DG FISMA
Attn Mr John Berrigan
Director General DG FISMA

4 February 2022

Dear Mr Berrigan

PricewaterhouseCoopers International Limited (PwCIL), on behalf of the PwC network, welcomes the opportunity to respond to the public consultation and call for evidence *'Strengthening the quality of corporate reporting and its enforcement'*.

In our view, the current EU framework works well. European Commission research indicates that the quality of corporate reporting is generally high, and we note that the incidence of restatement of EU PIE financial statements is very low. These results are achieved through the interplay of good governance, high quality auditing and effective supervision.

Nonetheless, we recognise that the failure of Wirecard has reduced stakeholder trust in the corporate reporting system. Corporate failures – and the reasons for them – are often complex, even if a prevailing narrative of 'negligent directors' or 'audit failure' frequently emerges for each. A mature corporate governance and audit regime needs to acknowledge that failure remains a potential consequence of doing business, while maintaining its focus on minimising the impacts to employees, the economy and investor confidence. It is also critical that lessons are learned from failure. We support the Commission's approach of searching for the root causes of the Wirecard failure and considering whether EU-wide policy interventions are required.

Our own analysis of the failure shows that the following areas may need consideration:

- The three pillars of the reporting system (governance, audit, supervision) need to work together coherently;
- Those charged with governance in PIEs need clear accountability for delivering high quality reporting;
- Audit firms need to maintain an unwavering focus on achieving high audit quality. This will also drive greater resilience in the market; and
- Member state supervisors need to implement a single EU approach to supervision in a consistent and rigorous manner

We agree with the Commission that driving improved quality in governance, reporting and audit requires a holistic approach to reform across all of those involved: companies, directors, audit

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committees, auditors, investors and regulators. To be successful, and to drive sustainable progress, any changes need to be proportionate and address the interdependencies and responsibilities of all participants. This means that we strongly support Commissioner McGuinness' approach to considering strengthening the three pillars of the EU legislative framework for quality and enforcement of corporate reporting by incorporating clear corporate governance requirements, working to enhance the quality of audits, and ensuring coherent supervision of audit and corporate reporting.

It will always be critical for the European Union to remain a trusted, attractive and competitive destination for investment. Maintaining a dynamic business and regulatory environment where business can flourish is vital, as is building on a reputation for trust and good governance; this means that any new regulation would need to be calibrated to ensure that European business remains competitive in a global context.

The Commission's consultation asks for views on a number of potential policy interventions. In the paragraphs below we have summarised our view on those interventions that we believe would be most effective if reform is undertaken.

Corporate governance

We observe a lack of clarity amongst stakeholders (and sometimes amongst directors) as to the primary responsibility for high quality corporate reporting. In our view, this responsibility must lie with the directors of EU public interest entities (PIEs). Audit committees are also a critical element of the EU PIE governance structure and this role needs to be communicated to stakeholders. When audit committees work well they provide valuable oversight over the quality of reporting. We would support more consistent implementation of the existing requirements for audit committees of EU PIEs to monitor the quality of corporate reporting and audit, together with greater attention to the need for audit committee competence in reporting and audit.

Further clarity of responsibilities could be achieved through introduction of a more explicit EU-wide regime covering internal controls over financial reporting (ICFR). Such a regime could require directors of PIEs to implement, and report publicly on, a robust ICFR framework, with a particular focus on fraud and going concern. As well as ensuring that directors take proactive responsibility for the effective design, implementation and operation of controls over ICFR, there is much evidence to show that, once established and embedded, such a system drives improvements in the quality and reliability of financial reporting. In the future, subject to development of an appropriate framework, director responsibility could be extended to cover controls over non-financial information, such as sustainability reporting. We believe that there would be value in also having external assurance over ICFR. However, if assurance were not built into any such regime, implementation guidance should make it clear that the directors' statement should be supported by a robust evidence base.

Audit
We recognise that trust in audit can be shaken by high profile examples of corporate and/or audit failure, and a public narrative that conflates supervisory concerns over audit quality, a desire to increase choice in the PIE audit market and a perception of conflicts of interest.

If policy improvements are contemplated, we would support those that focus on improving audit quality, both at the level of individual audit engagements, and at the level of the audit firm. As we note at the outset of this letter, high audit quality is an essential element of the corporate reporting ecosystem. But high audit quality has another important benefit - it increases the resilience of the EU PIE audit market. High profile audit failures have the potential for damage to the reputation of an audit firm; in exceptional situations, this damage can be irrecoverable.

If the Commission concludes that policy interventions are necessary, we would support the following, focussed on quality and resilience:

- Introducing an external independent element into the governance of PIE audit practices with a mandate to focus specifically on audit quality and firmwide resilience;
- Requiring annual disclosure of investment in, and activities related to, audit quality from those audit firms performing PIE audits;
- Requiring audit firms to prepare contingency plans for continuity of high quality audit services in the event of disruption; audit supervisors could review and challenge these plans;
- Mandating increased transparency over audit quality performance through the development of audit quality indicators (at both firm and engagement level), appropriate publication of inspection findings, and clarity over linkages between remuneration and audit quality;
- A well-designed auditor liability regime which determines auditor liability on a basis proportionate to the actor's contribution to any damage.

We have examples of many of these initiatives in different parts of the PwC network, sometimes undertaken voluntarily by a PwC member firm, and sometimes implemented in response to regulatory change. In all cases we have observed quality improvements have followed.

We recognise that other stakeholders have suggested that more choice is needed in the EU PIE audit market. In our experience, the EU PIE audit market is highly competitive, although we too would welcome more choice to promote even more competition, particularly when it is based on audit quality. However, we believe that resilience of the market is more important, as well as the attractiveness of the profession for a new generation of auditors.

In our view, the suggestion of mandating joint audit arrangements for EU PIEs could be detrimental to both choice and to audit quality. For example, if one of the two joint auditors were required to be from a mid-tier firm (and one from a larger firm) this would effectively create two PIE auditor markets; unless the level of choice in the second market is at least as great as in the first there would be an effective reduction in choice. Audit quality could be jeopardised through fragmentation of accountability and the distraction for management and auditors of dealing with increased complexity.

Also, we do not believe that stakeholders (companies, their directors and investors) would support such an intervention, at least partly because there is a strong consensus from the business community that joint audits add complexity (as well as cost). Without the support of these stakeholders, we do not believe that a joint audit regime could deliver the required impact. Finally, we note that the imposition of a mandatory joint audit regime in the EU could deter inward investment and make the EU less competitive.

We note that the question of choice in the EU PIE audit market is often considered from the demand side, while disregarding issues related to the supply side of the market.
Increased regulatory complexity or exposure to liability could prevent firms from entering the PIE audit market or reduce their participation. We would encourage further discussion on how to incentivise medium and small size firms to reach the required scale to engage in the market, and how to incentivise audit committees to choose a different provider. We note also that the increasing demands and complexity of auditing standards and regulation means that scale is needed to meet the requirements.

On the perception of conflicts of interest, we note that all EU member states have made substantial progress since the last audit regulation, introducing significant restrictions on the provision of non-audit services to PIEs. Stakeholder understanding and recognition of these restrictions could be facilitated through further harmonisation of the restrictions between member states. We believe that it will always be necessary and appropriate for auditors to provide non-audit assurance services (for example, assurance over regulatory compliance). These types of services require independence of mind, and so cannot compromise auditor independence, and can also contribute to overall improvements in the quality of reporting and audit.

Regulation and supervision
We are fully supportive of the need for EU PIE audit firms to redouble their efforts to improve audit quality. However, we believe that an element of the loss of trust in corporate reporting and audit has been driven by a lack of clarity and consistency in regulatory approaches and communication throughout the EU.

This means that we would recommend the development of an EU-wide supervisory approach to both PIE corporate reporting and PIE audit, as a joint initiative between CEAOB and ESMA. This approach could then be implemented consistently by member state regulators throughout the EU, with audit regulation overseen by the CEAOB. This would require increased powers and resources for the CEAOB; we believe that such a move would support the development of the single market and reflect the success achieved in EU-wide banking and insurance supervision.

We also observe that implementation of the reforms introduced in the 2014 EU Audit Directive and Regulation has been inconsistent across the EU, as a result of the high number of member state options in that legislation. We would support further harmonisation of the regulatory framework across the EU to reduce complexity for companies and auditors. For example, we would welcome the alignment of the initial audit firm rotation period to ten years across the EU member states.

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This letter is attached to our detailed response to the consultation questions and to the call for evidence. We would be delighted to discuss any of the areas raised above, or in our detailed response. Please do contact me at gillian.lord@pwc.com if that would be helpful. We remain strongly supportive of the Commission's objectives in this area and would be happy to assist in your continued thinking.

Yours sincerely,

Gilly Lord
Global Leader for Public Policy and Regulation, PwC

Cc Sven Gentner, head of unit DG FISMA
Ward Mohlmann, deputy head of unit, DG FISMA

PwC IL is registered under number 60402754518-05 in the EU Transparency Register

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Date: 04/02/2022 18:59:06

Public consultation on strengthening the quality of corporate reporting and its enforcement

Fields marked with * are mandatory.

Introduction

This consultation is now available in 23 European Union official languages.

Please use the language selector at the top of this page to choose your language for this consultation.

High quality and reliable corporate reporting is of key importance for healthy financial markets, business investment and economic growth. The EU corporate reporting framework should ensure that companies publish the right quantity and quality of relevant information allowing investors and other interested stakeholders to assess the company's performance and governance and to take decisions based on it. High quality reporting is also indispensable for cross-border investments and the development of the capital markets union (CMU).

In the context of this consultation, corporate reporting comprises the financial statements of companies, their management report that includes the non-financial and corporate governance statements and country-by-country reporting. It would also include sustainability information pursuant to the proposed Corporate Sustainability Reporting Directive.

The consultation takes into account the outcomes of the 2018 consultation on the EU framework for public reporting by companies and the 2021 fitness check on the EU framework for public reporting by companies. This consultation however focuses on companies listed on EU regulated markets (hereafter 'listed companies' or 'issuers'), that is a subset of the companies subject to public reporting requirements under EU law. Please note that in terms of reporting, this consultation does not seek the views of stakeholders on the applicable accounting standards, such as International Financial Reporting Standards (IFRS) or the standards in the Accounting Directive, or the views of stakeholders on public country-by-country reporting or the Commission's proposal for a Corporate Sustainability Reporting Directive.

The 2018 consultation did not cover the areas of corporate governance or statutory audit. Therefore, this consultation contains questions to evaluate aspects of the Audit Regulation 537/2014, Audit Directive 2006/43/EC and of Accounting Directive 2013/34/EU. However, it covers the EU framework on corporate governance only in so far as relevant for corporate reporting by listed companies and the statutory audit of so-called public interest entities (PIEs). Listed companies, credit institutions, insurance undertakings and entities designated as such by Member States are PIEs.

This consultation also builds on the work carried out by the European Securities and Markets Authority (ESMA) and the Committee of European Audit Oversight Bodies (CEAOB).

