

What story do the transparency reports on the market for audit services tell? - The case of the Republic of Macedonia

Abstract

The obligation for presentation of transparency reports by audit firms in the Republic of Macedonia was introduced for the first time with the amendments of the Audit Law in 2005. The intention was to demystify the operations of the audit companies. The first transparency reports were published in 2007. The compulsory elements of the transparency reports fully correspond with the requirements of the Eighth EU Directive. After ten years from the publication of the first transparency reports, a dilemma arises about what perception of audit quality of audit firms they create with readers. The paper consists of four segments. The first gives an overview of the literature and past research related to the transparency reports. The second segment focuses on the genesis of transparency reports observed through changes in the legislation. The third part analyzes the data from different segments of the transparency reports for all audit firms, with a special focus on the number of customers and the realized revenues from the offered services for the period of 2007-2017. The analysis should show the relationship between the number of clients and the revenues received by the audit firms grouped into three groups - "Big Four", Audit firms which are part of international network that does not belong to the "Big Four" and Local audit firms. In the last part the knowledge gained is summarized and the question initiated in the title of the paper about the readers' perception created by the transparency reports on the audit firms activities is answered.

Key words: Big Four, audit, transparency report, audit services market.

Introduction

The first Audit Law in the Republic of Macedonia was adopted in 1997, creating environment for audit profession development. In a relatively short period of time, in September 2005, the new Audit Law was adopted, fully harmonized with the Revised Eighth Company Law Directive. This Audit Law introduced essential changes in the audit profession, which were assessed as a step forward in the EU integration processes. The requirement imposed to the audit firms to present transparency report, by precisely defining the information necessary to be disclosed therein, reached the most sensitive and mysterious part of the operations of the audit firms in the Republic of Macedonia. This "black box" approach of how audit firms are governed has contributed to a lack of transparency regarding issues relevant to assessments of audit quality (Yi Fu 2015). With one-year delay, the first transparency reports were presented in the course of 2008, covering the operations of the audit firms in 2007. In line with the commenced processes of audit profession harmonization with the EU regulations, amendments to the Audit Law dated December 2010 extended the requirements on additional information in the transparency reports.

Transparency reports could provide a market incentive for audit firms to compete more directly on audit quality, since these reports would give insight into how audit firms manage and compare in terms of audit quality. Audit firm-specific characteristics such as the structure of governance systems, internal quality control systems, and reward systems are believed to have a significant impact on the quality of audit services as provided by a particular audit firm (POB, 2006). Statutory auditors and audit firms should be required to disclose financial information, showing in particular their total turnover divided into audit fees paid by public-interest entities, audit fees paid by other entities and fees for other services. They should also disclose financial information at the level of the network to which they belong. Statutory auditors and audit firms should provide additional supplementary information on audit fees to competent authorities with a view to facilitating their supervisory tasks (EU Regulation No 537/2014).

In the continuation of the paper, special attention will be given to the trends in the audit industry in the Republic of Macedonia based on the information presented in the transparency reports of 24 audit companies in the period of 2007-2017. More specifically, the subject of analysis will be 269 transparency reports.

1. Review of Transparency Reports Literature

Reviewing the available literature, similar themes regarding the quality of transparency reports are rarely investigated, because legal obligation to create and publish transparency reports is only recent (in EU and Republic of Macedonia from 2006.)

In terms of practitioners' perceptions of transparency reports, Pott et al. (2008) conduct a survey on 92 practitioners and provide evidence on the relative importance of different information items. They find that disclosure of the internal quality control system and independence practices are perceived as important by both accountants and auditors. However, audit firm financial information is assessed to be more important by accountants compared to auditors, and information on audit firm's governance structure is perceived to be more important by auditors compared to accountants. The authors' findings suggest that the information demanded and valued by different user groups may vary.

Regulators and standard-setters argue that greater transparency of audit firms' internal governance helps to reduce information asymmetry between audit firms and market participants, maintain high quality audit service and therefore maintain the stability of the capital market (Deumes et al. 2012). This is consistent with the approach taken by the IAASB (2014) which, in their audit quality framework, state that making such information publicly available in audit firms' transparency reports "may assist those users of audited financial statements who have no proximity to the audit process to understand the characteristics of individual audit firms, and the drivers of audit quality in those firms. Where key stakeholders cannot evaluate audit quality directly this information may assist entities in selecting a new audit firm" (para. 37). Furthermore, high-profile audit firm failures (e.g., demise of Arthur Andersen) and the lack of confidence in the financial market in the post-global financial crisis era also support calls for greater transparency and disclosure in the area of audit firm internal governance (Huddart 2013). Prior

research investigating transparency reporting, primarily examines data from European transparency reports disclosures. Deumes et al. (2012) found variations in the extent and type of governance disclosure across 103 audit firms in four European Union countries based on a self-constructed disclosure index. However, they found no association between the variations in the disclosure score and proxies of audit quality (Yi Fu 2015). Analyzing who audited all companies from Croatian stock market, Pivac and Čular come to conclusion that approximately 1/3 companies are audited by “Big Four”. The problem that arose with collection of data is that approximately 5% of some companies from Zagreb Stock Exchange (ZSE) have no information about auditors. The results showed that 57 audit firms audited companies from ZSE. Exploring the main issue of the paper, i.e. transparency reports, they came to conclusion that approximately 2/5 transparency reports are not available. These results are certainly disappointing, but expected. Only 1/5 of auditing firms are transparent, observing them through the transparency reports and its elements. This problem is emphasized using a quantitative methodology for creating quality index by taking the basic elements of transparency reports (Pivac and Čular, 2012).

2. Genesis on the transparency report in the Republic of Macedonia in the period 1997 - 2017

The Audit Law from 1997 establishes conditions for creating the audit profession in the Republic of Macedonia along with the attributes immanent for the developed market economies. However, despite the generally created climate for introduction of the audit profession in the accounting infrastructure, the Law did not cover all aspects that were crucial for this profession leaving a series of opened issues, the resolution of which became an imperative in the next several years. Resolving these issues initiated radical changes in the existing Audit Law which, after 7 years, was replaced with a new one in September 2005.

In the meantime, on 9 April 2001, Republic of Macedonia became the first country in the region to sign the Stabilization and Association Agreement (SAA) with the European Union and its Member States. On 9 November 2005, the country was delivered positive *Avis* for the status of a candidate country, with detailed standards to be met.

The *Avis* clearly pointed out the need for the candidate country to meet the EU criteria, among which was the acceptance of 31 Chapters of the *Acquis Communautaire*.

Having in mind that in the past period the term “self-regulation” was unknown, primary task of the new Audit Law was commencement of the process of deregulation of the audit profession. Deregulation was to contribute to transfer the competences in the field of professional regulation and auditors’ certification from the Ministry of Finance to the Institute for Certified Auditors established under this Law. An Assembly for the incorporation of the Institute for Certified Auditors of the Republic of Macedonia (hereinafter: ICARM) was held on 23 May 2006.

Establishment of ICARM caused avalanche of changes in the audit profession, in particular in the field of public oversight of the profession, assessment of the quality of work of the statutory auditors and the audit firms, changes in the exam program for

acquiring the title of certified auditor, introduction of continuous professional development of certified auditors, defining the requirement for the audit firms to present transparency reports on annual basis, etc.

During the eight-year period of implementation of the first Audit Law, audit firms operated in conditions of unfair competition on the audit services market on which, unfortunately, quality was not the key criterion for attracting clients, but it was rather the price of the service offered. In an unscrupulous chase for profit and clients, deviations from the implementation of the professional regulation was clearly significant. Despite the legal limitations for audit firms not to be allowed to carry out audit and render consulting services for the same client, it has never been proven that such legal requirement is de facto functioning. In conditions of absence of established mechanism to observe the “rules of the game” and adequate quality control, statutory auditors and audit firms observing the professional regulation were discontented by the unprofessional behaviour of their colleagues.

Such trends initiated the need to introduce, as a novelty in the existing Audit Law from 2005, the requirement for the audit firms or the statutory auditor – sole proprietor to publish the annual transparency report within three months of the end of the financial year, in at least one mass media or on their websites. Transparency report should provide a permanent insight in adherence to the rules of the game in the competition on the market by the members of this profession. Isolated differences have been overcome with the amendments of the Audit Law from December 2010 and broadening the list of requested information to be an integral part of the transparency reports.

On Table 1 is presented a comparative review of the segments of the transparency reports according to the Audit Law from 2005 and the Audit Law from 2010.

