



COMMITTEE OF
EUROPEAN
AUDITING
OVERSIGHT
BODIES

CEAOB

**A N N U A L
R E P O R T
2 0 2 2**



Table of content

1	Chair’s foreword	2
2	CEAOB’s mission and core strategies.....	5
3	CEAOB outreach	6
4	Interconnectivity	7
5	Plenary	8
6	Public communications	9
7	Inspection Subgroup	10
8	Enforcement Subgroup	13
9	International Equivalence and Adequacy Subgroup	15
10	Market Monitoring Subgroup	17
11	International Auditing Standards Subgroup	19
12	CEAOB at a glance	23

1. Chair's foreword

Change is certainly, from my point of view, the right word to refer to the year 2022. Change in the legal framework for sustainability reporting. Preparing for change with a view to proposing new elements for a recast of certain European texts. Change with the entry into force in December 2022 of the ISQM¹ standards. Change within the CEOB with regard to certain positions of responsibility.

I am extremely grateful to the members of the CEOB for the quality of the work carried out during the past year. It is important to keep in mind that the CEOB can only fulfil the missions conferred on it by the European Regulation thanks to the resources that the members agree to place at its disposal. I would like to thank in particular the Chairs and members of the five CEOB Subgroups, as well as those of the task forces dealing with specific subjects.

1.1. Preparing for future changes in the European regulatory framework

At the beginning of 2022, following the response the CEOB had made to the EC consultation "*Corporate reporting - improving its quality and enforcement*", the members decided to set up a task force (known as the ARD TF for Audit Regulation and Directive Task Force) whose role was to make proposals for improving the European regulatory framework for audit oversight with a view to a future revision of this framework. Kevin Prendergast of IAASA led this task force, which he conducted with a remarkable ability to listen and to develop consensual and pragmatic positions.

At the end of the year, Commissioner McGuinness said that the Commission keeps on looking at and engaging with stakeholders on the key issues of statutory audit, corporate governance and supervision. However, given the overall situation, the Commission is not planning to issue a legislative proposal during this mandate.

With this piece of information in mind, the ARD TF finalised a summary of its proposals in December, which was endorsed by the CEOB members. This summary has since been published. I commend the Chair and Members of the ARD TF for the quality of this document which will serve as a basis for any future CEOB contribution in this area.

1.2. Accompanying changes

It is not my intention here to describe all that has been done in 2022 by the CEOB Subgroups and task forces. However, I would like to highlight the major work done by the Audit Materiality Task Force (AM TF) and the Common Audit Inspection Methodology Task Force (CAIM TF):

- The former collected data on how the Big Four networks define materiality when auditing their clients' accounts. This task force complemented this approach by collecting data from inspections of audit firms by CEOB members. The task force also interviewed audit committees in order to gather information on the exchanges that took place between these committees and the auditors. The CEOB published a summary of this work in September 2022. Since then,

¹ ISQM: International Standard on Quality Management.

the CEOB has been asked to present this work to audit committee members. I would particularly like to thank Frédéric Tabak of the CSSF in Luxembourg for this initiative and for the energy deployed to carry out this project;

- The second task force has finalised the CAIM on the IAASB ISQM audit standards in order to provide members with methodological support for the inspection of audit firms.

1.3. More than just a change, a terrible event at the EU border

The 24th of February 2022 is a date that will remain in our memories. Russia's war against its neighbour Ukraine horrified us all. It also led to several waves of sanctions against Russia, some of its companies and oligarchs. The audit regulators in the European Union reacted very quickly through the CEOB and the «Colleges»² that ensure exchanges between regulators and major audit networks. These Colleges contacted each of these networks to ask them to detail the measures taken to comply with international sanctions: identification of sanctions taken by the EU, the US or other institutions, exclusion from the network of entities located in Russia or Belarus, removal of Russian partners who had global or European responsibilities in the networks. The consequences for certain areas of expertise where Russian nationals made a significant contribution were also discussed.

In addition to this, the CEOB invited the Deputy Executive Director of the Audit Public Oversight Body of Ukraine (APOB), Ms Kureza, and the Head of International Programmes and Projects, Ms Onyshchuk, to its July 2022 plenary meeting to hear from them about the way audit regulation has been implemented in Ukraine, how the APOB is dealing with

the consequences of war and discuss how cooperation could be developed in the future with APOB.

I cannot recall the year 2022 without mentioning the profound impact of the war in Ukraine on energy and raw material prices, supply costs and lead times, resulting in a very rapid rise in inflation, and measures by central banks to counteract this inflation by rapidly raising interest rates. These elements obviously generate new or increased risks for a number of economic actors. In this context, the coordination of European supervisory and regulatory bodies is essential. The CEOB contributed to this through its participation in the Financial Stability Board (FSB) meeting dedicated to audit in June 2022, as well as through the meeting organised jointly with the European Systemic Risk Board (ESRB) which was held in Frankfurt am Main in October 2022.

1.4. Change of strategy within the auditing profession

The announcement by EY of a project to separate its consulting activities from its audit activities is another «change» that has mobilised the CEOB and its members, in particular those participating in the «EY College», in order to better understand the impact that such a separation could eventually have on the firm's ability to provide a quality audit to its clients.

1.5. Changes within the CEOB

I would like to conclude by mentioning the changes that have taken place in 2022 within the CEOB or that have been announced to us very recently. First of all, from July 2022, it was a very welcome change to be able to meet again at the European Commission's premises for the CEOB plenary meetings. The Subgroups were

² Colleges of Competent Authorities established pursuant to Article 32 of Regulation 537/2014

also able to resume their face-to-face meetings from mid-2022. Looking forward we want to maintain an appropriate balance between face-to-face and remote meetings to reduce our climate footprint in comparison to pre-Covid area.

Second, I would like to thank Martin Kelly from IAASA in the Republic of Ireland for his remarkable work in chairing the Market Monitoring Subgroup from 2016 to 2022, and for the improvements he has proposed in the process of drawing up the report that the CEOB submits to the Commission. I would also like to thank María Luisa Álvarez Barby from ICAC in Spain who has taken over from Martin with great talent.

I would like to thank Martijn Duffels from the Dutch AFM and Marjolein Doblado from H3C in France who volunteered in March 2022 to be observers on the EFRAG Sustainability Reporting Board and Technical Expert Group. In these important positions they were able to put forward the views of the audit regulators, in particular with regard to the ability to provide assurance on the information that will eventually have to be reported by companies.

The workload resulting from their position was very substantial. I would therefore like to acknowledge their efforts. I would also like to thank the small group of members who volunteered to assist them in their work with EFRAG and the important role played by this task force.

We learned at the very beginning of 2023 that Martijn Duffels was about to leave the AFM in Netherlands, and consequently the CEOB, to start a new adventure. On behalf of all my colleagues at CEOB I would like to express our gratitude for his commitment to the work of the CEOB. Martijn Duffels had been present since the creation of the CEOB and had played an essential role with my predecessor and then with me by actively contributing to the Chair's Consultative Group. He had also participated in numerous CEOB Subgroups and task forces, bringing his technical knowledge as well as his ability to stand back and challenge arguments. I would like to thank him most warmly for his important contribution to the CEOB and wish him fair winds and following seas.