This consultation is divided into 5 parts

- The first part seeks your views about the overall impact of the EU framework on the three pillars of high quality and reliable corporate reporting - corporate governance, statutory audit and supervision. It also seeks your views about the interaction between the three pillars
- The second part of the questionnaire focuses on the corporate governance pillar, as far as relevant for corporate reporting. It aims to get your feedback in particular on the functioning of company boards, audit committees and your views on how to improve their functioning
- The third part focuses on the statutory audit pillar. The first questions in this part aim at getting your views on the effectiveness, efficiency and coherence of the EU audit framework. It focuses in particular on the changes brought by the 2014 audit reform. Subsequently, the questions aim to seek views on how to improve the functioning of statutory audit
- The fourth part asks questions about the supervision of PIE statutory auditors and audit firms
- Finally, the consultation will ask questions about the supervision of corporate reporting and how to improve it

This consultation will directly feed into an impact assessment that the Commission will prepare in 2022 with a view to possibly amend and strengthen the current EU rules.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-corporate-reporting@ec.europa.eu.

More information on

- this consultation
- the consultation document
- the consultation strategy
- company reporting
- the protection of personal data regime for this consultation

About you

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* Language of my contribution

- Bulgarian
- Croatian
- Czech

- [ ] Danish
- [ ] Dutch
- [x] English
- [ ] Estonian
- [ ] Finnish
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- [ ] German
- [ ] Greek
- [ ] Hungarian
- [ ] Irish
- [ ] Italian
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- [ ] Maltese
- [ ] Polish
- [ ] Portuguese
- [ ] Romanian
- [ ] Slovak
- [ ] Slovenian
- [ ] Spanish
- [ ] Swedish

*I am giving my contribution as

- [ ] Academic/research institution
- [ ] Business association
- [x] Company/business organisation
- [ ] Consumer organisation
- [ ] EU citizen
- [ ] Environmental organisation
- [ ] Non-EU citizen
- [ ] Non-governmental organisation (NGO)
- [ ] Public authority
- [ ] Trade union
- [ ] Other

* First name

Jacomien

* Surname

van den Hurk

* Email (this won't be published)

jacomien.van.den.hurk@pwc.com

* Organisation name

255 character(s) maximum

PwC IL

* Organisation size

- ○ Micro (1 to 9 employees)
- ○ Small (10 to 49 employees)
- ○ Medium (50 to 249 employees)
- ● Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](). It's a voluntary database for organisations seeking to influence EU decision-making.

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* Country of origin

Please add your country of origin, or that of your organisation.

○ Afghanistan	○ Djibouti	○ Libya	○ Saint Martin
○ Åland Islands	○ Dominica	○ Liechtenstein	○ Saint Pierre and Miquelon
○ Albania	○ Dominican Republic	○ Lithuania	○ Saint Vincent and the Grenadines
○ Algeria	○ Ecuador	○ Luxembourg	○ Samoa
○ American Samoa	○ Egypt	○ Macau	○ San Marino
○ Andorra	○ El Salvador	○ Madagascar	○

			São Tomé and Príncipe
Angola	Equatorial Guinea	Malawi	Saudi Arabia
Anguilla	Eritrea	Malaysia	Senegal
Antarctica	Estonia	Maldives	Serbia
Antigua and Barbuda	Eswatini	Mali	Seychelles
Argentina	Ethiopia	Malta	Sierra Leone
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Aruba	Faroe Islands	Martinique	Sint Maarten
Australia	Fiji	Mauritania	Slovakia
Austria	Finland	Mauritius	Slovenia
Azerbaijan	France	Mayotte	Solomon Islands
Bahamas	French Guiana	Mexico	Somalia
Bahrain	French Polynesia	Micronesia	South Africa
Bangladesh	French Southern and Antarctic Lands	Moldova	South Georgia and the South Sandwich Islands
Barbados	Gabon	Monaco	South Korea
Belarus	Georgia	Mongolia	South Sudan
Belgium	Germany	Montenegro	Spain
Belize	Ghana	Montserrat	Sri Lanka
Benin	Gibraltar	Morocco	Sudan
Bermuda	Greece	Mozambique	Suriname
Bhutan	Greenland	Myanmar/Burma	Svalbard and Jan Mayen
Bolivia	Grenada	Namibia	Sweden
Bonaire Saint Eustatius and Saba	Guadeloupe	Nauru	Switzerland
Bosnia and Herzegovina	Guam	Nepal	Syria
Botswana	Guatemala	Netherlands	Taiwan
Bouvet Island	Guernsey	New Caledonia	Tajikistan

Brazil
British Indian Ocean Territory
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Burkina Faso
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Cambodia
Cameroon
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Cayman Islands
Central African Republic
Chad
Chile
China
Christmas Island
Clipperton
Cocos (Keeling) Islands
Colombia
Comoros
Congo
Cook Islands
Costa Rica
Côte d’Ivoire

Guinea
Guinea-Bissau
Guyana
Haiti
Heard Island and McDonald Islands
Honduras
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Iraq
Ireland
Isle of Man
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Italy
Jamaica
Japan
Jersey
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Kenya
Kiribati
Kosovo

New Zealand
Nicaragua
Niger
Nigeria
Niue
Norfolk Island
Northern Mariana Islands
North Korea
North Macedonia
Norway
Oman
Pakistan
Palau
Palestine
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Pitcairn Islands
Poland
Portugal
Puerto Rico
Qatar
Réunion

Tanzania
Thailand
The Gambia
Timor-Leste
Togo
Tokelau
Tonga
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Turks and Caicos Islands
Tuvalu
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
United States Minor Outlying Islands
Uruguay
US Virgin Islands
Uzbekistan
Vanuatu
Vatican City
Venezuela

Croatia	Kuwait	Romania	Vietnam
Cuba	Kyrgyzstan	Russia	Wallis and Futuna
Curaçao	Laos	Rwanda	Western Sahara
Cyprus	Latvia	Saint Barthélemy	Yemen
Czechia	Lebanon	Saint Helena Ascension and Tristan da Cunha	Zambia
Democratic Republic of the Congo	Lesotho	Saint Kitts and Nevis	Zimbabwe
Denmark	Liberia	Saint Lucia	

* Is your organisation a public interest entity or a listed company?
  - A public interest entity
  - A listed company
  - None of the above
  - Don’t know / not applicable

* Role in the corporate reporting market
  - Preparer of corporate reporting
  - User of of corporate reporting
  - Preparer and user of corporate reporting
  - Statutory auditor
  - Accounting professional
  - Supervisor
  - None
  - Other

* Field of activity or sector (if applicable)
  - [x] Accounting
  - [x] Auditing
  - [ ] Banking
  - [ ] Credit rating agencies
  - [ ] Insurance
  - [ ] Pension provision

- [ ] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Other financial services (e.g. advice, brokerage)
- [ ] Social entrepreneurship
- [ ] Trade repositories
- [ ] Other
- [ ] Not applicable

The Commission will publish all contributions to this public consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **Fo r the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') country of origin, organisation name and size, and its transparency register number, are always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

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The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only organisation details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published as received. Your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.
- (•) **Public**
  Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

- [x] I agree with the personal data protection provisions

Part I - The EU framework for high quality and reliable corporate reporting

The EU framework for corporate reporting has developed significantly since the EU adopted the fourth company law Directive (Directive 78/660/EEC) which coordinated the national provisions on the presentation, content and publication of annual accounts and management reports of limited liability companies. This Directive also already required a statutory audit of the annual accounts of limited liability companies.

Today, the Accounting Directive 2013/34/EU, the Statutory Audit Directive (2006/43/EU) and Audit Regulation (537/2014) and the Transparency Directive 2004/109/EC provide the main requirements that ensure the quality of corporate reporting and its enforcement in the EU. Moreover, the ESMA Regulation (EU)1095/2010 gives tasks to ESMA in relation to corporate reporting. Given the inclusion of the Transparency Directive in the scope of the ESMA Regulation ESMA can make use of its powers in the ESMA Regulation, such as to issue guidelines.

The main elements of this framework that guarantee the quality and reliability of corporate reporting can be summarised as follows

- **Corporate governance**: Responsibility of company boards for corporate reporting; the establishment by PIE's of an audit committee to minimise risks and to enhance the quality of financial reporting
- **Audit**: The requirements for a statutory audit of the annual accounts to ensure that there are no material misstatements
- **Supervision**: The supervision of statutory auditors and audit firms to ensure the quality of audits and the supervision of corporate reporting by listed companies to ensure the quality of corporate reporting

The three pillars of the corporate reporting framework can be mutually reinforcing. At the same time, weaknesses in one pillar also negatively impact other pillars. Appropriate responsibilities and supervision of company boards provide incentives to company boards to focus on the quality of their corporate reporting. It will also incentivise them to see statutory audit not as a burden, but as an important external check by statutory auditors. On the other hand, where company boards are insufficiently accountable and supervised, there is a risk that boards may pay insufficient attention to the quality of reporting and that they provide insufficient resources for a proper audit.

Question 1. As a user of corporate reporting (retail or wholesale investor, credit rating agency, NGO, public authority, employees, suppliers, other stakeholders), what is the relative importance of the information contained therein compared to other sources of information?

- ( ) 1 - Very low
- ( ) 2 - Low
- ( ) 3 - Medium
- ( ) 4 - High
- (x) 5 - Very high
- ( ) Don't know / no opinion / not applicable

Question 2. How do you assess the overall effectiveness, efficiency, relevance, coherence and EU added value of the EU legislation, considering each of the pillars underpinning corporate reporting individually, but also in combination with each other?

a) Corporate governance

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	○	●	○	○
IV. Coherence with other related EU frameworks / internal coherence	○	○	●	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	○	●	○	○

b) Statutory audit

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	●	○	○	○

II. Efficiency: has the framework been cost efficient	○	◉	○	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	◉	○	○	○
IV. Coherence with other related EU frameworks / internal coherence	○	○	◉	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	◉	○	○	○

c) Supervision by public authorities of statutory auditors/audit firms

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	◉	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	◉	○	○	○
III. Relevant in terms of	○	○	○	◉	○	○

overall needs and objectives						
IV. Coherence with other related EU frameworks / internal coherence			X			
V. EU Added value: was and is EU intervention justified?				X		

d) Supervision by authorities of corporate reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives			X			
II. Efficiency: has the framework been cost efficient			X			
III. Relevant in terms of overall needs and objectives					X	
IV. Coherence with other related EU frameworks / internal coherence			X			

V. EU Added value: was and is EU intervention justified?	○	○	○	●	○	○

e) The eco-system composed of all of the above

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	●	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○
III. Relevant in terms of overall needs and objectives	○	○	○	○	●	○
IV. Coherence with other related EU frameworks / internal coherence	○	○	●	○	○	○
V. EU Added value: was and is EU intervention justified?	○	○	○	●	○	○

Question 2.1 Please describe the main issues that you see, if any, in the four areas mentioned in question 2 and in the eco-system composed of all four areas. Where possible, please provide concrete examples and evidence supporting your assessment.
You may want to consider the following aspects

- **have any factors reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there room to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, there is much in the current EU legislative framework that is effective. The quality of corporate reporting is generally high, and we note that the incidence of restatement of EU PIE financial statements is very low.
Nonetheless, we recognise that the failure of Wirecard has reduced stakeholder trust in the corporate reporting system. Corporate failures – and the reasons for them – are often complex, even if a prevailing narrative of ‘negligent directors’ or ‘audit failure’ frequently emerges for each. A mature corporate governance and audit regime needs to acknowledge that failure remains a potential consequence of doing business, while maintaining its focus on minimising the impacts to employees, the economy and investor confidence.
Our own analysis of the failure shows that the following areas may need consideration:
The three pillars of the reporting system need to work together coherently;
Those charged with governance in PIEs need clear accountability for delivering high quality reporting;
Audit firms need to maintain an unwavering focus on achieving high audit quality, e.g. via
Requiring annual disclosure of investment in, and activities related to, audit quality from those audit firms performing PIE audits;
Introducing an external independent element into the governance of PIE audit practices with a mandate to focus specifically on audit quality and firmwide resilience;
mandating increased transparency over audit quality performance through the development of audit quality indicators (at both firm and engagement level),
Appropriate publication of inspection findings, and
Clarity over linkages between remuneration and audit quality;
National supervisors need to implement a single EU approach to supervision in a consistent and rigorous manner
Implementation of the reforms introduced in the 2014 EU Audit legislation has been inconsistent across the EU, as a result of the high number of member state options in the legislation

The ESMA report on enforcement and regulatory activities of European enforcers in 2020 notes that supervisors undertook the examination that year of 729 financial statements drawn up in accordance with International Financial Reporting Standards (IFRS). Based on these examinations, European enforcers took enforcement actions against 265 issuers in order to address material departures from IFRS. This represents an action rate of 38%.

