



COMMITTEE OF
EUROPEAN
AUDITING
OVERSIGHT
BODIES

CEAOB

A N N U A L
R E P O R T

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Welcome to the 2023 Annual Report of the CEOB

Created in June 2016 by Regulation (EU) No 537/2014 of the European Parliament and of the Council, the CEOB brings together the competent authorities of the Member States (MS) responsible for audit oversight. It organises cooperation between them and, as required, advises the European Commission as

well as its members. Through its Subgroups and task forces, which bring together experts from national authorities, it contributes to improving the effectiveness of audit oversight in Europe, disseminates best practices, shares knowledge and represents the voice of its members to international standard-setters.

1. Chair's foreword

An invitation to think differently about our world and to broaden our field of expertise to better serve the public interest, that is how I would sum up the year 2023 for the CEOB and its members. To this I would add the sharing of our experience with stakeholders such as the members of the Financial Stability Board (FSB) or through training courses for members of boards of directors.

Thinking differently about our world obviously means preparing for the entry into force, on 1 January 2024, of the CSRD, which will require auditors and, where Member States take this option, other assurance providers, to produce a report on compliance by large listed companies with the requirements established by the European Sustainability Reporting Standards (ESRS) for the production of information on the sustainability of their activities. The CEOB, through its participation as an observer on European Financial Reporting Advisory Group's (EFRAG) Sustainability Reporting Board and TEG, has contributed to this major project. In the absence of standards adopted by the EU concerning the verification of sustainability

information, the CEOB's contribution has been to exchange views with the international standard-setter, the International Auditing and Assurance Standards Board (IAASB), and to share with all its members the initiatives taken by some of them, in order to be in a position to influence future standards and, if necessary, to propose common approaches pending a common corpus.

With the CSRD coming into effect on 1 January 2024, the CEOB has proactively organised exchanges between its members and stakeholders involved in the development of the new reporting framework or interested in the quality of the information that will be produced.

Broadening our field of expertise also means taking technological developments into account, in particular the emergence of tools based on artificial intelligence. The CEOB, with the support of the IT Task Force, is analysing the consequences of these developments on auditing to enable its members to adapt their inspections.

The CEAOB also recognises that a growing number of subjects are giving rise to a need on the part of users (or the institutions whose mission it is to protect these users) for independent verification of the information produced or verification of compliance with regulations. On some of these subjects, auditors are likely to provide these verifications in the future. The CEAOB maintains a watch so that its members can collectively prepare for possible extensions to their mission.

Performing coordinating tasks is part of the CEAOB's mission as stated in Regulation No 537/2014. In view of this, in 2023 several members expressed their interest to carry out joint or coordinated inspections of audit firms. This should result in 2024 in coordinated inspections involving at least two CEAOB members.

The expertise of CEAOB members is nurtured by this type of project involving several of its members. It is also illustrated by the interest shown by certain audit regulators who are not members of the CEAOB in obtaining observer status with the CEAOB. As I mentioned last year, the Ukrainian APOB had expressed the wish to obtain this status. This was done in July 2023. Since then, the CEAOB has received other requests of this type. A project has been launched to establish an analysis grid for these applications.

I would like to take this opportunity to thank the European Commission for their continued trust in the CEAOB. I would also like to acknowledge the excellent cooperation with the European Supervisory Authorities (ESAs). In addition, all our work is only possible thanks to the close interaction with stakeholders and their valuable contributions to our work. I would not like to end before mentioning my appreciation of my colleagues in the Consultative Group, of the Subgroups' Chairs, as well as the Chairs of the task forces dealing with specific subjects. On behalf of the members of the CEAOB, I would like to congratulate Agathe Pignon of the Luxembourg CSSF on her reappointment as Chair of the Inspection Subgroup. I would also like to warmly thank Astrid Blankenheim of Germany's APAS for the excellent work carried out under her direction by the Financial Services Task Force, and wish her every success in her new responsibilities outside the regulatory sphere. I also thank our colleagues at the Spanish ICAC for organising a seamless transition at the head of the Market Monitoring Subgroup.

Finally, and by no means least, I would like to express my heartfelt thanks to all CEAOB members' colleagues for all their hard work and continued dedication. It is important to keep in mind that the CEAOB can only fulfil the missions conferred on it by the European Regulation thanks to the resources that the members agree to place at its disposal.

Patrick Parent

2. Vice-Chair's foreword

In 2024, we celebrate the 10th anniversary of the EU audit reform. The adoption of a Directive amending the 2006 Audit Directive and the adoption of the Audit Regulation in 2014 represented a significant improvement to the regulatory framework for the statutory audit of publicly listed companies (and other entities).

