

# EFAA Policy Position – Strengthening the Single Market and the Role of Regulated Professions

## Introduction

The European Federation of Accountants and Auditors for SMEs represents more than 350.000 individual professional accountants - typically working in or as small- and medium-sized accountancy practices (SMPs) and which interact daily with millions of small and medium-sized enterprises (SMEs) - of the 12 organizations that are members of EFAA.

SMEs are crucial to the future economic and social prosperity and stability of Europe and Europeans. SMEs make up 99.8% of all companies in Europe, the vast majority (93%) having less than 10 employees. In most, if not all, European Member States they account for the majority of private sector Gross Domestic Product (GDP). SME employment from 2013 to 2016 grew almost 50% faster than in the whole EU economy. Since SMEs and small public sector entities are the main clients of SMPs, it is a key interest of EFAA's members to contribute and develop an environment in which SMEs can prosper.

Indeed, last year EFAA recommended a range of priority actions to support SMEs for the current European legislative and executive period and the role of SMPs in achieving them in its [Memorandum for Elections to the European Parliament 2019](#). These priorities are informed by and gain their legitimacy from the daily experience of more than 350.000 individual professionals that interact day in day out with millions of SMEs. In sum EFAA supports SMEs by helping to ensure that small- and medium-sized accountancy practices (SMPs) provide high quality professional services to SMEs ranging from accounting and assurance through to advisory.

EFAA welcomes initiatives from the European Parliament and the European Commission to foster the Single Market for services and agrees that much still needs to be done. EFAA members consider that in order to achieve a real Single Market for services, EU authorities should start by tackling the main difference on fiscal and tax rules as well as unnecessary administrative burden imposed at national level.

Our broad policy positions are set out below.

## High Quality Professional Accountancy Services Contribute to SMEs' Prosperity

High-quality professional accountancy services help SMEs in many ways including: gaining access to finance; providing advice on how to grow their businesses sustainably; ensuring compliance with a range of regulations; preparing their tax returns and advising on tax planning; compiling their financial statements; and providing audit and other assurance on their financial statements and non-financial information. These benefits accruing to SMEs and wider business and society are why we need robust and consistent regulation of professional services. Moreover, SMPs are themselves very small entities and this gives them an acute awareness and understanding of what it means to be an SME. There is also an interdependence. Not only does the success of SMEs rest on the quality of the professional services provided by their SMPs but the success of SMPs depends upon the success of their SMEs clients.

SMEs are not the only ones to benefit from the provision of high-quality professional services of SMPs. We all do. The broader economy and society benefits too in various ways including: the collection of fair and accurate taxes to fund the provision of public services; reliable financial statements that provide the basis for informed decisions by users and underpin public trust and confidence in capital markets; the reduced incidence of fraud, corruption and money laundering<sup>1</sup>; and the transparency around the contribution made by SMEs to climate neutrality and the Sustainable Development Goals (SDGs). In the IFAC publication [Nexus 2: The Accountancy Profession – A Global Value Add](#), a report based on independent and expert research by the Centre for Economics and Business Research, a correlation is reported between the share of accountants in total employment, and both GDP per capita improvement and improved human development outcomes. In other words, accountants help protect and promote the public interest.

In order to serve the aforementioned objectives, it is important that the accountancy profession meet certain quality standards. So far, this could be achieved through proportionate regulation of the profession at national level.

Other reasons cited for regulation of professional services include: to address an 'asymmetry of information' between clients and service providers of professional services whereby practitioners need a high level of technical knowledge but the average client lacks such knowledge and hence is unable to judge the quality of the services they purchase; to address the externality whereby the provision of a service may have an impact on third parties as well as the purchaser of the service, e.g., an audit failure will impact creditors and investors; and to ensure adequate supply of 'public goods' that are of value for wider society, e.g., the correct administration of justice.<sup>2</sup>

The EU has much work to do before it can boast a single market in services including professional services. But deregulation is not the prerequisite for an efficient and effective single market. We cite the US example. Unfavourable comparisons are often, rightly, made with the US. The US enjoys a large, vibrant and innovative single market in professional services characterized not by deregulation but rather by a uniform high level of regulation across. There is a high level of professional mobility and cross state competition since state level regulation is minimal. The US also has a high degree of commonality of accounting and tax regulation across all states, e.g., federal income taxes. Meanwhile here in the EU member states vary in the nature and extent of professional regulation as well as accounting and, especially, tax regulation. This impedes cross border trade in services. The US provides strong evidence in support of consistent and robust regulation of professional services.