As regards the audit sector the Commission's market monitoring report highlights deficiencies in audit firms' internal quality control systems, but also in individual files for audits of PIEs. National audit oversight bodies also report that part of statutory audits is not up to standards.

Question 3. Based on your own experience how do you assess the quality and reliability of corporate reporting by listed EU companies?

- ○ 1 - Very low
- ○ 2 - Low
- ○ 3 - Medium
- ● 4 - High
- ○ 5 - Very high
- ○ Don't know / no opinion / not applicable

Question 3.1 Please provide concrete examples and evidence supporting your assessment in question 3 and explain the consequences that the quality and reliability of corporate reporting or lack thereof has on you.

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Overall we believe that quality and reliability of corporate reporting is reasonably high, a view in line with the EC's final report on the Fitness Check on public reporting by companies. The ESMA report on enforcement of corporate reporting of 2020 appears to present a different picture though - please see our response to question 18 for our perspectives.

However, on a specific point, we note that a 2021 study by the Dutch Foundation for Auditing Research found that out of 572 bankruptcies of Dutch companies subject to audit between 2012 and 2020, only 12 percent of companies filed timely audited financial statements or an exemption in the year prior to bankruptcy, and only 56 percent (64%) in year two (three) before the bankruptcy. Also, management disclosed discontinuity risks in just 29% of the pre-bankruptcy filing of financial statements just prior to bankruptcy. This suggests that improvement is required in terms of reporting on going concern and viability risks.

Question 4. There are no generally accepted standards or indicators to measure the quality of corporate reporting and of statutory audit, nor the effectiveness of supervision. In light of this, what are your views on the following questions?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	○	○	○	●	○	○
Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision?	○	○	○	●	○	○
Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	○	●	○	○	○	○

Question 4.1 Please provide any further explanation supporting your views, and, where relevant, please suggest possible indicators of the quality and reliability of corporate reporting, statutory audit and supervision, where possible with concrete examples:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We believe that it would be useful to have a set of quality indicators in respect of corporate reporting, statutory audit and supervision. In our view, such indicators could be developed by a diverse, international stakeholder group.

For corporate reporting, the process should begin with indicators in respect of the quality of corporate reporting, and then be followed by indicators of the effectiveness of supervision. We are not aware of existing studies on such indicators and would support further work in this area.

We strongly support the development and use of audit quality indicators (AQIs) which are vital to promoting and evidencing the continuous improvement in audit quality. We believe there is an important distinction between measures of whether quality was actually achieved (e.g. inspection results) that can provide external stakeholders with information to inform their views on a firm's audit quality (quality outcome AQIs) versus measures that a firm develops to proactively identify actions to manage quality in connection with the firm's system of quality management (quality monitoring AQIs). Once a suitable set of firm-level quality outcome based AQIs are established, public reporting of these outcome based AQIs would contribute to audit quality.

However, we believe that more predictive or monitoring based AQIs should be tailored to address a firm's specific quality management risks and often need to be analyzed at a disaggregated level to allow for meaningful analysis including assessment of outliers, trends over time, etc. In our view these more input and process-oriented indicators do not lend themselves to aggregation, absolute consistency, or comparison at an individual firm, Network or profession wide level. For many input or process-oriented indicators, we do not believe mandating specific indicators across the profession would be appropriate.

Question 5. In your view, should the Commission take action in the areas of the corporate governance pillar, the statutory audit pillar, the supervision of PIE auditors and audit firms and the supervision of corporate reporting to increase the quality and reliability of reporting by listed companies?

- (selected) Yes, there is a need to improve the **some or all of the areas listed above**
- Yes, there is a need to improve some or all of the areas listed above **as well as other areas**
- No, but there is a need to improve other areas than those listed above
- No, there is no need to take further action in any area
- Don't know / no opinion / not applicable

Please indicate to what extent you think the Commission should take action in each of the areas below to increase the quality and reliability of reporting by listed companies:

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Improve the corporate governance pillar	○	○	○	●	○	○
Improve the statutory audit pillar	○	○	○	●	○	○
Improve the supervision of PIE auditors and audit firms	○	○	○	●	○	○
Improve the supervision of corporate reporting	○	○	○	●	○	○

Question 5.1 Please provide any further explanation supporting your views, and where appropriate describe what actions you would prioritise and why, with concrete examples:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

PwC supports a holistic approach to reform, with EU legislation tackling the inter-related roles of directors (including audit committees), management, auditors, investors and regulators, rather than solely focusing on a single pillar. In general terms, our experience is that multinational businesses find consistency in global regulatory approaches to be helpful, and therefore we'd encourage the EC to continue to work with other legislators, standard setters etc to achieve this where it's possible

In addition to the areas identified above, we suggest that the role of shareholders should also be considered. Shareholders, and wider stakeholders, should be encouraged and empowered to engage companies and their directors at the AGM on matters of corporate governance, reporting and audit. In our experience, such engagement is currently infrequent. As the EC prepares to review the Shareholder Rights Directive in 2023, it could consider measures that would enable and incentivise this engagement and stewardship activity.

In France, the statutory auditor participates in the Annual Meeting of Shareholders and provides a summary of their reports, which typically includes emphasis on the Key Audit Matters (as defined in International Auditing Standards). In the Netherlands, the auditor speaks at the AGM (or similar meeting) to outline his/her work, coordinated by the auditor with the supervisory board (or similar body) beforehand. If he/she is not given permission to do so, the auditor should not accept the assignment. These types of opportunities for a dialogue on key audit matters between the statutory auditor and the shareholders could be considered throughout the EU.

Question 5.2 At what level should action be taken to improve the quality of corporate governance, audit, audit supervision and/or supervision of corporate reporting?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Companies themselves should take action to improve their reporting	○	○	○	○	●	○
Auditors themselves should take action to improve audits	○	○	○	○	●	○
Audit supervisors themselves should take action to improve their functioning	○	○	○	○	●	○
Individual Member States should take action if the situation in their market requires this	○	○	●	○	○	○
The EU should take action	○	○	○	○	●	○
Several of the above should take action	○	○	○	●	○	○

Question 5.3 Please provide any further explanation supporting your views expressed in question 5.2:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, reform at the EU level would be preferable to action in individual member states. It is more likely to result in consistency and comparability between governance, audit and supervision in different member states, and therefore increase transparency and trust, as well as international competitiveness and ease of doing business with EU companies.

Harmonisation of the implementation and interpretation of the EU Regulation and Directive between the Member States would also be helpful. We have found that differing adoption of member state options, and differing interpretation of requirements between member states, has increased complexity for companies and auditors. Action at EU level would also enable consistency and alignment with other initiatives of the Capital Markets Union integration strategy. In particular we refer to the single supervisory rulebook, as well as the Listing Act. It is important that any initiative on reporting does not undermine the objective of encouraging European companies to list in public markets, so that the EU economy can diversify funding sources and improve its resilience.

Question 6. To what extent is there a need to modify the EU framework on corporate reporting to support the following objectives?

	1 (not at all necessary)	2 (rather not necessary)	3 (neutral)	4 (rather necessary)	5 (highly necessary)	Don't know - No opinion - Not applicable
I. The green transition	○	○	○	○	●	○
II. The digital transition	○	○	●	○	○	○
III. Facilitating doing business by SMEs	○	○	○	●	○	○
IV. Reducing burdens and/or simplification	○	○	○	●	○	○
V. Better corporate social responsibility, including tax transparency and fair taxation	○	○	○	●	○	○

Question 6.1 Please provide, if needed, any further explanation supporting your views expressed in question 6:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

With regard to point I, capital markets have a crucial role in achieving the objectives of the EU Green Deal and Paris' global climate targets. The success of the EU Sustainable Finance agenda depends on the availability of relevant, comparable and reliable data; if the financial industry is to steer private capital flows to a more sustainable economy, it needs relevant and reliable data from a larger group of issuers to measure and price sustainability risks.

In respect of both points I and V, we expect increasing efforts from capital markets and companies to price in systemic risks. This will catalyse demands for increased governance, tax transparency and the prominence of ESG issues more generally.

During the last decade expectations with respect to companies' tax contributions to public finances and responsible tax behaviour have increased, which has led, amongst others, to the recent adoption of public country-by-country reporting requirements for certain undertakings, through an amendment of Directive 2013/34/EU. In our view, tax transparency will continue to be high on the agenda of many stakeholders, including investors. We believe that such transparency should be meaningful and incorporate reporting on a long-term tax strategy, with clear board-level responsibilities, effective tax risk management.

Having noted the above, and relevant to point IV , we believe that these developments should be accompanied by streamlined, interconnected and consistent corporate reporting. This is important both to reduce cost and burden for companies and also to ensure that reporting focuses on genuinely material items that matter to stakeholders, not on meeting a compliance checklist.

Part II - Corporate governance

The EU corporate governance framework focuses on the relationships between company boards, shareholders and other stakeholders, and therefore, on the way a company is managed and controlled. The framework consists of a combination of EU and Member State legislation and soft law, namely national corporate governance codes applied on a 'comply or explain' basis. It aims inter alia to provide protection for shareholders and other parties with a particular interest in companies, such as employees and creditors.

A sustainable corporate governance initiative is planned to be adopted by the Commission in 2021. (In addition, the Commission's study on directors' duties and sustainable corporate governance, July 2020, assesses the root causes of 'short termism' in corporate governance and discusses their relationship with current market practices and/or regulatory frameworks).

Key features of the EU framework on corporate governance that are relevant for corporate reporting are

- The collective responsibility of the members of the administrative, management and supervisory bodies of a company for drawing up and publishing annual financial statements and management reports
- The requirement for a statement by the persons responsible within the issuer that, to the best of their knowledge, the financial statements prepared give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer
- The requirement for PIEs to establish, in principle, an audit committee

Question 7. How do you assess the effectiveness, efficiency, and coherence of the key features of the EU framework on corporate governance, considering how they underpin quality and reliability of corporate reporting?

a) Board responsibilities for reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	●	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○
III. Coherence with relevant EU rules	○	○	●	○	○	○

b) Liability of company boards for reporting

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○

III. Coherence with relevant EU rules			X			

c) Obligation to establish an audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				
II. Efficiency: has the framework been cost efficient				X		
III. Coherence with relevant EU rules			X			

d) Rules on the composition of the audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				
II. Efficiency: has the framework been cost efficient				X		

III. Coherence with relevant EU rules	○	○	●	○	○	○

e) Tasks of the audit committee

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○
III. Coherence with relevant EU rules	○	○	●	○	○	○

f) External position of the audit committee (e.g. in relation to shareholders)

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○

III. Coherence with relevant EU rules	( )	(•)	( )	( )	( )	( )

Question 7.1 Please describe the main issues you see, if any, as regards corporate governance and, where possible, please provide concrete examples and evidence supporting your assessment.