Table 1 Segments of the transparency reports according to the Audit Law from 2005 and Audit Law from 2010

Audit Law 2005 (Article 26)	Audit Law 2010 (Article 35)
<p>(1) description of the legal structure and ownership;</p> <p>(2) description of the professional network and both the legal and the structural arrangements in the network they belong to;</p> <p>(3) description of the governance structure of the audit firm or the statutory auditor – sole proprietor;</p> <p>(4) description of the internal quality control system of the audit firm or the statutory auditor – sole proprietor and a statement by the administrative or the management body on the effectiveness of its functioning;</p> <p>(5) list of auditees during the preceding year;</p> <p>(6) statement on the policy implemented by the audit firm or the statutory auditor – sole proprietor concerning the continuing education of the statutory auditors and</p> <p>(7) financial information on the total revenues realized on the basis of audit carried out and on the basis of other fees, broken down by four categories of audit services, additional services for quality assurance, tax advisory services and other non-audit services.</p>	<p>(1) description of the legal structure and ownership;</p> <p>(2) description of the professional network and both the legal and the structural arrangements in the network they belong to;</p> <p>(3) description of the governance structure of the audit firm or the statutory auditor – sole proprietor;</p> <p>(4) description of the internal quality control system of the audit firm or the statutory auditor – sole proprietor and a statement by the administrative or the management body on the effectiveness of its functioning;</p> <p>(5) list of auditees during the preceding year;</p> <p>(6) statement on the policy implemented by the audit firm or the statutory auditor – sole proprietor concerning the continuing education of the statutory auditors and</p> <p>(7) financial information on the total revenues realized on the basis of audit carried out and on the basis of other fees, broken down by four categories of audit services, additional services for quality assurance, tax advisory services and other non-audit services.</p> <p>(8) date on carrying out the last check on quality assurance of the auditor;</p> <p>(9) statement on independent operations of the audit firm, confirming the existence of internal procedures for check of independence compliance and their implementation and</p> <p>(10) information on the basis on which the fee of the statutory auditor is determined</p>

Source: Audit Law (2005) and Audit Law (2010).

Transparency reports should be signed by the authorized person at the audit firm or the statutory auditor – sole proprietor.

3. Transparency report and asymmetry in reporting in the period 2007-2017

The Audit Law that entered into force in 2005 imposed the requirement for the audit firms to submit the annual transparency report in 2007 covering their operations in 2006. Unfortunately, during 2007, most of the audit firms did not submit annual transparency reports. The first transparency reports were published in the course of 2008, and they covered the operations of audit firms in 2007. Number of submitted reports can lead to the conclusion that the situation evidently improved in 2008 and, 17 out of 24 audit firms published their annual transparency reports, while the remaining 7 audit firms did not adhere to this legal requirement. In 2012 only one audit firm out of total 28 has not presented transparency report, whereas the remaining 27 fulfilled their legal commitment. In March 2013, the Council for Advancement and Oversight of the Audit (CAOA) initiated the process of licensing the audit firms and statutory auditors – sole proprietors. In the initial phase of the licensing out of the 28 existing audit firms, 24 were licensed, whereas 4 audit firms did not submit a request for licensing to the CAO. One of the audit firms registered in the ICARM Registry, in the analysed period was not active in the audit services segment and due to that had not published transparency reports. Due to this reason, in observing the audit services market in the Republic of Macedonia there is a discontinuity of activities for 4 audit firms. In the meantime, in 2013 were licensed two

new audit firms that disclosed their activities for 2013 in their transparency reports published in 2014. Besides this, in 2014 was licensed another audit firms that published its realized activities in the transparency report in 2015. In the same year, one of the audit firms was transformed into statutory audit – sole proprietor. In 2015, the license was revoked by the audit firm, and a transparency report was not published in 2016. In 2017, a new license was issued to the audit firm, for which it was agreed to publish a transparency report next year. Considering the previously stated, in 2017 on the audit services market operates 25 audit firms. Trying to give a clear picture for the relations between the Big Four, Audit firms in the International professional network that do not belong to the Big Four and Local audit firms, for the period 2007 – 2017, the research is consisted of information from the transparency reports for all the audit firms that were active during the observed period. The information from the transparency reports are taken in their authentic form and substance.

In Table 2 is presented a list of audit firms that in the period 2007 – 2017 participated on the audit services market in the Republic of Macedonia.

Table 2. Audit firms on audit market in Republic of Macedonia in period 2007-2017

	Name of audit firm	Status of the audit firm
1.	Ernst&Young Statutory Auditors, Skopje	Licensed
2.	PricewaterhouseCoopers Audit LLC Skopje	Licensed
3.	KPMG Macedonia LLC Skopje	Licensed
4.	Deloitte LLC Skopje	Licensed
5.	Grant Thornton LLC Skopje	Licensed
6.	Moore Stephens, LLC Skopje	Licensed
7.	BDO LLC Skopje	Licensed
8.	B&Lj, Boro and Ljupco, LLC Skopje	Licensed
9.	Trio-Consulting LLC Gevgelija	Licensed
10.	Rafajlovski Audit LLC Skopje	Licensed
11.	Censum LLS Skopje	Licensed
12.	Pelagoniska Audit Firm LLC Prilep	Licensed
13.	Kojzakliev-Pavleska LLC Skopje	Licensed
14.	Kni-Prokom, LLC Prilep	Not licensed
15.	Baker Tilly Macedonia LLC Skopje	Licensed
16.	Ecovis, Primeko Audit LLC Skopje	Not licensed
17.	Revizions LLC Skopje	Licensed
18.	Audit IAS Skopje	Not licensed
19.	Efect Plus, LLS Skopje	Licensed
20.	Audit and Consulting firm - ERC - Skopje	Not licensed
21.	ProAudit, Kumanovo	Licensed
22.	European Audit Center, Skopje	Licensed
23.	Elit, LLC Skopje	Licensed
24.	Logist, LLS Kumanovo	Transformed into statutory auditor – sole proprietor
25.	Audit, accounting and tax consulting firm, JVK, LLC Skopje	Licensed
26.	Audit and Finance A&F, LLS Skopje	Licensed
27.	Idea Plus Audit & Consulting, LLC Radovis	Licensed
28.	Audit Center BS, LLC Skopje	Not licensed
29.	Verifica LLC, Skopje	Licensed
30.	Bend Audit and Consulting, LLC, Tetovo	Licensed
31.	Joanidis, Audit Company, LLS Skopje	Licensed

Source: Registry of audit firms, ICARM, 2017

The first segment of the transparency reports gives a review on the legal structure and ownership of all audit firms, ICARM members. Pursuant to Article 24 of the Audit Law, an audit firm established as company and statutory auditor – sole proprietor, having obtained working license, can perform audit as a service. Audit firm has a working license to perform audit operations if it fulfils the following requirements: (1) having employed at least two statutory auditors, (2) majority voting shares in the audit firm owned by the

statutory auditors and (3) possession of insurance policy of general responsibility in the amount determined by the ICARM (Audit Law, 2010). According to Article 13 of the Audit Law, the working license to the audit firms and statutory auditor – sole proprietor is issued by the CAO. According to the information from the transparency reports, all audit companies have consistently disclosed the data for the description of the legal structure and ownership of the audit company during the ten-year period.

Second segment of the transparency reports shows which professional network the audit firms belong to, including the legal and the structural arrangements. There are differences in the extent of the given information about the network arrangements, with very little information on the structure of central Boards or committees and their functions, in some cases. As it is shown in the transparency reports, the segment explaining the professional network which the audit firms belong to and the legal and the structural arrangement, the Big Four provides more detailed explanations, Audit firms in the International professional network write short report when they enter the network, while the Local audit firms just stress the fact that they act locally on the territory of the Republic of Macedonia.

If we compare the information from the transparency reports for the eleven subsequent years pertaining to this segment, we may conclude that the majority of the audit firms use almost identical formulations. Special attention should be given to seven major changes.

Year	Changes in the status of audit firms
2008	Local audit firm Infos D became part of the professional network of the Baker Tilly International
2009	Local audit firm Macedonian Audit Center joined Moore Stephens
October 2011	Primeko audit became full member of ECOVIS International.
2011	Local audit firm Dimitrov audit was rebranded to BDO
December 2015	Local audit firm Cenzum joined RSM International
2016	Baker Tilly Macedonia LLC Skopje became Audit Macedonia
2017	Joanidis, Audit Company, LLS Skopje became Baker Tilly Joanidis

With the changes occurred in the period of presentation of the transparency reports (2007-2017) we may summarize that on the audit services market in the Republic of Macedonia at the beginning existed the Big Four and Grant Thornton, whereas during the ten years observed, five Local audit firms became part of the International professional network . The disclosure of the third segment of the transparency report focused on the description of the governing structure of the audit firm varies from one sentence to a brief paragraph. Initial reading of the transparency reports for 2007 and 2008 imposed the impression of lack of experience of the audit firms in preparing and presenting such type of reports. Unlike them, other audit firms, especially the Big Four, presented more detailed information on the internal quality control system of the firm pursuant to the requirements of the Law. Such approach is logical if one takes into account that the Big Four operate according to the globally accepted audit methodology. It means developed, detailed and rigorous internal control system. Unlike the Big Four, the disclosure of the internal quality control system of companies belonging to an international network as well as local companies initially was on minimum one paragraph or at most on one page. In the recent

years, there has been evident improvement in this segment with detailed presentation of the quality control system that dominates in the transparency reports.