Patrick Parent

2. CEOB's mission and core strategies

2.1. CEOB's mission

The CEOB fosters convergence of practice by European audit regulators and the improvement of audit quality in Europe in order to further trust in informative, reliable, and independent audit reports.

In order to fulfil this mission, the CEOB supports the development of expertise in its members, it fosters sharing of experience and expertise, and it contributes to EU policy matters involving audit firms and audit quality.

2.2. CEOB's core strategies

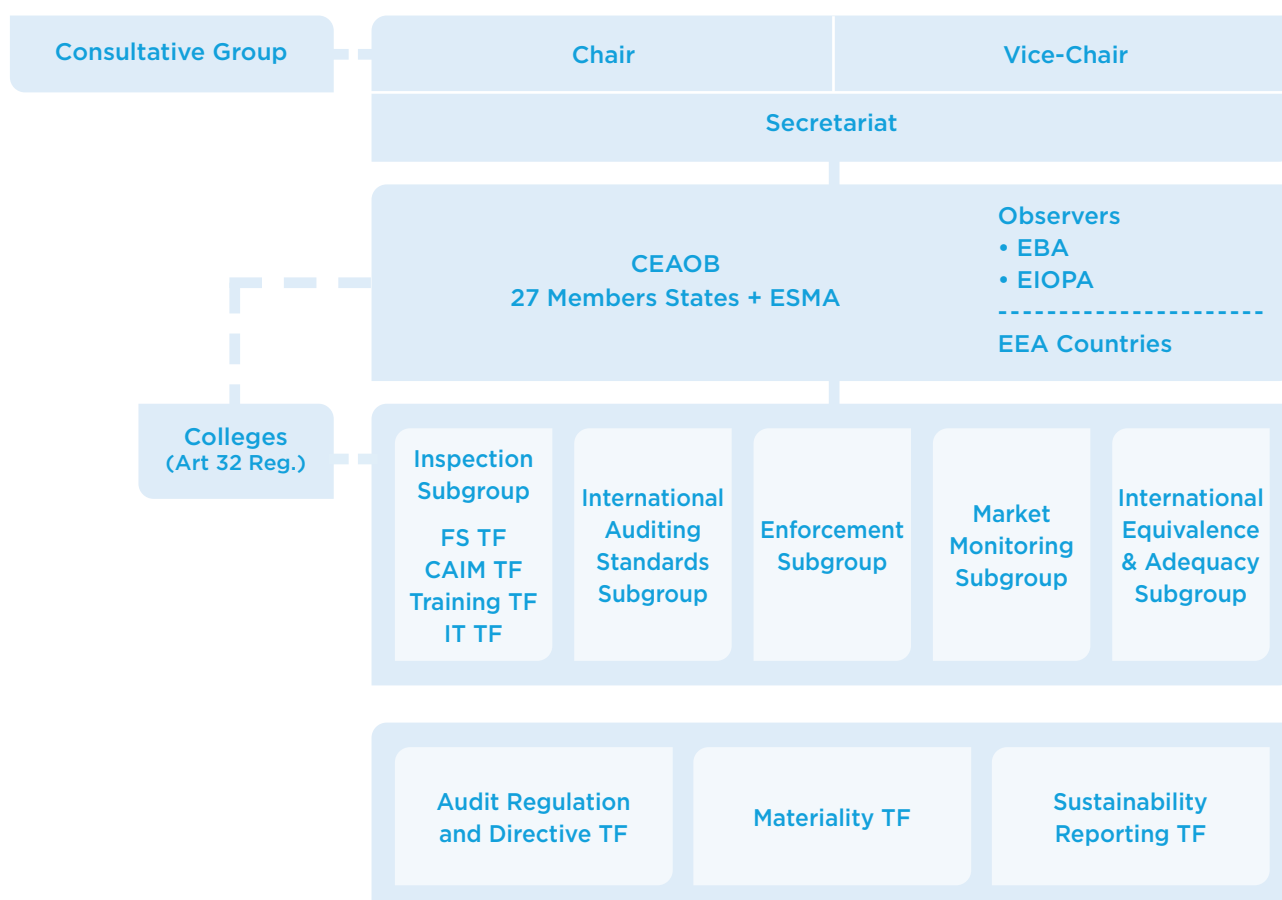
Harmonising regulatory approaches

Sharing expertise and experience

Contributing to EU policy on the future of statutory audit and other assurance

Contributing to policy making via regular dialogue with international standard setters

2.3. CEOB organisation



3. CEOB outreach

Public supervision requires the organisations to which it is entrusted to exchange with the various stakeholders in order to refine their understanding of information needs, to better appreciate the impact of normative or regulatory developments, to identify emerging risks and, thanks to this, to adapt the supervision of the supervised entities or persons.

The CEOB, fulfilling its mission to optimise the effectiveness of the European audit system, organises exchanges with different stakeholders during its plenary meetings. In 2022, such exchanges were organised with:

- Nicolas Véron of the Peterson Institute for International Economics;
- The European Audit Committee Leadership Network (EACLN);
- The Global Public Policy Committee (GPPC);
- Accountancy Europe.

A representative of the European Insurance and Occupational Pensions Authority (EIOPA) was also invited to present the expectations of the insurance regulators, in particular taking into account the forthcoming entry into force of IFRS³ 17 and its consequences for auditors.

In addition, members were invited to read the key findings of Carbon Tracker's 2021 and 2022 reports, which highlight the significant room for improvement in the public reporting of a sample of major international companies on their environmental footprint.

In November 2022 the Chair of the Materiality Task Force and the Chairman of the CEOB were invited to present the results of the CEOB's work, in particular those resulting from the survey on materiality in the context of an audit, at a meeting organised by EcoDa for audit committee members.

Recommendations to auditors following the CEOB Survey on Materiality in the Context of an Audit

Auditors need to stand back and may reconsider certain aspects of their practice when assessing audit materiality by:

- Paying greater attention to the needs of financial statements' users when identifying the most relevant benchmark applicable to the audited entity, being sensitive to the key metrics and drivers they are following (e.g., EBITDA, Return on Equity...);
- Challenging current methodology and guidance for assessing materiality for PIE audits, considering best-practices observed at peers;
- Reconsidering the appropriateness of «Total assets» as the relevant benchmark when auditing a credit institution or an insurance company;
- Favouring the use of higher «haircuts» for assessing performance materiality when working on a first-year engagement;
- Having a closer look at the consistency of assessments made between engagement risks and materiality;
- Carefully assessing the circumstances when specific materiality of a lesser amount for particular classes of transactions, accounts or disclosures needs to be determined.

3 International Financial Reporting Standards

4. Interconnectivity

4.1.FSB

After two years in which the FSB's annual statutory audit meeting had to be held by video conference, the 2022 meeting was held in June in Madrid.