You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there room to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

2000 character(s) maximum

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There is a lack of clarity as to the responsibilities of directors, management and the audit committee for the quality of corporate reporting. Responsibilities exist in EU law, but are not well acknowledged, implemented or enforced:
EU PIEs should have ACs and exemptions should be minimal (or eliminated)
Audit committees are required to monitor the financial reporting process as well as the audit, however, many audit committees do not address this consistently.
Audit competence is required in at least one audit committee member but this requirement is not working very effectively.
There is little exchange between shareholders and audit committees on the quality of corporate reporting, including the quality of the audit.
Stakeholders and even some audit committees do not fully understand the scope of the statutory audit (some parts of corporate reporting are not subject to the audit) nor is there a discussion on the level of voluntary assurance on matters not subject to audit.
Going forward, we believe that:
Audit committees should annually assess the quality of both financial (and sustainability) reporting and audit, and report on the results explicitly to the shareholders. Recently, Germany included in the legal description of Audit Committees' role the need to monitor the quality of the audit, which has resulted in a significant increase in awareness and focus.
Monitoring of fraud management (including fraud by top management) and going concern should be emphasised in Art. 39 (6).
At least one member of the audit committee should have competence not only in corporate accounting and /or audit, but also in internal control systems.
Supervisors could examine this more proactively.

Art. 27 states that the competent authority monitors “the performance of audit committees”, however there is no common view in the EU of what this might involve. A more harmonised, focused oversight of audit committees could contribute to more reliable corporate reporting.

Question 8. Considering the level of material departures from IFRS reported in the ESMA report on enforcement and regulatory activities of European enforcers in 2020, to what extent can such departures be attributed to deficiencies of the EU framework on corporate governance?

- ○ 1 - Not at all
- ○ 2 - To a limited extent
- ● 3 - To some extent
- ○ 4 - To a large extent
- ○ 5 - To a very large extent
- ○ Don’t know / no opinion / not applicable

Question 8.1 Please explain the main issues you see, and, where possible, please provide concrete examples and evidence supporting your assessment:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, many of the departures described in the ESMA report are departures of a detailed/compliance nature (see our response to question 18 for more details). We do not think that they therefore suggest major deficiencies in the corporate governance framework.

Question 9. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies?

a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer or the Chief Financial Officer) and their liability on corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

d) Give company boards an explicit responsibility to establish effective risk management and internal control systems for the preparation of corporate reporting, including as regards controls for risks of fraud and going concern

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

f) Remove exemptions in EU legislation for establishing an audit committee

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	◉	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	◉	○	○

g) Increase the tasks of the audit committee, e.g. for providing assurance on internal control systems for the avoidance of risk and fraud and going concern

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

i) Require the setting up of specific whistle blowing procedures inside listed companies and supervisors of corporate reporting to strengthen the protection of whistle blowers

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

k) Strengthen the role of shareholders on corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

Question 9.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of reporting by listed companies?

- (selected) Yes
- No
- Don’t know / no opinion / not applicable

9.1.1 Please specify to what other action(s) you refer in your answer to question 9.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

EU PIEs are subject to requirements on risk management and internal control as part of their compliance with national law or Corporate Governance Codes (Art 19 and 20 of the Accounting Directive). However, in our experience, the processes in place to support these requirements vary significantly and for many companies are “light touch”, with a lack of formal structure and testing. There is also currently no specific requirement for directors to explicitly state that the internal controls are effective, which does not encourage rigour and formality.

In Germany, Greece, the Netherlands and the UK, explicit requirements are being introduced for management boards of listed companies to establish appropriate and effective internal control systems and risk management systems (see our response to the call for evidence for details).

With regard to question 9d, we would welcome proposals for a strengthened internal controls regime, including more clarity on the role and responsibility of the directors with regard to controls in respect of fraud and going concern. This could be accompanied by a more explicit narrative on the auditors' role and responsibilities with regard to fraud and going concern.

The US experience over the past 15 years confirms that, once established and embedded, such a regime drives improvement in the quality of financial reporting and controls. Recent research by Audit Analytics suggests that restatements in the US are 81% lower in 2020 than in 2006 which was the peak year of restatements post implementation of SOX.

In our view, in the EU, it would be sensible for any regime to focus, at least initially, on ICFR with a heightened focus on fraud and going concern.

With regard to question 9k, in our view shareholders should be encouraged to engage with Boards and ACs on issues of corporate reporting and audit. Currently, shareholder engagement tends to focus on remuneration with focus only on reporting and audit when significant problems occur.

Question 9.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, key elements of an ICFR regime would include the following:

A clear public statement from the directors as to the design and operating effectiveness of ICFR, underpinned by a clearly communicated expectation of the level of diligence applied in making that statement. This would drive behavioural change and accountability at the board level and give users of accounts greater clarity on where responsibility lies. Going forward, an extension across wider corporate reporting could be considered.

We suggest that a two tier approach be considered; the (management) board or the CEO and the CFO, depending on the corporate governance system applied, would make an (internal) attestation to the (supervisory) board and that board would then report publicly to shareholders that this attestation had been received.
The regime would need to be supported by clear guidance for directors and management as to what they would need to do to support their statement, including the expected level of evidence and testing.
With regard to question 9.j, we believe that if assurance were not built into any such regime, implementation guidance should make it clear that the directors' statement should be supported by a robust evidence base.
In order for any ICFR regime to be rigorous and implemented consistently, it is inevitable that cost and resource demands will ensue. A recent study of annual compliance costs under US SOX estimates that annual compliance costs per company (not including costs of assurance) ranged from $0.8m to $1.6m (average cost in the EU would likely be lower given the smaller size of European issuers). In our view the additional cost associated with the strengthened regime is justifiable when compared to the benefits.

Part III - Statutory audit

The overall objective of statutory audits is to ensure that financial statements are free from material misstatements and provide a true and fair view. The auditor has to identify and assess the risk of material misstatements and gather sufficient and appropriate audit evidence as the basis for his opinion that the financial statements provide a true and fair view and to publicly report on the results of his audit work. The EU audit rules promote audit quality and seek to ensure the independence of auditors and audit firms.

Therefore, the final objective of statutory audit is to contribute to the quality and reliability of financial statements of companies.

Question 10. How do you assess the effectiveness, efficiency and the coherence with other relevant EU frameworks of the key features of EU audit legislation in so far as it applies to PIE auditors and audit firms?

a) The rules on independence of auditors/audit firms and absence of conflicts of interest

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	○	●	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○

III. Coherence with relevant EU rules	○	○	◉	○	○	○

b) The rules on the content of the audit and of the audit report

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	○	◉	○	○
II. Efficiency: has the framework been cost efficient	○	○	○	◉	○	○
III. Coherence with relevant EU rules	○	○	○	◉	○	○

c) The rules applicable to non-audit services

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	◉	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	○	◉	○	○

III. Coherence with relevant EU rules	○	○	●	○	○	○

d) The rules on auditor/audit firm rotation

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	●	○	○	○	○
III. Coherence with relevant EU rules	○	●	○	○	○	○

e) The rules on transparency (transparency report, additional reports to other parties / audit committees / supervisors)

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	●	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○

III. Coherence with relevant EU rules	○	○	◉	○	○	○

Question 11. Please describe the main issues you see, if any, in the audit pillar and, where possible, please provide concrete examples and evidence supporting your assessment.
You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there scope to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Our observations on the effectiveness of the legislation include:
The combination of measures such as rotation, non-audit services (NAS) restrictions, and the fee cap has reduced the choice of PIE statutory auditors or audit firms.
Concentration in the PIE audit market reflects the complexity, size and resources needed to audit large PIEs.
Concentration does not have a negative impact on audit quality.
In our view, resilience of the PIE audit market is more important than choice, in order to mitigate the risk that one of the larger audit firms exits the market.
The non-alignment of member state options drives increased cost and complexity for businesses operating cross border particularly those with multiple PIEs, e.g. if there are different timings for rotation of subsidiary audits versus the group audit, or if each PIE in a group containing multiple PIEs has to run its own selection process.
NAS in relation to capital markets transactions are closely tied to audit and are needed for well-functioning capital markets. E.g. comfort letters are permitted in most EU countries but as non-audit services are subject to fee cap considerations. This can create serious practical issues, especially for small PIEs.
This could be remedied by:
Further harmonisation of the regulatory framework across the EU to reduce complexity for companies and auditors. E.g., we would welcome the alignment of the initial audit firm rotation period to ten years across the EU member states, and a group clause allowing a group-wide tender process
On the perception of conflicts of interest, all EU member states have introduced significant restrictions on the provision of non-audit services to PIEs. Stakeholder understanding of these restrictions could be facilitated

through further harmonisation of the restrictions between member states. We believe that it will always be necessary and appropriate for auditors to provide non-audit assurance services (eg assurance over regulatory compliance)

Question 12. To which extent you agree to the following statements?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
I. Statutory audits contribute as much as is possible to the quality and reliability of corporate reporting by PIEs	○	○	○	●	○	○
II. I am satisfied with the role of the statutory auditors / audit firms of PIEs	○	○	○	●	○	○
III. The work of auditors is reliable so I trust their assessment and reports and their work inspires trust in capital markets	○	○	○	●	○	○
IV. There is not enough choice for public interest entities in finding an audit firm at appropriate costs	○	○	●	○	○	○
V. Joint audits contribute to the quality of audit	●	○	○	○	○	○

12.1 If you want to add any comments, and/or mention specific issues you see you can insert them here. Where possible, please provide concrete examples and evidence supporting your assessment:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We recognise that trust in audit can be shaken by high profile examples of corporate and/or audit failure, and a public narrative that conflates supervisory concerns over audit quality, a desire to increase choice in the PIE audit market and a perception of conflicts of interest. However the system is not broken and statutory audits contribute significantly to the quality and reliability of corporate reporting.
We would welcome more choice. Policy-makers seem to focus solely on the demand side, while disregarding issues related to the supply side of the market. Increased regulatory complexity or exposure to liability could prevent firms from entering the PIE audit market or reduce their participation. Further discussion on how to incentivise mid-tier firms to reach the required scale and quality to engage in the market and audit committees to choose a different provider would be welcome.
Mandatory joint audit could jeopardise audit quality through fragmentation of accountability and increasing complexity in the client processes, which makes it more difficult to ensure that no controls remain unaudited. Joint audit does not lead to improvements in choice. In France, only five firms maintain a significant presence in the large company audit market. If one of the two joint auditors were required to be from a mid-tier firm (and one from a larger firm) this would effectively create two PIE auditor markets; unless the level of choice in the second market is equivalent to that in the first there would be an effective reduction in choice.
Finally, the EU liability regime for auditors would need to be reconsidered. A well-designed auditor liability regime should determine auditor liability on a basis proportionate to the actor’s contribution to any damage. We cannot envisage joint audits being conducted with both parties taking an uncapped liability for each other's work; in particular we question whether all firms would consent to assume such a level of liability.

The audit quality issues that occur most often at EU level are

- deficiencies in audit firms’ internal quality control systems
- the lack of, or inappropriate, monitoring of high-risk audited entities
- and the lack of audit evidence and documentation.