The European Commission, together with the CEOB, has closely monitored the implementation of the new regulatory framework and the changes it has made on the ground. As stated in our Joint report on the developments in the EU market for statutory audit services to public-interest entities from 2019 to 2021, the concentration in the audit market remains relatively high. The verification and assurance requirements under new EU legislation, such as the CSRD and the DSA, bring both challenges and opportunities for audit firms. We will have to see how this and many other (including technological) developments play out for the audit and assurance profession, and to what extent this impacts audit quality, auditor's independence and market concentration overall. The report underlines the importance of strengthening the oversight by national audit oversight bodies and through the CEOB, in particular to reduce the frequency of deficiencies during inspections. The report also examines the critical role that audit committees have in ensuring audit quality. It calls for strengthened

inter-action between audit committees and national audit oversight bodies.

Meanwhile, pending EU assurance standards of sustainability reporting, the Commission has asked the CEOB to develop non-binding guidelines for auditors and other assurance providers to set out procedures to be performed when expressing an assurance opinion, and to prepare a technical advice in preparation of the future EU standards for limited assurance.

Many stakeholders believe that after 10 years it is time again to update the EU audit legislation. This was also evident from the feedback to the Commission's public consultation in 2022 on strengthening the quality of corporate reporting and its enforcement. Respondents widely agreed that we should look beyond the mere provisions in the EU audit legislation.

At the time of writing this foreword, we are approaching the elections of the European Parliament, which will be followed by the appointment of the new College of Commissioners. We will continue our dialogue with the CEOB and other stakeholders about the problems with the quality of corporate reporting and its enforcement and possible solutions. Any policy proposals will be for the next Commission to decide on.

Sven Gentner

3. CEOB's mission and core strategies

3.1. CEOB's mission

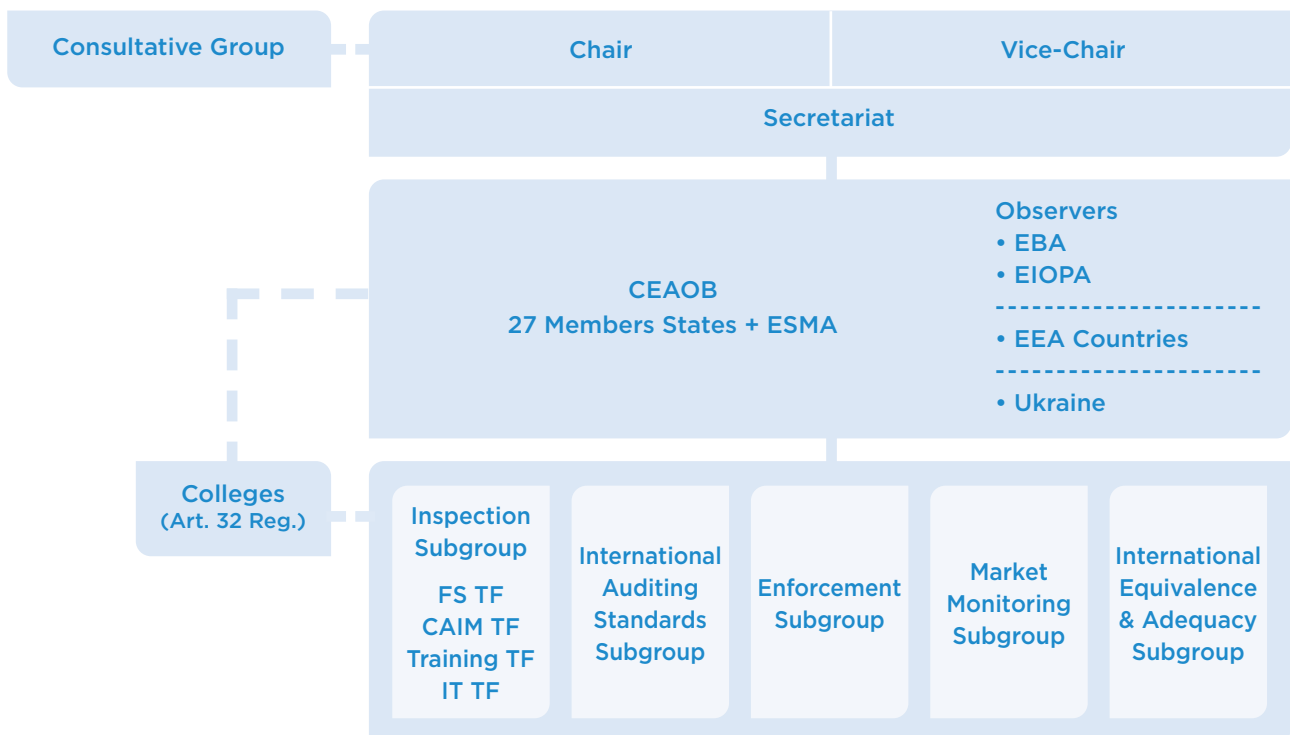
The CEOB fosters convergence of practice by European audit regulators and the improvement of audit quality in Europe in order to further trust in informative, reliable, and independent audit reports.