The CEAOB, the International Forum of Audit Regulators (IFIAR), and the International Organization of Securities Commissions (IOSCO) reported on their recent work. This was followed by an exchange with the major audit networks, represented by the GPPC, on:

- Initiatives taken to improve audits and achieve a very high level of quality;
- How firms adapt their audit approach to uncertain economic conditions, increased market volatility, increased fraud and geopolitical risks;
- The impact of new auditing or reporting standards (the revision of ISA⁴ 540 on the audit of complex estimates, the entry into force of IFRS 17 on Insurance contracts from 1 January 2023, the projects to adopt sustainability reporting standards in a number of jurisdictions);
- The current or foreseeable impact of the deployment of new tools and technological innovations (artificial intelligence, blockchain, crypto-assets, electronic reporting) in the financial sector on financial reporting and auditing.

4.2. ESRB

On 24 and 25 October, the ESRB and the CEAOB held their 6th annual meeting with

auditors. Other EU authorities, namely the European Banking Authority (EBA), EIOPA and the European Securities and Markets Authority (ESMA) also participated in the meeting. The meeting had two important objectives:

- to share information on regulatory developments; and
- to identify emerging risks that may have an impact on audit quality.

Issues of concern in 2022 include residential property in some European countries, money market funds, cyber threats, crypto-assets, and decentralised finance.

The ESRB also recalled the warning sent in September 2022 to European and national authorities regarding serious and increased risks to financial stability, which included a call to ensure the resilience of the EU financial system and a call for coordinated policy responses.

The participants also discussed the sanctions against Russia in response to its aggression towards Ukraine. The CEAOB and the audit firms detailed what had been done to ensure their implementation.

The risks of deterioration in asset quality due to economic downturns, inflation resulting from supply chain disruptions, financial market volatility and geopolitical risks were also discussed. The auditors, among other matters, detailed the points that deserve particular attention in the determination of expected credit losses under IFRS 9.

4 International Standard on Auditing

5. Plenary

Other subjects that have been the subject of work by the CEOB plenary

5.1. Good repute

A survey has been carried out on the notion of good repute, one of the criteria for natural persons to be approved for being allowed to do statutory audits. The results of this survey were presented to the CEOB members. The report is intended to assist them by providing information on alternative or additional steps that they may wish to adopt to ensure that the good repute assessments are as effective as possible taking into account the current differences between the Member States.

5.2. Approval of third-country auditors

The subject is related to auditors with professional qualifications earned in countries outside the European Union, for instance in the United Kingdom. Feedback was sought from the CEOB members on the scenarios that they were confronted with and how they were being tackled in the different jurisdictions.

Members decided that a paper should be prepared to collect good practices regarding the approval of third country auditors.

5.3. Third-country audit firms with multiple registrations in EU/EEA Member States

The issue of third-country audit firms with multiple registrations in EU/EEA Member States was discussed at the CEOB plenary following a survey which had been made in some countries. Members decided to extend the exercise to all CEOB members. Due to

the globalisation of financial markets, many companies established outside the European Union are listed in one or more Member States. Where this is the case, audit firms responsible for giving an opinion on the financial statements of these companies are required to be registered in each of the Member States where their non-EU clients are listed.

Having developed an EU-level central point of information regarding third-country audit firms registered in the EU will help audit oversight bodies to identify those third-country firms registered in multiple jurisdictions, to share information on their national registration and/or quality assurance reviews. One additional short- to mid-term goal would be to streamline the system of registration and supervision of third-country audit firms.

5.4. Observer status

Following the aggression of Ukraine by Russia, the Ukrainian audit regulator, APOB, expressed its wish to become an observer in CEOB. APOB pointed out that its country had obtained candidate status for accession to the European Union.

The CEOB members were sensitive to the very particular situation resulting from the war in Ukraine and considered that these circumstances could justify granting APOB observer status. They also considered that it was important to respond to audit supervisors from other EU candidate countries and that it would be useful to establish criteria to assess what type of interaction could be envisaged with each of them. In view of this, the decision on APOB's application will be reviewed in early 2023.

6. Public communications

In 2022 the members of the CEAOB plenary approved the publication of various documents intended to respond to requests for opinions or to consultations initiated by the European Commission or other EU institutions:

- In March 2022 the CEAOB issued a recommendation to third country auditors whose clients are issuers subject to the requirement to produce financial statements in the European Single Electronic Format (ESEF) established by an EU Regulation. In this context, third country auditors should be requested to provide an opinion on whether the financial statements included in the annual financial report of those issuers comply with ESEF requirements. In the absence of auditing standard(s) dealing specifically with ESEF reporting applicable in the whole European Union, the CEAOB recommends that third country auditors use the CEAOB ESEF guidelines and implement the provisions of those guidelines;
- On 29 April 2022, EFRAG launched a public consultation on the draft of a first set of sustainability reporting standards (ESRS). The CEAOB is committed to contribute to the developments of ESRS, which implementation will need to be verified by assurance providers before issuing their opinion on the sustainability information. Given its mandate, the CEAOB decided to comment, in this letter, only on the issues which may be related to provision of assurance on the sustainability statements. The CEAOB sustainability reporting support team prepared the content of the response. After adoption by the members of the CEAOB the response was issued on 5 August 2022;
- In the summer of 2022, the European Commission (DG FISMA) launched a consultation with the European financial sector supervisory authorities on the sharing and re-use of data on supervised entities. Although not in the nature of a supervisory authority, the CEAOB was invited to produce a response to this consultation. On the basis of the elements reported by its members, the CEAOB has produced a joint response which underlines that there are obstacles to the exchange of information between the CEAOB or its members and the European or national authorities competent in the financial field. The existence of these obstacles reduces the effectiveness of supervision and the CEAOB invites the Commission and the Member States to take measures to remove them. The CEAOB's response, produced in September 2022, also stresses that the foreseeable increase in the volume of data that will need to be processed by regulators in the future should be taken into account in any review of the European regulatory framework so that supervisory authorities, both European and national, can share it effectively;
- After EFRAG published its first set of ESRS in November 2022, the CEAOB received a request from the European Commission, as did the European financial supervisory authorities (EBA, EIOPA and ESMA), to provide its opinion on the said set of sustainability standards. The Sustainability Reporting Task Force (SRTF) has developed this opinion in the last weeks of 2022. The SRTF identified no issue that would be of such importance that it should prevent the Commission from a timely adoption of the ESRS. The opinion was submitted and forwarded to the European Commission in early 2023.

7. Inspection Subgroup

The Inspection Subgroup (ISG) comprises 28 members (the 27 EU Members' National Competent Authorities (NCA) and ESMA) and three observers (Lichtenstein, Norway and Switzerland). The Chair of the Subgroup is Agathe Pignon from the Commission de Surveillance du Secteur Financier (CSSF), Luxembourg. She is assisted by an Organising Committee composed of representatives from NCAs of Cyprus, France, Germany, Ireland and the Netherlands. In 2022 the Inspection Subgroup held two meetings: a virtual meeting in June (28 to 30 June) and an in-person meeting in Amsterdam (30 November and 1 December).

7.1. Dialogue with the largest European networks of audit firms

The Inspection Subgroup met three audit firms in 2022:

- BDO (June 2022 via videoconference)
- KPMG (June 2022 via videoconference)
- PwC (November 2022).

