rotation. In this regard, FEE (2013a) responded by favoring the black list approach for the prohibition of NAS that could pose a significant threat to auditors' independence and for which no safeguards exist. However, the profession demanded that to be effective such a list should be consistent internationally, to avoid unmanageable fragmentation in the regulation (FEE, 2013a). FEE (2013a) and PwC recommended that incorporating the IESBA's list of prohibited NAS into the proposed Regulation, as the content of this list is broadly in line with the proposals already made by the European Parliament's Committee on Legal Affairs (JURI). On the matter of fee cap PwC (2013d) appeared to be strongly vocal, as it says any such cap does not make sense. Independence is not determined by an arbitrary monetary amount.

➤ Increase on market concentration

Thirdly, one of the most discussed reasons of the financial crises is also the high market concentration in the audit market (FEE, 2010; PwC, 2010; Deloitte, 2010; and Grant Thornton, 2010). This refers to the oligopoly of the audit firms.

Therefore, mandatory firm rotation was also aimed at targeting and reducing this concentration. With mandatory firm rotation, EC aims to encourage more competition in the market by allowing more firms to enter and thereby diluting the market concentration. However, especially large audit firms argue in light of the Bocconi University's review of the literature 2005 that mandatory rotation leads to greater concentration of work amongst the largest firms (FEE, 2010; PwC, 2010; Deloitte, 2010; Grant Thornton, 2010; FEE, 2011a; FEE, 2011b). During the study of the overall reaction of the profession, it also appeared that even the mid-tier firms do not support the mandatory rotation, as a means to reducing the market concentration (BDO, 2010 and Grant Thornton, 2010). According to Grant Thornton (2010) MFR will not reduce concentration and because of the bias towards the Big Four, rather there is a risk that it will increase market concentration. Therefore, the profession suggests that such interventions should not be made; rather it should be left to the market.

- Difficult to implement and practice

The members of the profession further claim that mandatory firm rotation and prohibition of NAS can be very difficult to implement in practice for the multinational companies (Deloitte, 2010 and FAR, 2012b). FAR gives an example that merger plans are difficult to achieve. With regards to NAS, suggestions have been made that categories of such services should be defined more carefully and further explanation and clarification have also been asked for services that are permissible based on their materiality (Deloitte, 2012). Here materiality is a point of concern, as it is hard to establish materiality depends on what. Further, it has also been put forward by the profession that such strict prohibition of provision of services will weaken the general economics of the audit firms (Deloitte, 2010; PwC, 2011b), as will entirely be dependent on audit services for their operation to be profitable. In addition with mandatory firm rotation the audit market may also contract for the audit firms. This might lead to significant rise in the price of audit, which might

eventually be shifted to the clients. In this regard, the profession shares its concern that such a business model of 'audit-only' firm would not be sustainable (Grant Thornton, 2010).

- Cost and administrative burden

FEE (2013a, 2014) claims that it welcomes a "black list" of NAS if it is consistent with international standards to enhance credibility and minimize administrative burdens. Moreover, a "black list" only approach provides more legal certainty than the cumbersome proposals of the EC. However, in line with the proposal made by the JURI, to oppose the proposal FEE also comments that it would be rather difficult to reconcile any such cap on fees of NAS with proposed "black list" approach and that the cap will immensely add on to the administrative burden of the firm. Moreover, the opposition to MFR by the profession was also reasoned to be the increase in financial cost and administrative burden for the businesses (FEE, 2010; PwC, 2010; Deloitte, 2010; PwC, 2011b; FAR, 2011; KPMG 2014; FEE, 2014a and IFAC, 2011).

Although in the response to the Green Paper and press releases the audit firms accept that cost consideration should not be a decisive argument when discussed the prime matter of audit quality. However, they also point out that frequent mandatory rotation in 6 years could substantially add to the cost of the businesses.

By cost Deloitte (2010) refer to the internal costs of explaining its business and processes to the new audit team. Overall, the point of view of the profession on the matters of MFR, prohibition of NAS and capping of fee on NAS appears to be consistent and firm on the matter that through these proposals the choice for stakeholders will become restricted, whereas, the cost will increase considerably. Moreover, will be it the discretion of the audit committee and the companies of the board of directors in their choice of audit firms.

- Risk putting Europe at a competitive disadvantage

According to PwC (2013a) MFR has generally been rejected in US and Europe and if any such regulation is implemented it will put Europe to competitive disadvantage (PwC, 2013e and FEE, 2012a). FEE (2012a) claims that these reforms will particularly isolate Europe from the global market at the time of financial crises, as both MFR and prohibition of NAS is deemed to have negative effects on the European audit business, in terms of cost and quality of audit.

- Unclear definition of NAS

With regards to NAS, the accounting profession argues that the definition of NAS in the GP is not clear. According to Deloitte “we would suggest that categories of non-audit services be defined carefully (for example, any special work or reports required by prudential authorities that are best provided by the auditor would be disclosed as audit-related services)” (Deloitte, 2010, p. 14).

- Reduce audit firm's ability to attract talent

The profession claims in its criticism to the creation of pure audit firms that Prohibition of NAS will reduce audit firms ability to attract and hire talent with specialist skills. For instance, E&Y argues that having audit-only firms could negatively affect audit quality as firm will not be able to hire high-quality specialists” (E&Y, 2010, p. 12). Therefore, audit firms need expert and competent multi-disciplinary team. In this context Grant Thornton claims that “the range and depth of skills offered by multi-disciplinary firms enhances the quality and efficiency of both audit and NAS” (Grant Thornton, 2010, p. 14).

- Commercial interest of profession

It has been found that the profession has highlighted its commercial considerations as a factor of opposing the three relevant measures included in the reform. For instance, Deloitte (2010) argued that the prohibition of NAS will weaken the general economics of audit firm. Additionally, Grant Thornton (2010) claimed that the creation of pure audit firms will undermine the financial strength of the audit firms and will restrict the firm's opportunity to extend its infrastructure. Thus, the business model of an audit only firm would be unsustainable according to Grant Thornton (2010).

5.1.2 Findings from interviews

- Difficult to implement and practice

During the interviews it became evident that the measures in the reform will be difficult to implement and practice. For instance, according to Ms. Noémi Robert, audit and assurance manager FEE "the provisions of the proposal were not feasible to the market at all". In addition Mr. Gary Pflugrath (IFAC) expressed that "It might be challenges with implementation, we might have 28 different versions of regulation across Europe".

- Achievement of objectives

Secondly, the interviewees argued that it will be hard for the reform to achieve its objective. In the views of Mr. Cooper "the reform will not tackle the problem that needs to be tackled". Mr. Cooper also noted profession's view of the reform as they think that "the proposal was completely unnecessary, poorly thought out and should be watered down as much as possible". Mr. Gary Pflugrath (IFAC) added that "we are not sure that those measures (NAS and MFR) will achieve the objectives of the regulation". In addition, Ms. Helene Agélii (FAR) said "this regulation has so many rules that en application might lead to unintended effects and contradict the

objectives of the audit reform". By this she referred to increase in market concentration: "the Regulation might rather increase than decrease the market concentration to Big Four; "Also I do not think that audit quality will be enhanced as per the objective of the reform" and that "there are no evidence that these three articles will have the intended effect on the independence". Mr. Gary Pflugrath (IFAC) shared his view by saying "There is not sufficient evidence to support that the MFR and further prohibition of NAS will achieve the objectives of the regulation because the academic research on the topic is mixed".

- Unclear definition of NAS

Thirdly, the opposition on the matter of prohibition of NAS, was broadly attributed to unclear provision in the regulation for NAS and auditors are already prohibited from providing some NAS. According to Ms. Noémi Robert "FEE advocated of adoption of the Code of Ethics, instead of what was proposed in the Regulation". On the same line Mr. Harry added that "if the profession oppose, claiming that the regulation already exist, then we should listen to them". In addition, Ms. Agélii added that "Article 5 (Prohibition of NAS) is black or white, which is not a very efficient way to go". Moreover, she shared that a prohibition list is a very static tool and FAR supports a principle-based approach.

- Cost and administrative burden

Fourthly, the interviewees supported the argument presented in the data that these measures will substantially add to the administrative burden of the businesses and cost for both businesses and audit firms. For instance, regarding the capping of fee of NAS, Ms. Noémi Robert expressed FEE's concern related to the increase in administrative burden for the audit clients. Whereas, Ms. Helene Agélii "noted that there will also be a lot of cost related to compliance and administration". She said

that "there will be big cost related to compliance with the rules of the regulation and it is difficult to understand how that will increase audit quality".

- Commercial interest of the profession

Lastly, the strong opposition to the reform by the accounting profession can also be regarded to the commercial interests of the accounting profession. For instance, Mr. Cooper pointed out that the profession claims that the reform is not in public interest but "I would say neither it is in the interest of the shareholders and the Big Four". Moreover, in relation to, limited profitability He added that "the profession is resistant to accept the reform because it does not want its market to get shaken up, endanger its revenue streams, highlights its long-standing relationships and its liability implications".

In addition, the opposition was also targeted towards limited profitability of the audit service and the rising demand and pay-off from the NAS. This view became strengthened when Mr. Cooper commented that "audit is not a very profitable part of the business anymore and that is why there is a big growth in NAS". Ms. Helene Agélii also shared the same concern by saying that "in the long run big audit firms will be questioning how important it is to have audit assignment, and they might find more interesting to provide other services that are not as regulated as audits".

5.2 Methods

This section will describe the various ways adopted by the members of the accounting profession, to express their concerns related to the three controversial articles of the audit reform. Additionally, it will also incorporate how the

profession made suggestion that it deemed more appropriate and effective in achieving the overall objective of the reform.

5.2.1 Findings from verbal and text data

In 2010, each member of the accounting profession, apart from other stakeholders submitted their response to the Green Paper, invited by the EC. In the responses to the Green Paper they present their views, concerns and suggestions to the measures, to be incorporated in the legislation. From the accounting profession, the responses and the communication by IFAC and each of the six audit firms were presented on an international level; FEE and EGIAN on a regional level and FAR on a national level. It was found from these responses that the profession is deeply concerned about and strongly opposes the measures of MFR and Prohibition of NAS.

In November 2011, EC published the draft legislative proposal. After the deadline of receiving responses to the GP was over, in November 2011, EC published the draft legislative proposal, in the regulation the EC introduced various measures, such as, mandatory rotation of audit firms after a maximum period of 6 years (EC, 2011a); a 10% cap on the fee received by the audit firm on the provision of the audit related services to client (EC, 2011a); creation of audit-only firms and strict restriction on audit firms on providing NAS. The legislative proposal was sent to both the Council and the EP, in EP the responsible committee JURI was suppose to discuss and vote on the report, prepared by the rapporteur Sajjad Karim and then send forward for the plenary debate. The documents issued by the profession contained the opposition and concerns related to approval of these three controversial measures. To these strict measures introduced in the proposal, FEE issued it briefing paper (2011a), news release (2011b) article in parliament magazine (2011c), president speech in the Parliament (2012a) and Policy statement

(2012b). FAR issued a debate article published in Dagens Industri (2011), an interview (2012b), press releases (2012c, e) and point of views (2012d). Ernst & Young issued its point of view (EY, 2011). PwC published its press release (PwC, 2011a, b) and point of view (2012). Other documents were also issued, for instance, IFAC responded to the PCAOB concept release on auditor independence and audit firm rotation.