Unfortunately, it is inevitable to notice that certain audit firms, which present reports with poorer quality, do it continuously by copying the same wordings from previous years, without putting efforts to improve information power of the transparency reports. Such inconsistent approach regarding the form and the contents of the transparency reports burdens the comparison of data presented in certain segments and the carrying out of more detailed research. However, despite such limitations, presented transparency reports provide realistic picture of the developments on the audit services market in the Republic of Macedonia.

According to the Audit Law, one of the responsibilities of the CAO is related to the review of the transparency reports. The initial review of transparency reports was conducted by the CAO in 2013, when it concluded that there is an inconsistency approach in the presentation of information in the transparency reports by the audit firms and along with it a non respect of the requirements from Article 35 of the Audit Law. For the purpose of improving the quality of the transparency reports and helping the audit firms in interpreting the legal requirements, the CAO has prepared Guidelines for drafting transparency reports distributed to the audit firms in February 2015 with a recommendation for its implementation when drafting the transparency reports for 2014 which were to be submitted to CAO by 31 March 2015. The initial review of the transparency reports from the last years shows significant improvement and unified approach in their drafting by the audit firms in comparison to the previous years.

Trying to give the most possibly clear image of the role the Big Four, Audit firms in the International professional network and Local audit firms have on the audit services market in the Republic of Macedonia, in continuation to this paper we will analyse data from segments in the transparency reports pertaining to (1) the number of auditees, (2) the financial information on the total revenues realized on the basis of carried out audit, as well as on the basis of other fees, broken down to four categories of audit services, additional services related to quality assurance, tax advisory services and other non-audit services are analyzed in more details further on in this paper and (3) impact of the number of auditees on revenues realized on the basis of audit services.

Due to the heterogeneous composition of the auditees (part of them are large enterprises, part of them are medium-size enterprises, also including projects financed by financial institutions and donors from abroad), Table 3 presents the number of auditees being audited by audit firms (Big Four, Audit firms in the International professional network and Local audit firm) in the period 2007 - 2017.

Table 3. Number of auditees in period 2007-2017

Audit firm	Number of Auditee										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Big Four	114	129	131	131	165	168	170	167	205	189	202
Audit Firms in the International professional network	93	169	220	233	221	251	293	281	294	350	383
Local audit firms	230	323	389	462	514	565	546	595	777	732	759
TOTAL	437	621	740	826	900	984	1,009	1,043	1,276	1,271	1,344

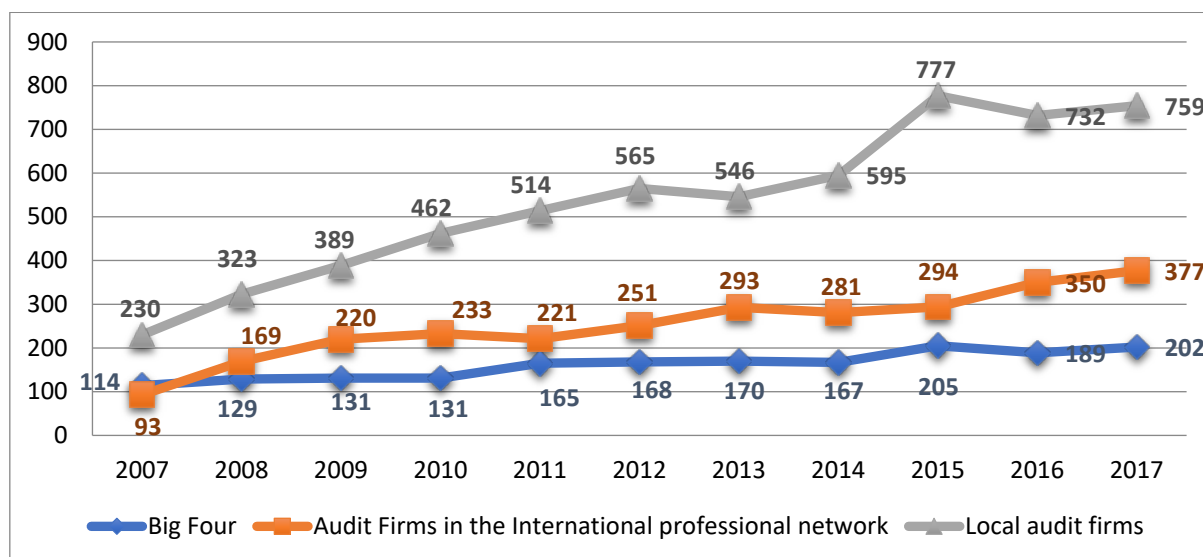
Source: Transparency Reports 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017

Audit firms apply different approach when demystifying the clients at which audit was carried out. Most of them provide detailed list of all auditees. Small portion of the audit firms use descriptive approach to indicate the auditees by summarizing them in certain categories (companies, non-profitable organizations, projects financed by financial institutions and donors from abroad, etc.). Only one Local audit firms did not present a list of auditees in the first two years. In the last eight years, the weaknesses in this segment of the transparency report were overcome.

At the beginning of the analysis we would like to put attention to the fact that the number of auditees, during the whole analysed period, is continuously growing from 437 in 2007 to 1,344 in 2017. The significant growth of auditees in the last two years is due to the increased demand for contractual audits.

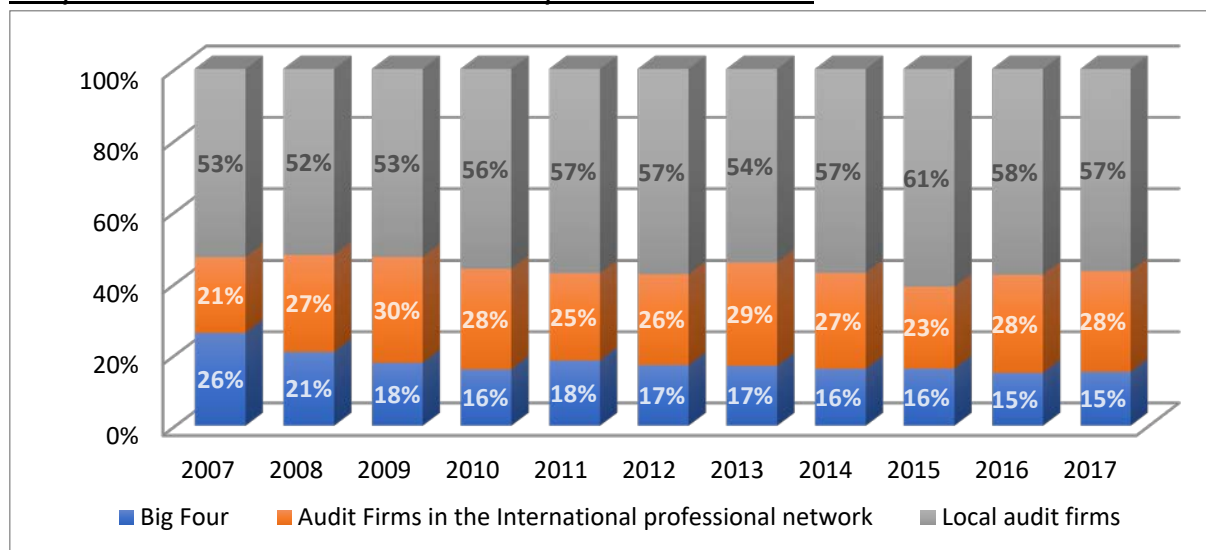
Number of auditees of the Big Four in the last eleven years is continuously growing, there is an increase of 77% in 2017. In the same period, number of auditees of the Audit firms in the International professional network noted increase of 305%, i.e. these firms had 93 clients in 2007 and 377 clients in 2017. Similar trend can be noted in the Local audit firms that in the analysed period increased the number of its auditees from 230 to 759, i.e. and increase of 228%. These analyzes are presented in Graph 1.

Graph 1. The trend of the number of auditees in the period 2007 - 2017



If we compare the Big Four, Audit Firms in the International professional network and Local audit firms, we may conclude that out of the total population of auditees in the analysed period, the share of the Big Four was significantly decreased from 26% in 2007 to 15% in 2017. From the remaining audit firms deserves attention the fact that the share of the audit firms part of the International professional network s from 21% in 2007 to 28% in 2017. The local audit firms participated with 53% in 2007 and 57% in 2017. This comparative analysis is presented in a Graph 2.