During these three meetings, there were presentations and discussions with the firms about:

- Inspection findings (internal and external) and their root cause analysis,
- Other quality initiatives notably the implementation of ISQM and the use of technology and its impact on the audit approach, and
- Recent developments relating to their network structure and governance.

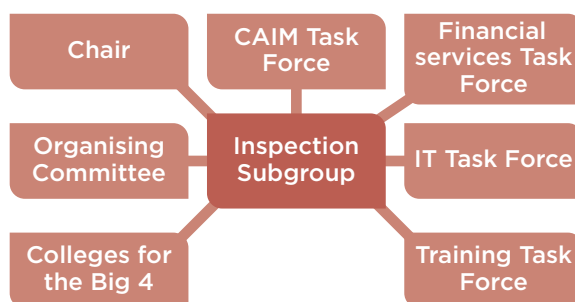
The meetings with the Big 4 firms were organised in coordination with the Colleges of competent authorities (Art. 32 of the Audit Regulation).

In addition, the Colleges (for the Big 4) met with the firms at separate virtual meetings (generally one additional meeting in the year) and there were meetings and calls between the College members to share experience on inspections. The activities and plans of the Colleges were communicated to Inspection Subgroup members at the meeting in November 2022.

The virtual meetings with the firms included:

- A presentation of the outcome of the CEOB report on the survey Materiality in the context of an audit with a focus on the key messages to auditors;
- Discussions on the events in Ukraine, covering, amongst others, information about (the progress of) the separation of the Russian and Belarussian firms and the impact on group audits.

The Organising Committee of the Inspection Subgroup also gathered information on BDO, Grant Thornton and Mazars' status with regard to the war in Ukraine.



7.2. Sharing, discussing, and analysing inspection findings and inspection approaches

Sharing and discussing inspection approach or other innovative approaches to perform inspections has been achieved thanks to a series of presentations by individual members:

- the ICAC from Spain presented its inspection approach,
- the AFM from the Netherlands presented the Audit Quality Indicators that have been developed locally.

In addition, a panel discussion was organised on changes made in the Inspection approach and strategy which have been launched by several members. These members shared their experiences and provided feedback on their change management projects.

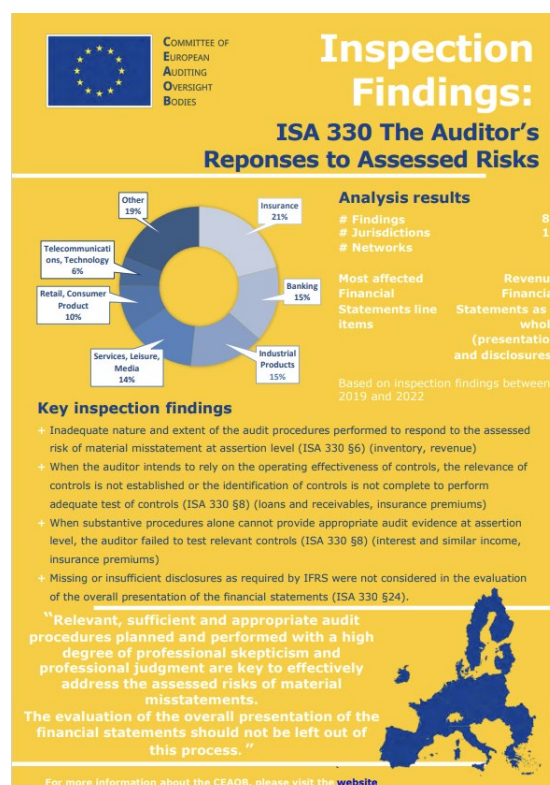


Sharing and discussing inspection findings:

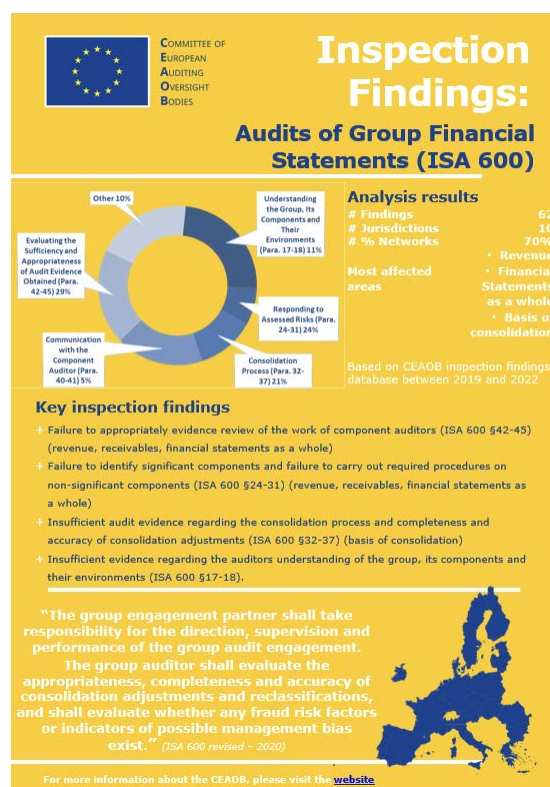
The Inspection Subgroup performed two analyses based on inspection results (“findings”) which have been entered by National Competent Authorities into the CEAOB findings database. These analyses were focused on the application of two International Auditing Standards:

- IAS 330 The Auditor’s Responses to Assessed Risks
- ISA 600 Audits of Group Financial Statements

The Inspection Subgroup designed two infographics in order to inform on the main lessons learned from these analyses. The infographics are available on the CEAOB webpage.



► Infographic – Auditor’s responses to assessed risks – Appendix to the press release of the 11th meeting of the CEAOB ISG