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

3.2. CEOB's core strategies

- Harmonising regulatory approaches
- Sharing expertise and experience
- Contributing to EU policy on the future of statutory audit and other assurance
- Contributing to policy making via regular dialogue with international standard setters

3.3. CEOB organisation



4. CEOB outreach

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

The CEOB, fulfilling its mission to optimise the effectiveness of the European audit system, organises exchanges with different stakeholders during its plenary meetings. In 2023, such exchanges were organised with:

- Isabelle Grauer-Gaynor from the European Securities and Markets Authority (ESMA), who informed members on ESMA's priorities for 2023, presented a summary of the European Common Enforcement Priorities published at the end of 2022, and also some findings coming from the 2022 supervision. She also informed the members about how ESMA was preparing for the first application of the CSRD. Potential matters for future cooperation were also discussed;
- Thierry Philipponat from Finance Watch, who informed members about the work done by his organisation on ESG information published by some listed companies, and who identified areas where particular attention will be required from reporting entities, their auditors/assurance providers, and the authorities entrusted with the supervision;
- The European Fund and Asset Management Association (EFAMA) whose representative informed members about the use that their members make of ESG information received from companies they invest in;
- A representative from the European Banking Authority (EBA) who provided members with a presentation of risks in the market and information on experience built by banking regulators in ESG reporting, and lessons learned in view of the CSRD implementation;
- Five representatives of audit firms which are members of the European Group of International Accounting Networks and Associations (EGIAN) who shared their firms' views and ambitions about the European market for assurance on financial reporting and on sustainability reporting.

5. Interconnectivity

5.1. FSB

On 1st and 2nd June 2023, under the chairmanship of Mrs Margarita Delgado (from the Bank of Spain), the FSB held its annual roundtable on external audit in Madrid.

The CEAOB, the International Forum of Audit Regulators (IFIAR), and the International Organization of Securities Commissions (IOSCO) reported on their recent work. In particular, the CEAOB presented the Materiality Survey and presented the recommendations it had made to auditors, to audit committees and to standard setters based on its findings related to the application of the materiality concept. The Chair of the Financial Services Task Force also presented data accumulated from 2018 to 2022 by CEAOB members. Such data covered both listed and non-listed financial institutions (banks and insurance companies) and provided information about the number of findings observed per auditing standard.

This was followed by an exchange with the major audit networks, represented by the Global Public Policy Committee (GPPC).

The participants to the meeting underlined a number of events, such as recent failures in the banking industry, economic uncertainties, the sharp increase in inflation and in interest rates, the current or foreseeable impact on financial reporting and auditing of the deployment of new tools and technological innovations (artificial intelligence, blockchain, crypto-assets, electronic reporting) in the financial sector, that raise questions about how all parties involved (management, those charged with governance, and auditors) reassess risks and adapt their assumptions.

Such context requires from auditors that they strengthen their controls during an audit. This includes but is not limited to:

- Exercising professional scepticism;
- Following a robust risk assessment process, linked to the execution of audit procedures;
- Performing going concern assessments;
- Challenging the reasonableness of management assumptions;
- Ensuring the sufficiency and appropriateness of audit evidence;
- Checking the appropriateness and completeness of disclosures;
- Disclosing Key Audit Matters considerations.

5.2. ESRB

On 11 and 12 December, the European Systemic Risks Board (ESRB) and the CEAOB held their 7th annual meeting with auditors. Other EU authorities, namely the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and ESMA also participated in the meeting. The meeting had three important objectives:

- to share information on regulatory developments;
- to identify emerging risks that may have an impact on audit quality; and
- to discuss how banks and insurance companies are currently accounting for climate

risks, and whether amendments to IFRS 9 would be required.

