PUBLIC AUDIT OVERSIGHT

STREAMLINING EUROPEAN COUNTRIES' OVERSIGHT REGIMES

June 2022

This publication highlights how differently 30 European countries have organised and carry out public audit oversight following the 2014 European Union (EU) audit legislation. Different national oversight regimes and approaches may lead to inconsistent application of the statutory audit rules and inconsistencies in audit quality across countries. These different regimes also lead to complexity, additional compliance costs and practical and operational difficulties for internationally operating audit firms. Therefore, we propose ways to streamline audit oversight regimes to create a level playing field in Europe.

With this paper, we aim to inform policymakers in the context of the European Commission's ongoing initiative on corporate reporting.

CONTEXT

The 2014 EU Audit Directive and Regulation have had a significant impact on the public oversight of statutory auditors (hereafter 'auditors') and audit firms in the EU.

The Regulation established the Committee of European Auditing Oversight Bodies (CEAOB). The Committee is the foundation for cooperation amongst European national public oversight bodies.

The CEAOB's role is to strengthen and harmonise EU-wide audit oversight, which has been one of the key objectives of the 2014 EU audit legislation. However, the CEAOB currently lacks sufficient powers to effectively achieve this.

OBJECTIVE

This publication presents our latest (June 2022) update (see earlier versions published between 2015 and 2021, all available here) on how audit oversight is organised and carried out in European countries, 6 years after the transposition deadline of the 2014 EU audit legislation.

Our analysis covers 30 European countries, including 27 EU Member States, Iceland, Norway and the United Kingdom[1].

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[1] Note that the United Kingdom, which applied the EU Single Market legislation until the end of 2020, resulting in its audit framework in 2022 remaining consistent with EU practice, is included in this publication with respect to the subject matters as covered for EU and European Economic Area (EEA) countries, the latter being Iceland and Norway. However, recently announced plans for reforms in the UK are expected to bring changes also in the area of audit oversight.

We also present a way forward to help improve the current state. Our proposals are based on the premise that:

- harmonised audit oversight should contribute to consistent application of the statutory audit rules
- audit oversight as part of the corporate reporting ecosystem needs to play its important role in enhancing audit quality

Information in this publication can be useful for policymakers in the context of the European Commission's initiative on corporate reporting, especially if considering any changes that would have an effect on this area.

CURRENT STATE OF PLAY

This section presents how the national audit oversight bodies are organised and discharge their duties.

It is based on input we gathered mainly through our members. More detailed information, including on individual countries, can be found in our 2021 publication on audit oversight in Europe.

DIVERGING STATUS, ORGANISATIONAL STRUCTURE AND SOURCES OF FUNDING

The audit oversight body's status, organisational structure and available resources ultimately influence the way each body carries out its work. National differences in this regard therefore create differences in oversight practice amongst countries.

STATUS AND ORGANISATIONAL STRUCTURE

The table below groups countries' national oversight bodies into 3 categories based on the bodies' status. We see that:

- in 16 countries, a separate autonomous body is the competent authority for audit oversight
- in 10 countries, a dedicated ministry, mostly ministry of finance/a unit operating within it, carries out audit oversight
- in just 5 countries, an authority/market authority responsible for several other sectors is tasked also with audit oversight

Status of countries' audit oversight body

	Separate autonomous audit oversight body	Audit oversight body operating within/attached to a ministry	Audit oversight under an authority/market authority with wider competences
COUNTRY	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, France, Germany, Greece, Iceland, Ireland, Luxembourg, Malta, Poland, Slovakia, Slovenia	Croatia, Denmark, Hungary, Italy (for audits/auditors of non-PIEs), Latvia, Lithuania, Norway, Romania, Spain, Sweden	Finland, Italy (for audit/auditors of PIEs), the Netherlands, Portugal, the UK
	TOTAL = 16	TOTAL = 10	TOTAL = 5

Based on our 2021 publication, there are diverging composition and appointment processes to the various managing, supervisory etc. bodies within the national audit oversight bodies. The national oversight bodies also organise their internal structure in a different way with various committees set up to carry out work.

All of the above naturally has an impact on an oversight body's independence and level of resources.

FUNDING

The below table presents in detail how audit oversight bodies are funded in European countries.