7.3. Collaboration with the other CEOB Subgroups and task forces and with other regulators

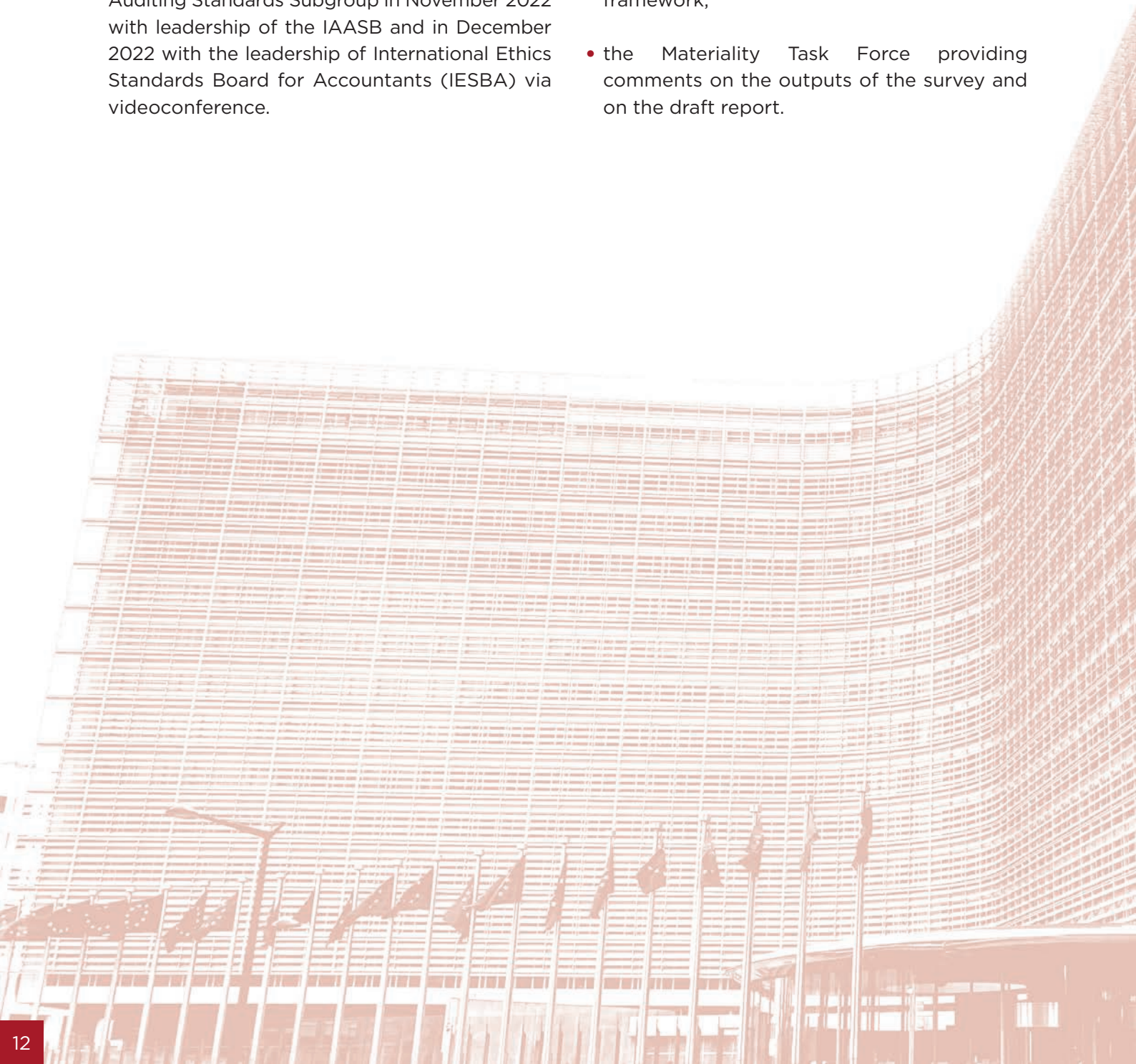
During the June 2022 meeting, ESMA (European Enforcers Coordination Sessions (EECS)) provided to members useful insights on developments and observations on corporate reporting and information on the findings in the ESMA database.

A joint meeting was held with the International Auditing Standards Subgroup in November 2022 with leadership of the IAASB and in December 2022 with the leadership of International Ethics Standards Board for Accountants (IESBA) via videoconference.

The meeting with IAASB included a presentation of the outcome of the CEOB report on the survey «Materiality in the context of an audit» with a focus on the key messages to Standard Setters.

During 2022 Members of the Subgroup contributed to the work of:

- the ARD Task Force providing input on the issues identified at inspection level with the application of the exiting regulatory framework,
- the Materiality Task Force providing comments on the outputs of the survey and on the draft report.



8. Enforcement Subgroup

8.1. Leadership of the Enforcement Subgroup

Since November 2021, the Enforcement Subgroup (ENF SG) has been led by Agnieszka Koprowska from the Polish Agency for Audit Oversight (PANA).

The Enforcement Subgroup is composed of representatives from 16 members. These are the National Competent Authorities (NCA) from: Austria, Bulgaria, the Czech Republic, Cyprus, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Malta, Poland, Slovakia and Spain.

In 2022, the Enforcement Subgroup held 10 meetings, nine of which were held virtually and one was an in-person meeting, which took place in Warsaw on 24 and 25 November. The purpose of the in-person Enforcement Subgroup meeting was to exchange information between the members of the Subgroup and to share best practices on investigations and sanctions imposed on audit firms and auditors. The meeting included a workshop and focused on issues concerning disciplinary proceedings.



8.2. Activities in 2022

The Enforcement Subgroup designed a questionnaire regarding specific issues, including administrative measures and sanctions as well as the state of administrative and disciplinary regimes in the CEOB Members.

Since the beginning of 2022 the CEOB Enforcement Subgroup has worked on designing the questions for the 6th Enforcement Subgroup survey, which the Subgroup prepares annually. The questions are slightly different each year, because the Subgroup wishes to analyse various aspects related to administrative and disciplinary systems in member countries.

In the beginning of March, the 2022 questionnaire was sent to all members of the CEOB and to EEA Authorities. The questionnaire focuses primarily on collecting statistical data on administrative sanctions and measures (Audit Directive chapter VII) in European countries (EU/EEA) taken during the year 2021. The respondents were also asked to report on data on pecuniary sanctions imposed in 2021 on natural or legal persons in their jurisdiction. The questionnaire also included questions about the framework and legal status of auditing standards in the respondent's jurisdiction.

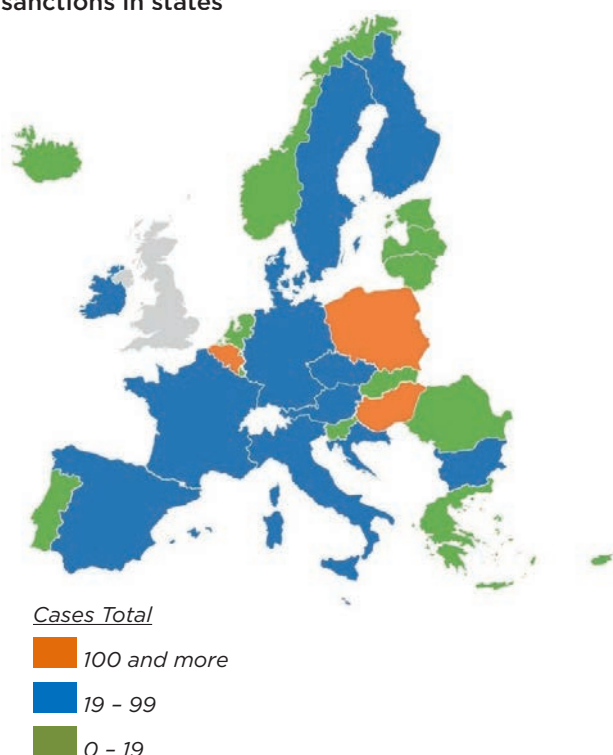
Further improving the understanding of the investigation and sanctioning regimes in EU Member States through regular exchanges and case studies

- The 6th CEOB Enforcement Report on Sanctions and Administrative measures imposed by NCAs and EEA authorities and delegated bodies in EU/EEA States was adopted in November 2022 at the CEOB Plenary meeting.

The Report presents an analysis of the data prepared on the basis of 29 responses, including 27 responses from EU Member States and two from EEA countries.