In April 2013, voting in the JURI committee was held and two reports were published by the committee. The report related to the regulation incorporated number of amendments to the original proposal made by the EC. In the report relating to the regulation, JURI committee proposed the duration of MFR to increase from 6 to 14 years. For Prohibition of NAS the committee proposed the adoption of IESBA code of ethics, instead of EC proposal related to independence. The matter of cap on the fee of non-audit services was proposed to be deleted, in the JURI committee's report. In response to these proposed amendments FEE issued an article by the name audit policy under the Lithuanian Presidency and appeared to be in line the JURI committee, on the matters of Prohibition on NAS (FEE, 2013b). PwC (2013e) issued a press release to EP's JURI Committee vote on audit proposal, where PwC appeared relatively convinced on the effectiveness of the draft legislation; however, it was still concerned that MFR could be counterproductive to audit quality. In May 2013, a debate in the European Council was held, where each Member State presented their then current views on the Irish Presidency proposed compromise amendments with regard to three much debated topics: the prohibition of non-audit services and mandatory audit firm rotation (FEE, 2013b). To this debate in the council, FEE issued a press release (2013a).

In December 2013, the EP and the member states agreed upon compromise reached on the controversial reform proposed by the EC. The compromise that was reached requires audit firms to rotate after an engagement period of 10 years; for NAS audit firm will be strictly prohibited from providing non-audit services to their audit

clients, the strict restriction also includes tax advice and services linked to the financial and investment strategy of the audit client and a cap of 70% on the fee of permissible NAS is introduced, where the cap will be computed on the three year average of the audit fee received from the client (EC, 2013). The reaction of the profession to the compromise reached between the EP and the member states in the 'Triologue' was unwelcoming and shared its disappointment; due to the reason that they believed that the amended proposal will increase the cost and the complexity for the businesses. The profession appeared to fall back to the arguments it made against the proposal and PwC suggested that "We would urge both the European Parliament and the member state governments to look again at this regulation with the aim of making significant changes or face introducing a law that will place European business at serious competitive disadvantage," added Mr Sexton (PwC, 2013e).

In April 2014, final voting on EU audit reform in EP took place and the final act got adopted by the Council. To which FEE reacted by issuing a news release, stating its concern over the consistency required in the interpretation and approach to the MFR and Prohibition of NAS (FEE, 2014b). KPMG issued its views that they continue to believe that mandatory firm rotation combined with significant restrictions on non-audit services, will inevitably reduce choice for shareholders, while increasing costs and complexity (KPMG, 2014). PwC shared its concern that other changes will have the effect of reducing competition and shareholder choice (PwC, 2014). Audit committees and shareholders are best placed to decide who their auditors and non-audit service providers should be and this legislation takes power away from them. It would be wise to review the effectiveness of such measures after an appropriate period. BDO shared its disappointment (BDO, 2014). (see Figure 3).

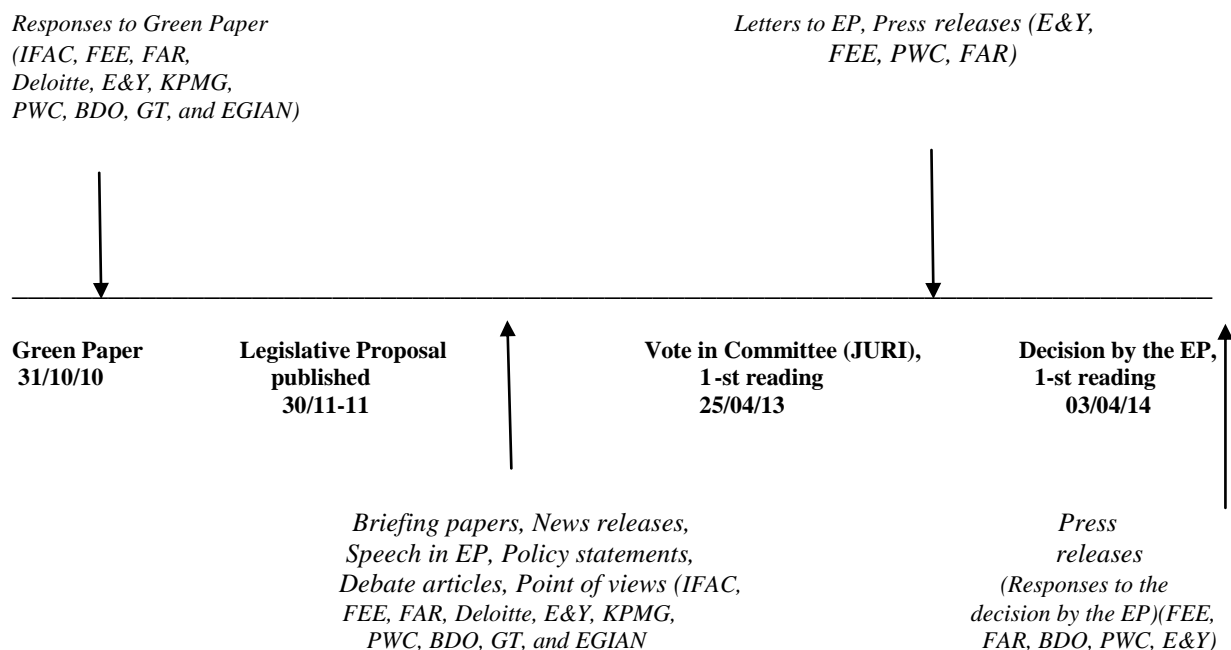


Figure 3 Lobbying key events of Ordinary Legislative Procedure

Apart from the exertion of influence through issuance of the formal document by the concerned professional bodies and the audit firms, this thesis has looked into the interviews given by the heads of these organization and some MEPs. For instance, an interview was given by Mr. Dan Brännström to the Swedish Better Regulation Council and published in its press release. He was asked, what has FAR done to promote its views on the audit reform? To which he replied, "we are very active and had dialogues with politicians and other actors in Sweden and Brussels" (FAR, 2012b). Moving on, a Swedish MEP, Cecilia Wikström was quoted in her interview with Swedish professional magazine Balans, saying that she thinks that "it was scary and unbelievably difficult to listen to Big 4 and it was the most aggressive lobbying campaign that I have experienced during my 5 years in Brussel" (Lennartsson, 2014). Moreover, she stressed that the lobbying concern the Big 4 at International level (Lennartsson, 2014). Furthermore, Spanish MEP Antonio Masip Hidalgo, the Socialist shadow rapporteur in the legal affairs committee, was quoted in EurActive, where he told the conference that he backed

strong regulations and decried lobbying efforts by large audit firms (Fleming, 2013). He wrote to the former president of the Parliament, Jerzy Buzek in 2011 that someone representing the interests of the sector threatened him by saying “he would do his best to sink me personally and to have me rejected by my party”, if he did not drop his opposition to the Big Four audit firms (Fleming, 2013). In addition Barnier was quoted saying that “Considering the major issues in our proposal it is normal there are a lot of discussions and that these are not always easy, even if I do sometimes find them a bit aggressive towards me” (Fleming, 2013) (see Fig. 4).

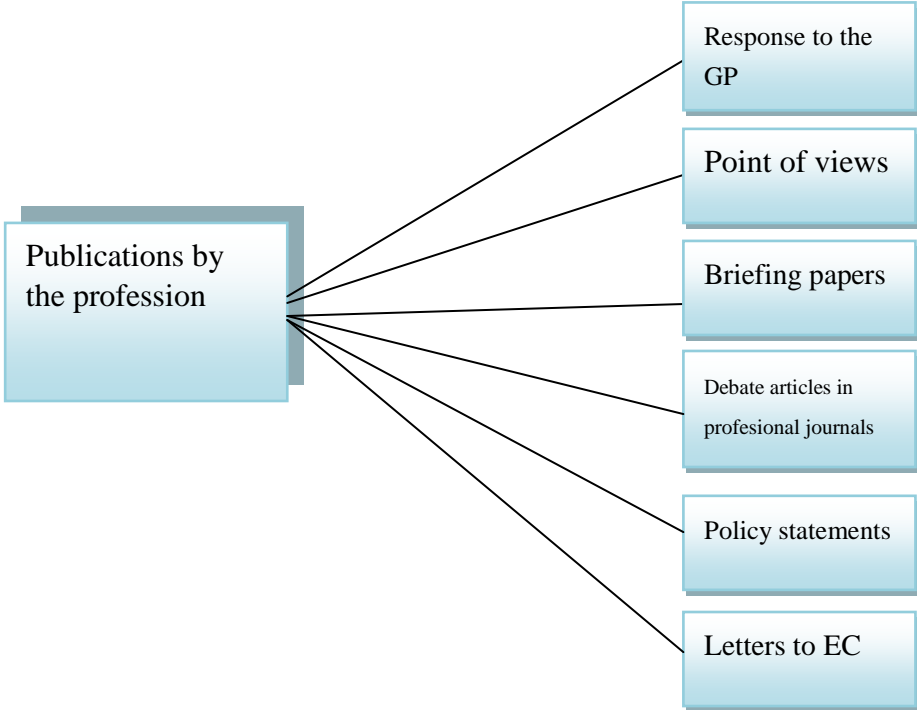


Figure 4 Publications by the profession

5.2.2 Findings from interviews

- Publications by profession

During the Interview it was identified that the profession uses various official documents to influence the audit reform. According to Ms. Noémi Robert, apart

from response to the Green Paper, these documents included, position papers, briefing papers etc that were sent to the EC.

Mr. Pflugrath added that IFAC had limited communication to EC, such as, response to the Green Paper and some press releases, because IFAC has its regional organization FEE which does the communication to EC on regional level. Mr. Cooper also commented that when the deadline for amendments comes closer "the parliament got bombarded by the position papers, briefing papers etc".

- Communication with MEPs and national representatives in EU

Secondly, it has also been found that the professional organizations requested and had direct communication with the MEPs and representatives in the EC. For instance Ms. Robert said that FEE "requested for the meetings with MEPs and their assistants to discuss the relevant articles of the regulation". Ms. Agélii added that FAR had regular contact with Swedish representatives in EP and EC, by way of meetings, phone contacts, emails and round tables in Brussels, to discuss different drafts of the reform. Mr. Cooper also supported this point by saying that "the parliament got bombarded by request for meeting with MEPs, with all sorts of proposals". He also pointed out that the MEPs are not directly approachable for meetings, but the assistants are. This provides an example for under the radar lobbying, as identified by Mr. Cooper. He said that "The methods frequently used by the lobbyist are to take assistants to lunch and drinks that I feel is pretty dodgy at times and is an unspoken scandal in the Brussels parliament that the assistants might be very close to the lobbyists" (see Figure 5).