Graph 2. Total Number of auditees in period 2007 - 2017



Trying to find out the reasons for the oscillations in the number of auditees we isolated three particularly significant reasons. Oscillations are partially due to the requirement in the Banking Law in the Republic of Macedonia on mandatory external rotation of audit firms each 5 years. Taking into account the fact that banks in the Republic of Macedonia most often select the Big Four as their auditors, mandatory rotation causes changes in the number of their auditees. If going into more details of the analysis of the list of the companies which are subject to audit, we may conclude that the big entities were mainly audited by the Big Four.

Part of the big entities and significant part of the medium entities are concentrated in the audit firms part of the international networks that do not belong to the Big Four (Grant Thornton, Moore Stephens, BDO, RSM and Baker Tilly), as well as in the local audit firms. In the list of auditees of the local audit firms are as well included projects financed by foreign donators. Due to these reasons, we consider that a valid conclusion on the participation of the audit firms on the audit services market cannot be drawn only on the basis of the number of auditees (as an isolated parameter).

Besides that, according to the legislation in the Republic of Macedonia, primary criteria when selecting the audit firm, for the majority of the auditees, is the price of the offered service. Because of these reasons, during the public bidding among the audit firms the chances to be selected are higher for the audit firms that offers lower price of their services. Unfortunately, the quality is not considered as overriding criteria, so that the audit firms, especially the Big Four, that are subject to rigorous quality control checks feel

a serious handicap to compete with the low prices on the market. Segregation of the audit services market and the struggle for new clients is often related to the offering lower fees for the services rendered compared to the offer of the competitive audit firms. Unfortunately, lower fees always go hand in hand with the compromise to perform service with lower quality. Taking into consideration the above mentioned, this segment of the transparency reports is a red flag for the quality control of ICARM.

Pursuant to Article 35 of the Audit Law, audit firms are obliged to disclose, in their transparency reports, even the most sensitive information related to the structure of realized revenues. Financial information on the total revenues realized on the basis of carried out audit and on the basis of other fees should be broken down to four categories: (1) audit of annual statements and consolidated accounts, (2) additional information on quality assurance, (3) tax advisory services and (4) other non-audit services.

Individual share of audit firms in the total offered audit services and the revenues thus realized in the period 2007-2017 is shown in Table 4.

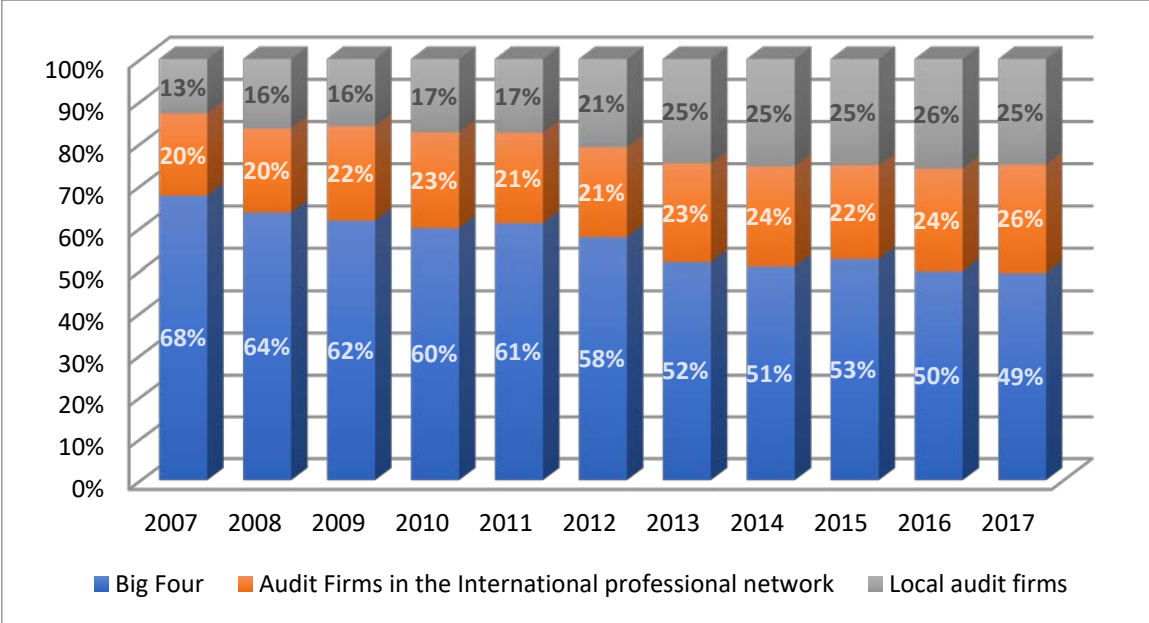
Table 4. Structural share of audit firms in total turnover realized on the basis of audit services

Audit firm		Audit-related turnover in EURO										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Big Four	2,755,439	3,129,750	3,210,152	3,100,075	3,225,717	2,815,797	2,254,114	2,109,303	2,525,704	2,415,769	2,516,515
2	Audit Firms in the International professional network	795,006	979,867	1,166,739	1,173,075	1,133,403	1,036,904	1,016,635	987,083	1,065,368	1,176,484	1,309,713
3	Local audit firms	525,915	810,846	827,469	900,480	922,974	1,021,275	1,076,116	1,056,671	1,210,786	1,264,379	1,278,033
	TOTAL	4,076,359	4,920,463	5,204,359	5,173,630	5,282,094	4,873,976	4,346,865	4,153,057	4,801,857	4,856,632	5,104,261

Source: Transparency Reports 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017

In the analysed period, the total market of audit services observed through realized revenues from audit activities is characterized with emphasized fluctuations, starting from 4,076,359 EUR in 2007, till 5,104,261 EUR in 2017. Such oscillations do not correspond with the number of auditees, which as previously mentioned was increased double. The reason of such discrepancy between the increased amount of work of the audit firms through drastically increase of the number of auditees in one hand and maintenance of the level of audit revenues on approximately the same level on the other hand is an issue that should be elaborated by the Quality Control Commission within ICARM.

Graph 3. Participation in the total revenues realized on the basis audit services

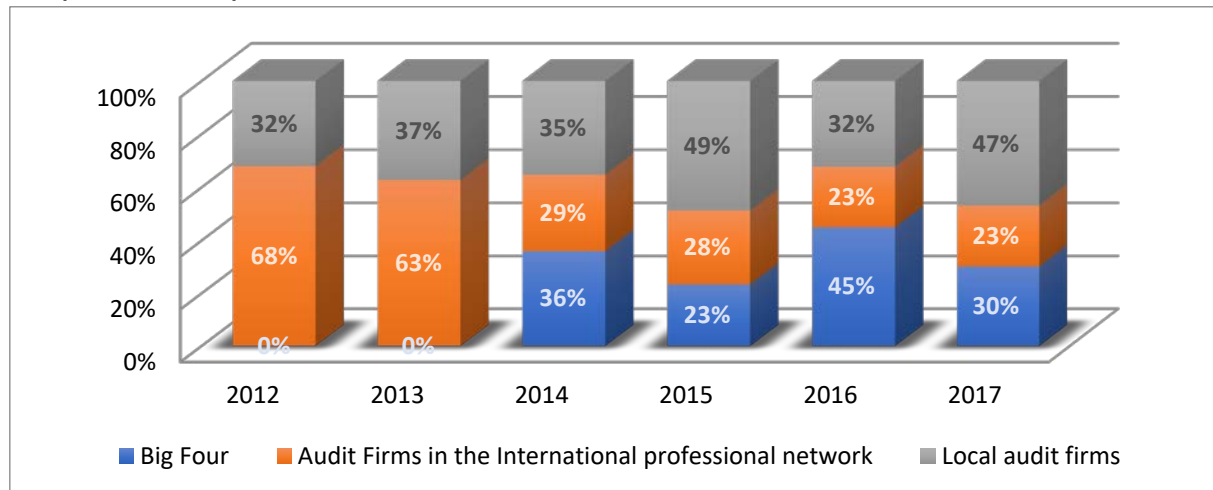


Data obtained from transparency reports speak of dominant share of the Big Four (more than 50%) in the total revenues realized on the basis of audit services in the Republic of Macedonia, whereas the Audit Firms in the International professional network and the Local Audit Firms have small participation in the revenues realized on the basis of audit services. However, in spite of the dominant share on the audit services market as per the realized revenues, it is worth noting the fact that such share of the Big Four is continuously decreasing that corresponds to the decrease of the number of auditees in the analysed period. More detailed analysis of data is given in Graph 3. Engagements of the Big Four in the financial sector change because of the Banking Law, causing to lose the big clients at part of these firms, which, on the other hand, results in reduced revenues realized on the basis of audit.