Referring to the administrative measures and sanctions presented in Part B of the report, it should be noted that in 2021 - 1319 sanctions were imposed in 27 States. It was found that notice and public statements combined were the most commonly used sanctions in 2021 as they amounted to a total of 641 sanctions imposed in 18 States. The second most common sanction was pecuniary sanction, which amounted to 555 sanctions in 19 States.

Total number of administrative measures and sanctions in states



- In December 2022 the Enforcement Subgroup organised an online webinar for CEOB members and their enforcement and inspection staff. The webinar focused on enforcing audit firms in the Czech and Polish legal environment/system.

8.3. Collaboration with the other CEOB Subgroups and task forces and with other regulators

During 2022, members of the Enforcement Subgroup:

- Shared comments on the Study on Audit Directive and Audit Regulation prepared by consultants on behalf of the European Commission,
- Contributed to the work of the CEOB ARD Task Force providing input in areas within the Enforcement Subgroup expertise;
- In cooperation with the CEOB Standards Subgroup, an exchange of ideas was initiated on the possibility of exploring a legal framework for standards in CEOB member countries.

9. International Equivalence and Adequacy Subgroup

9.1. Leadership of the International Equivalence and Adequacy Subgroup

The International Equivalence and Adequacy (IEA) Subgroup comprises members from eleven EU Member States (Cyprus, Finland, France, Greece, Germany, Ireland, Italy, Norway, Poland, Slovakia and The Netherlands). The Subgroup is chaired by the European Securities and Markets Authority (ESMA). Eduardo Moral-Prieto is performing this role.

9.2. Activities in 2022

The IEA Subgroup held three virtual meetings in June, September, and October 2022.

Performing equivalence and adequacy assessments of third country audit regulatory frameworks.

The primary focus of the IEA Subgroup is to contribute to a sound cooperation between European and third country audit regulators through equivalence and adequacy assessments of third country audit legal and supervisory frameworks.

In 2022, the IEA Subgroup supported the European Commission on the adoption of the revised equivalence and adequacy decisions of the United States' oversight system for auditors. On 25 July 2022, the two new decisions to extend the equivalence and adequacy decisions for the US competent authorities, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB), for a further six years, until end of July 2028, were published in the European Official Journal. The IEA Subgroup will continue working on possible ways to strengthening

mutual reliance between EU and US oversight bodies.

Links: Publications Office (europa.eu) & Publications Office (europa.eu)

Monitoring developments on third countries' audit regulatory frameworks

The IEA Subgroup monitors regulatory and supervisory developments in third countries declared equivalent and/or adequate and their possible impact on the EU equivalence and adequacy decisions.

In 2022, considering the PCAOB's determination on being unable to inspect or investigate registered public accounting firms located in China and Hong Kong, the IEA Subgroup followed up the developments on the audit oversight relationship between the US PCAOB and China.

The IEA Subgroup also monitored the audit legislative developments in the United Kingdom. In particular, on 31 May 2022, the UK Government provided with a response to its consultation on the UK audit reform proposing, among others, setting up a new audit regulator and expanding the scope of the supervised entities and corporate governance. On 25 August 2022, the Financial Reporting Council (FRC) published a PIE Auditor Registration Regulation requiring registration of UK audit firms.

Registration of third country auditors

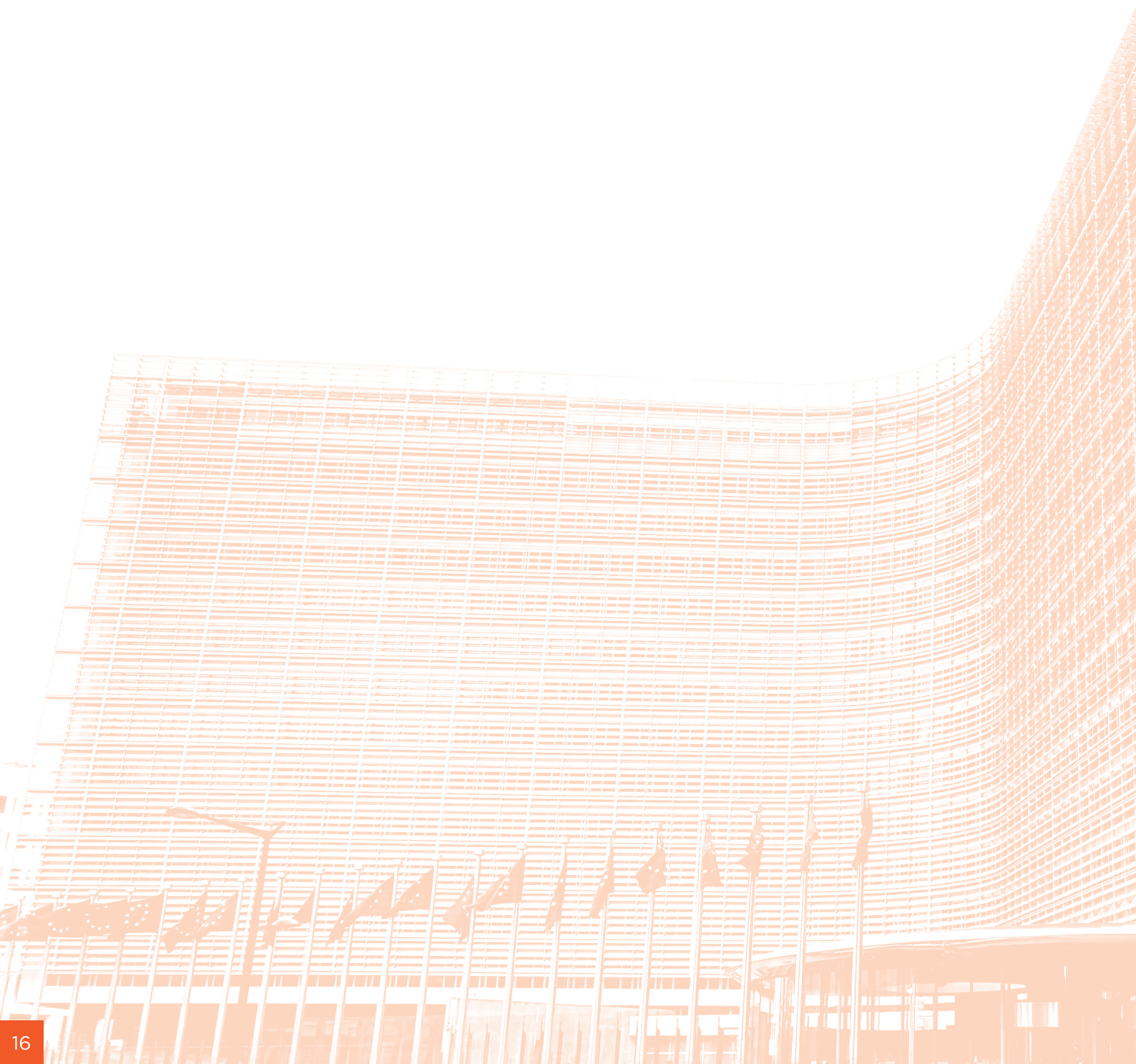
The IEA Subgroup performed a pilot exercise on mapping third country audit firms with multiple registrations in the EU/EEA Member States as well as audit engagements of third-

country audit firms which are the same across the different EU Member States. The data was mapped in order to enhance the coordinating activities of CEOB members in relation to third-country auditors' registration.