Question 13. To what extent can these quality issues be attributed to deficiencies in the EU legal and supervisory framework for statutory audit?

- ○ 1 - Not at all
- ○ 2 - To a limited extent
- ● 3 - To some extent
- ○ 4 - To a large extent
- ○ 5 - To a very large extent
- ○ Don’t know / no opinion / not applicable

Question 13.1 Please explain, and where possible, provide evidence for your assessment under question 13:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Overall, we believe that the quality and consistency of public reporting by audit supervisors could be improved. At the moment it is inconsistent and difficult for stakeholders to understand, make comparisons and draw conclusions on audit quality. This has the effect of undermining trust in audit when perhaps this may not be deserved.

The audit quality issues referred to in the EC market monitoring report of 2021 can be attributed to deficiencies in the EU legal and supervisory framework for statutory audit to some extent, in the sense that the legal requirements for regulators to disclose how they have assessed the firms' internal quality control system during their inspection are limited. Also, our experience of how member state supervisors carry out this aspect of their work is inconsistent and of varying quality.

Article 26 of the Regulation could be made clearer with regard to the monitoring of high-risk audited entities - these are included in the firms' quality control review, but regulators' inspections do not cover this. Inspection findings only report deficiencies but do not provide the full picture of the auditor's quality system (both at the engagement level or at the internal control system) nor a conclusion on its reliability.

Going forward, we would welcome more calibrated findings, to understand what is really problematic and what is non-compliant but immaterial (in the sense that it does not result in an inappropriate audit opinion or a restatement of the company's financial statements). The lack of distinction overstates concerns about audit quality and erodes trust unnecessarily.

Official external and uniform parameters to define an entity to be at high-risk or not should be set. The same should be said for minimum requirements for audit evidence and audit documentation other than the requirements already set by the applicable auditing standards.

Question 14. How effective and efficient would the following actions be in increasing the quality of statutory audits of PIEs?

a) Ask auditors to disclose how they have assured the directors' statement on material fraud, and what steps they have taken to assess the effectiveness of the relevant internal controls and to detect any fraud

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

b) Strengthen the informational value of audit reports

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

c) Improve the internal governance of audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	●	○	○	○	○	○
II. Efficiency in term of cost/benefits of action	●	○	○	○	○	○

e) Further harmonise the rules on mandatory rotation

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

f) Limit the scope for statutory auditors and audit firms to provide non-audit services

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	●	○	○	○	○
II. Efficiency in term of cost/benefits of action	○	●	○	○	○	○

g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

h) Limit the number of Member State options in the EU Audit framework to ensure consistency across the EU and to incentivise cross-border statutory audits

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

i) The creation of a passporting system for PIE auditors and audit firms, allowing auditors to provide their services across the Union based on their approval in a Member State

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

Question 14.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of statutory audits of PIEs?

- (●) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

14.1.1 Please specify to what other action(s) you refer in your answer to question 14.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 14a asks whether auditors should be required to disclose how they have assured the directors’ statement on material fraud, however we are not aware that directors are actually required to make such a statement. In order for such a remedy to be effective there would need to be clear rules for directors requiring them to apply appropriate and consistent measures of diligence in making their own statement on the effectiveness of internal control. Auditors could then take a uniform approach to providing assurance over such a statement.

Other actions which could effectively and efficiently increase the quality and reliability of statutory audits of PIEs include:

A well-designed auditor liability regime should determine auditor liability on a basis proportionate to the actor’s contribution to any damage.
The setting up of an EU Foundation for Auditing Research
A more effective implementation of requirements pertaining to material irregularities including fraud in respect of the financial statements of the audited entity (Article 7 of Regulation 537/2014) and going concern related risks (Article 12 of Regulation 537/2014) with a clearly designated national authority appointed for auditors to interact with to the extent that one is not already designated at the Member State level.
Article 7 and Article 12.1 reporting should be expressly designated in each Member State as (a) legally permissible and (b) legally protected from disclosure by the designated authority to third parties to further provide a basis for open communications with such authorities.
CEAOB guidance on what qualifies as information that leads to going concern risks and needs to be reported by the auditor under Article 12.1.

Question 14.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Dutch regulator AFM has published several reports with recommendations for building a focused culture in audit firms, based on in-depth surveys in the large four firms of factors which incentivise or hinder the focus on audit quality.

A study commissioned by PwC UK on building a culture of challenge in audit firms includes detailed suggestions, including:

Creating more opportunities, hands-on training and direct interaction with partners and other mentors for junior staff to receive an education in good judgement
Creating a safe space for auditors to question clients and providing "air cover" at the firm and partner level to enable auditors to exercise their professional obligations towards probing and verification
Aligning the ways in which audit firms recognise, promote and repart good behaviours
Ensuring there are robust internal processes for sense checking audit judgements
Ensuring that non-executive directors at clients empower auditors to challenge company management.

As mentioned above, we would support the setting up of a EU Foundation for Auditing Research, similar to the Dutch Foundation of Auditing Research, FAR, which has helped facilitate a facts and evidence based public discussion on the profession. FAR's research agenda is focused on relevant and rigorous academic research into audit quality drivers to inform the audit profession in its further development and improvement of audit quality.

Part IV - Supervision of PIE statutory auditors and audit firms

National competent authorities are responsible for the approval and registration of statutory auditors and audit firms, the adoption of audit standards, quality assurance and investigative and administrative disciplinary systems.

At European level, the cooperation between competent authorities is organised within the framework of the Committee of European Audit Oversight Bodies (the 'CEAOB'). The CEAOB has different tasks aimed at supervisory convergence, but it has no power to take binding decisions (Article 30 Audit Regulation).

Question 15. How do you assess the effectiveness, efficiency, and coherence of the key features of the EU supervisory framework for PIE statutory auditors and audit firms?

a) The supervision of PIE statutory auditors and audit firms in the EU

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	○	●	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○

III. Coherence with relevant EU rules			X			

b) The establishment and operation of national audit oversight bodies

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives			X			
II. Efficiency: has the framework been cost efficient			X			
III. Coherence with relevant EU rules			X			

c) The Member State systems for investigations and sanctions

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives		X				
II. Efficiency: has the framework been cost efficient		X				

III. Coherence with relevant EU rules	○	○	●	○	○	○

d) The role of the CEAOB

	1 (very low)	2 (low)	3 (medium)	4 (high)	5 (very high)	Don't know - No opinion - Not applicable
I. Effectiveness in reaching its objectives	○	●	○	○	○	○
II. Efficiency: has the framework been cost efficient	○	○	●	○	○	○
III. Coherence with relevant EU rules	○	○	●	○	○	○

Question 15.1 Please describe the main issues you see, if any, in relation to the supervision of statutory auditors and audit firms and, where possible, please provide concrete examples and evidence supporting your assessment. You may want to consider the following aspects

- **are there factors that have reduced the effectiveness / rendered the relevant EU framework less effective than anticipated? Which rules have proven less effective than anticipated?**
- **is there scope to improve efficiency via further simplification?**
- **are existing provisions coherent with each other?**

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In general, we consider the existing systems in place to be adequate. However, there may be opportunities to focus more on addressing risks of audit failures through greater emphasis on the substance, rather than only the form, of audit issues which present a low risk of material misstatement. In some countries, the majority of findings are either idiosyncratic or negligible; for these types of findings, we would suggest presentation as a recommendation for future improvements.
Regarding inspection findings, we note that:
There is a lack of common inspection methodologies between audit supervisors in member states, and also a lack of common definition of a finding (including severity of such).
The time lag between the performance of an audit and the finalisation of inspection findings can be well over a year in some member states; this means that the audit firm cannot address findings in the subsequent audit.
Inspection findings do not provide a consistent picture of the quality of the firm’s overall system of quality management. Nor do they indicate whether as a result of the deficiencies identified the audit opinion issued is considered unsafe. These omissions mean that, in our experience, stakeholders find inspection findings difficult to interpret and draw an unduly critical view about a firm’s audit quality.
We suggest a more commensurate process for determining sanctions which takes account of the nature of the breach. Sanctions are often calculated based on the annual audit turnover of the firm, rather than on the nature and impact of the breaches or on the audited entity’s audit fees.
In some instances, the publication of sanctions before a final judicial decision is made generates reputational damage in cases even where the sanction is ultimately dismissed.
It would be appropriate for Member States to be required to provide for the facility to appeal sanctions before a third and impartial court, who have full powers to re-examine the facts

Question 16. Considering the findings in the Commission monitoring report and reports of national audit oversight bodies how would you rate the quality of audit supervision?

- 1 - Very low
- 2 - Low
- ● 3 - Medium
- 4 - High
- 5 - Very high
- Don’t know / no opinion / not applicable

16.1 If you want to add any comments and/or provide evidence for your assessment in question 16, you can provide it below. You may also include the consequences that your assessment of the quality of audit supervision or the lack thereof has:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In addition to the points raised under 15.1, we would observe that:

Coordination between the oversight of auditors and the oversight of financial reporting is important. This would mean that identification of audit issues could lead to consideration of whether financial reporting deficiencies existed and vice versa. It would also enable supervisors to better understand the root causes of problems when they arise.

Annual data on supervision results should be published following a consistent reporting system which facilitates equitable comparison across member states.

There is a lack of guidance on best practices on oversight procedures. We suggest that the CEAOB should identify and promote best practices in audit oversight, through outreach, and increased transparency.

The process for the registration of third country audit firms differs greatly among member states, which creates a lot of administrative burden.

Question 17. How effective and efficient would the following actions be to increase the quality and effectiveness of supervision of PIE statutory auditors and audit firms?

a) Ensure better the independence and appropriate resources of supervisors of auditors and audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

b) Increase the transparency of audit supervisors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

c) Increase the consistency of supervision of cross-border networks of audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

d) Ensure supervision of audit committees

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

e) Harmonise and strengthen the investigation and sanctioning powers of audit supervisors

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	○	○	●	○	○	○

f) Ensure that at European level there are legal instruments available that ensure supervisory convergence as regards statutory audit of PIEs

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

g) Grant a European body the task to register and supervise PIE statutory auditors and audit firms

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

Question 17.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of supervision of PIE statutory auditors and audit firms?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

17.1.1 Please specify to what other action(s) you refer in your answer to question 17.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We support proposals for the CEAOB and ESMA to develop a joined-up supervisory approach to corporate reporting and audit, and to oversee implementation of this approach across EU member states.
We strongly believe that regulation should be focused on learning and improvement rather than punishment. Other industries (medicine, civil aviation) have transformed their safety records through ensuring that near-misses are treated as learning opportunities for all.
The CEAOB should be an independent body, with a clear mandate and responsibilities, a permanent secretariat, and appropriate governance.
We suggest strengthening the role and powers of the CEAOB, and giving the CEAOB authority to issue mandatory principles for competent authorities, aimed at:
Common interpretation of applicable EU legislation (with due process including consultation)
Common, transparent inspection methodologies
Common registration of third country audit firms
Harmonisation, rather than strengthening of the sanctions regime.
A common definition of a finding, including severity of such
Improved coordination with other regulators (eg prudential or AML). Regulatory bodies such as IFIAR and the CEAOB often ask for very similar information.
Strengthening the role of Audit Committees (AC) in the audit inspection process, through:
CEAOB guidance to support ACs' assessment of inspection reports
Interaction with the AC Chair at the outset and end of the inspection
Issuing a public report on inspection results for PIE audit firms, as in Ireland and Sweden, where details are provided on areas reviewed, findings and an overall conclusion of the individual audits inspected as well as the result of the firm's quality management system.
In a later stage, direct supervision of large audit firms by a central European agency such as CEAOB (ensuring consistent supervision and sanctioning) could be also considered, following the example of banking supervision in the EU which proved to be successful

Question 17.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Part V - Supervision and enforcement of corporate reporting

The supervision and enforcement of corporate reporting refers to the examination by competent authorities of listed companies' compliance with the disclosure obligations stemming from the applicable reporting framework, as well as taking appropriate measures when infringements are identified.