Audit Law requires the revenues from the quality assurance services to be separately presented in the transparency report. Taking into account the fact that audit services market is still not developed in the Republic of Macedonia, as is the case in the EU Member States, small number of clients request quality assurance services, and when they request such services, the audit firms treat them as another type of services. Only Ernst&Young Statutory Auditors, Skopje showed revenues on the basis of quality assurance services in first years (2007 - 2011). Since the review of the transparency reports started, and especially after the submission of the Guidelines for drafting

transparency reports, a significant improvement is noted in the part of delineation of the realized revenues in four categories, as per the Audit Law. In the category of realized revenues from quality assurance services in 2017, 15 audit firms disclosed their revenues in a total amount of 315,376 EUR, 47% of which are related to the local companies, unlike 2016, when 45% belonged to the Big Four. In the upcoming period it is expected that the audit firms will disclose these revenues separately and that they will not incorporate them in the category other revenues from non-audit services.

Graph 4. Participation in the total revenues realized on the assurance services



Another category of revenues from the transparency reports includes the revenues realized on the basis of tax advisory services. Data on the participation of the audit firms in the total revenues realized on this basis are presented in Table 6.

Table 5. Structural share of audit firms in total turnover realized on the basis of additional quality assurance services

Audit firm		Assurance										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Big Four								90,583	60,342	102,032	95,396
2	Audit Firms in the International professional network						14,751	32,229	72,288	71,966	51,661	72,111
3	Local audit firms						6,947	19,159	88,823	125,490	72,992	147,860
Total		0	0	0	0	0	21,698	51,388	251,693	257,798	226,685	315,367

Source: Transparency Reports 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017

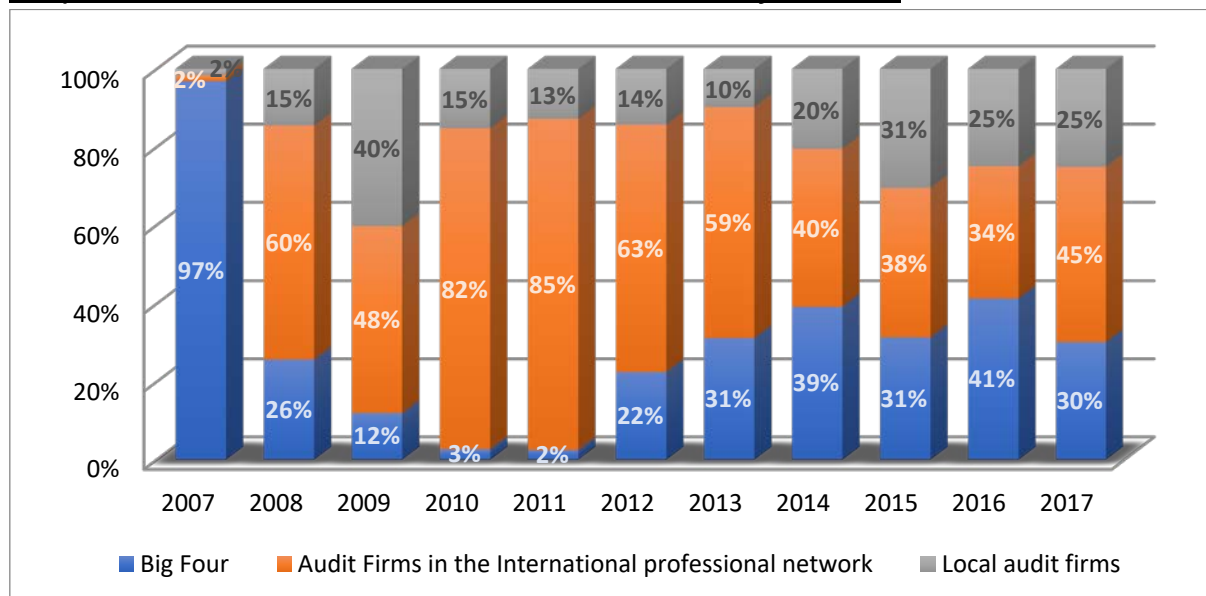
Table 6. Structural share of audit firms in total turnover realized on the basis of tax advisory services

Audit firm		Tax advisory services										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Big Four	527,581	56,453	27,359	7,782	22,687	63,227	79,683	177,644	164,942	243,211	153,693
2	Audit Firms in the International professional network	8,249	131,436	109,284	241,718	781,419	177,931	150,994	182,561	200,349	198,368	228,279
3	Local audit firms	8,733	31,906	92,211	44,811	118,031	40,129	24,838	92,828	160,497	146,875	128,078
Total		544,563	219,796	228,854	294,311	922,138	281,287	255,515	453,033	525,788	588,454	510,050

Source: Transparency Reports 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017

As we may conclude from the Table 6, the tax advisory services market in the Republic of Macedonia in the period 2007-2017 is characterized with emphasized oscillations. Starting with 544,563 EUR in 2007, in the next three years the total amount of revenues were increased almost double, reaching the maximum of 922,138 EUR in 2011, then drastically reduced in the next two years, and at the end of the analysed period, i.e. 2017 reaching 510,050 EUR.

Graph 5. Structural share of audit firms in tax advisory services



Although the Big Four had the dominant share in the structure of the total revenues realized on the basis of audit services, their highest market share of tax advisory services was noticed in 2007, covering 97% of the market. Unlike the developments at the Big Four, Audit firms in the International professional network increased their market share for tax advisory services and in 2017 they had dominant participation. Their highest share in the tax advisory services market was noticed in 2011, covering 85% of the market. The discontinuity in reporting revenues from tax advisory services is typical for the Local audit firms as well. With slight oscillations the Local audit firms managed to increase their market share for tax advisory services from symbolic 2% to 25% in 2017.

The reasons for exceptionally stressed oscillations in the tax services revenues are not elaborated in the transparency reports. For this type of services there is no obligation to present a list of clients where they were performed, which makes it difficult to draw a valid conclusion just on the basis of the presented amounts for the realised revenues. Such tendencies deserve more detailed research by the relevant bodies (quality control within the frames of ICARM and the Council for Advancement and Oversight of the Audit).

The last category of revenues covers other non-audit services and, according to the explanations in the transparency reports of the audit firms in the Republic of Macedonia, this category incorporates the revenues from accounting services and valuation. Review of structural share of audit firms in the Republic of Macedonia in the total revenues realized on the basis of other non-audit services is presented in Table 7.

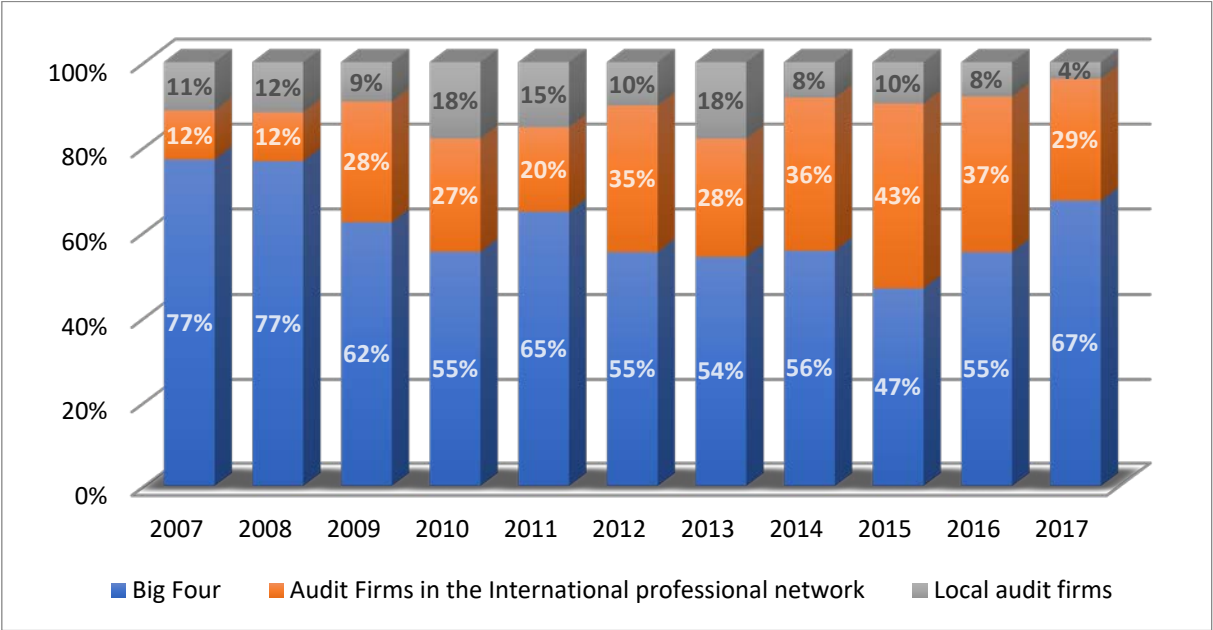
Table 7. Structural share of audit firms in total turnover realized on the basis of other non-audit services