We split countries into 6 different categories to capture all the funding regimes. Overall, we see that:

- only in 6 countries – Bulgaria, Croatia, Czech Republic, Latvia, Lithuania and Romania – the public oversight body is fully or predominantly funded through the state budget
- in the remaining 24 countries, the entire – or significant share of – public oversight body's budget comes from fees levied on the audit profession. This is done either by direct fees levied on the auditors/audit firms or indirectly by imposing fees on the professional bodies

Public oversight bodies' sources of funding

	COUNTRY	TOTAL
	Bulgaria, Croatia, Czech Republic, Latvia, Lithuania	5
	Denmark, Finland, France, Greece, Iceland, Luxembourg, the Netherlands, Norway, Spain, Sweden	10
	Belgium, the UK	2
	Estonia (state funding up to 50%), Germany, Italy, Malta, Poland (state funding only if needed), Portugal, Slovakia, Slovenia	8
	Hungary, Romania (70% state funding)	2
	Austria, Cyprus (20% state funding), Ireland (40% state funding)	3

State funding

Fees levied directly on auditors/audit firms

Fees levied on professional bodies

ADVISORY COMMITTEES INCLUDING PRACTITIONERS SET UP IN 12 COUNTRIES

In 12 countries – Austria, Belgium, Cyprus, Czech Republic, Denmark, Italy, Latvia, Lithuania, Luxembourg, Slovakia, Spain and the UK – an advisory committee has been set up to support the public oversight body.

This mechanism allows the public oversight body to consult experts and practitioners and to make use of up-to-date expertise and experience from practitioners regarding the workings of the audit profession and the conduct of statutory audits.

DIFFERENT DEGREE OF DELEGATION OF THE KEY ACTIVITIES ACROSS EUROPE

Designated public oversight bodies have the ultimate responsibility for the key oversight activities listed in the below table.

Countries may delegate, or allow the public oversight bodies to delegate, certain of these tasks to other bodies such as the professional bodies.

There is a different degree of delegation of the key activities across Europe. In some countries, the public oversight body is tasked with all or the majority of the key activities as it has decided not to delegate these to the professional body. In other countries, most of the activities that the EU audit legislation permits to be delegated have been delegated to a professional body.

Key oversight activities

KEY ACTIVITIES OF PUBLIC OVERSIGHT BODY	FOR PIE AUDITS/AUDITORS	FOR NON-PIE AUDITS/ AUDITORS
Approval and registration of statutory auditors and audit firms	✓	✓
Adoption of standards		
Continuing education of auditors		
Quality assurance systems	⊘	
Investigations and sanctioning	countries are provided with an option to delegate the tasks related to sanctions and measures, but only to a body independent from the profession	

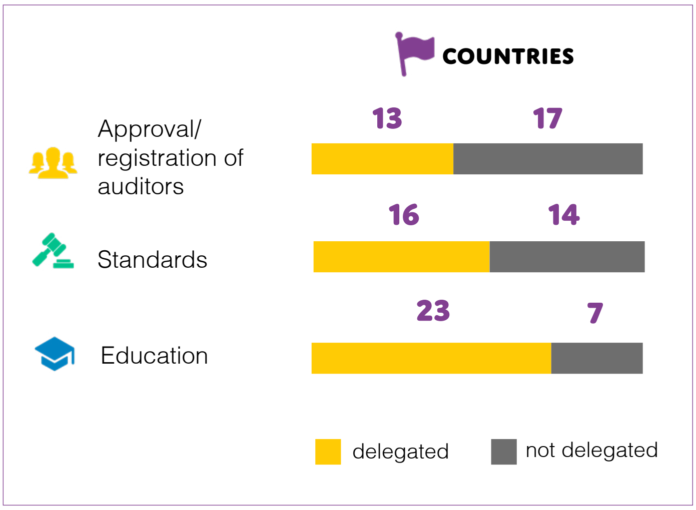
✓ May be delegated ⊘ May NOT be delegated

The graphs on the right present the delegation of tasks for audits of PIEs and non-PIEs in 27 EU Members States, Iceland, Norway and the UK.