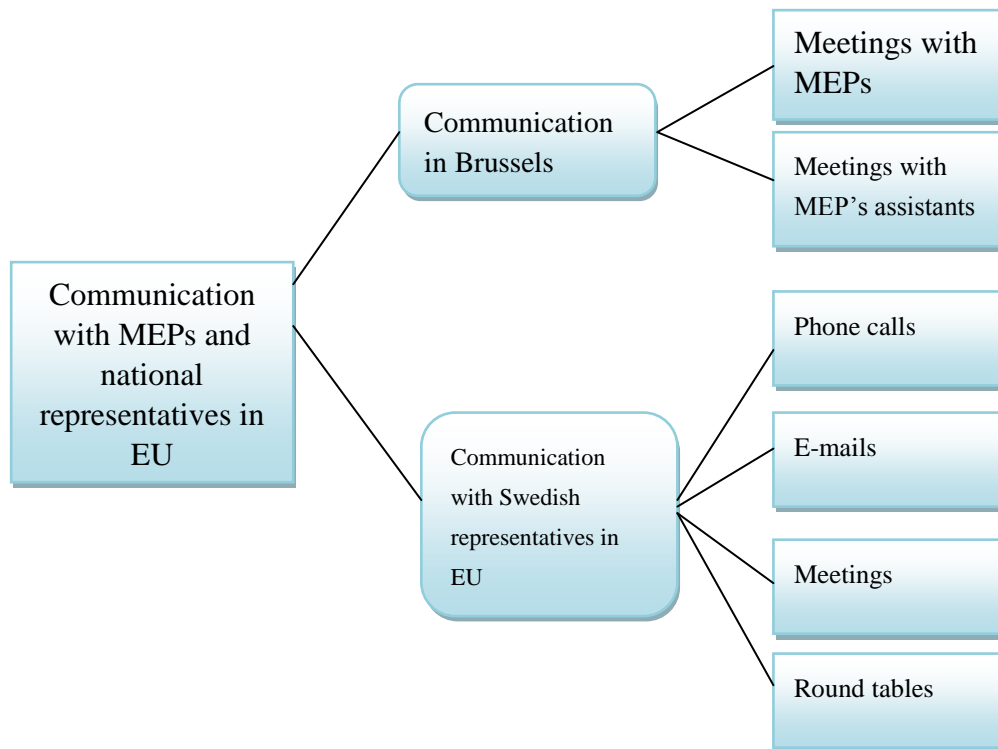


Figure 5 Communication with MEPs and national representatives in EU

- Stakeholder engagements

Thirdly, evidences of stakeholder engagement have also been found. For instance, Mr. Pflugrath commented that "When IFAC was developing its response to the GP and press release it consulted with the Forum of firms (FOF) that represent audit firms; with small and medium practices committee to get the views of smaller practices; accountants in business (CEO) and FEE. In addition, Ms. Agélii mentioned that in the process FAR had "regular contacts with Swedish Justice Ministry, Swedish Enterprise the members (Big 6 audit firm) and CEOs of the listed companies. In the context of similar views shared by the members of accounting profession regarding the reform, Ms Robert commented that "Big four firms are part of the accountancy profession, which represents FEE membership.

This is the reason why we are a bit talking about the same people". Ms Robert added that "FEE represents the whole profession though, and not big four firms only, we also include the views of smaller firms and small practitioners. This is the reason why FEE has a more balanced and consensual approach". (see Figure 6).

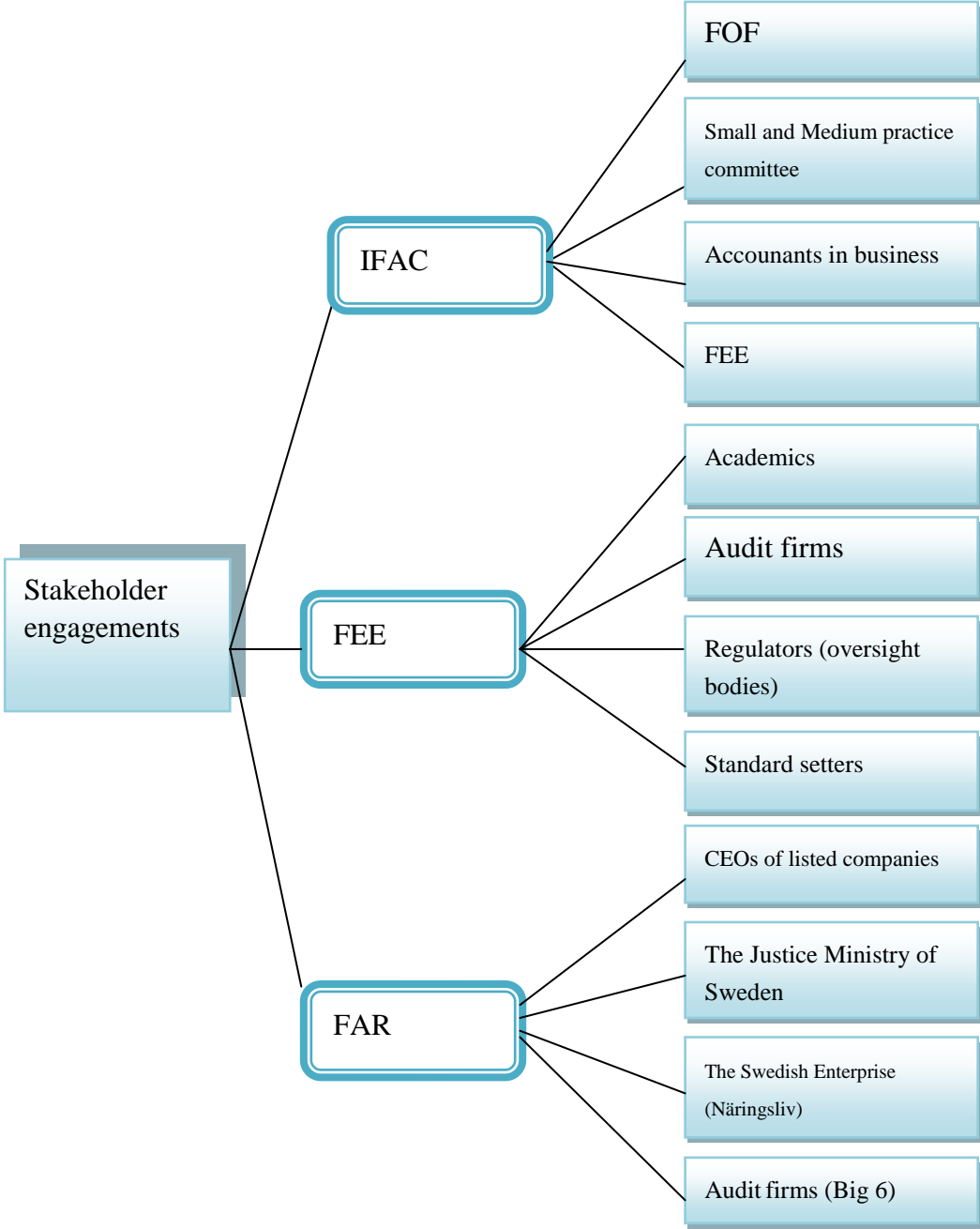


Figure 6 Stakeholder engagements

- Reliance for technical knowledge

Fourthly, evidences were also found on the matter that regulators meet and rely on professionals for technical knowledge, to regulate the profession. In this regard, both Ms. Robert and Mr. Cooper said that MEPs and their assistants contact and rely on the members of the profession for technical knowledge, to take a position in the parliament. Mr. Cooper further mentioned that while providing the technical knowledge "the profession pushes its particular views".

- Propagation of ideology of audit firms from institution to institution

Lastly, the matter of political pressure and lobbying to influence the MEPs got confirmed by Mr. Cooper and he said "the power the Big Four have and the approaches they can take should not be understated, as the Big Four has huge amount of money and huge amount of power". The immense power possession of the audit firms is attributed to the propagation of ideology of members of the audit firms from institution to institution. To this Mr. Cooper commented that "the process of the reform has been subjected to a regulatory capture as the main standard setting bodies like IAASB, IFRIC, some of the regulatory bodies are either started by and/or employ former Big Four members". Moreover he said that it appears that "the employees of these bodies are working for Big Four, they are all friends and know each other" and "these people carry with them their own views, their contacts, and their conceptions about what audit should be for". On the matter of regulatory capture Mr. Cooper added that "the situation now is that the regulators across board are captured but the Big Four are so huge that no one talks about them" (see Figure 7).

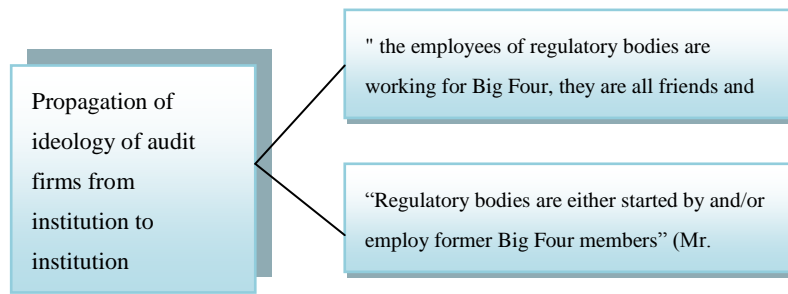


Figure 7 Propagation of ideology of audit firms from institution to institution

5.3 Lobbying details from Transparency Register

Looking into the Transparency Register helped the authors to figure out who from the accounting profession were engaged in the process of lobbying the EU audit legislation. It was found that except for IFAC, all the other firms and professional bodies discussed in this thesis were registered for lobbying in the transparency register (Europa, 2015a). Being registered in the register FEE does not only comment on EU matters but also advise and comment global standard setting and policymaking in the diversified field of accounting, auditing and other professional matter. In addition FEE was also active in presenting the accounting profession interest, related to the EU audit reform, as mentioned in the Transparency Register. (Europa, 2015b). Although, the Transparency Register shows the involvement of FAR in the lobbying process against the reform, however, the details on the matter are not disclosed (Europa, 2015e). For PwC the register shows that, in recent years, the interest representational activities of PwC have largely focused on aspects of EU audit legislation and its implementation across the 28 EU member states. Our principal concern was and is to ensure that the legislation would help enhance the quality of audits for capital markets both in the Europe and globally (Europa, 2015c).

For KPMG the register indicate that its activities in the course of lobbying on the reform including organizing periodic events to share information and its views on

the affair and regular publishing of information brochures and articles (Europa, 2015k). The activities of Deloitte covered in the Transparency Register include Social Progress Imperative breakfast or lunch meetings at the EP (Europa, 2015l). The activities covered in the register relating to E&Y are limited and only disclose that their principal concern was to ensure that through the audit directive the quality of the audit will enhance both in EU and in the world (Europa, 2015d). The lobbying activities of Grant Thornton relate to the implementation phase of the reform (Europa, 2015g), therefore, out of the scope of this thesis. The involvement of BDO in the process of influencing the audit reform was also limited, as the register discloses that the "Regulatory Contact Partners from the BDO offices across Europe might occasionally (less than 10%) be involved in BDO interest representation to the European Commission and the European Parliament" (Europa, 2015f, pg.1).