Audit firm		Other non-audit services										
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Big Four	609,443	609,443	547,455	357,610	476,511	379,163	599,868	737,241	647,803	657,663	1,010,075
2	Audit Firms in the International professional network	91,413	91,413	249,835	172,268	146,111	237,102	308,357	478,406	599,589	435,999	430,843
3	Local audit firms	89,887	93,855	81,319	116,292	112,696	69,826	199,868	110,703	134,686	96,342	57,737
Total		790,743	794,710	878,609	646,171	735,319	686,091	1,108,093	1,326,349	1,382,078	1,190,004	1,498,655

Source: Transparency Reports 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017

Basically, on the non-audit services market are noted pronounced oscillations from maximum 1,498,655 EUR in 2017, which was the end of the analyzed period, to minimum 646,171 EUR in 2010.

Ghapt 6. Structural share of audit firms in other non-audit services

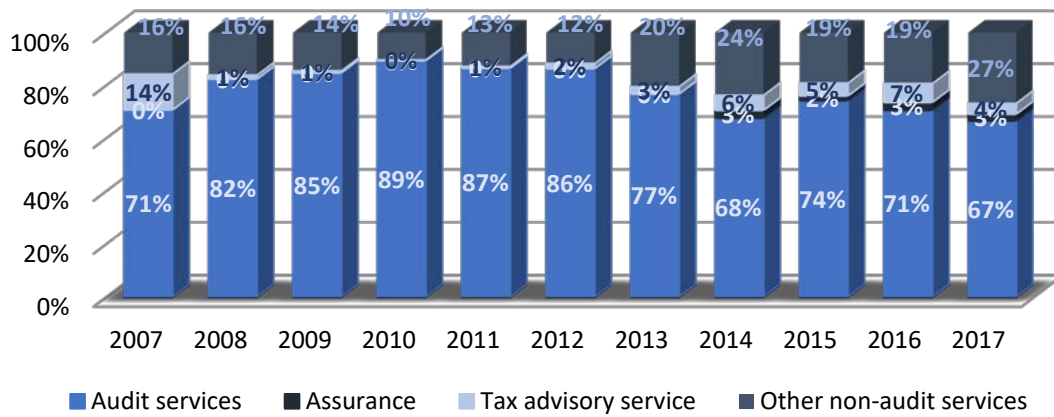


Information on the participation of certain audit firms in the total revenues realized from non-audit services, obtained from the data in the transparency reports, is slightly different from the previously analyzed services. The participation of the Big Four stressfully oscillates from 77% in 2007 to 67% in 2017. Unlike the decrease at the Big Four, Audit firms in the International professional network increased their share on the market for non-audit services, 29% at the end of 2017. The remaining local audit forms at the beginning participated with 11%. The share of Local Audit firms in the total revenues from the non-audit services during the analysed period is symbolic, from the minimal 4% in 2017 and 2016 to the maximum of 18% in 2010 and 2013.

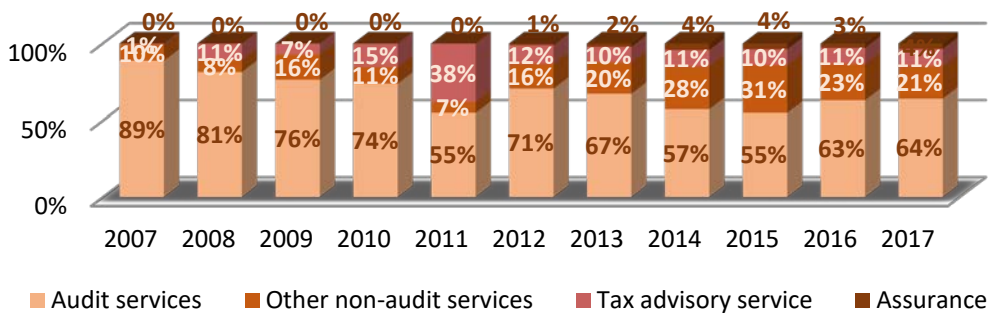
Based on the conducted analysis of the transparency reports in the segment for realized revenues grouped into four categories, we may conclude that the Big Four along with the Audit firms that are part of the International network (but do not belong to the Big Four) dominate on the audit services market in the segment of audit and non-audit services, and partially in the segment of assurance services and tax advisory services. As a difference to them, the Local audit firms are well positioned in the audit services segment, dominate with revenues from tax advisory services and have a significant share in the revenues from assurance services. This comparative analysis is presented in a Graph 7.

Ghapt 7.

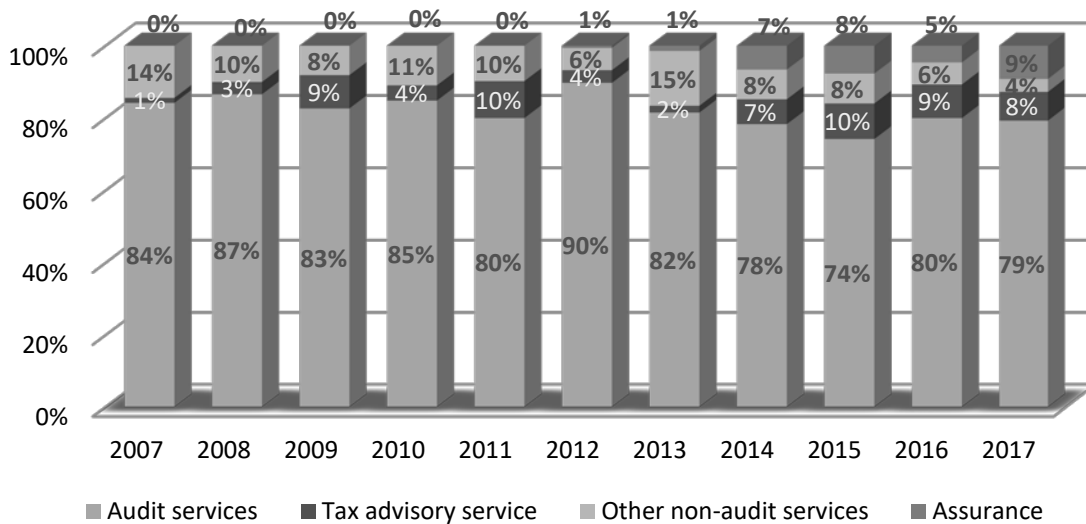
Big Four



Audit Firms in the International professional network



Local Audit Firms



Furthermore, a regression analysis was implemented in order to determine the impact of the number of auditees on the unit cost per audit and on total realized revenues from audit services at the Big Four, Audit firms in the International professional network and Local audit firms.

From the obtained results, we can conclude that the number of auditees in the Big Four companies has an inversely proportional impact on the average realized revenues from audit services and on the price per audit. Or, according to the regression analysis, the number of auditees has a minor impact on the realized revenues, and only 34% of the revenue variability is due to the change in the number of auditees. That would mean that if there is an increase in the number of auditees for one, the revenue would decrease by 7,413 EURO's on average (Table 8).

Further analysis for the impact of the number of auditees on the revenue and on the price per audit at the Audit firms in the International professional network and Local audit firms have shown quite interesting results.

The revenue in Audit firms in the International professional network is partly determined by the number of auditees and they have a minor impact on the revenues generated from audit services, and only 54% of the revenue variability is due to the change in the number of auditees. If Audit firms in the International professional network enter into a contract with a new client, in that case their revenue from audit services would increase by 1,238 EURO's on average. (Table 8).