For audits/auditors of PIEs, the public oversight bodies have delegated/partially delegated to the professional bodies:

- approval/registration of statutory auditors and audit firms in 13 countries
- adoption of standards in 16 countries
- continuing education in 23 countries

Delegation of tasks for audits/auditors of PIEs

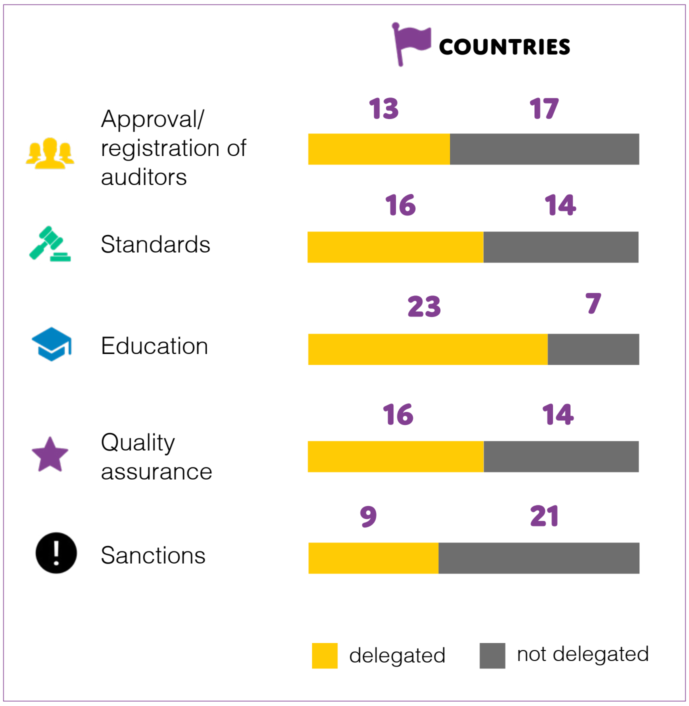


For audits/auditors of non-PIEs, the public oversight bodies have delegated/partially delegated to the professional bodies:

- approval/registration of statutory auditors and audit firms in 13 countries
- adoption of standards in 16 countries
- continuing education in 23 countries
- quality assurance in 16 countries
- investigative and disciplinary administrative system in 9 countries

More detailed country information can be found in our 2021 publication on countries' implementation of audit rules (see on oversight from slide 18).

Delegation of tasks for audits/auditors of non-PIEs



METHODOLOGIES AND TRANSPARENCY OF THE PUBLIC OVERSIGHT BODIES' WORK VARIES

Methodologies and processes of audit oversight bodies vary as these are set on a national level.

When it comes to transparency of the public oversight bodies' work, the table below presents that:

- in 7 countries, individual audit firm quality or other inspections' results are published and made publicly available in general or at least for PIE audits (see more detail in our 2021 publication on oversight). In other countries, overall national results are published
- in 12 countries, disciplinary measures and sanctions, or at least certain categories of these, are published on a name basis. In other countries, this is done on an anonymous basis. In addition, in Sweden, decisions on disciplinary measures and sanctions are made publicly available on an anonymous basis. However, the public can request further information on individual cases, in which case the name would also be included in the information provided

Transparency of inspections' results

	Individual audit firm quality/other inspections' results published and publicly available	Overall national results published
COUNTRY	Bulgaria, Denmark, Estonia, Ireland, the Netherlands, Norway, the UK	Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden
	TOTAL = 7	TOTAL = 23

Transparency of disciplinary measures and sanctions

	Disciplinary measures and sanctions published on a name basis and publicly available	Disciplinary measures and sanctions published on an anonymous basis
COUNTRY	Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, the Netherlands, Slovakia, Spain, the UK	Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Iceland, Italy, Latvia, Lithuania, Malta, Norway, Poland, Portugal, Romania, Slovenia, Sweden
	TOTAL = 12	TOTAL = 18

WAY FORWARD LIES IN STREAMLINING

The organisation, execution and public reporting on the public oversight of audit and auditors across Europe are very diverse. In this section, we therefore present ways to improve the current state of play.

The different oversight regimes create complexity, additional compliance costs and practical and operational difficulties in the market. Audit firms and companies operating internationally respectively have to comply with and consider rules which vary from country to country. This may also hamper consistent application of the EU statutory audit rules. In addition, these heterogenous regimes across Europe likely serve as a deterrent for smaller audit firms to enter the PIE audit market, as the already demanding PIE audits' oversight differs in each country. The inconsistent application of audit oversight across Europe may therefore contribute to the limited choice of PIE auditors.