Mr Mazzaferro, co-chair of the meeting and head of the ESRB Secretariat, reminded meeting participants of the main features of the ESRB General Warning issued in September 2022. He noted the three main objectives of the warning (warning about severe and heightened financial stability risks, calling for ensuring the resilience of the EU financial system, and asking for coordinated policy responses), and that it was addressed to EU and national supervisory authorities, and indirectly to financial institutions. The ESRB General Warning was issued in an environment of elevated intertwined risks to financial stability related to (i) the deterioration of the macroeconomic outlook, (ii) possible sharp asset price corrections and (iii) potential implications for banks' asset quality. Mr Mazzaferro explained the current assessment of systemic risks in the EU. In relation to the assessment of systemic liquidity, Mr Mazzaferro referred to ongoing work to generate a map of the euro area financial system. He added that the ESRB was also preparing system-wide liquidity stress scenarios to run some simulations on how liquidity risk could affect the EU financial system. Mr Mazzaferro presented the work by the ESRB in the areas of commercial real estate and in the residential real estate sector. He also referred to other activities such as:

- the preparation of scenarios for the stress test of banks and central counterparties and the insurance stress tests;
- the assessment of the resilience of the EU's financial system as well as its capacity to support the EU's Fit for 55 green transition strategy and the achievement of the 2030 climate targets;
- cyber resilience, which highlighted the need to progress on cyber resilience scenario stress testing, and another report on crypto assets and decentralised finance.

He also referred to a policy note discussing risks in corporate debt and real estate investment funds, which called for an adaptation of existing tools or for the development of new tools to address these risks.

The CEAOB presented the work done by the Inspection Subgroup resulting in an analysis of the findings related to audits of financial institutions. The analysis concluded that audit professionals are failing to perform sufficient and adequate audit procedures on accounting estimates used in the balance sheet of banks and insurance corporations. Regarding disclosures, the Inspection Subgroup focused on the way auditors contribute to good disclosures in their clients' financial reporting by checking disclosure requirements and found several areas for improvement in relation to (i) departures from IFRS or regulatory disclosure requirements, (ii) audit procedures, and (iii) review of financial statements.

The CEAOB also explained the results of a survey it had conducted on materiality in audit. In 2023, the CEAOB issued recommendations addressed to auditors, audit committees and standards setters with the objective of enhancing the appropriateness of the materiality level assessments made by auditors, preventing judgemental biases, and limiting the sources of discrepancies. Regarding audit committees, the CEAOB recommended to enhance dialogue with auditors on materiality matters and sharing their views on the main KPI relevant to the situation and discussing contradictions, if any, with the benchmark selected by auditors. The CEAOB remarked that audit committees in financial institutions seemed to be more inclined than auditors

to select an earnings or activity-based benchmark instead of a capital-based measure and that the selection of the benchmark is a far from trivial decision. The CEOB highlighted that only 13% of audit committees discussed with their auditors the need for determining a specific materiality threshold for particular classes of transactions, account balances and disclosures. Furthermore, 39% of the audit committees in the sample placed low or no importance on materiality during their last (or, alternatively next) audit. This percentage was found to be unexpectedly high, considering the importance of materiality in the audit process.

The Chair of the CEOB Financial Services Task Force presented the work done by the Task Force over the previous year. In terms of existing workstreams dedicated to thematic reviews, she highlighted the analysis of ESG and its impact on the financial statements of banks and insurance corporations and of crypto assets in the financial sector. She also presented the questionnaire focused on the impact of crypto assets on auditing prepared by the Financial Services Task Force.

Lastly, she presented the Inspection Findings Database and explained the reported figures, associating the outcomes with the number of firms and countries.



6. Plenary

6.1. Sharing of experience

At the March 2023 plenary meeting, in view of the forthcoming entry into force of the Corporate Sustainability Reporting Directive (CSRD) three members of the CEOB shared their experience on assurance related to the quality of non-financial reporting published by some companies in the context of the Non-Financial Reporting Directive (NFRD).

6.2. International cooperation

At its June 2023 plenary meeting, the CEOB expressed a common view on the importance and urgency of having an equivalence and adequacy decision for the UK audit legal framework, and two actions were adopted:

- Setting-up a discussion on UK audit firms' registration and supervision limitations;
- Gathering data on third country audit firms registered in the EU, with a particular focus on UK audit firms.

The results of this work were presented at the November 2023 plenary meeting.

Data collected on UK audit firms showed that there are 51 registrations of UK audit firms in 15 countries of the EU/EEA. However, only 13 different UK audit firms are registered in these 15 countries since some of them are registered in several countries (up to twelve registrations in the EU/EEA for one firm). The analysis also shows that most of these UK audit firms audit large financial institutions.

Conversely, the analysis shows that there are 45 EU audit firms, from 17 EU Member States that are registered in the UK.

Looking beyond the relation with the UK, data collected shows that:

- There are third country audit firms coming from 25 different jurisdictions;
- There are 158 registrations of third country auditors across 15 different Member States;
- There are 23 third country audit firms that have multiple EU/EEA registrations, which almost exclusively, belong to the Big Four.

6.3. Audit quality indicators

Members discussed the role that the CEOB could play on the development and use of audit quality indicators.