The involvement of ECG in the lobbying process on the reform was also limited in disclosure. However, ECG's concern was in line with that of the audit firms, that was ensuring enhancement of audit quality through the adoption of the directive (Europa, 2015). In contrast, according to the register EGIAN was more vocal and showed active involvement by attendance and/or speaking in events in the Parliament and elsewhere to discuss the choice and harmonization of the many member state options provided for in the legislation and to explain our members views. Moreover, the Register also discloses the budget allocated by EGIAN to these activities. Where the amount allocated excluded the costs of "contributed" time spent by senior staff from EGIAN members in relation to EGIAN activities. These activities are principally meeting key counterparts (such as, The EC, The EP, CESR, and national regulatory authorities), responding to the Commission consultations (Europa, 2015).

6 Analysis and Discussion

This chapter presents two important components of this thesis the analysis of the findings and the discussion. Section 6.1-6.8 presents the analysis of the finding and it is divided into various subsections that explain the lobbying targeted at different events taking place in EU institutions. Section 6.1 relates to lobbying in EC, where, 6.1.1 describes the methods of lobbying. Section 6.2 relates to motives, where, details of motives behind the lobbying of accounting profession are presented in relevant headings. Section 6.3 describes how EP was lobbied and subsections 6.3.1 and 6.3.2 presents the methods and motives behind lobbying the EP, respectively. In section 6.3.2, due to the repetition of motive of lobbying from EC, the motives are not explained under the headings. Sections 6.4, 6.5 and 6.6 present the methods and motives of lobbying being explained together, due to their repetition from the lobbying of EC and EP. These sections relate to lobbying the Council of Ministers, “Triologue” and the EP before the final voting, respectively. Section 6.7 explains the method of lobbying that does not relate to any specific EU institution or event; rather exist during the whole legislative procedure. Section 6.8 provides the summing up of the methods used and motives behind the lobbying on the EU audit reform. The last section, Section 6.9 puts forwards the discussion on the topic of new EU audit reform and presents the contribution of this research to the literature.

6.1 Lobbying the European Commission

6.1.1 Methods

In 2010 the EC issued the GP and the profession was invited to respond to the GP. The responses were sent by each member of the profession discussed in this thesis

except ECG, where the profession expressed their views, concerns and suggestions to the reform. In the response to the GP these members of the profession shared their strong opposition and negative remarks on the measures of MFR and Prohibition of NAS. The stance and wordings of mid-tier firms i.e. BDO and Grant Thornton, in opposing these measures appear mild, as they state that they do not believe the audit firm tenure should be limited and the provision of NAS should not be prohibited. In light of the findings of Königsgruber (2009) and Georgiou (2004) the comment letters are used as a tool to lobby. In relation to this, issuance of responses to the GP indicates the initiation of lobbying process by the members of the accounting profession, to influence the EC in drafting its legislation. However, responding to the GP is also considered to be a normal practice, as the EC needs to know the opinions and address the concerns of the stakeholders, so as to ensure smooth acceptance of the regulation in all the constituencies.

In the course of drafting the response to the GP, it has also been found that professional bodies were engaged in consultation with various stakeholders, for instance, in November 2010 FAR delivered its opinions to the Justice Ministry of Sweden, so that the Ministry could base their response to GP including the opinion of FAR. This indicates that FAR might have promoted its concerns through Swedish governmental institution. Moreover, in interview with FAR it was discovered that they had regular contacts with Swedish Enterprise; CEOs of listed companies, to inform them about the reform; large audit firms including BDO and Grant Thornton. It might be viewed as FAR's attempt to influence the opinions of these stakeholders, in relation to the proposal made in the GP. At the stage of drafting response to the GP, IFAC engaged consultation with FOF and small and medium practices, to take into consideration opinions of large, mid-tier and small practitioners. Additionally, IFAC also consulted accountants in business. The consultation process between the professional organizations and interested parties point towards the exercise of collective power by the profession as identified by Larson (1977) and Johnson (1972), to promote the interest of accounting profession

as a whole. Through this characteristic it can be drawn that members of profession wanted to form a collective opinion, which could prove to be more powerful and influential on the EC at the stage drafting the regulation, than their individual opinions. This might be seen as an effective way of influencing the EC, as it needs expert knowledge for legislative work (EP, 2003).

In relation to the aspect of collective power being exercised by the profession, it has also been found that the elites of accountancy profession create groups (Larson (1977) and Johnson (1972)), with the aim to promoting their collective interest, for instance, ECG and EGIAN. This finding has been supported by the discussion in the study of Humphrey et al., (2009) that accounting professional associations exist. The reason for their existence is presented by Samsonova-Taddei & Humphrey (2015), those associations, such as, ECG represents the accountancy firms and in their dealing with European governance institutions, particularly the EC and the EP. This organization was classified a rare case of cooperation between the large accounting firms on a transnational policy stage (Kelly, 1996 seen in Samsonova-Taddei & Humphrey, 2015). Through EGIAN audit firms promoted their views to influence the EC, as EGIAN response to the GP was representative of the views of mid-tier audit firms. However ECG's response to the GP was not found due to lack of transparency in the activity and operations of the organization. ECG was found classified as in-house lobbyist according to Transparency Register; therefore, it can be assumed that ECG used some unofficial methods of lobbying to influence the EC.

6.2 Motives

6.2.1 Achievement of objectives

The concerns of the profession on the three measures in the GP were based on the argument that the reform will not achieve its objectives. For instance, the

profession argued during whole of the legislative process, that as a result of the regulation the quality of audit will not increase, rather it will decrease (IFAC, 2010; FEE, 2010 and FAR, 2010). It might be the case, based on the reason presented by FEE, that due to MFR the auditors will lose valuable knowledge of the client and in the first year the auditors will not have enough knowledge of the clients business, thus, the quality of audit in initial years will get adversely affected and consequently more financial failures might occur.

In addition, MFR will result in constant disruption of operations of audit firms after a fixed interval. However, the profession does not put forward the effects that MFR can have on the business of the audit firms. That is, MFR might lead to strong negative consequences for the audit firms commercially. For instance, frequent loss of long-standing audit clients, which can have negative effects on revenue stream, as due to the restriction the firms might not be able to audit their previous clients, thereby, the number of clients might reduce. The profession claims that due to lack of knowledge of the client's business in the initial years the quality of audit might not be the same. This argument only highlights damage caused to public interest as a result of MFR. However, motive of profession to promote the self-interest of accounting firms as identified by Larson (1977) is not revealed. It can be explained as the hidden interest of the accounting firms, which refers to damage caused to audit firm's reputation as a result of low quality of audit in the initial years. This can lead to further loss of audit clients and revenue earned from them.

The profession also argued that there are no studies or evidence that supports MFR to increase audit quality. To support this point IFAC's shared its opinion in the interview, that there was no sufficient time to investigate the effectiveness and contribution of even partner rotation and on MFR the research shows a mixed result. This argument is understandable, as it is more convincing to have supporting evidence for such a measure. Nonetheless, the MFR study in Italy, referred in most of the responses to GP, show that no significant difference in audit quality has been

found as a result of MFR (Cameran M., Prencipe A. & Trombetta M. (n.d.). Based on these studies, the suspicion put forward by the profession with respect to MFR being able to increase audit quality appears justifiable.

For prohibition of NAS, the profession argues that the reliance on the work of external experts will increase, whose work might not be consistent with the practices of the accounting firm and, thus, the quality of such work could not be assured. Therefore, usage of the work of external experts might negatively affect the quality of audit (KPMG, 2010). Further, they argue that provision of NAS can improve the knowledge of the business (KPMG, 2010), that can ultimately lead to high quality of audit performed. It might be true, as it is difficult to assure the quality of work performed by third party and also that provision of NAS can improve the overall understanding of the client's business. However, apart from the audit quality, the concerns of the profession might also relate to the proposal of 'pure-audit' firms made in the GP. The strong opposition can be viewed as accounting firms' struggle to maintain control on its jurisdiction. Abbott (1988) defines jurisdiction as a right to control provision of particular services. In this case the jurisdictional claim refers to the provision of NAS and its prohibition is directly related to the contraction of the jurisdictional claims of the accounting firms. In line with the description of Larson (1977) and Johnson (1972) the profession's concern on contraction of its jurisdiction can be associated with the self-interest of audit firms. As this will adversely affect their economics because they will lose a significant proportion of the fees received from it.

Secondly, the measures proposed in the reform came under criticism by the profession as they believe that another stated objective of the reform i.e. to increase auditor's independence will not be achieved. In relation to MFR, the profession presents the argument that there is no evidence that supports the effectiveness of MFR to enhance auditor's independence. However, from authors' perspective it can

be argued that the objective of MFR is to reduce the possibility of having longstanding clients, good relationship with whom can hamper the objectivity and professional skepticism of the auditor. MFR appears to be an effective way to address the threat of over familiarity between the audit firm and its client, thereby, in reality independence can increase. The profession further argues that there is no need for MFR as the requirement for mandatory partner rotation in 7 years already exist in 8th audit directive 2006. The support of profession to partner rotation instead of MFR, might be associated with the covert self-interest (Larson, 1977 and Johnson, 1972) of the audit firms. As it highlights the fact that the former will not result in losing firm's long standing clients and the revenues earned from them. Whereas, the latter might shake the comfortable long term associations between the firms and their clients and the revenue stream of the audit firms.

For the objective of increase in auditor independence, the profession recommended the adoption of the Code of Ethics for the list of Prohibited NAS, rather than a black list introduced in the reform. However, it can also be argued in line with the statement of Mr. Cooper that "audit is not a very profitable part of the business anymore and that is why there is a big growth in NAS" that due to the decreasing profitability of audit services, the reliance and dependence of auditors on provision of NAS might increase. Thus, the auditor's might compromise their independence, or might not perform audit objectively, as they will be more interested in providing NAS, based on its economic value. This represents the shift in economically desirable work focus (Reiter & Williams, n.d.). In addition, as explained by Abbott (1988) the economic interest is at the core of any professional project and when the economic value to non-core services (NAS) outweighed the economic value of core activities (audit), it might become difficult for auditors to perform audit independently.

Thirdly, out of the most highlighted reasons of the financial crisis is the high market concentration of few large firms in the audit market. This has enabled the large audit firms to capture a huge market share and thereby dominate the market. The market domination in turn enables these firms to set the rules for themselves. Through MFR, EC aimed to encourage more competition in the market, to dilute the market concentration and dominance of the large audit firms. However, the profession collectively presented the argument that in light of the study conducted in Italy, MFR will have counter effect, as it will lead to greater market concentration. In contrast to profession's argument that MFR will increase market concentration, this can also be argued that as a result of MFR all the firms will need to change their clients after a fixed interval. Thus, if the firm will lose one client, it will also gain one as a result of other audit firms rotation. This appears to be no gain no loss or a zero sum game. From profession's arguments it appears that the consequences MFR might turn out to be against the public interest. However, according to characteristics of the profession discussed by Larson (1977) and Johnson (1972) the profession seeks to monopolies the industry for its services and seeks to control and dominate the market. In the case MFR, the underlying motive of the large audit firms might be to protect their already existing oligopolistic status, by aiming to restrict the numbers of practitioners, to maintain their exclusivity that helps in sustaining fee levels and social standing. The objective of the MFR is to reduce market concentration, by encouraging more competition in the market. However, this can jeopardize the position and control of the market by large audit firms.