Despite the establishment of the CEAOB and ongoing efforts to enhance oversight convergence, we see that there is still lack of harmonisation in how national audit oversight bodies discharge their duties. Any differences shall be justified by public interest considerations in a particular jurisdiction. As expressed in our response to the European Commission's consultation on corporate reporting, at EU level, we support further streamlining and enhancement in this regard, embedded in EU legislation, with the ultimate aim of improving corporate reporting, consistent application of audit rules and audit quality. These are our main proposals:

STREAMLINE STATUS, ORGANISATIONAL STRUCTURE AND FUNDING OF OVERSIGHT BODIES

We support further harmonisation in regard to audit oversight bodies' status, organisational structure and funding, based on best practice examples. The focus should be to ensure appropriate independence (including appropriate appointment process and rotation of supervisors/inspectors) and adequate resources, qualification and expertise. This will enable adequate quality of audit oversight.

We believe that there should be enhanced transparency on national public oversight bodies' internal governance and more robust own internal supervision, the latter for example through having a mandatory supervisory board.

ENHANCE DIALOGUE AND COOPERATION BETWEEN AUDIT SUPERVISORS AND AUDIT EXPERTS, INCLUDING PRACTITIONERS

Dialogue and cooperation between audit supervisors and audit experts/practitioners are crucial for mutual understanding, information sharing and learning. The mechanism of having an advisory committee within an oversight body is one of the ways that allows the supervisors to make use, in their work, of up-to-date expertise and experience from practice. As seen above, oversight bodies in 12 countries have set up such advisory committee.

We believe that each audit oversight body should be required to set up a mechanism which would ensure dialogue and enable cooperation between audit supervisors and audit experts/practitioners.

CONTINUE DELEGATION OF THE KEY ACTIVITIES TO PROFESSIONAL BODIES

Professional bodies should continue to play an important role in the execution of the key activities as they have the needed expertise and experience. They should continue working together with public oversight bodies to reinforce audit quality.

STREAMLINE METHODOLOGIES AND ENHANCE TRANSPARENCY AND EDUCATIONAL ASPECT OF INSPECTIONS

In general, we believe more consistency in the area of inspections, investigations and sanctioning is needed across countries, including on the related transparency.

We are in favour of:

- giving the CEAOB the power to set common oversight guidelines and coordinated methodologies and processes. This should ensure convergence in the identification and interpretation of findings
- clear separation of powers (setting rules/ inspections/sanctioning done by different parties) to enhance the overall control of audit quality and its objectivity
- enhancing the educational and remedial aspect of inspections. Inspection reports should always include information on what should have been done (differently) to ensure this. Inspections' primary aim should be quality improvement, not opening of sanctioning procedures. The oversight system should not focus on sanctioning ex-post but on creating an environment that fosters learning and development of the audit profession
- inspections not being limited to a compliance exercise, i.e. supervisors should not only check auditors' compliance with standards and legislation, but they should properly consider the use of professional scepticism and judgement
- more transparency and harmonisation by publishing individual audit firm results across the EU, including remedial actions taken by audit firms as agreed with the supervisor, like it is for instance in the reports published by the US Public Company Accounting Oversight Board (PCAOB)
- limiting the time for concluding the inspection process. The time between completing an inspection and informing the auditor about its result should have an appropriate maximum limit to allow for the auditor's addressing of potential findings in a timely fashion
- limiting the time for processing and reporting on a concluded investigation. There should be a maximum time limit set to report on an investigation and a possibility to have a formal appeal procedure for auditors before any sanctions start applying

ENHANCE OVERSIGHT IN A PROPORTIONATE MANNER

Overall, we support robust audit oversight and enhanced oversight bodies at EU and national level. But any new powers need to be proportionate with appropriate safeguards to help ensure objectivity of the process and stakeholders' confidence in the oversight system. We believe a more robust audit coordination body with adequate powers at EU level is needed to achieve further oversight convergence across the EU. Therefore, the role of the CEAOB should be strengthened and clarified further.

In general, sharing of good practices amongst European audit oversight bodies within the CEAOB should be enhanced significantly. This would enable learning from each other and help audit and its oversight convergence in Europe. The CEAOB should also publicly report on progress achieved on convergence in oversight methodology and reporting practices.

The regulatory burden relating to oversight, especially for the inspections, investigations and sanctioning, should be proportionate and not act as a disincentive to auditors. Otherwise, it could lead to further concentration in the already heavily regulated PIE audit market.