6.4. Observer status

As had been reported in last year's CEOB Annual Report, the CEOB members were sensitive to the very particular situation resulting from the war in Ukraine and considered that these circumstances could justify granting observer status to APOB, Ukraine's audit oversight body. In March 2023 the plenary agreed to APOB becoming an observer.

They also decided to establish a task force which mission will be to set criteria for analysing requests from other non-EU countries that would apply for the observer status. It is to be noted that since the decision related to APOB, two non-EU authorities in charge of audit oversight have requested to join as observers.

7. Public communications

In order to improve the communication on its activities, in March 2023 the CEOB created a LinkedIn account. Ten publications were made in 2023 by the Subgroup Chairs or the CEOB Chair.

In addition to this, in 2023 the members of the plenary approved the publication of various documents intended to respond to requests for opinions or to consultations initiated by the European Commission or other EU institutions on the CEOB webpage:

- On 2 February 2023 the CEOB submitted to the European Commission its report on EU Audit Regulation and Directive reform.

Following work undertaken by a dedicated task force, the CEOB has made a submission to the European Commission containing a range of recommendations aimed at improving the quality of audit in the EU. The report contains a set of key priorities identified by CEOB members.

Those priorities are:

- The CEOB to be constituted as a body with enhanced powers and resources to carry out a range of regulatory tasks, including for example drafting and proposing Regulatory Technical Standards that if approved by the Commission would be binding on its members and other relevant parties;
- A single set of auditing standards to be approved by the EU through a process that would assign a role to the CEOB, to apply across the EU, with an allowance for individual member states to add to

these standards where necessary or appropriate;

- Provision in law for the publication and transfer of data and information related to regulatory activities and the removal of barriers to such transfers;
- Clarification on the responsibilities and regulation of audit committees, including the national competent authorities' responsibilities thereon;
- Clarification and explicit support in law for sufficient resources for national competent authorities;
- Sufficient and harmonised powers for national competent authorities;
- Harmonisation through a review and where appropriate reduction of Member State options in the European legislation.

The report contains a further list of proposals and sets out a list of areas where further research may provide data to support future legislative proposals.

- In July 2023 the CEOB published its Report on the 2023 CEOB Enforcement Questionnaire which provides detailed information on proceedings and administrative measures and sanctions performed by the EU and EEA audit oversight bodies;
- As is reported in the section of the 2023 Annual Report dedicated to the activities of the International Auditing Standards Subgroup, the CEOB provided its views about the activities of both the IAASB and the

IESBA. It produced comment letters on the work plans of the two Boards for the period 2024-2027, and on four IAASB projects (ED ISA 500, ED on Less Complex Entities, ED ISA 570, and ED ISSA 5000);

- In October 2023, the CEOB published the work done by the CAIM Task Force on its IT audit inspection work programme, and its inspection work programme on information security & cybersecurity.



8. Inspection Subgroup

The Inspection Subgroup (ISG) comprises 28 members (the 27 EU Member States National Competent Authorities (NCAs) and ESMA) and three observers (Lichtenstein, Norway and Switzerland). The Chair of the Subgroup is Agathe Pignon from the Commission de Surveillance du Secteur Financier (CSSF), Luxembourg. She is assisted by an Organising Committee composed of representatives from NCAs of Cyprus, France, Germany, Ireland and the Netherlands. In 2023 the Inspection Subgroup held two in-person meetings in Ljubljana (21 and 22 June) hosted by the Slovenian Agency for Public Oversight of Auditing (APOA) and in Brussels (11 to 13 October) hosted by the Belgian Audit Oversight Board.

8.1. Dialogue with the largest European networks of audit firms

The Inspection Subgroup met three audit firms in 2023:

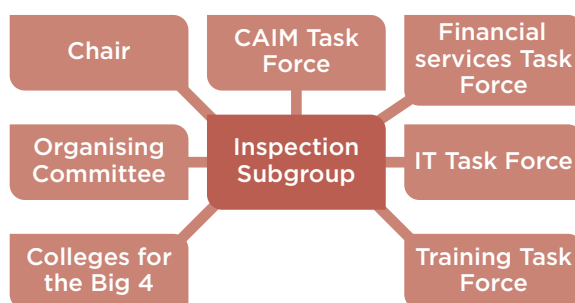
- Mazars (June 2023);
- Deloitte (June 2023);
- EY (October 2023).

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

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

Meetings with the Big 4 audit firms are organised in coordination with the Colleges of competent authorities (Art. 32 of the Audit Regulation).

The Colleges (for the Big 4 audit firms) met with the respective firms at separate virtual or physical meetings (generally one additional meeting in the year). In addition, there were numerous meetings and calls between the College members to share experiences on inspections. The activities and plans of the Colleges were communicated to Inspection Subgroup members at the meeting in October 2023.