6.2.2 Difficult to implement in practice

Against the MFR, the profession argued that it will be very difficult to implement in practice. As the large audit firms have huge multinational clients, it has been argued that as a result of MFR, a multinational company would either have to change audit firms on a global basis every time rotation is required in any given

jurisdiction, or to use a variety of different audit firms in those jurisdictions that require rotation, which is very expensive, inefficient and impractical (Deloitte, 2010, p.13-14). Keeping in view the interest of the clients, this argument appears appropriate, as multinational companies operate all around the globe abiding to audit firm rotation rules of every jurisdiction might substantially add to their cost and administrative work. Moreover, the multinational companies will not receive consistent quality of audit across their worldwide operations. In addition, this can also be argued that as a result of changing audit clients in some jurisdictions more frequently than the others, might affect the overall quality of audit service provided to a multinational company, as the auditor might have to lose and thus not have enough knowledge of some subsidiaries of group. However, gaining knowledge of the overall group in this situation to provide consistent quality of audit, might substantially add to the cost and administrative workload of the auditors as well. As a result the commercial interest of the firm might get adversely affected. The motive behind the argument might be to protect the self-interest (Larson, 1977 and Johnson, 1972) of accounting firms.

6.2.3 Cost and Administrative Burden

The concerns of the profession related to MFR was not surprisingly also related to the resulting cost considerations and increase in the work burden, for both its client and itself. For MFR, the profession argues that due to the reform the clients businesses will also get indirectly affected, as continuously changing auditors after a fixed interval can significantly add to the internal cost and administrative burden for the clients. This has been argued in the context that both management of the client and auditors will be required to allocate more time and resources in helping the new auditors in developing the required knowledge and understanding of the client's business (FEE, 2010). The risk to self-interest of the auditors and clients can directly be linked to increased allocation of time and resources, as it will

impose extra cost for both parties. Consequently, the profitability of the auditors and the clients might get negatively affected.

6.2.4 Unclear definition of NAS

In relation to NAS, the profession shares its concern that in the regulation the definition of NAS in the GP is not clear and that it should be defined more clearly (Deloitte, 2010). The authors share the concern of the profession to some extent i.e. on the issue that the regulation allows the provision of NAS if they are immaterial. However, the basis of materiality is not explicitly mentioned or defined in the regulation. On the other hand, Deloitte's argument that the definition of NAS is not clear might indicate its aim to control the definition of its jurisdiction, identified by Abbott (1988) as a characteristic of the profession. Jurisdiction can be explained as variety of services that the profession can provide. In this case, it can be explained as the accounting firm's effort to self define and thereby, control the services it claims its jurisdiction on.

6.2.5 Reduce audit firm's ability to attract talent

In opposition to creation of pure audit firms and prohibition of NAS, the profession presented the argument that because of these two measures the audit firms will not be able to attract and hire high quality specialist staff, whose services are required at the time when auditors undertake complex audits which requires specialist services (KPMG, 2010; Ernst & Young, 2010; FAR, 2010). Therefore, audit firms require competent multi-disciplinary team. Inability to hire and retain such staff will make audit firms dependent on third party for the specialist services for which the quality of the work cannot be assured. This can in turn negatively affect the quality of the audit performed. However, underlying this argument, there can be profession's motive to protect and control the market for its expertise Abbott (1988). By Protecting and controlling the market for required expert skills, will

enable audit firms to expand their infrastructure by provide those services, which can significantly add to their revenue. In addition, it will also facilitate the client to take different services from one service provider (accounting firm).

6.2.6 Commercial interest of profession

Not surprisingly, the accounting firms appeared vocal about it commercial considerations, they presented the argument that prohibition of NAS will weaken the general economics of audit firm (Deloitte, 2010). In addition, it also argued that creation of pure audit firms will undermine the financial strength of the audit firms and will restrict the firm's opportunity to extend its infrastructure (Grant Thornton, 2010). Therefore, the business model of an audit only firm would be unsustainable. The firms' argument appears in line with the discussion presented by Reiter & William (2012) that economic value is at the core of any professional project, as identified by Abbott (1988). This signifies that due to Prohibition of NAS the accounting firms might lose a significant portion of the economic value earned from it.

6.3 Lobbying JURI Committee of EP

6.3.1 Methods

In the period between 30-November-2011 when the EC issued the draft legislation and 25-April-2013 when vote in JURI Committee was conducted, various documents were published by the members of the profession, as identified in the finding, to voice their opinion about the controversial articles of the reform. In addition, to discuss the negative consequences of the implementation of these articles for the audit market, clients and various stakeholders. This finding was supported by Mr. Cooper's comment that "the parliament got bombarded by the position papers, briefing papers etc". These documents put forward the initial views

of the accounting profession on the reform and expressed deep concerns regarding the three articles in question with the EP and various stakeholders. These documents are classified as the comment letters and described as a tool to lobby by (Königsgruber (2009) and Georgiou (2004)).

In issuing its press release to the draft legislation, IFAC consulted FOF; Small and Medium Practices Committee; Accountants in Business and FEE; FAR had regular consultation with its stakeholders. At this stage, other methods used by the accounting profession to influence the regulators include direct communication and meetings with MEPs and national representatives in the EU, for instance, Sweden. The meetings with national representatives in the EU was discovered in the interview with FAR, where the ways of communication to promote the viewpoints of Swedish accounting profession included, e-mails, phone calls, meetings and round tables. The evidence of meetings between members of the profession and MEPs was gathered from the transparency register, for instance in case with Deloitte (Europa, 2015). This finding was supported by the comments made by FEE and Mr. Cooper in the interview. In addition, Mr. Cooper also commented that it is easier to access the assistants of MEPs, rather than the MEPs themselves. Apart from submission of comment letters Georgiou (2004) identified private meetings between the members of the profession and the regulators as a means of lobbying. In addition, it was discussed by Sikka and Willmott (1995) that Profession mobilizes other agencies, for instance, politicians, academics, regulators and clients to promote their interest and protect their jurisdiction.

In the interviews with FEE and Mr. Cooper it has been discovered that it is not only the profession that reach out to MEPs to promote their interest, the MEPs also contact and rely on members of the profession for technical knowledge in the relevant area, to take a position in the Parliament. However, in the interview with FEE it was identified that the meetings between members of the profession and MEPs are confidential and no traces of it can be found. The suspicion of the

authors to look into the minutes of these meetings got addressed by Mr. Cooper, when he commented that in providing the technical knowledge to regulators, “the profession does push its particular point of view”. The control of the accounting profession over its tacit knowledge, serve it as a major source of power. This exemplifies that the knowledge monopolies created by the profession allows it to control its regulatory environment, as discussed by Freidson (1970). The specialist knowledge of the profession is used as a tool to convey its particular interests to the regulators.

The lobbying activities targeted to the Council were not found to be transparent, thus, no evidence for it could be collected. It is argued that lobbying in the Council rarely takes place as it is difficult for the lobbyist to access the ministers and the high-level setup fragmentation (Peterson & Shackleton, 2006).

6.3.2 Motives

In this phase the arguments presented by the accounting profession, such as, the reform will not achieve its objective: it will decrease the audit quality, decrease independence, increase market concentration and motive of lobbying against MFR and prohibition of NAS did not change significantly. The introduction of 10% fee cap on NAS got strongly negative remarks by the profession. EGIAN (2012) argued that the cap appear unrealistic and might pose a threat to the auditor's independence. The opposition to limitation of fee can be explained as profession's effort to maintaining its level of fee, according to Larson (1977) and Johnson (1972). It appears justifiable that the cap or limitation on the fee earned from NAS is meant to reduce the economic dependence of auditors on NAS and thereby ensuring independence. Limiting the fee cap from NAS to 10% will certainly and significantly reduce the revenue received by the audit firms from it; thereby it might not remain financially viable for firms to provide these services. This might

measure might increase the independence of the firms, but will simultaneously limit their jurisdiction as well.

Profession's argument of difficulty to implement in practice in relation to MFR and Prohibition of NAS extended to as the fee cap on NAS was introduced. In the a debate article FAR (2011) negative reaction was based on the argument that it will be impossible to reconcile any such cap with the proposed blacklist approach. Apart from difficulty in implementing and practicing such a cap, it can also be argued that it can certainly and severely limit the fee received by the firm as a result of providing these related financial services. Thereby, such a cap will be contrary to profession's struggle to maintain its fee level. In addition, as found in the interview with FAR, implementation and reconciliation of such a cap can substantially add to the administrative burden and the compliance cost of the audit firms. In addition, to the arguments against MFR in the responses to the GP, Deloitte (2012) puts forward a new argument that the auditors will also be required to continually educate themselves about the environment and the risks of the new businesses. The cost for the audit firms will include the monetary cost of educating its members, as well as, opportunity cost of extra time and resources allocation, in order to develop the understanding of the new client and thereby, selling less of their services. The extra cost incurred and the revenue lost might weaken the economic position of the audit firms. As it will directly affect their profitability, thereby, bringing the self-interest (Larson (1977) and Johnson (1972)) of the audit firms at risk.

The negative response of FEE (2011c) to the capping of fees of NAS is argued to be the negative effect on the quality of NAS. As such a low fee will not justify the resource allocation. However, with respect to Larson (1977) and Johnson (1972) it can also be argued that the opposition might be in the vague of profession's struggle to maintain it level of fee.

The strong criticism on the measures of MFR and prohibition of NAS appeared to enlarge to a bigger scale, when FEE's president presented the argument that these measures it will isolate Europe on the world stage, in his speech in the EP. This has been argued in the context that both of the measures will increase administrative burden and reduce expertise and knowledge within the audit firm. In addition, it has also put forward that in respect of prohibition of NAS the inconsistency between the rules outside the EU and within the EU will add to the complexity of doing business in Europe. Therefore, implementing these measures through the regulation will put Europe to competitive disadvantage (PwC, 2011b). However, from the author's perspective it can be argued that it will be the European audit market that will be at competitive disadvantage, as accounting firms being the direct recipient of the regulation, will be affected much more compared any other business operating in the Europe. In line with this argument, the interest of the profession also becomes highlighted, as identified by Larson (1977) and Johnson (1972). The self-interest aspect refers to the substantial increase in the cost and complexity for the European audit firms, as they will have to allocate more resources to review the work performed by auditors and other service providers to the counterparts of their clients operating in different regions of the world.

The issue of reduction in accounting firm's ability to attract high quality talent was raised again in the speech made by the president of FEE in the EP. The argument was not different from what was said by KPMG, E&Y and FAR in their responses to GP, therefore, the motive behind the argument remains the same, as discussed above.

6.4 Lobbying the Council of Ministers

Due to the lack of transparency in the activities of European council, the accounting profession's motives behind and the methods used to lobby the council are not found. However, as mentioned in the findings in May 2013 a debate took place in the Council, where compromised amendments with regard to three much debated topics were proposed: the prohibition of NAS, MFR and capping of fee of NAS (FEE, 2013b). It was noted by FEE that the council strongly supported the "black list" approach to prohibition of NAS but different the Member States did not agree on the extensive list of the prohibition, the principle of capping the fee received from NAS and the principle, duration and scope of MFR. As established earlier that the activities of council are much more opaque than that of the EP, therefore the amendments proposed by the Council are unknown.