EFAA therefore strongly believes that it is in the interest of SMEs and the society to guarantee that the accountancy profession meets precise requirements in terms of initial education and training, continuous professional development and conduct (professional ethics, licensing, supervision and disciplinary measures).

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<sup>1</sup> [International Federation of Accountants \(IFAC\), see Fighting Corruption and Money Laundering](#)

<sup>2</sup> COM (2005) 405 final, Follow-up to the Report on Competition in Professional Services, COM (2004) 83 of 9 February 2004.

## Professional Services Provided by Accountants and Tax Advisers Key for the Single Market

In most countries the provision of audit, tax and accounting services is regulated by the national public professional authorities and is the sole responsibility of professional service firms. Such professional service firms contribute to and guarantee the collection of fair and accurate taxes to fund the provision of public services; reliable financial statements that provide the basis for informed decisions by users and underpin public trust and confidence in capital markets; and the reduced incidence of fraud, corruption and money laundering.

The provision of these services demands certain prerequisites on the part of the professional - a high level of expertise, ethics and integrity combined with professional judgement and scepticism. And we do not foresee automation making these prerequisites redundant. Professional accountants and tax advisers undergo thorough education and training, maintained through the requirement for continuing professional development, and are held to a high standard of ethics and integrity.

It is important to avoid that deregulation opens the gates to competition from less or un-qualified professionals offering cut price, low quality services. The gains from lower prices will be more than outweighed by the erosion of financial health of clients.

There is also a growing case to reserve the preparation and assurance of non-financial information (NFI) to professional service firms. As the public demands for transparency around the contribution made by organisations towards climate neutrality and the Sustainable Development Goals (SDGs) there will be a corresponding surge in demand for reliable published NFI.

We would also like to point out the fact that increasingly accounting and tax firms are becoming multi-disciplinary firms offering a range of professional services to the benefits of their SMEs clients. Together with the need to embrace and leverage new technologies, firms are increasingly employing non-professional accountants, some at senior level. As such 'accounting firms' are becoming 'accountant led firms' EFAA members suggests that to guarantee the respect of relevant ethical rules and the independence of the advice and accountancy services in these firms, ownership is limited and remains principally in the hands of recognised professionals.

## Measures to Improve Single Market in Professional Services

While respecting the principle of subsidiarity and proportionality, any measure aiming to strengthen the single market for services in professional services should be subject to a cost-benefit assessment and take into account the following considerations:

- Across the EU there is a need for greater harmonisation of accounting and tax regulation. Only then will it be possible for a professional (tax advisor / accountant / auditor) to be competent over the whole EU market. Presently professional mobility is only feasible for those areas that are regulated at EU-level, e.g., in parts of audit and VAT. For other matters there are too many differences in national legislation that prevent professionals to be competent in different countries. EFAA believes that greater harmonisation of accounting, tax and other regulation provides the conditions for greater harmonization of the profession across the EU and for a real Single Market for services.

- Harmonisation of the profession, however, must be achieved through close cooperation with all national professional regulators. The EU must recognise that the public interest is best served by robust and consistent regulation of auditors, accountants and tax advisors across the EU. In other words, a level playing field is needed for services provided by accountants, tax advisors and auditors. We must avoid deregulating and removing barriers for services that enable companies to appoint foreign tax advisors, accountants or auditors that are cheaper because they are subject to less onerous compliance obligations than local firms. Instead we need professionals across the EU that are subject to high quality harmonized rules and requirements – ethical as well as initial and continuing professional education, training and development. This might demand a 'European Professional Accountant'.
- Establish a public register of professional accountants and tax advisers. This would entail defining a common procedure to register professional accountants and tax advisers who wish to offer their services in countries other than their own with their national professional accountancy organization (PAO). The register would likely be online and voluntary. It would foster collaboration of SMPs cross border.
- Forge a common set of laws and regulations related to the digitally based services like data protection and cyber security. Digital technologies are dramatically changing the shape and form of professional services as well as impacting the way professional service firms operate and conduct their business.
- Preserve client confidentiality for practitioners.

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