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

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

- the AOB from Germany presented its inspection approach;
- PANA from Poland presented the results of their thematic review regarding the adjustment of internal quality controls in audit firms to the new quality management standards.

In addition, a series of panel discussions was organised on:

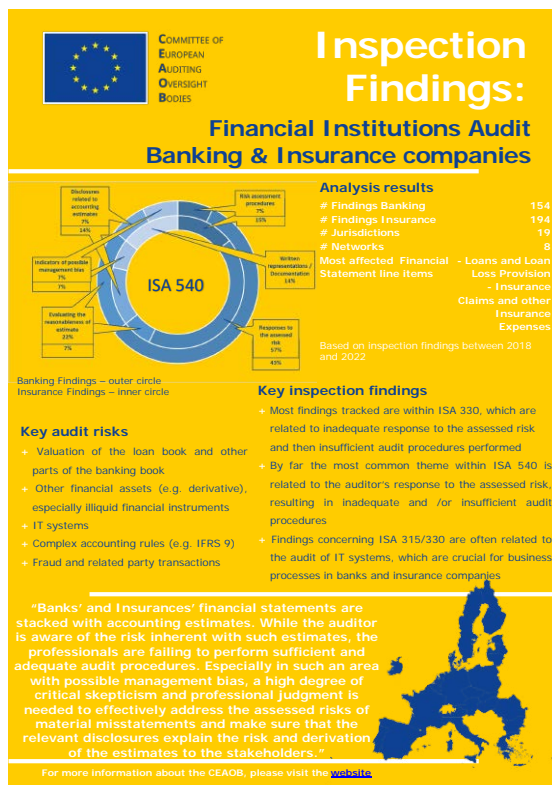
- CSRD implementation and its impact on the oversight activities of NCAs;
- The inspection of auditor’s work in relation to fraud and;
- ISQM1 implementation.

Sharing and discussing inspection findings:

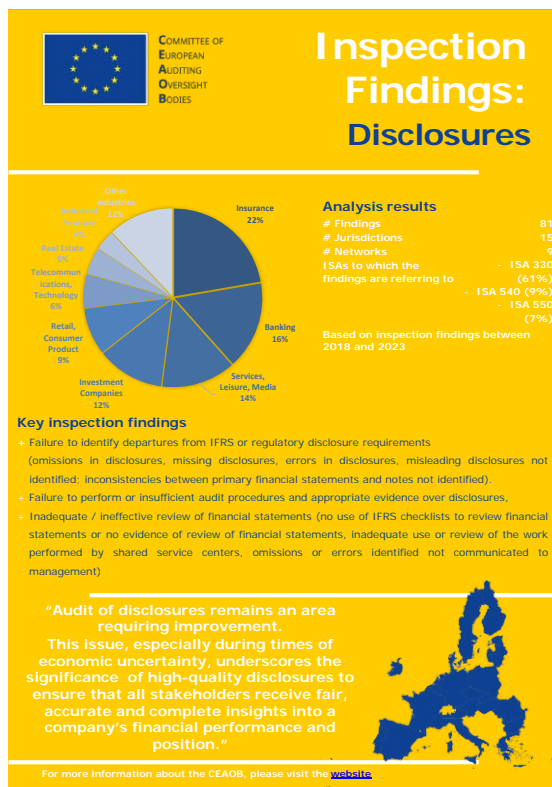
The Inspection Subgroup performed two analyses based on inspection results (“findings”) which have been entered by NCAs into the CEOB inspection results database. These analyses were focused on:

- Financial Institutions Audit: Banking and Insurance companies
- Disclosures

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



► Infographic - Inspection findings: Financial institutions audit banking & insurance companies (europa.eu)



► Infographic - Inspection findings - Disclosures (europa.eu)

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

During the June meeting, ESMA provided to members useful insights on their perspective on disclosures and their application of the materiality concept on disclosures.

A joint meeting was held with the International Auditing Standards Subgroup in October 2023 with leadership of the IAASB and of IESBA in attendance.

During the June 2023 meeting members of the Subgroup discussed with the Enforcement Subgroup on the cooperation between inspectors and enforcers.



9. Enforcement Subgroup

9.1. Leadership and information on the Enforcement Subgroup

The Enforcement Subgroup (ENF SG) is composed of representatives from 16 supervisory authorities: Austria, Bulgaria, the Czech Republic, Cyprus, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Malta, Poland, Slovakia and Spain.

The chair of the Subgroup is Agnieszka Koprowska from the Polish Agency for Audit Oversight (PANA), Poland.

The Enforcement Subgroup supports the development of expertise of its members, and it fosters sharing of experience, expertise and best practices in the area of investigations and sanctions.