6.5 Lobbying EC, EP and the Council before the “Trialogue”

On the matter of prohibition of NAS, FEE appeared in line with amendments proposed by the JURI Committee (FEE, 2013b). However, FEE and PwC (2013e) did not appear convinced with the measure of MFR, even when the firm rotation period extended to 14 years, as they argued that very limited studies exist to support such a measure. In addition, the PwC welcomed the suggestion of complete deletion of fee cap by JURI and supported it with the argument that independence should not depend on any arbitrary monetary amount. However, it still expressed its concerns that MFR could be counterproductive to audit quality, implementation of Prohibition of NAS and fee cap will be very difficult. On the matter of MFR, E&Y shared the same concern as FEE and PwC that even after 14 years, MFR will be harmful to audit quality and it will take way from the role of audit committee. The arguments of PwC, FEE and E&Y appeared to promote the amendments of the

JURI Committee to the final legislation and simultaneously stressed upon the counter productivity of the initial draft legislation.

Apart from MFR, the amendments proposed by the JURI appeared in line with the suggestions made by the profession in its responses to the GP and various documents issued by the profession between of issuance of draft legislation and voting in JURI. The adoption of Code of Ethics instead of the black list of NAS, will allows the accounting firms' to maintain their jurisdiction, at least to some extent. This proposal appeared in line with the suggestion made by the profession and received its support. Further, it appears in line with Freidson (1970) that professions aims to protect its professional autonomy, as Code of Ethics is principle based and allow more options than the strict regulation proposed. For instance, Code of Ethics allows provision of NAS if appropriate safeguards are in place to avoid any threat to auditor's independence, whereas, the proposal by EC does not allow for it. Moreover, deletion of fees cap on NAS, coincides with audit firm's effort to protect its self-interest (Larson (1977), Johnson (1972)), as the deletion will eliminate the possibility of reduction of revenue received by the audit firms, as a result of such a cap. Therefore, the support of audit firms' these amendment proposed by JURI are understandable.

FEE issued a press release after the debate in the Council, where they opposed the amendments proposed by the Council (FEE, 2013a). FEE stressed upon the same arguments, for instance, MFR will decrease audit quality and increase market concentration. Further, it stressed upon its support to adoption of the Code of Ethics. The press release issued by FEE was meant emphasize the fact that the profession is not satisfied by the amendments proposed by the Council. Moreover, FEE (2013c) issued a letter to the EC, EP and the Council, and repeated its arguments that MFR will increase financial cost, prohibition of NAS will decrease independence and fee cap on NAS will be difficult to reconcile. Furthermore, the argument of difficulty in implementation and practice was raised by FEE, in the

context of various options available to EU member states. They argue that these options can dangerously fragment the internal market (FEE, 2013c). From the authors' perspective this is a valid argument, as various options available to the Member States will lead to patchwork in the final legislation. Thereby, it makes it difficult to evaluate the effectiveness of the Regulation against its stated objectives.

Apart from the issuance of formal documents the profession also engaged in meeting with politicians. For instance, FAR was in regular contact with Swedish representatives in EP and EC and FEE had meetings with MEP. This can be exemplified as mobilization of agencies to promote profession's interest, as discussed by Sikka & Willmot (1995). The motive behind the meetings between the members of professional organizations and the politicians did not change, however, the probability of promoting profession's interest and view increased, as JURI Committee's amendments proposal fall in line with the suggestions of the profession.

6.6 Lobbying the Parliament before final voting

Lack of adoption of amendments proposed by the JURI Committee and finalization of substantially strict reforms in the final legislation, after the compromise reached between the EP, EC and the Member States in the 'Triologue', lead to sheer disappointment in the accounting profession. For instance, FEE (2013d) shared its disappointment on the fact that the regulation did not incorporate the adoption of the Code of Ethics. The disappointment was substantiated through the arguments that the final version, mentioned in findings, will lead to considerable increase in the cost and the complexity for the businesses. Through the arguments of the profession at this final stage, it appeared as if their concerns and opposition in relation to the three measures has resumed. The accounting profession was falling back to the arguments it presented against the draft legislation initially. Before final

voting in February 2014, FEE sent a letter to EC, regarding clarifications needed to help member states to implement the legislation in a consistent way. However, the timing of the letter sent and its content regarding the three articles, gives an impression that it was FEE's last effort to influence the final voting on the legislation, through European Commissioner Michel Barnier.

In April 2014, final voting on the EU audit reform took place and the amendments finalized in the “Triologue” got incorporated in the Regulation. At this stage, various members of the profession, for instance, FEE and audit firms expressed their deep concerns about the effectiveness of the MFR and strict restriction on provision of NAS. However, these documents were meant to express profession's opinion on the final voting and to share their disappointment on the fact that their suggestions did not get incorporated in the final legislation.

6.7 Methods of lobbying during the entire legislative procedure

The network created by different members of the accounting profession, was also identified as one of the most effective method used by the profession to lobby. Commenting on the network of accounting profession Mr. Cooper said that it appears like "the employees of regulatory bodies are working for Big Four; they are all friends and know each other". He added that "Regulatory bodies, such as, IAASB and EFRAG are either started by and/or employ former Big Four members". In addition, it is discussed in Humphery & Loft (2011. p 6) that large firms have also been involved in supporting IFAC financially, and they were allocated seats on each of IFAC's standard-setting boards. These examples signify that the ideology and interest of the Big Four accounting firms have been propagated to other related bodies and organizations through cross membership on the boards of the firms and the organization and the movement of their employees within the network. The strong networking between the accountancy firms, the

professional associations and organizations can be seen as their attempt to increase their power of influence on the regulators. The spread of ideology gets substantiated through movement of members from one institution to another in the network. This might put the opinions of all the members of the network in line and be expressed collectively. The collectivity provides strength to the voice of the network and helps in pressurizing the regulators, in the favor of the network of the accounting profession. However, the aspect of propagation of ideology in the network of the profession and aggressive lobbying through threatening MEPs are not explained in the Theory of Profession.

Additionally, during the study of various professional journals and news in the media, it was found that other than the methods described above the accounting profession also engaged into some intense lobbying. For instance, threatening the MEPs. In this context Mr. Cooper commented that "the big four has huge amount of money and huge amount power". He added that "the power of the Big Four and the approaches they can take should not be understated". However, this type of intense and aggressive lobbying is not accounted for or explained by the theory of profession.

6.8 Summing up

To sum up the discussion above, it can be said that all the three institutions of the EU confronted the lobbying activities of the accounting profession, as a result of the introduction of the new EU audit reform. It was found that lobbying targeted to EC and EP was far more intense than the Council, due to the fact that the Council ministers are difficult to reach by the lobbyists (Peterson & Shackleton, 2006). In addition, activities of the Council are also opaque in relation to that of the EC and the EP, which makes it even more difficult for the lobbyists to influence them. The lobbying of accounting profession to the EC initiated by sending responses to the GP, which are classified by Königsgruber (2009) and Georgiou (2004) as a tool to

lobby. Another method of lobbying at this stage included mobilizing different agencies, such as, the Justice ministry of Sweden, CEOs of listed companies and accounting firms. Moreover, profession also engaged in exercising its collective power, through its associations, such as, ECG and EGIAN. Apart from putting forward the public interest in the arguments presented, it has been found that the audit firms' were struggling to promote their self-interest; protecting and maintaining its jurisdiction; protecting its oligopolistic status; sustain its fee level; control the market for its expertise; maintaining self-regulation and the commercial interest of the accounting firms.

The lobbying faced by the EP was also targeted to its JURI committee. The method of lobbying the Parliament was to send huge number of documents, including, briefing papers, policy statements and point of views etc. Professional organizations mobilized other agencies, such as MEPs and national (Swedish) representatives in the EU. Furthermore, methods of lobbying included, exercise of collective power by profession through its stakeholder engagements. The major source of power available to the profession to influence MEPs and the EU regulator was identified as the knowledge monopoly of the accounting profession. Drawing from the arguments presented by the profession, the motive behind the lobbying the Parliament was similar to that of the EC. About the lobbying activities faced by the third institution of EU i.e. the Council, sufficient evidence is not available. Other methods of lobbying that existed during the entire legislative procedure are propagation of ideology from institution to institution, aggressive lobbying through threatening of MEPs and exercise collective power through professional associations (see Figure 8).

Figure 8 illustrates the key events that took place in the EU institutions, related to the legislative procedure of the new EU audit reform. The figure illustrates how the accounting profession changed its methods of lobbying, depending on the institution they were lobbying and this is shown by the box containing those

specific methods, pointing towards the institution. The top left side of the figure illustrates the methods of lobbying used by the profession, which does not relate to any specific key event or institution, rather it prevails during the entire legislative procedure. The lower left side of the figure presents the motive of the profession, drawn by using the theory of profession (as explained in section 3.4). The motives that the profession was aiming to attain also prevailed during the entire legislative procedure and did not change with any specific event or institution. The motives of the profession and the methods of lobbying that did not change during the legislative procedure are shown at the left side, with clear headings to reduce the complexity for the readers to get the overall view of the analysis.