The IEA Subgroup will continue working to update and maintain this European common data base of third country auditors.

Cooperation agreements and exchange of information with third country competent authorities.

The IEA Subgroup started to delineate and explore the opportunities and full potential of Article 36 of the Audit Regulation for international cooperation. The goal is to issue guidelines to facilitate this cooperation outside of Article 47 of the Audit Directive and the adequacy regime.

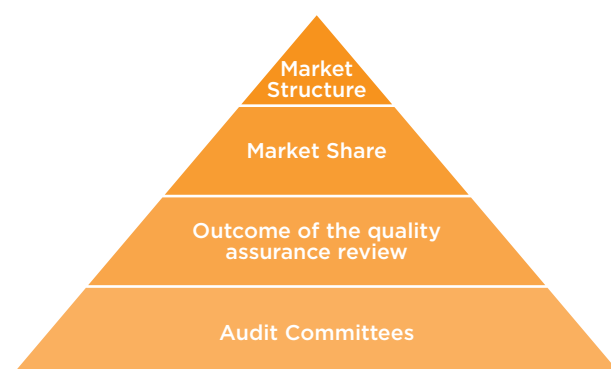


10. Market Monitoring Subgroup

10.1. Meetings

The Market Monitoring Subgroup (MMS) is chaired by María Luisa Álvarez Barby from Instituto de Contabilidad y Auditoría de Cuentas (ICAC) in Spain and comprises 15 members (Bulgaria, Cyprus, Czech Republic, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia and Spain). In 2022 the Market Monitoring Subgroup (MMSG) held seven virtual meetings. On 26 January 2022 the Subgroup also organised the CEOB MMSG Virtual Template Part II - Main Market Monitoring Template.

- Market concentration;
- Risks arising from audit quality deficiencies.
- The performance of Audit Committees.



10.2. Market Monitoring Report

The Subgroup has started the preparation of the third Market Monitoring Report for 2019-2021 with the European Commission in order to comply with Article 27.2 of Regulation (EU) 537/2014.

A continuous dialogue with the National Competent Authorities has been established to understand the figures produced and to allow the different members to share comments, ideas and proposals for improvement.

Discussion about Audit Quality Indicators (AQI)

Before the data collection, the most important issue was to decide AQIs to be included in the 3rd Market Monitoring Report.

Greatest challenges:

Data collection

National Competent Authorities reported on:

- Developments in the market for providing statutory audit services to public-interest entities;
- Data in respect of audit market and audit quality;
- Information on audit committees' adherence to the requirements of the audit Regulation and Directive. In particular, indicators regarding:

- Improving comparability: the Subgroup felt it necessary to adapt some of the data from the previous report in order to make comparisons and improve the reliability of the conclusions. It should be highlighted that the comparability of the third report with the previous one is significantly reduced due to the Brexit having taken place in the meantime, which means that this third report no longer takes into account data from the UK.
- Consolidation of data at EU level: due to a lack of harmonisation in legal provisions by Member States, some National Competent Authorities cannot collect data on turnover and other income of audit firms, or impose the reporting period for which information is required.

- Comparability in quality assurance indicators remains a challenge, due to the use of different methodologies by National Competent Authorities.

To improve the conclusions and the understanding of the data, additional information has been included.

Some discussions were held to clearly define different concepts used in the report, as well as the incorporation of improvements in terms of data collection.

Data collection has been improved, not only for all the issues already mentioned, but also to include a country that is not from the EU, but from the EEA, Norway, to obtain a better picture of the audit market at European level.

Drafting of the report

The drafting process involves numerous checks to ensure that the data and information collected is consistent. It includes among others the following items:

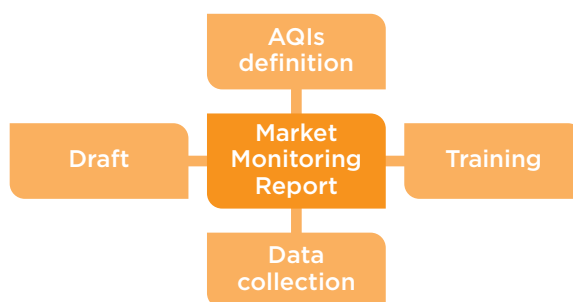
- Correct understanding of each question and number;
- Data harmonisation;
- Checking of units and currencies used in reporting.

The preparation of the report is divided into five phases:

- Checking the understanding of the information collected;
- Compilation of data;
- Quantitative draft;
- Qualitative draft;
- Conclusions.

10.3. Other tasks:

- As other Subgroups and Task Forces the Subgroup was involved in work aimed at making improvement proposals that may result in updates to the Audit Regulation (relevant to market monitoring);
- Solving issues resulting from the Regulation;
- The Subgroup had discussions regarding the Market Monitoring Report publication process.



11. International Auditing Standards Subgroup

The International Auditing Standards Subgroup (Standards Subgroup or SSG) comprises members from 16 EU Member States (Austria, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia and Spain). The chair of the Subgroup is Marjolein Doblado from Haut Conseil du Commissariat aux Comptes (H3C), France. In 2022, the Standards Subgroup organised 16 online meetings and one in-person meeting in Amsterdam.

11.1. Input to standard setters' initiatives

The Standards Subgroup prepared the CEAOB's responses to four exposure drafts issued by the international standards setters on audit related matters during the year.

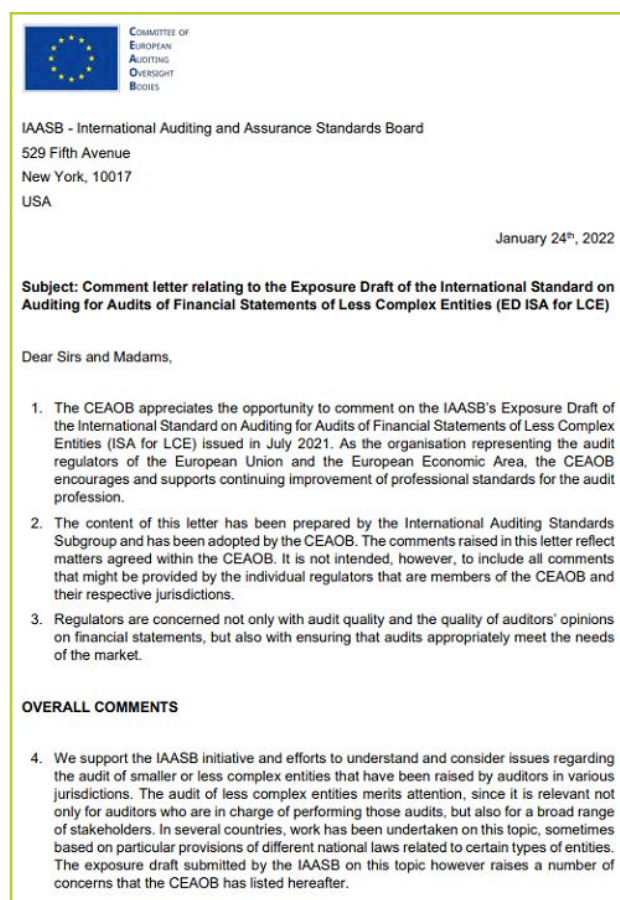
January 2022 – Response to the IAASB exposure draft on a new ISA for audits of financial statements of Less Complex Entities (LCE)

Various concerns were raised, amongst which:

- Concern regarding the development of a standalone ISA, as the adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded in current ISAs;
- Risks of creating two different categories of audits and auditors;
- Need to ensure a consistent scope of entities in or out the specific ISA for LCE, based on objective criteria;
- Concern about the length of the proposed ISA for LCE, contrasted with the objective to keep the standard simple and concise, and to reduce its complexity.