In 2023, the Enforcement Subgroup held five meetings, four of which were held online and one in the form of an in-person meeting (in Vienna on 22-23 May).

The main objectives of the Vienna meeting were:

- to discuss findings and conclusions gathered in the 2023 Enforcement Questionnaire;
- to work on the preparation of the 2023 Enforcement Report;
- to discuss case studies in the context of the findings made by NCAs, investigation steps taken by NCAs, sanctions taken, and the current legal framework in jurisdictions;
- to discuss in detail the process of gathering evidence in investigations;
- to present the results of an internal survey on settlement agreements.



9.2. Activities in 2023

The Enforcement Subgroup compiled a questionnaire concerning specific issues, including administrative measures and sanctions, as well as the state of administrative and disciplinary regimes in the EU and in EEA countries.

Since the beginning of 2023 the CEOB Enforcement Subgroup has worked on drafting the questions for the 7th annual Enforcement Subgroup survey. The questions are slightly different each year, because the Subgroup wishes to analyse and to emphasise various aspects related to administrative and disciplinary systems in member countries.

In February, the questionnaire was sent to all EU NCAs and EEA Authorities. This year's questionnaire focused primarily on collecting statistical data on administrative sanctions and measures (Audit Directive chapter VII) taken in 2022. The respondents were also asked to indicate data on pecuniary sanctions imposed in 2022 on natural or legal persons in their jurisdiction. The questionnaire also included questions about:

- sources of information for potential enforcement matters;
- the number of investigations commenced and closed;
- time limits that apply to investigations and sanctioning;

- applicable ethical standards for sanctioning; and
- internal quality control systems which are implemented and operated.

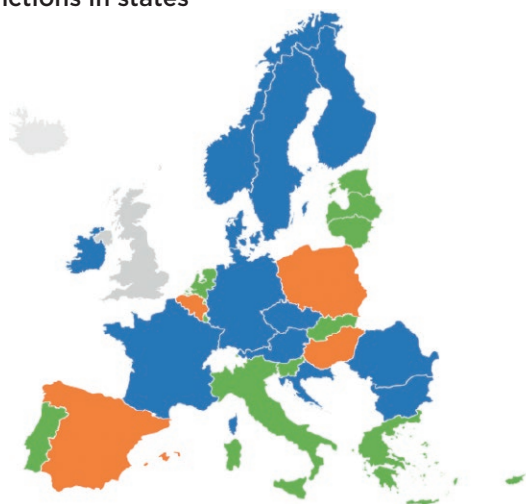
Further improving the understanding of the investigation and sanctioning regimes in EU Members States through regular exchanges and case studies

The 7th CEAOB Enforcement Report on Sanctions and Administrative measures imposed by NCAs and EEA authorities and delegated bodies in EU/EEA States was adopted in June 2023 at the CEAOB Plenary meeting.

The Report presents an overview of the data prepared on the basis of 29 responses, thereof 27 responses from EU Member States and 2 from EEA States.

Referring to the administrative measures and sanctions presented in Part A of the report, it should be noted that in 2022 - 1,300 sanctions were imposed in 29 States. It was found that the most common type of sanction imposed by competent authorities was a notice to the auditor (with a total number of 429 such sanctions). The second most common sanctions were pecuniary sanctions, totalling 421 sanctions in 19 countries.

Total number of administrative measures and sanctions in states



Total number of administrative measures and sanctions

100 and more
 19 - 99
 0 - 19

In December 2023 the Enforcement Subgroup organised an online webinar for the CEAOB members and their enforcement and inspection staff on the topic of effective application of sanctions (article 30b points a-f of the Audit Directive). The panelists presented examples coming from Finland, Italy and Malta. 81 participants took part in this webinar.

9.3. Collaboration with the other CEAOB Subgroups and task forces, and with other regulators

During 2023 members of the Enforcement Subgroup:

- contributed to the work of the CEAOB SSG by providing information on noncompliance with ethical standards that led to sanctioning;
- discussed how the Wiki on-line platform could be used for informing members about temporary prohibition measures imposed on auditors;
- discussed opportunities for cooperation with the CEAOB Inspection Subgroup;
- began exploring the possibility of implementing a sanctions data base.

10. International Equivalence and Adequacy Subgroup

10.1. Leadership of the International Equivalence and Adequacy Subgroup

The International Equivalence and Adequacy (IEA) Subgroup is chaired by ESMA. Eduardo Moral-Prieto is performing this role.

The IEA Subgroup held six virtual meetings in 2023 and is composed of members from the following ten supervisory authorities: Cyprus, France, Germany, Ireland, Italy, Norway, Poland, Slovakia and the Netherlands.