Based on enforcement activities by national competent authorities, ESMA reports a significant level of material misstatements. In the follow up of the Wirecard case and based on its experience, ESMA recommended a number of actions to improve the enforcement of corporate reporting (see ESMA letter of 26 February 2021 to the Commissioner McGuinness on next steps following Wirecard - ESMA32-51-818).

The Transparency Directive includes a number of requirements relating to supervision of corporate reporting

- the designation of a central competent authority in each Member State. For the enforcement of corporate reporting, Member States may designate a competent authority other than the central authority and/or delegate tasks to other entities
- national central competent authorities must be independent from market participants. There are no specific provisions as regards the independence of other designated authorities. As regards entities with delegated tasks, the entity in question must be organised in a manner such that conflicts of interest are avoided and information obtained from carrying out the delegated tasks is not used unfairly or to prevent competition
- Member States must provide competent authorities with certain powers, including investigative powers
- ESMA is tasked to foster supervisory convergence as regards the enforcement of financial statements prepared in accordance with the IFRS. For this purpose it has adopted in 2014 guidelines on the enforcement of financial information

This part of the consultation complements the Commission targeted consultation on the supervisory convergence and the Single Rulebook from 12 March 2021 to 21 May 2021.

Question 18. Considering the level of material departures from IFRS in the financial statements of listed companies found in the ESMA report on enforcement and regulatory activities of European enforcers in 2020, how would you rate (on a scale of 1 to 5) the degree to which such departures can be attributed to deficiencies in the EU supervisory framework?

- ○ 1 - Very low
- ○ 2 - Low
- ● 3 - Medium
- ○ 4 - High
- ○ 5 - Very high
- ○ Don't know / no opinion / not applicable

18.1 If you want to add any comments and/or provide evidence for your assessment in question 18, you can provide it below. You may also include the consequences that your assessment of the quality of audit supervision or the lack thereof has:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Good regulation is critical for the proper oversight of corporate reporting but it is not the only factor. A tick-box attitude to compliance can also lead to misinterpretations.

With regard to the ESMA report on enforcement, we observe that while many issues were raised, only few restatements occurred. Although the report refers to “material departures”, these departures were not so material to require modifications to the financial statements. 38% of the 729 examinations undertaken led to actionable comments post review. 79% of the actionable comments required corrections in future financial statements rather than restatements of prior year financial statements. Only 7% of examinations required a public corrective note to the market and 1% (i.e. 9 cases) required reissuance of the financial statements. Separately, we suggest that the fact that 7 out of 9 restatements occurred in one member state may be worthy of further investigation.

If the regulator believes the financial statements contain a material error (i.e. an error that could influence decisions that users make on the basis of the information), then we would expect the same regulator would ensure that investors are informed as soon as possible. If a regulator concludes that such prompt action is not necessary then we suggest that a question arises as to whether the identified issue should truly be considered as “material” as defined by accounting standards.

Last, appropriate oversight of sustainability reporting should be considered, in light of the increasing interconnectivity between financial and non-financial information.

Question 19. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies?

a) Clarify the role and responsibilities of the national authorities charged with the enforcement of corporate reporting and entities to whom the supervision of corporate reporting is delegated/designated, and improve their cooperation

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

b) Improve the system for the exchange of information between authorities and entities involved in the supervision of corporate reporting, and other relevant national authorities

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

c) Strengthen the rules ensuring the independence of national authorities or entities involved in the supervision of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

d) Increase the resources of national authorities or entities involved in the supervision of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	◉	○	○
II. Efficiency in term of cost/benefits of action	○	○	◉	○	○	○

e) Increase the powers for national competent authorities to enforce corporate reporting, such as forensic, powers to obtain any necessary information from banks, tax or any other authorities in the country, powers to request information and corrective actions, etc.

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	●	○	○	○
II. Efficiency in term of cost/benefits of action	●	○	○	○	○	○

f) Improve cooperation and coordination between national authorities of different Member States

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	○	●	○
II. Efficiency in term of cost/benefits of action	○	○	○	○	●	○

g) Increase transparency on the conduct and results of enforcement activities by national authorities

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

h) Strengthen the role of ESMA on the enforcement of corporate reporting

	1 (not at all effective/ efficient)	2 (rather not effective/ efficient)	3 (neutral)	4 (rather effective/ efficient)	5 (very effective/ efficient)	Don't know - No opinion - Not applicable
I. Effectiveness	○	○	○	●	○	○
II. Efficiency in term of cost/benefits of action	○	○	○	●	○	○

Question 19.1 Have you identified other actions that would effectively and efficiently increase the quality and reliability of reporting by listed companies?

- ◉ Yes
- ○ No
- ○ Don't know / no opinion / not applicable

19.1.1 Please specify to what other action(s) you refer in your answer to question 19.1:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A different way of determining whether an error would be likely to influence users' views would be helpful in this regard (for example, a rating of significance of inspection findings). Materiality is not captured by a single quantitative benchmark. It does not follow that if that materiality benchmark is, say, 10, but one of the numbers in the accounts, or perhaps the notes, is 12, then users have been 'misled'. In the UK boards of quoted companies need to attest that the annual report taken as a whole is fair, balanced and understandable.We would not suggest that this can replace the concept of materiality in audited financial statements, but it is a better way of considering whether an error could influence the decisions of users.

A more regular and two-way exchange between auditors and oversight bodies would be helpful in this regard, as well as better coordination between the audit oversight body and the reporting oversight body.

We also believe that it would be helpful to employ the same rigor, governance and oversight towards corporate non-financial reporting as for financial reporting, including clear articulations of what constitutes errors and misleading information.

Question 19.2 Please provide any details to support your views. Any evidence, including on expected benefits and costs of such action is welcome:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous**.

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

878d5243-aeff-4a3a-a752-62117769d87e/PwC_response_to_EC_public_consultation_on_Corporate_reporting_-_improving_its_quality_and_enforcement_2022.pdf

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2021-corporate-reporting_e

Consultation document (https://ec.europa.eu/info/files/2021-corporate-reporting-consultation-document_en)

Consultation strategy (https://ec.europa.eu/info/files/2021-corporate-reporting-consultation-strategy_en)

More on company reporting (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing_e

Specific privacy statement (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Contact

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Subject: response to call for evidence 'Corporate reporting - improving its quality and enforcement

PricewaterhouseCoopers International Ltd[1] (PwC), on behalf of the PwC network, welcomes the opportunity to respond to the public consultation and call for evidence 'Strengthening the quality of corporate reporting and its enforcement'.

Please find below a list of studies and reports with information and evidence supporting the arguments made in our response to the public consultation and our cover letter, as well as recent articles of relevance to the initiative. The studies have been summarised and linked for convenience of the reader.

Corporate governance		
Title	**Description**	**Link**
Study on introducing an internal control statement, Leiden University, commissioned by Dutch Ministry of Finance, 2021	• Research conducted by Leiden University, following a recommendation by the Ministerial Committee on the future of the accountancy sector (CTA). • Proposal to introduce a legal requirement for an internal control statement covering an effective and adequate risk management and control system for operational, compliance and reporting risks • The statement would be included in the management board report • Compulsory for 'large' entities • A framework of standards should be developed by a commission representing relevant stakeholders • The auditor to provide limited assurance (requiring updates to auditing standards)	Link
Recent developments in EU member states and other jurisdictions introducing requirements for management boards to establish internal control systems	***Germany*** FISG law (2021) • The management boards of listed companies are explicitly required to implement appropriate and effective internal control systems and risk management systems (applicable from July 1, 2021). The main elements of the systems relating to accounting need to be described in the management report.	Link to German consultation, deadline 11 March 2022

[1] PwC IL is registered under number 60402754518-05 in the EU Transparency Register

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- In addition, a public consultation was launched in January 2022 on the revision of the Corporate Governance code. The commission proposes that the management report describes the main characteristics of the internal control and risk management system (not limited to accounting) and should 'provide comment upon the adequacy and effectiveness of these systems'.
- The formation, composition, and duties of audit committees of public interest entities (PIEs) have been further regulated (applicable from July 1, 2021 or January 1, 2022). The Audit committee must have at least a financial reporting expert and at least one audit expert, and it has a clearer task to monitor the quality of statutory audit.

Greece

The Greek Law for Corporate Governance introduced provisions that govern the management and internal operation of listed entities (17 July 2020)

A Decision issued by the Hellenic Capital Markets Commission provided further guidance.

<u>Article 4 Duties and areas of responsibility of the BoD members</u>

- The Board of Directors defines and supervises the implementation of the corporate governance framework and assesses its application and effectiveness every three years.
- The Board of Directors ensures the adequate and effective operation of the entity's internal control system

<u>Article 13</u>

Listed entities must adopt and apply a specific corporate governance framework, depending on the size, nature, range and complexity of their activities. This framework must include at least the following:

- an effective and adequate internal control system
- adequate and effective procedures for identifying and dealing with situations involving conflict of interest
- adequate and effective channels of communication with the shareholders and
- a remuneration policy that contributes to the entity's long-term interests and viability.

<u>Article 14</u>

- Listed entities must have an updated corporate internal regulation, which will include among others the policy and procedures for the periodic assessment of the Internal

	Control System as to the design and effectiveness of financial reporting, for risk management procedures and regulatory compliance. • The first assessment of the Internal Control System should be completed by 31 March 2023. • According to a more recent change in the law, the statutory auditor is allowed to perform the assessment of the Internal Control System, provided that the signing partner will be a separate individual from the one signing the audit report. ***The Netherlands*** • The Committee on the future of the accountancy sector in its final report (2020) recommends to the government that the responsibility of the audited entity for the design and operation of the risk management and control systems should be given greater prominence. The manner in which this should be done should be the subject of further research • The research was carried out by Leiden University (see box above) and resulted in detailed recommendations for the specific design of the legal requirement for an internal control statement. • The government is in the process of incorporating the recommendations in the Dutch corporate governance code **United Kingdom** • The UK Government's department for Business Energy and Industrial Strategy (BEIS) concluded that the current regulatory framework is inadequate in holding directors to account for high quality corporate reporting. The Secretary of State Kwasi Kwarteng MP said that there is a need to ensure "that those who prepare and assure reports are held to the highest standards, including the directors who sign off the reports of the largest companies.". • The package of proposed reforms responds to this through suggesting increased regulatory scrutiny and enforcement powers over all directors, holding them accountable for their reporting responsibilities and the audit. There are also new disclosure requirements around fraud, resilience and capital maintenance and a new regime for internal controls over financial reporting (ICFR).	