In contrast to the Big Four and Audit firms in the International professional network, the revenue from audit services at Local Audit firms is determined by the number of auditees and they have a significant impact on revenue from audit services, i.e. 94% of revenue variability is a result of the change in the number of auditees. This means that if the number of auditees increases by one, in that case the revenue from audit services would rise by 1,227 EURO's on average. (Table 8)

Table 8. The impact of the number of auditees on revenues realized on the basis of audit services at the audit firms in Republic of Macedonia

Realized revenues/Number of auditees			
Type of company	Big Four	International	Local
Personal Correlation	-0.5799612	0.73326265	0.970937
R Square	34%	54%	94%
Revenues/number of auditees	-7,413	1,238	1,227
F significance	0.061443481	0.01023635	0.00001
Observations	11	11	11

On the other hand, the number of auditees has a significant impact on the unit price per audit, i.e. 85% of the unit price variability is due to the change in the number of auditees. Therefore, if the number of auditees increases by one, the price per audit will decrease by 647 Euros on average. (Table 9)

In contrast to the impact on the revenue from audit services, the number of auditees in the Audit firms in the International professional network has significantly inversely proportional impact on the unit price per audit, i.e. 85% of variability of the unit price is

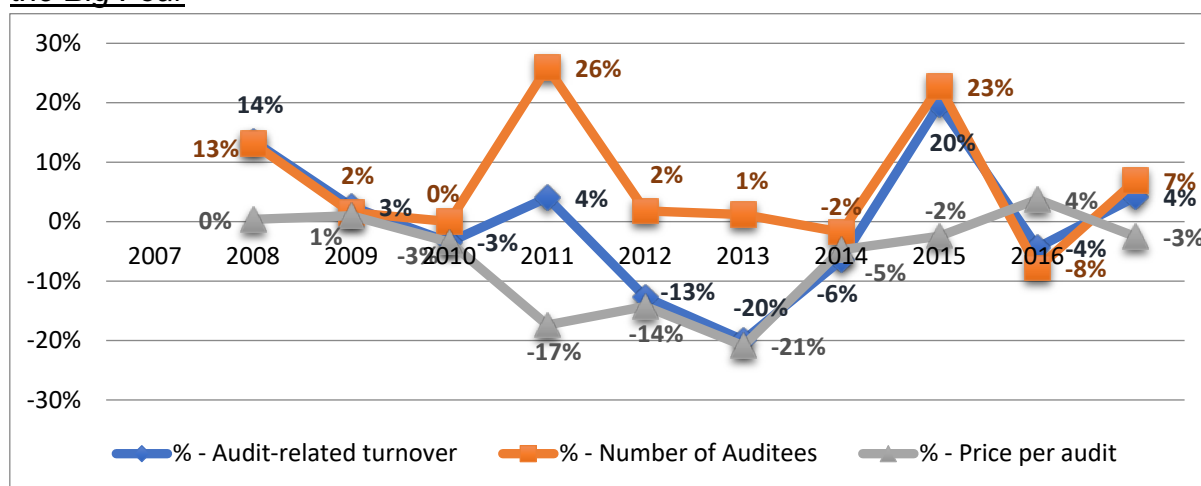
due to the change in the number of auditees. This would mean that if there is an increase in the number of auditees by one, then the price per audit would decrease by 89 Euros on average (Table 9).

Unlike the impact of the number of auditees on revenues from audit services, the number of auditees has a significantly inverse proportionate impact on the unit price per audit when it comes to the local companies, i.e. 82% of the unit price variability is due to the change in the number of auditees. Or, if the number of auditees increases by one, the price per audit would fall by 33 Euros, on average. (Table 9)

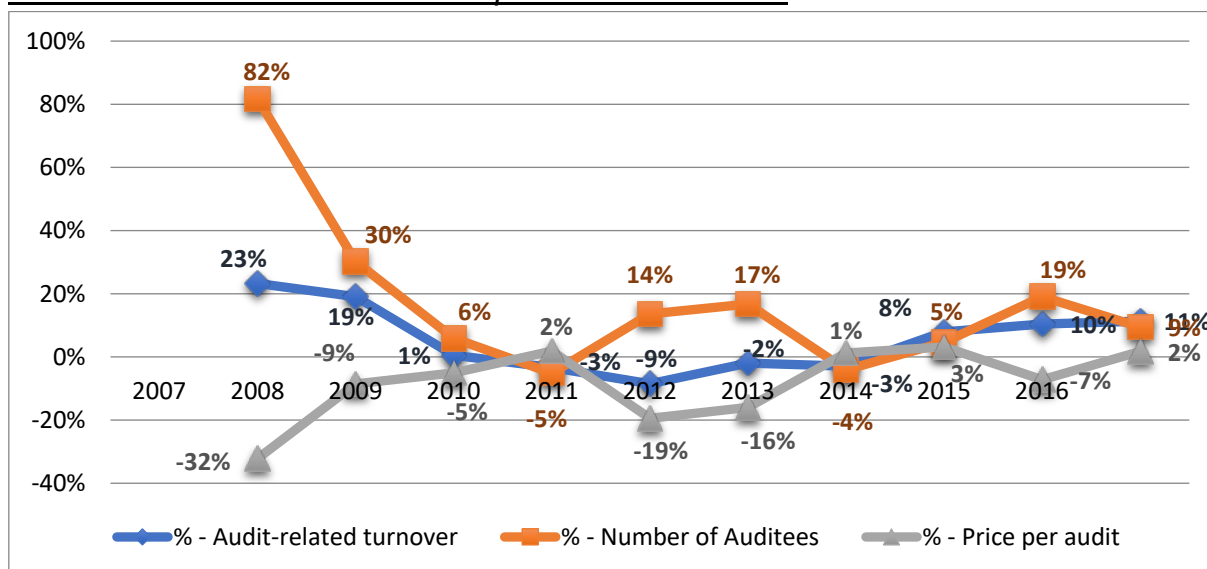
Table 9. The impact of the number of auditees on price per audit services in Macedonia

Price per audit/Number of auditees			
Type of company	Big Four	International	Local
Personal Correlation	-0.92095	-0.92318	-0.904541
R Square	85%	85%	82%
Revenues/number of auditees	-647	-89	-33
F significance	0.00006	0.00005	0.000131
Observations	11	11	11

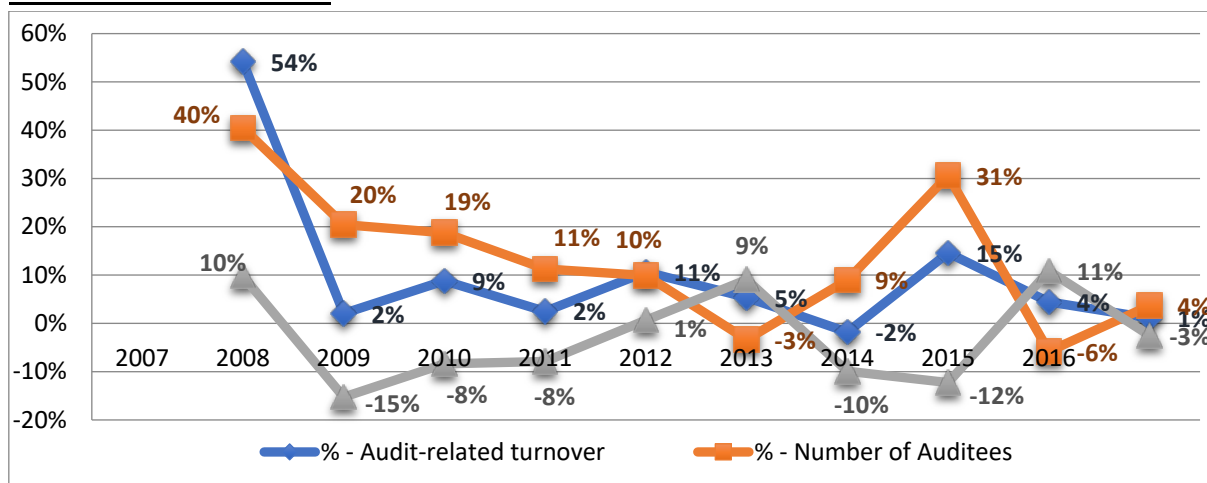
Graph 8. The dynamics of the price per audit, the revenue and the number of auditees at the Big Four



Graph 9. The dynamics of the price per audit, the revenue and the number of auditees at the Audit firms in the International professional network



Graph 10. The dynamics of the price per audit, the revenue and the number of auditees at the Local audit firms



In Table 10, it can be seen that the correlation for all of the audit firms in Macedonia is negative, which means that the number of certified auditors in the companies has an invert proportional impact on the revenues from the audit services. This data refers to the last four consecutive years.

What is interesting here is that the number of certified auditors in the Local audit firms has the most impact on the revenues (55% of the variability of the revenues is due to the change of the number of certified auditors), whereas the impact in the Big Four and the Audit firms in the International professional network is insignificant.

Table 10. The impact of the number of certified auditors on the revenues realized on the basis of audit services at the Audit Firms in Macedonia

Revenues/ Auditors			
Type of company	Big Four	International	Local
Personal Correlation	-0.051296	-0.1969144	-0.7414
R Square	0,3%	4%	55%
F significance	0.9487038	0.8030856	0.258553
Observations	4	4	4

What is shown in table 11, is the strong relation between the revenues and the number of employees in the audit firms when it comes to the Big Four. The number of employees in the Big Four affects their total revenues significantly, with the correlation being 0.82 and the fact that 68% of the variability of the revenues is a result to the number of the employees.

