

February 2nd, 2023

Subject: CEAOB submits report on EU audit regulation and directive reforms to European Commission

Following work undertaken by a dedicated task force, the CEAOB has made a submission to the European Commission containing a range of recommendations aimed at improving the quality of audit in the EU.

The report contains a set of **key priorities** identified by CEAOB members. Those priorities are:

- The CEAOB to be constituted as a body with enhanced powers and resources to carry out a range of regulatory tasks, including for example drafting and proposing Regulatory Technical Standards that if approved by the Commission would be binding on its members and other relevant parties;
- A single set of auditing standards to be approved by the EU through a process that would assign a role to the CEAOB, to apply across the EU, with an allowance for individual member states to add to these standards where necessary or appropriate;
- Provision in law for the publication and transfer of data and information related to regulatory activities and the removal of barriers to such transfer;
- Clarification on the responsibilities and regulation of audit committees, including the national competent authorities' responsibilities thereon;
- Clarification and explicit support in law for sufficient resources for national competent authorities;
- Sufficient and harmonised powers for national competent authorities;
- Harmonisation through a review and where appropriate reduction of member state options in the European legislation;

The report contains a further list of proposals covering third country auditor registration, the regulation of audit network firms and affiliates, rules on non-audit services, audit firm transparency reports, and the assimilation and production of audit market monitoring reports.

Also, the report sets out a list of areas where further research may provide data to support future legislative proposals. These include:

- Statement of responsibility for internal controls by directors/CFOs, and auditor reporting on such a statement;
- Non audit services to be defined by what is allowable ('whitelist') rather than what is not allowable ('blacklist');
- Requirements for the governance of audit firms to ensure independence and proper focus on matters such as risk management and fraud;
- Winding up plans for systemically important audit firms;
- Joint audits;
- The relationship between competition and audit quality.

The CEAOB has submitted this report in the context of the review of the EU corporate reporting framework initiated by the Commission in 2021, and in accordance with the responsibilities of the CEAOB¹ to provide expert advice to the Commission on issues related to the implementation of the Audit Regulation and Directive. The CEAOB is fully committed to working with the Commission to further develop the proposals contained in the report, with a view to being in position to implement them when the Commission is drafting the relevant legislation.

The CEAOB report focuses on the EU Audit Regulation and Directive. The CEAOB is in addition aware that the regulatory impact of the Corporate Sustainability Reporting Directive on the current audit legislation will also need to be considered, and that it may be some time before the Commission proceeds to draft legislation to reform the Audit Regulation and Directive. The CEAOB will continue to identify opportunities to improve audit quality, either within the current legislative structure or through further possible amendments and looks forward to its continued cooperation with the Commission in this important work.

¹ Article 30 paragraph 7(b) of EU Regulation 537/2014