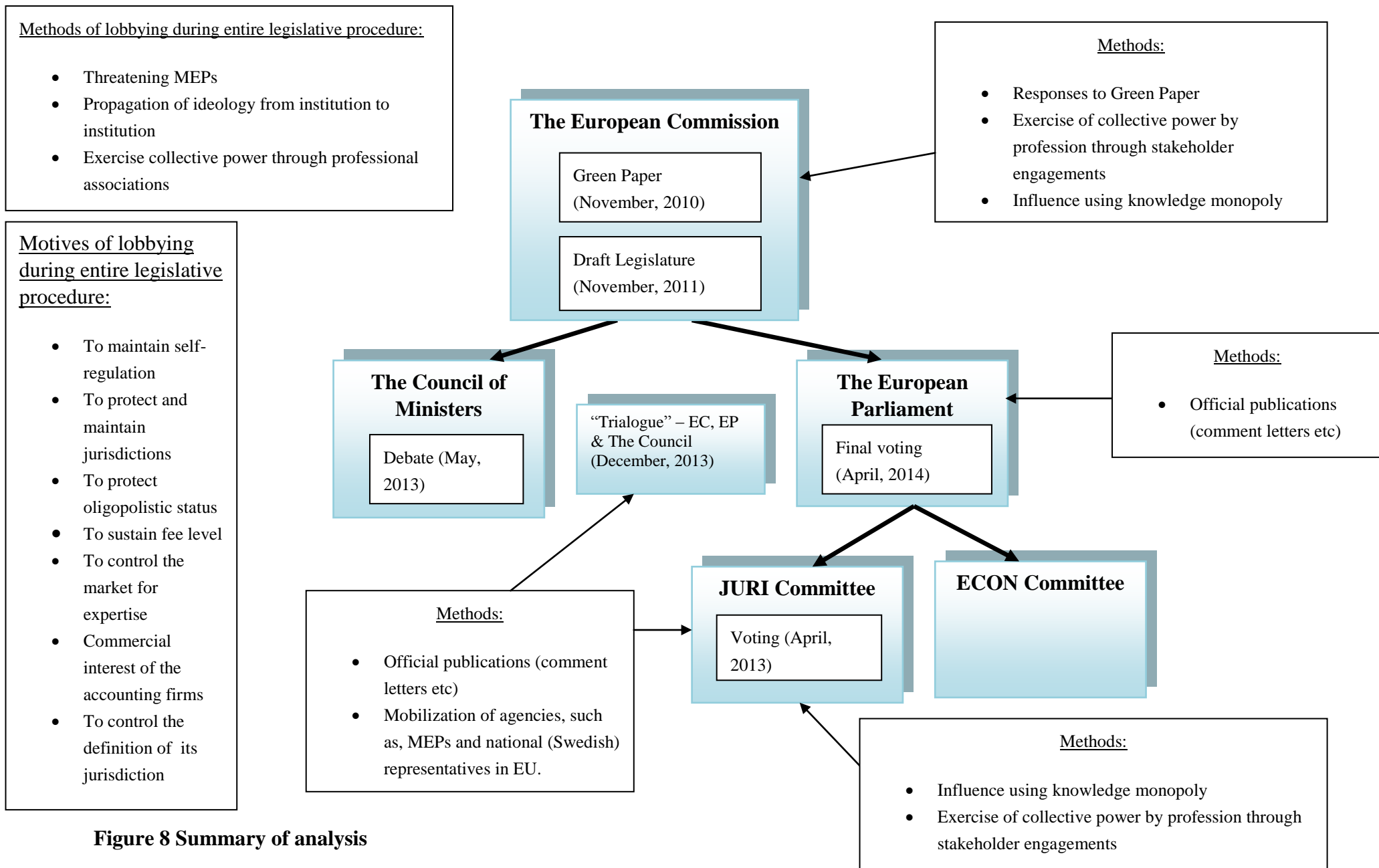


Figure 8 Summary of analysis

6.9 Discussion

The new audit reform represents the shift in the regulatory paradigm in EU. It was as a result of the change of the Commissioner for Internal Market and Services. Earlier it was McCreevy who was the Commissioner for Internal Market and Services (2004–2010). Being from Ireland, he followed a more principle based approach to regulate. Whereas, Barnier being a Frenchman, followed a strict rule-based approach of regulation. Barnier's appointment from 2010-2014 as the Internal Market Commissioner, gave rise to substantial concerns that he may push French inspired restrictive regulation across Europe. The issuance of the GP for the new EU audit reform proved the concerns to be right, as the measures proposed were strictly rule-based, for instance, proposal for MFR, creation of audit-only firms and “black list” approach to prohibition of NAS. With these measures it seems as if Barnier aimed to impose strict state regulation in EU, similar to that of France. This point contrasts with the claims of Abbott (1988) and Friedson (2001) that state plays a secondary role in professionalization (Bianic, 2003). Bianic (2003) further discussed that to understand the relationship between state and profession not only national but international regulation should also be considered. However, in the case of the EU audit reform, the importance of regulation on a regional level, to understand the relationship between state and the profession was also found to be important by the authors. As with this regulation EU aim to regulate the accounting profession itself, rather than leaving it to the Member States through issuing another Directive only.

It is not surprising that the sudden shift from principle-based to rule-based regulation proposed by EC under Barnier, triggered strong criticism and opposition from the accounting profession, as they were the direct recipients of the reform. The negative reaction of the profession leads to the act of lobbying, through the responses to the GP, in order to influence the reform. The arguments presented by

the profession appeared to focus the public interest, however, in depth analysis of the arguments make it evident that there were underlying motives of the accounting profession, especially the accounting firms, to influence the reform in their favor. As discussed above apart from responding to the GP, the profession employed various other methods of lobbying ranging from bombarding the EP with formal documents, meetings with MEPs, collective exercise of power through stakeholder engagement to threatening the MEPs. At the point of amendments proposed by the JURI, it appeared that the Parliament and the accounting profession are on the same line to some extent. In the debate in the Council, majority of the Member States shared their serious concerns on the measures in question. However, it appeared as if, the concerns of the profession and the Council and the amendments proposed by EP's JURI Committee were not wholly taken into consideration in the "Trialogue". The incorporation of original measures proposed in the draft legislation with minor amendments, might indicate that the Commission under Barnier was more dominant in finalizing the legislation than the other two institutions of EU.

Drawing from the analysis of the findings and the discussion above, this thesis contributes to the literature on lobbying by the accounting profession:

- The unique institutional setting of EU provides multiple access points for the lobbying to be conducted;
- Usage of the Theory of Profession developed an in-depth understanding of and identified a range of elaborated motives and methods of lobbying.

Moreover, this study contributes to the Theory of Profession by identifying some methods of influence used by the profession that are not explained by the theory:

- Propagation of ideology from institution to institution and
- Aggressive lobbying through act of threatening.

As mentioned in the Introduction that the prior lobbying literature by accounting profession is focused on and provides examples of lobbying the accounting standard setting process on international and national levels. However, the area of audit policy making in regional level is less explored. Drawing from the prior literature to understand the lobbying done by the profession on international and national accounting standard-setting, this thesis establishes how the lobbying of the accounting profession on regional (EU) setting is unique from that of international and national levels. The case of lobbying the policy making process of EU is particularly interesting because of its unique institutional setting, which is referred to as "decision-making triangle". As discussed in earlier chapters of this thesis the triangle comprise of three institutions: the EC, the EP and the Council. The relevance of this setting to the case of lobbying is that it provides multiple access points to reach out to EU regulators, in order to influence the legislative procedure of EU. However, known from the previous studies on international and national level, the focus of lobbying effort of the profession is concentrated solely on these private standard setting bodies. Therefore, as a result of multiple access point to the EU institutions, it raises the chances and opportunities for the lobbyists to influence the policy-making process, whereas, for the private standard-setting bodies such opportunities might be limited.

Another contrasting aspect of EU setting with international and national standard setting bodies is that in EU institutions especially EC and EP members rely on the professional experts of the relevant field for technical knowledge, to formulate the regulation. In the case of EU audit reform this aspect was confirmed in the interviews with FEE and Mr. Cooper, in addition, it is also known from that EU Commissioners reach out members of the profession and interested groups for expert knowledge and information for the commission's legislative work (EP, 2003). The reliance of the regulators on the recipients of the regulation makes it easy for the profession and the interested groups to push their bias suggestions and promote their interest, to influence the regulation in their favor. However, in the

examples of IASB and FASB, being the professional standard-setter, they have enough technical and expert knowledge; therefore, they are not dependent on the accounting profession or any interested parties for such information. Thus, the opportunities for lobbyists of interested parties to influence the standard-setting process of these bodies are limited, compared to EU policy making.

It has also been identified as a gap in the introduction, that the prior research on lobbying by accounting profession using the theory of profession is limited. It has been found that the literature on lobbying by accounting profession has been broad, in terms that different researcher have used variety of different theories, for instance, the economic theory of regulation and the agency theory. These studies identify only a few motives behind the lobbying of accounting profession, for instance, accounting firms' and their clients interest, security from the risk litigation cost and regulatory scrutiny, financial benefits and accounting profession's private interest. However, by using the Theory of Profession in the particular case of lobbying by accounting profession on the new EU audit reform helped the authors in developing in-depth understanding of and identifying a range of elaborated underlying motives of the profession to influence the reform. Using the Theory of Profession to answer the research question of this thesis, it was found that accounting profession had variety of underlying motives behind the arguments they presented in the formal documents. For instance, accounting firms' struggle to maintain and control its jurisdiction; control the definition of its jurisdiction; control the market for its expertise; protect its oligopolistic status; maintain self-regulation and commercial self-interest.

The studies of lobbying mentioned in the literature review, identify some methods of lobbying employed by the accounting profession, especially the accounting firms, to influence the standard-setters. These methods include submission of comment letters and meetings with regulators. The authors found that some of the methods identified by prior researchers were used by the profession to lobby the

reform, for instance, mobilizing other agencies such as, MEPs and national representatives (Sweden) in EU and submission of comment letter. However, the theory of profession explains some of the specific methods of lobbying used by the accounting profession as well. For instance, exercise of collective power by creation of elite groups by accounting firms, stakeholder engagement, and power to influence through knowledge monopolies.

The contribution of authors to the Theory of Profession is the methods of influence identified through the course of this research that have not been addressed or explained in the theory. These methods are propagation of ideology between institutions and the act of aggressive lobbying through threatening the regulators.

7 Conclusion

This thesis analyses the method employed and the motives behind the lobbying of accounting profession directed to the EU institutions, to influence the policy-making process of the new EU audit reform. The lobbying might have been on various different matters of the Directive and the Regulation, however, the focus of this thesis has been on the three controversial articles of Regulation 537/2014. These articles include MFR, Prohibition of NAS and Capping of fees of NAS. The thesis adopted a qualitative research strategy to provide an in-depth analysis of the method and motive of the lobbying against the three measures, in addition, content analysis method was used to analyze the content as well as the context of the data collected. The content analysis method contributed towards identification and analysis of the underlying motives of lobbying behind the arguments presented by the profession in the data collected.

Moreover, the thesis used the theory of profession under the Neo-Weberian approach, which helped in studying the characteristics and attributes of the accounting profession, to establish what could be their motives behind the lobbying of the reform and how did the profession organize itself to strengthen its influence. Using the Theory of Profession, a range of motives of the accounting profession was found, to influence the new EU audit reform. These included accounting firms' struggle to promote their self-interest; protecting and maintaining its jurisdiction; control the definition of its jurisdiction; protecting its oligopolistic status; sustain its fee level; control the market for its expertise; maintaining self-regulation and the commercial interest of the accounting firms. In addition, the theory also helped in the understanding of and supported majority of the methods of lobbying used by the accounting profession to influence the reform. These method include: exercise of individual and collective power by submitting comment letters; formation of

professional associations to exercise collective power; stakeholder engagement; mobilizing agencies like MEPs and national (Swedish) representatives in EU and use of knowledge monopoly to influence the regulators.

The lobbying of the accounting profession to influence the audit reform was not restricted to any one access point; rather the profession directed its efforts all the three EU institutions. For the EC and EP evidences of intense lobbying were found, whereas, due to lack of transparency enough evidence of lobbying was not found in the European Council. However, even after such aggressive lobbying to promote its interest, the accounting profession is not found satisfied by the final legislation.

This thesis has three contributions, firstly, to the literature on lobbying by establishing how the accounting profession lobbied unique regional (EU) setting and it's different governmental institutions. Secondly, the contribution of this thesis to literature on lobbying by the profession is by using the theory of profession to develop deeper understanding of the motive and methods of the lobbying by accounting profession. Finally, this thesis contributes to the Theory of Profession by identifying some of the method of influence used by the professions that are not explained in the theory. These methods include propagation of ideology from institution to institution, and aggressive lobbying by threatening the regulators.