The case is similar but not as strong when it comes to the Audit firms in the International professional network, with 51% of variability, enough to be a dominant factor. However, the Local audit firms do not follow the same trend. With 36% of the variability, the number of employees is insignificant in these audit firms when it comes to the change of the profit.

Table 11. The impact of the number of employees on revenues realized on the basis of audit services at the Audit firms in Macedonia

Revenues / Employees			
Type of company	Big Four	International	Local
Personal Correlation	0.821928	0.717532	-0.6041016
R Square	68%	51%	36%
F significance	0.17808	0.282468	0.3958984
Observations	4	4	4

Finally, in table 12 it is shown how the number of clients affects the number of employees in these three types of auditing firms. The exception here are the Audit firms in the International professional network in Macedonia, whose client variability is only 7%, which means that the change of the number of the clients has an insignificant influence on the employees. However, when it comes to the Big Four, although not significantly, it affects the employees with 48% variability. Finally, when it comes to the Local audit firms we can notice a negative personal correlation which means these two variables are not proportional.

Table 12. The impact of the number of employees on the number of auditee at the audit firms in Macedonia

Audities / Employees			
Type of company	Big Four	International	Local
Personal Correlation	0.694152	0.26968	-0.611114
R Square	48%	7%	35%
F significance	0.30584	0.730320413	0.4116808
Observations	4	4	4

4. Research limitations and potential benefits for the users of the results from the research

Analyzing the data in the transparency reports is a challenge because it imposes certain limitations. In the first year of presentation of transparency reports it was difficult to obtain reports from all the audit firms because there was not established a practice for their regular publication in the public media or on the web sites of the audit firms. Therefore, in this period transparency reports were obtained from ICARM.

With recent changes in the Audit Law, CAO A, as a regulatory body, is competent for reviewing transparency reports. Such a request imposed an obligation on the audit firms to submit their transparency reports to the CAO A, which further publishes them on its website. The turbulent environment, in which an obligation for greater disclosure by audit firms was established, has created difficulties in collecting transparency reports from various sources over the past 11 years.

Processing the inconsistently presented data also imposed serious limitations. In some audit companies, revenues were cumulatively expressed in the first years and did not correspond with the requirements of the Audit Law for their distinction in four categories. Also, in some audit companies, only percentages for certain categories of revenues were reported where additional computations were done in order to distinguish them in the four categories in accordance with the requirements of the Law.

The changes in the Audit Law from 2010 and the extension of the list of mandatory elements in the transparency reports make the analysis partial difficult. On the other hand, they have increased the information power of the transparency reports for the potential users.

Additional problem in analysing the data represents the lack of consistency in data disclosure. In some parts of the reports, the audit firms quote part of ISA or give extensive explanations. As a difference, other audit firms usually present the information briefly in one paragraph. From the point of view of analysing the data, the both extremes lead to various dilemmas.

Based on the conducted analysis on the transparency reports for 2017 we may conclude that the major part of the problems and dilemma we faced in this research will stay in the past. Since the Guidelines for drafting transparency reports was prepared and distributed by CAO A, the quality of the reports have been significantly improved in terms of respecting the provisions from the Audit Law for the form and content of the transparency

reports. Also, by applying the Guidelines, the asymmetry in the reporting has decreased, and the practice of publishing transparency reports only in one page has become past. The latest transparency reports from 2016 and 2017 are full of information about the operation of audit firms, which is a solid basis for creating a realistic picture for users. The communication value of the Transparency Report increases by expanding the number of pages and more detailed description of the internal quality control system, the continuous professional development, the calculation of the partner's fee, the precise separation of revenues from auditing vis a vis the other services, etc.

Finally, the relatively short period of eleven years of presenting the transparency reports, which commenced in 2008, limits the research and makes it poorer in terms of monitoring the dynamics of the development of certain audit firms and their participation in the audit services market in the Republic of Macedonia.

However, regardless of the numerous limitations faced with when obtaining the transparency reports from the audit firms and analyzing the presented data, observations made gave the real picture of the trends on the audit services market in the Republic of Macedonia in the analyzed period 2007-2017. Such trends for participation of audit firms in the audit services market could not be foreseen even prior to obtaining the initial information from the presented transparency reports.

At the very beginning of the application of the 2005 Audit Law, audit firms perceived transparency reports as a bureaucracy nightmare, requiring employment of resources during the season of audit services on the market. Different perception of the requirement to present sensitive information from the operations of the audit firms in the transparency report is partially overcome, following their first presentation in 2008. All in all, presenting data from the transparency report should provide a positive input of the audit quality and it can help in promoting sounder competition on the audit services market.

So far the practice has shown that the Quality Control that functions within the frames of ICARM is not using the information from transparency reports as red flags to activate the control mechanisms. On the contrary, the Quality Control Commission operates according to an accepted methodological approach for selection of the entities subject to quality control which is based on replies to questionnaires distributed to the audit firms. Besides that, the Audit Law prescribes the obligation to present transparency reports, but fails to prescribe sanctions for audit firms that would not do so or in case they disclose non-accurate data. The lack of penalty measures may address poor message to the audit firms, so that they will not take seriously their obligation for timely presentation of the transparency reports and disclosure of accurate data in them. Presenting the transparency report might, for part of the smaller local audit firms, be a legal obligation that is time consuming, incurs costs which in a given constellation of arrangement of clients can be hardly valorised through winning new clients and better position on the audit services market.

After eleven years of presenting the first transparency reports, it is extremely difficult to measure the benefits arising from the legal requirement to publicly present the data for themselves and their policies and processes. However, it is quite certain that by developing the audit services market in the Republic of Macedonia, audit firms will, in the coming years, start feeling the benefits from their transparent presentation in front of the clients.

Conclusion

Strategic commitment of all Governments of the Republic of Macedonia since its independence in 1991 till today is approximation and integration in the EU. Audit profession was, still is and, it is quite certain, will be part of the strategies for faster integration in the EU. In the light of such commitments, new Audit Law was adopted in 2005, being modified and amended in 2010. Audit profession has been waiting for this Law for eight years. It was not just a mere coincidence that, during its preparation, then proposed Eighth Company Law Directive was consulted. Striving for approximating the national audit profession to the global professional elite, new Audit Law is harmonized with the Directive in all key segments. To that end, requirement for audit firms in the Republic of Macedonia to present annual transparency report was introduced in 2007 for the operations carried out in 2006. However, despite such defined legal requirement, public in the Republic of Macedonia saw the first transparency reports in 2008 covering the operations of audit firms in 2007. Information presented in the transparency reports aroused huge interest to practice and academy stimulating carrying out this initial research so as to depict the trends on the audit services market in the Republic of Macedonia in the period 2007 - 2017.

Comparing the data from the transparency reports in the three segments that may give more precise image for the states of affairs on the audit services market several conclusions can be summarized. *First*, the number of clients where the audit firms performed audit engagements indicates that the Big Four were, are and probably will be dominant at the large auditees and in the financial sector. Regarding the number of auditees, Audit firms in the International professional network and Local audit firms do not lag either. Namely, according to the transparency reports, they participate quite successfully in the distribution of the “audit cake”. *The second* conclusion does not vary drastically from the first one, and arises from the financial data related to the revenues that the audit firms generate from the audit, assurance, tax advisory and non-audit related services. The realised revenues confirm the domination of the Big Four on the audit services market in the Republic of Macedonia. Just behind them are the Audit firms in the International professional network. The share of the Local audit firms especially in the part of the revenues realised from tax advisory services, should not be neglected either. The revenues variances in the analysed eleven years cannot make assurance about the fact that the market is segregated among the existing audit firms, each of them having ‘marked’ its territory of functioning. A contrary, the market is still turbulent and the audit firms, through the quality of their services, will have yet to find their way to the clients. The transparency reports along with the data disclosed in them should stimulate the ICARM, the Quality Control Commission, as well as the COAO to act towards improving the profession image by isolating the audit firms that do not comply with the rules of the profession and sanctioning them. In a long term, exactly in this segment should be sought the benefit of presenting transparency reports, not only for the audit firms that respect the profession rules, but for the audit services users’, as well. *The third* conclusion, according to the regression analysis, is that the number of auditees in the Big

Four and Audit in the International professional network has a minor impact on the realized revenues. In contrast to the Big Four and Audit firms in the International professional network, the revenue from audit services at local audit firms is determined by the number of auditees and they have a significant impact on revenue from audit services. Unlike the impact of the number of auditees on revenues from audit services, the number of auditees in the all audit firms has a significantly inverse proportionate impact on the unit price per audit.

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