The letter called on the IAASB to consider the issuance of guidelines instead of a standalone ISA for LCE.

Link: https://finance.ec.europa.eu/system/files/2022-02/220124-ceaob-comment-letter-iaasb_en.pdf



May 2022 – Response to the exposure draft on revisions to the IESBA code of ethics related to the definition of engagement team and group audits

Various improvements were requested.

The CEAOB:

- Supported the alignment of the definition of the engagement team with ISQM 1, the

revised ISA 220 (*Quality Management for an Audit of Financial Statements*) and the revised ISA 600 (*Audits of Group Financial Statements*), as well as the strengthening of the relevant independence considerations that apply in a group audit, whether the component auditor (firm) is part of the group auditor firm's network or not;

- Required a clarification on the responsibilities and requirements related to independence procedures by the component auditor firm (self-review threat that might be created by the provision of non-audit services, breach of independence by a component auditor firm, etc.);
- Required that the definition of "audit team for the group audit" includes the engagement quality reviewer and those who provide consultation.

Link: https://commission.europa.eu/system/files/2022-06/220530-ceaob-comment-letter-iesba_en.pdf

June 2022 – Response to the exposure draft on the proposed technology-related revisions to the IESBA Code of Ethics

General support for the proposals and noted alignment with EU legal provisions were voiced. The CEAOB:

- Supported the IESBA initiative as a response to new developments in technology;
- Asked for further examples of technology-related arrangements that would be prohibited;
- Stressed the legal prohibition in the EU Regulation regarding the provision of all design or implementation services for financial information technology systems to PIE audit clients in addition to the self-review threat.

Link: https://finance.ec.europa.eu/system/files/2022-08/220620-ceaob-comment-letter-iesba_en_0.pdf

October 2022 – Response to the narrow scope revision of ISA 260 Communication with Those Charged with Governance and ISA 700 Forming an Opinion and Reporting on Financial Statements related to PIE independence disclosure requirements

The CEAOB supported:

- The use of the audit report to publicly disclose that the auditor complied with the specific (PIE) independence requirements;
- A requirement, in all cases, for the auditor to disclose the independence requirements applied;
- Communication to those charged with governance on independence requirements at least at an equivalent level to the information provided in the audit report.

11.2. Dialogue with international standard setters IAASB and IESBA

The Standards Subgroup organised and maintained regular dialogue with both the IAASB and the IESBA.

In November 2022 a meeting with the IAASB Chair and leadership was held jointly with the Inspection Subgroup. The meeting with the IAASB covered:

- The outcome of the CEAOB survey on materiality in the context of an audit with a focus on the key messages to standard setters;
- Discussion on deficiencies identified in the ISAs on audit related matters;
- Sustainability reporting assurance;
- Audit of less complex entities;
- Updates on fraud and going concern revisions envisaged by the IAASB.



The annual meeting with the IESBA Chair and leadership was organised jointly with the Inspection Subgroup in December 2022, to cover projects close to finalisation by IESBA (Engagement team – Group Audits Independence, Technology), IESBA forward-looking projects (strategy and work plan 2024-2027, sustainability standard-setting actions, tax planning and related services).

In March 2022 the Standards Subgroup Chair also initiated a dialogue with the IAASB on assurance of sustainability reporting, to inform the IAASB about the requirements for limited assurance over the sustainability reporting that will apply in the EU after adoption of the Corporate Sustainability Reporting Directive (CSRD).

11.3. Discuss public interest issues and international standard setters' reform with PIOB

Two meetings with representatives of the Public Interest Oversight Board (PIOB) were held in June and November 2022. The Standards Subgroup was informed about the implementation of the Monitoring Group's reform of the standards setters' governance, including the process for elaboration of

standards by IAASB and IESBA. The Standards Subgroup also presented to PIOB on the CEAOB report on the survey on materiality in the context of an audit and the main messages conveyed to IAASB and IESBA.

11.4. Analysis of CEAOB inspection findings relevant to standard setting

After implementation of a mechanism to detect deficiencies in the ISAs via inquiries with inspection teams, the Standards Subgroup presented several recommendations targeted on audit evidence related issues to the IAASB, and highlighted key findings, with a call to the IAASB to address the weaknesses identified through revisions of the ISAs.

11.5. Exchanges on standards related issues and policies

The Standards Subgroup actively contributed to the report to the Commission driven by the CEAOB ARD Task Force. The Standards Subgroup identified the provisions of the current EU audit framework which would benefit from future enhancements to improve the EU Corporate reporting framework. The recommendations were incorporated in the task force report finalised in January 2023. The CEAOB reiterated its call for the implementation of a single set of EU auditing standards.

The Standards Subgroup prepared a communication on the use of the CEAOB guidelines on ESEF by third country auditors. The communication recommended that, in the absence of auditing standards dealing specifically with the ESEF reporting, third country auditors of companies listed in the EU may use the CEAOB ESEF guidelines when providing an opinion on whether the financial statements included in annual financial reports comply with the ESEF requirements. The communication stated that the use of the CEAOB guidelines complements the use

of other relevant national or international standards on auditing. It was approved and published in March 2022.

Link CEAOB communication: https://finance.ec.europa.eu/system/files/2022-03/220309-esef-ceaob-guidelines_en.pdf

Link CEAOB guidelines: https://commission.europa.eu/system/files/2021-11/211109-ceaob-esef-guidelines-auditors_en.pdf



2022, raising the need for mechanisms for reviewing the ESRS, digitalisation concerns and areas identified in the draft ESRS where additional provisions would facilitate the provision of assurance.

Link: https://finance.ec.europa.eu/system/files/2022-08/220805-ceaob-reply-efrag-consultation-esrs_en.pdf

The support team also prepared the CEAOB opinion on the first set of ESRS adopted by EFRAG. The final opinion was submitted to the European Commission, as per the CSRD provisions, on 24 January 2023.

Link: https://finance.ec.europa.eu/system/files/2023-01/230124-ceaob-opinion-efrag-esrs_en.pdf



11.6. CEAOB support team on ESRS

The CEAOB set up a dedicated team to support the CEAOB observers at the EFRAG Sustainability Reporting Board and Technical Expert Group. The team prepared a comment letter that was submitted to EFRAG in August

12. CEOB at a glance