This thesis has a region specific orientation, however it also includes examples of lobbying by the accounting profession on international and nation (Sweden) levels. Therefore, it can be an inspiration for studying country specific cases of lobbying by the accounting profession. Secondly, the scope of this thesis has been limited to three measures of the Regulation; however, other measures have not been taken into consideration, for instance, adoption of ISA for which there is a scope for future research. Thirdly, this study only focus on one stakeholder of the reform, i.e. the accounting profession, however, multi-stakeholder perspective could be an interesting area of research. Finally, determining the success of the profession in lobbying the reform is not the scope of this thesis; however, this type of research

could be a valuable contribution to the lobbying by the profession on the EU audit reform.

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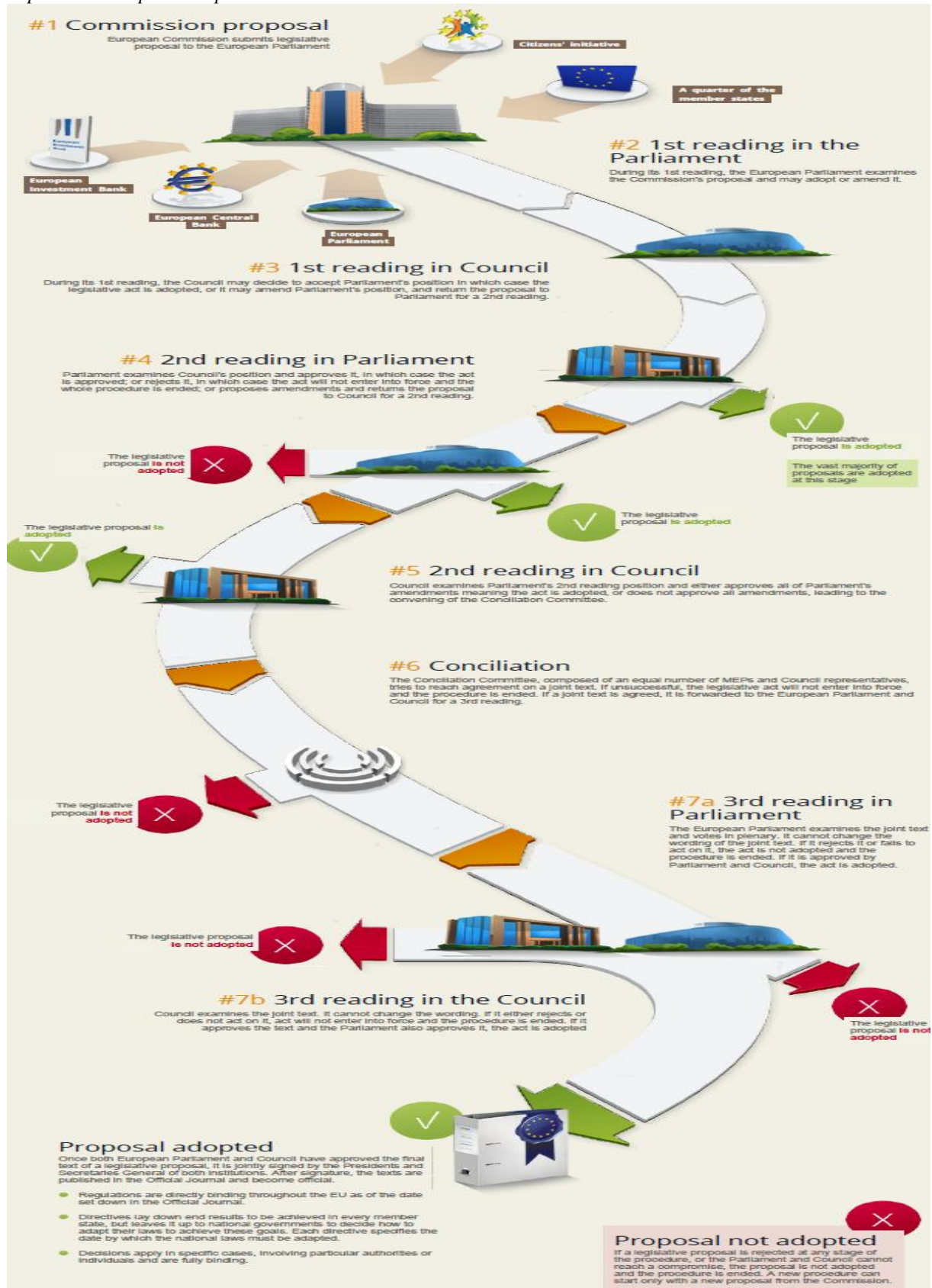
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Appendix A

<http://www.europarl.europa.eu/>



Appendix B

List of text and verbal data issued by the accounting professional between 2010 and 2014

Member of profession	Document	Date of publishing
IFAC	IFAC: response to the Green Paper	December 2010
	IFAC respond on PCAOB Concept Release on Auditor Independence and Audit Firm Rotation Release No. 2011-006; August 16, 2011	December 2011
	European Audit Legislation Creates Potential for Regulatory Divergence	April 2014
FEE	FEE Letter: Full response to the Green Paper	December 2010
	FEE Briefing Paper: Appointment of the Auditor	June 2011
	FEE News Release: initial views on European Commission Proposals on Audit Policy	November 2011
	FEE Article in the Parliament Magazine: Taking audit policy forward	December 2011
	FEE President Speech in a public hearing of the European Parliament: How to best improve the quality of audit?	March 2012
	FEE Policy Statement: The Provision of Non-Audit Services to Audit Clients that are Public Interest Entities (PIEs)	June 2012
	FEE News Release: Council split on European Commission's proposals on audit policy	May 2013
	FEE Article: Audit Policy under the Lithuanian Presidency	August 2013
	FEE Letter to the European Commission regarding the new Audit Reform (Directive and Regulation)	February 2014
FAR	Response to European Commission's Green Paper on Audit Policy: Lessons from the Crisis	December 2010
	FAR debate article published in Dagens Industri: "Nu går EU om USA i krångel"	December 2011
	EU audit reform (Ju2011/8676/L1)	January 2012
	Dan Brännström's interview, Regelrådets news release Regelrätt (number 5)	February 2012
	Firms are indicating thumbs down regarding EU audit reform	August 2012
	FAR publication on the website: "Proposal to amendments in EU audit reform"	September 2012
	FAR's Position Paper	November 2012
	Response to European Commission Green Paper on 'Audit Policy: Lessons from the Crisis'	December 2010

Deloitte	Deloitte Audit Reform Briefing: <u>Unprecedented reform proposed for the EU audit market</u>	2012
	Governance in brief: European Parliament approves EU audit legislation	April 2014
E&Y	Green Paper entitled “Audit Policy: Lessons from the Crisis” - <u>COM(2010) 561 final</u>	December 2010
	European Commission legislative proposals on audit policy	December 2011
	Q&A on mandatory firm rotation	March 2013
	Public policy developments affecting the accounting profession and our business	June 2013
	EY News and views	January 2014
	European Union audit legislation	April 2014
KPMG	European Commission Green Paper - Audit Policy: Lessons from the <u>Crisis</u>	December 2010
	EU audit reforms – the KPMG view	April 2014
PWC	PwC response to Green Paper on Audit Policy	December 2010
	News Release: European Businesses Cautious on Radical Audit Reform	July 2011
	News release: European Commission Misses Opportunity On Audit <u>Reform</u>	November 2011
	Point of view: Benefits of scale: The context and the explanation 2012	2012
	Point of View: Mandatory audit firm rotation – other changes would be <u>better for investors</u>	March 2013
	PwC Regulatory Briefing	March 2013
	News release: PwC Response to the European Parliament's Legal Affairs <u>Committee (JURI) vote on audit proposals</u>	April 2013
	Point of View: Auditors’ scope of services	June 2013
	Press statement - PwC response to "trilogue" agreement on a proposed <u>regulation on the statutory audit of public interest entities in the</u>	December 2013
	News release: PwC Response to European Parliament Vote on European <u>Union audit reforms</u>	April 2014
BDO	Green Paper: Audit Policy: Lessons from the Crisis	December 2010
	BDO comment on the vote of the European Parliament Legal Affairs <u>Committee on the EC audit reform</u>	April 2014
Grant Thornton	European Commission Green Paper - Audit Policy: Lessons from the <u>Crisis</u>	December 2010
EGIAN	Audit Policy: Lessons from the Crisis	December 2010
	An EGIAN position paper	June 2011
	Position Paper	May 2012

Appendix C

Interview guidance

(Professional bodies)

Ethical questions

1. Do you allow us to record the interview
2. Can we disclose your name in our list of interviewees?
3. Can we quote you?
4. Would you like to see or approve the information quoted from the interview in the thesis, before its submission?

Interview Questions

1. Can you please tell us about your involvement in communication between XX and the EU regarding the audit reform?
2. What is XX's general opinion about the new EU audit reform regarding Mandatory audit firm rotation, Prohibition of non audit services and Capping of fee on non audit services (the three matters)?
3. On which grounds or reasons did XX form its opinion?
4. During our study of the formal opinion of the accounting profession regarding the reform we have found that XX's and large audit firm's opinions were similar. Can you explain this?
5. Being a part of the accounting profession, what were XX's activities with regards to the policy making of the audit reform, with exception to submitting Green Paper?
6. What kind of stakeholder engagement did you witness, during the policy making phase of the reform?
7. It is known that to strengthen their viewpoints, interest groups usually unite. Was this a case to some extent?
8. How did XX try to convince the EU of its views and reasoning behind these specific articles (Mandatory audit firm rotation, Prohibition of non audit services and Capping of fee on non audit services)?
9. What was the response of the EP and EC regarding XX's opinion on these three articles?
10. Is XX convinced with the final version of the Regulation?

Appendix D

Interview guidance

(MEPs)

Ethical questions

1. Do you allow us to record the interview
2. Can we disclose your name in our list of interviewees?
3. Can we quote you?
4. Would you like to see or approve the information quoted from the interview in the thesis, before its submission?

Interview Questions

1. Can you please tell us about your involvement in communication between XX and the EU regarding the audit reform?
2. What is your general opinion about the new EU audit reform regarding Mandatory audit firm rotation, Prohibition of non audit services and Capping of fee on non audit services (the three matters)?
3. While reading professional journals regarding the new EU audit reform, we figured out that much has been said about lobbying on the reform. Can you please tell which stakeholders were particularly involved in the act?
4. In an article in Accountancy Age, we found that discussions are raging on the matter of lobbying and political pressure on MEPs, especially the Spanish MEP Antonio Hidalgo, who wrote to the then EP president Jerzy Buzek, claiming he had been threatened by a lobbyist belonging to a Spanish audit firm. Can you please tell us in detail what kind of lobbying act did you witness?
5. What in your opinion were the motives behind the lobbying of the audit firms, especially with regards to the three matters?
6. Did the audit firms lobby individually or were organized in groups (e.g. audit firms lobbied together with professional organizations)?
7. Can you tell us about any meetings or interactions conducted between auditors, professional organizations and MEPs, that could help the accounting profession to promote their views?
8. Did the accounting profession use any other method to influence the reform according to their interest, particularly with regards to the three matters?
9. To what extent did the EU take into consideration the interest and viewpoints of the accounting profession, on the three matters, in the final legislation?