The lasting positive impact of Sarbanes-Oxley, Harvard Law School, 2021	• Harvard Law School article commemorating the 20th anniversary of the adoption of the Sarbanes-Oxley Act • The initial criticisms of the act were many. It was over-broad, it represented an unnecessary intrusion of the federal government into the financial markets, it represented the federalization of corporate governance, compliance would place severe financial burdens on many smaller companies, and it would depress the IPO market. Over time, the legitimacy of almost all these criticisms faded or failed to materialize. • It can be argued that the act has been a great success—it fundamentally changed the relationship between the company and the audit/auditor, enhanced the reliability of financial reporting, established the PCAOB and sparked the corporate responsibility movement, igniting a more robust respect for corporate compliance, fiduciary duty to shareholders, attentive board oversight and ethical behavior—having contributed to limiting the number of financial accounting scandals over time	Link
What are the wider supervisory implications of the Wirecard case?, Goethe University, University of Chicago, prepared for European Parliament, 2020	• The study discusses weaknesses in all lines of defence against corporate fraud: internal controls, supervisory boards, external audits, audit oversight bodies, market regulators • With regard to internal controls, the paper suggests that listed firms should be legally required to have an appropriate and effective internal control mechanism. The authors recommend exploring mandating internal controls audits in the EU, or to introduce random inspections of internal controls by the market supervisor. • With regard to external audit, the paper suggests to clarify in law that checks to uncover fraud are integral part of the audit. • With regard to supervision the paper suggests strengthening the mandate and the accountability of capital markets authorities, including independence and resources.	Link
2021 Protiviti SOX Compliance survey	• Protivii asked senior executives in a variety of company departments in different sectors how the internal controls over financial reporting structure has changed since US SOX was required for their organisation and over 65% of respondents said it had moderately or significantly improved. • In the same survey, when asked what the primary benefits the organisation had achieved through its compliance process, approximately 60% said it had improved the internal controls over financial reporting structure;	Link

	approximately 50% said it had led to continuous improvement in the business process; approximately 40% said it had enabled better identification of duplicate or superfluous controls. • Annual costs per company of compliance with SOX (not including costs of assurance) ranges from $0.8m to $1.6m	
Does the Sarbanes-Oxley Act Reduce Fraudulent Financial Reporting?, University of Rochester, 2014	• This paper investigates whether SOX achieves one of its main goals of combating fraud. After accounting for the impact of SOX on fraud detection and litigation, the findings imply a reduction of 100 basis points in the probability of fraud commission after SOX. • Further cross-sectional and time-series analyses show that this reduction is attributable to the internal control provisions of SOX. The study also finds that investors suffer smaller damages caused by frauds in the post-SOX period than in the pre-SOX period. • Although opponents of SOX argue that it reduces the competitiveness of US companies while having little impact on fraud, the results suggest that SOX reduces fraudulent financial reporting and increases investor protection.	Link
SOX after Ten Years: A Multidisciplinary Review, Harvard University, 2014	• The paper reviews and assesses research findings from 120 papers in accounting, finance, and law to evaluate the impact of the Sarbanes-Oxley Act. It describes significant developments in how the Act was implemented and finds that despite severe criticism, the Act and institutions it created have survived almost intact since enactment. • The survey findings from informed parties suggest that the Act produced financial reporting benefits. While the direct costs of the Act were substantial and fell disproportionately on smaller companies, costs have fallen over time and in response to changes in its implementation. • Research about indirect costs such as loss of risk taking is inconclusive. The evidence for and social welfare implications of claimed effects such as fewer IPOs or loss of foreign listings are unclear. • Financial reporting quality appears to have gone up after SOX but research on causal attribution is weak. On balance, research on the Act's net social welfare remains inconclusive. • The study outlines challenges facing research in this area, and propose an agenda for better modeling costs and benefits of financial regulation	Link
Corporate accounting	• This paper argues that the discovery of malfeasance and	Link

malfeasance and financial reporting restatements in the post-Sarbanes-Oxley era, Review of Business and Finance Studies, 2017	misstatements using stronger internal controls, led to providing public transparency through restatements of financial information. • The paper suggests that certain aspects of SOX have been effective in helping companies to detect fraud more easily, and corporations have added internal controls and provided restatements of financial statements to demonstrate their commitment to compliance	
Center for audit quality, A new era for auditing after SOX, 2017	• The Centre for Audit Quality in the US commissions an annual survey to gauge investor confidence. In their 2017 paper assessing the post-Sarbanes Oxley (US SOx) regime era, they note that per their 2016 survey 79% of investors expressed confidence in US capital markets, and 81% have confidence in investing in US public companies, which the CAQ interprets as meaning the regime is a success. • See latest (2019) investor survey, confirming similar results: link	Link
The effect of the internal control regulation on reporting quality in China, Borsa Istanbul Review, 2021	• This paper aims to investigate whether Chinese internal control regulation improves reporting quality. After the enactment of US Sarbanes–Oxley Act (SOX), China introduced a quasi-SOX practice (C-SOX). C-SOX stipulates that firms should disclose both management and audit reports on internal control and aims to help firms ensure reporting reliability. • Previous studies provide solid evidence of the effectiveness of SOX, but the conclusion cannot simply be generalized to emerging markets. With a modified difference-in-difference approach regarding the special batched implementation schedule of C-SOX and observing earnings management during the reform, the study finds that accrual-based earnings quality is enhanced significantly after compliance with C-SOX without causing more real activity manipulation. • The results thus show that C-SOX has a positive effect on reporting quality and triggers no side-effects harming firms' long-term value. The findings suggest that the mandatory disclosure regime of C-SOX contributes to better corporate disclosure even with weak enforcement.	Link
Study on Directors' Duties and Liability, London School of Economics, prepared for EC, 2013	• Comparative analysis of legal regimes for directors' duties and cross border implication • This study concludes that gaps and deficiencies exist less with regard to the substantive rules on directors' duties, and more in relation to enforcement. In the vast majority of Member States, breaches of directors' duties do not	Link

	normally lead to judicial enforcement of claims against directors as long as the company continues to operate as a going concern. • The study identifies incentive problems with regard to enforcement by shareholders and enforcement of claims against directors of insolvent companies • Gaps exist in relation to the operation of cross border companies because of the unclear scope of private international law related to directors' duties. This leads to a risk of regulatory arbitrage. An important gap exists in particular with regard to director disqualification rules	

Audit		
EU Statutory Audit reform: impact on costs, concentration and competition, 2019, KU Leuven, commissioned by European Parliament	• Archival and survey research methodology. • The study finds that as a result of the audit reform concentration decreased in almost half of Member States and in the financial sector • The study finds substantial variation in Member State implementation of substantial aspects • Evidence suggests increased market share mobility post-reform • Cost showed a modest increase as a result of the reform • Provision of NAS to PIE clients decreased and audit-only clients increased in the financial sector • Further in-depth analysis and study is needed on the effects of EU reform on audit quality and quality of financial reporting	Link
PwC Network response to IAASB Discussion Paper: Fraud and Going Concern in an Audit of Financial Statements	• The auditor's responsibilities to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to error or fraud, remain appropriate in principle. • Change that "moves the dial" on fraud and going concern and addresses the expectation gap will require broader coordinated reform across the corporate reporting ecosystem.	Link
SEC Investor Advisory Committee, Panel Discussion "Competition and Regulatory Reform at the PCAOB", Written Statement of Mr. Wesley Bricker, PwC US, 2021	• Written statement by PwC in the context of the SEC Investor Advisory Committee. • Audits are delivered with different methodologies and technology across audit firms, industries, engagements or audit partners. As a result, some indicators may not be comparable. • The audit committee plays a key role in overseeing external auditors as part of the broader financial reporting process. Audit committees take direct responsibility for the external audit relationship - the appointment, retention, compensation, and oversight of the work of an external auditor. Auditors report directly to the committee, rather than management, and this structure best positions the auditors to raise contentious issues about management's responsibilities with the audit	Link

	committee. • The decision-usefulness of a set of audit quality indicators depends also on the user's expertise to apply meaning to the data. Audits may fall into the category of "credence goods." As academic literature notes, disclosures about the quality of credence goods - whether an audit, a medical procedure, a computer repair, or other areas - are not the typical solution to raising the bar on quality because disclosure is only useful when users of the disclosure have expertise to interpret the data and make decisions from it.	
Audit Quality Indicators: How to put them to work, Canadian Public Accountability Board, 2019	• Factsheet on benefits and best practices with regard to audit quality indicators • Benefits of AQIs: • drive accountability – selecting meaningful measures, setting measurable targets and establishing regular reporting and discussion improves everyone's focus during the audit. • AQIs give audit committees more targeted information which improves the insights and the questions asked to the auditor and management. • AQIs provide more tangible information to help the audit committee understand how the auditor has responded to targets and requests for improvement. • The paper includes common and non-traditional AQIs and a guidance to their understanding and interpretation. • The paper includes best practices on presentation, reporting frequency and public disclosure of AQIs	Link
A review of archival auditing research, Mark Defond and Jieying Zhang, 2014	• The paper defines higher audit quality as greater assurance of high financial reporting quality. • It provides a framework for systematically choosing among the commonly used audit quality proxies and evaluating their results. • The paper reviews the commonly used audit quality models and concludes that more conceptual guidance is needed to disentangle audit quality from firms' innate characteristics and financial reporting systems.	Link
Building a culture of challenge in audit firms, University of Oxford, 2019 (commissioned by PwC UK)	• Creating more opportunities, hands-on training and face to face time with partners and other mentors for junior staff to receive an education in good judgement • Creating a safe space for auditors to question clients and providing "air cover" at the firm and partner level to enable auditors to exercise their professional obligations towards probing and verification • Aligning the ways in which audit firms recognise, promote and repart good behaviours • Ensuring there are robust internal processes for sense checking audit judgements • Ensuring that non-executive directors at clients empower auditors to challenge company management.	Link
Internationally relevant	• Survey of 50 independent audit oversight bodies (members of IFIAR) on	Link

developments in audit markets, International Forum of Independent Audit Regulators (IFIAR), 2021	audit policy topics: auditor appointment, joint audits, combination of audit and non-audit services (NAS), transparency of audit related information and audit firms' governance and culture • A robust auditor selection/evaluation process may enhance audit quality and auditors' independence. The survey results indicate few current frameworks/initiatives to enhance the transparency of the auditor selection/evaluation process across different jurisdictions, but provides some insight about disclosures when changing auditors. • 56% of the respondents indicate that their regulatory framework includes elements to facilitate access to the PIE audit market to a range of auditors. These include targeted communication, an adaptation of the level of the fees charged by the regulator, specific procedures or a supply of audit IT tools. Also, targeted communication to audit committees, is seen by some Members as a measure which can contribute to better market access. • A number of initiatives have been or are being taken in the area of transparency and disclosure of audit related information. These include the introduction of Audit Quality Indicators (AQI), reporting on Internal Control over Financial Reporting (ICFR) by auditors or companies, enhanced regimes for reporting on going concern matters, and other transparency reporting. • Governing bodies of audit firms play a key role in the firm's overall governance arrangements, setting the "tone at the top". Audit firms have a public interest role, and many also have significant consultancy and advisory practices, which increases the importance of firm governance that focuses on and supports audit quality. Moreover, the International Standard on Quality Management 1 (ISQM1) requirements expand upon audit firm governance and leadership requirements. • See page 13, box 'Overview of academic studies on market concentration, audit quality and choice'. Academic studies dealing with audit market concentration provide a mixed picture of positive as well as negative consequences on the audit services provided. The weight of positive and negative impacts of concentration on audit quality or choice may depend on the market segments. Lastly, some academic studies have highlighted that concentrated audit markets can remain price and quality competitive if audit clients are sufficiently mobile.	
Center for Audit Quality, Value of the audit, a brief history and the path forward (2021)	• This paper examines in more detail the value of an independent audit. It first summarizes the importance of well-functioning capital markets to the economy, the historical importance of audited financial statements, and the roles and responsibilities of each key stakeholder in the financial reporting supply chain. • The paper takes a close look at how two key cornerstones of audit quality—the expertise and independence of the external auditor—are supported not simply by the strength of professional and regulatory requirements but also by strong market-based incentives. • The paper analyses why public policy proposals calling for more stringent requirements on auditor independence, with an objective to	Link

	further increase audit quality, may in fact reduce expertise and result in a decrease in audit quality. • The paper closes by recognizing the significant growth and demand for company reported information outside of the historical financial statements, and how the independent public company audit construct can apply to these other key areas of information.	
Bankruptcy and Auditor's Reporting in The Netherlands, Foundation for Auditing Research, 2021	• Out of 572 bankruptcies of Dutch companies subject to audit between 2012 and 2020, only 12 percent of companies filed timely audited financial statements or an exemption in the year prior to bankruptcy, and only 56 percent (64%) in year two (three) before the bankruptcy. Also, management disclosed discontinuity risks in just 29% of the pre-bankruptcy filing of financial statements just prior to bankruptcy. This suggests that improvement is required in terms of reporting on going concern and viability risks.	Link
Institut der Wirtschaftsprüfer, Kommunikation von prüfungsqualität: Vorschläge für einen strukturierten dialog über prüfungsqualität unter berücksichtigung von audit quality indicators, 2021	• Guidance for audit firms on audit quality indicators issued by the German institute of auditors (IDW). • See PwC Germany Transparency Report 2020/2021 (pag.9) for the implementation. Link	Link
Audit Analytics, 2020 Financial Restatements: a 20 year review, 2021	• Restatements in the US are 81% lower in 2020 than in 2006 which was the peak year of restatements post implementation of SOX	Link
European Commission, Audit market monitoring report, 2021	• The introduction of the combination of NAS restrictions and mandatory audit firm rotation rules has yet further reduced choice of audit firm. • The EC will assess the need to make inspection reports more accessible by the public, or at least by Audit Committees. This could involve digitalising or tagging reports more to facilitate access. • The EC will assess possible ways of improving authorities'' ability to oversee audit committees. It will also analyse how to reinforce audit committees' independent role in the selection process and oversight of the auditor.	Link

Joint audit		
Effects of and experiences with joint audit, Erasmus Competition & Regulation institute, commissioned by Dutch Finance Ministry), 2021	• The researchers conducted a literature study, organised workshops with scientific research and gathered subjective experiences with interviews and questionnaires. The scope considered both the Dutch market as well as international markets. • The study found no evidence that the possible benefits outweigh the disadvantages of the introduction of a mandatory regime	Link

	• According to the researchers, the joint audit model does not appear to result in an improvement of audit quality • National and international regulators do not appear to be convinced of the benefits of the joint audit model, • Stakeholders do not have a desire to adopt the joint audit model • The joint audit model may have a price-increasing effect.	
Hoos et al, Who's watching, Accountability in Different Audit Regimes and the Effects on Auditors' Professional Skepticism, Journal of Business Ethics, 2019	• Experimental study with Dutch auditors, testing the theoretical belief that joint audits lead to improved auditor skepticism and, in turn, audit quality. • The study compared auditors' judgements in three review regimes: joint audit, internal review, and no review regime. Auditors' judgment is measured by asking senior auditors to perform a going concern evaluation. • The results provide evidence that the auditors in all three settings follow a similar judgment process. However, the auditors in the internal review regime make significantly more skeptical judgements about the going concern evaluation than auditors in the joint audit and the no review regime. • In fact, auditors in the joint audit regime are the least skeptical in their judgment. According to the authors, one possible explanation for this finding could be that accountability in a joint audit setting is divided between two audit firms and the negative consequences of the outcome are shared. • This finding contradicts the theoretical belief that auditors in joint audit settings are more skeptical. The study suggests that introducing an additional audit firm in the review procedure will not lead to more professional skepticism.	Link
Haak et al, Joint Audits: Does the Allocation of Audit Work Affect Audit Quality and Audit Fees?, Accounting in Europe, 2018	• The study investigates empirical evidence from the French market, comparing joint audits with balanced and unbalanced allocation of work. • The findings show that, contrary to expectations, a more balanced division of tasks between audit firms reduces the quality of the audit. The authors attribute this to a possible free rider effect and to difficulties in the communication and coordination process that might be larger in a balanced than in an unbalanced joint audit	Link
Survey of German audit committee chairs and literature review by Duissen University and Hamburg University, 2022	• The study examines the potential impact of joint audits on audit quality and evaluates costs and benefits. It does so by summarising the relevant literature and surveying 37 audit committee chairs representing 78 PIEs. The survey questions relate to the effectiveness and the efficiency of joint audits, addressing psychological and communicative aspects as well as problems related to the incentives inherent to 2 joint auditors. • Less than half of the audit committee chairs expect an increase in audit quality (increasing the effectiveness of audits) due to joint audits. However, almost half of the audit committee chairs expect	Der Betrieb

	that joint audits are detrimental to audit quality. • The survey reveals that most audit committee chairs expect a reduction of audit quality in case of joint audit, due to coordination problems and suboptimal assignment of audit work. • The existing literature does not document a positive association between joint audits and audit quality • The literature on the impact of joint audit on audit market concentration documents that comparable to other European audit markets, the French audit market is characterised by an oligopolistic structure, and audit market concentration has increased over time.	
Joint audit and audit quality, University of Southampton, 2021	• Study limited to literature review, without independent research or empirical evidence. • The study focuses on the potential for joint audit as a means to mitigate cognitive bias and heuristics in audit ('four-eyes principle'). Joint audit would allow for a critical cross-review by one team of the work of the other team. The cross review would focus on the processes underlying opinion formation and would be a countermeasure to behavioural factors that affect auditor's judgements. • Bias mitigation has the potential to allow for a more consistent application of an appropriate level of professional scepticism, which is critical to audit quality, but this is dependent on "appropriately designed joint audit arrangements". No suggestions as to what these arrangements might be. • Further exploration is needed to explain contradictory empirical findings on the effects of joint audit on quality and fees	Link
Study on joint audit, Spanish institute of auditors, 2021	• The available evidence does not allow to conclude whether the potential benefits of modification of the current regulation of joint audit outweigh the potential disadvantages of said review • More in-depth, detailed and specific impact assessment of joint audit on quality, concentration and costs is needed. In addition, to adequately assess the current situation and explore possible solutions, it would be necessary to obtain the opinion of all affected parties (users, supervisors, auditors and auditees).	Link
Joint Audit, The Bottom Line – The Evidence is Unclear, IFAC, 2020	• The evidence is unclear, characterised by inconsistencies in academic analysis, country-specific variables, and conflicting policy outcomes in France and Denmark. Joint audit and/or audit firm rotation are two different policies but may impact one another by disrupting the relationships between organisations and their audit and non-audit service providers - with potentially serious unintended consequences.	Link
Economic Consequences of Joint Audits, Foundation for Auditing Research, 2020	• The study summarises the academic literature on joint audits in France to better understand its economic consequences. • Empirical research shows that, when compared to other European	Link

	countries, the French market is not less concentrated (in terms of audit fees captured by Big 4 firms), but companies pay more audit fees without any significant improvement in audit quality (and financial reporting quality). • Taken together, the findings suggest that the joint audits system is not efficient, because the quality-price ratio of audit services in France is worse than that of other countries.	
Implications of the CMA's Call for a Joint Audit among the FTSE 350, Audit Analytics, 2018	• At the top of the market – companies in the fourth quartile of revenue, i.e., greater than €20.4 billion – the cost of a joint audit is essentially equal to the cost of an audit using only one auditor. A joint audit costs about €492 per million euros of revenue, compared to €491 for a single audit. • In the middle market, however, it appears that joint audits begin to cost more. A joint audit in the third quartile costs about 28% more than a single audit and about 10% more, on average, in the second quartile. In the bottom quarter of the market – companies with revenue up to €2.2 billion – the cost of a joint audit is 28% more than a single audit.	Link
Are Four Eyes Better Than Two? An Examination of Recent Empirical Evidence on the Impact of Joint Audits, University of Manchester, 2019 (submitted to UK CMA consultation)	• Empirical studies offer very little support to the notion that the introduction of joint audits would result in better audit quality. Recent evidence on the other hand supports the established conclusion that joint audits do not have any impact on audit quality. • Several studies suggest that companies with joint auditors pay significantly higher fees as compared to companies in the single auditor regime. Also, a switch from joint audit to single audit results in cheaper costs, but the single audit still offers the same quality. • Although a number of empirical studies confirm the lower audit market concentration in France, the audit market for the larger French listed companies is still dominated by the Big 4. • In response to the recent consultations initiated by CMA, major stakeholders were generally opposed to the idea of introducing joint audit in the UK. Most respondents cited cost, complexity and lack of evidence regarding the potential impact on quality as their major concerns. The most frequently made arguments in support of the introduction of joint audits were: the enhancement of the audit experience base of non- Big 4 firms, 'proven' results in France and other EU countries, and a 'belief' that joint audits could be used to effect a change in the UK audit markets. • The limited evidence on the impact of joint audit on key areas such as quality, pricing, and market concentration suggests the need for further research to support a policy position at a national level. Future research in this area can benefit from the application of qualitative research methods to explore issues such as dynamics of relationship between the joint auditors, duplication of work, complexities in audit planning, including the determination of materiality thresholds by two different audit firms, as well as	Link

	assumption of liability.	

Supervision		
What are the wider supervisory implications of the Wirecard case? Public Oversight Systems for Statutory Auditors in the EU, University of Madrid, prepared for EP, 2020	• The study discusses deficiencies in the oversight of auditors. It concludes that the supervisory framework for auditors in the EU is too fragmented, complex, slow and intransparent. The CEAOB is a weak framework for coordination and national regulators lack adequate resources. • There should be significant harmonisation of audit oversight procedures (the Directive allows too much difference in oversight provisions) and improved accountability and transparency of oversight bodies. • Includes detailed policy recommendations to clarify and strengthen audit oversight rules at EU and national level. • The annex to the study includes comparisons between national oversight bodies in terms of regulation, supervision, disciplining and transparency of inspection findings and sanctions.	Link
EC, Summary report of responses to targeted public consultation on supervisory convergence and single rulebook	• Public authorities made suggestions to improve supervision. The most mentioned areas for improvements are: • Transparency on audits and on supervision, including outcomes from inspections and investigations; • Harmonisation between Member States, both in the area of supervision and in rules which are applicable to audits, auditors/audit firms and audited entities; • Competences and resources given to individual NCAs and to the Committee of European Audit Oversight Bodies (CEAOB)	Link
ESMA letter to European Commission on next steps following Wirecard (2021)	• Following the Fast-track peer review on the application of the guidelines on enforcement of financial information in the context of Wirecard, as well as a general review on the application of the guidelines, ESMA makes detailed recommendations on how to change the Transparency Directive in order to: ○ Remove impediments to cooperation and coordination between financial information enforcement authorities and other authorities ○ Strengthen the independence of financial information enforcement authorities ○ Harmonise the minimum powers of financial information enforcement authorities	Link