The IEA Subgroup focuses on the mechanisms allowing cooperation between European and third-country audit regulators through equivalence and adequacy assessments of the third-country audit legal and supervisory frameworks. The Subgroup also supports the development of expertise in its members, and it fosters sharing of expertise, experience and best practices in the area of international cooperation, and consistency in the implementation of the supervisory requirements to third-country audit entities.

10.2. Activities in 2023

Registration and supervision of third-country audit firms

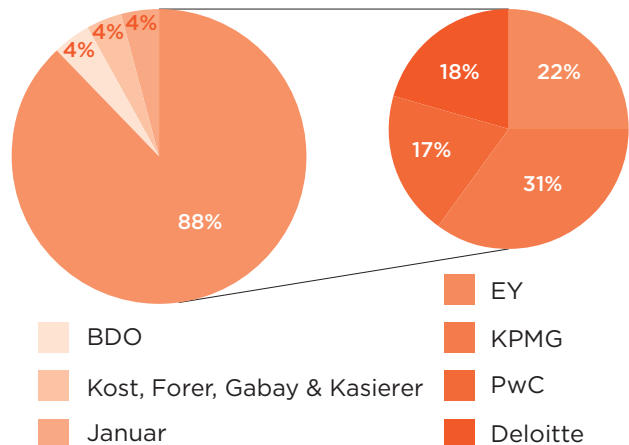
The IEA Subgroup launched a survey among all CEOB members with the goal to have an overview of all third-country audit firms registered in the EU/EEA Member States (MS) and identify those third-country audit firms with multiple registrations in different EU/EEA MS. In addition, where possible, the survey also aimed to identify the audit engagements.

The goal was to have an improved understanding of the exposure of EU and national audit markets to third-country audit firms and facilitate the assessment of a potential impact on the stability and integrity of EU/EEA financial markets to safeguard the interests of EU investors and other stakeholders.

The outcome and findings of the survey were reflected in a report. The most relevant data from the survey are:

- Third-country audit firms are coming from 25 different jurisdictions;
- 15 EU/EEA MS have registrations of third-country audit firms;
- The total number of third country registrations is around 150. However, it does not mean that there are 150 different third-country audit firms registered in the EU/EEA as a third-country audit firm can be registered in multiple EU/EEA countries;
- 23 third-country audit firms have multiple EU/EEA registrations.

Firms with multiple registrations across the EU/EEA



Share of third country audit firms with the multiple registrations across the EU/EEA. Calculations based on input provided by the different National Competent Authorities (NCAs).

The survey and subsequent report have showed the benefits of having an EU-level central database for identifying, exchanging information and coordinating activities in relation to third-country auditors registered in the EU. In particular, when the same third-country audit firm with the same audit engagement is registered in multiple EU/EEA MS.

The IEA Subgroup will continue working on this project with the view to establish a European data base of third-country auditors as well as to identify best practices in the registration and supervision of third-country audit firms at national level.

Monitoring developments on third countries' audit regulatory frameworks

The IEA Subgroup monitors regulatory and supervisory developments in those third countries from where audit firms are registered in the EU/EEA.

Developments in third countries without audit equivalence and adequacy decisions: the United Kingdom

In 2023, the IEA Subgroup closely followed the audit legislative developments in the EU and the United Kingdom (UK) in particular, the Windsor Framework arrangements and the Memorandum of Understanding on regulatory cooperation in financial services.

In the context of the third-country audit firms survey and pending an equivalence and/or adequacy decision on the UK audit legal and regulatory framework, the IEA Subgroup put a special focus on understanding the EU-UK situation in relation to registration and supervision of audit firms.

The most relevant data from the survey is:

- 15 EU/EEA MS have registrations of UK audit firms;
- The total number of UK registrations in the EU is around 50. However, it does not mean that there are 50 different UK audit firms registered in the EU/EEA as a UK audit firm can be registered in multiple EU/EEA countries;
- As a result, 13 UK audit firms have multiple EU/EEA registrations;
- Conversely, there are 45 EU audit firms from 17 EU/EEA MS registered in the UK.

The findings and conclusions of the survey were communicated to the European Commission to inform them in their decision-making process towards cooperation with the UK.

Developments in third countries with audit equivalence and adequacy decisions

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

The IEA Subgroup has been closely following the developments on the audit oversight relationship between the US PCAOB and China, in particular, the difficulties faced and the actions adopted under the US Holding Foreign Companies Accountable Act to secure access to inspect and investigate registered public accounting firms with headquarters in China and Hong Kong. In 2023, the US PCAOB published their first inspection reports and imposed sanctions on China-based audit firms. The Subgroup will analyse the public reports, in particular the main identified findings as well as the ability to access audit information.

The IEA Subgroup will consider this information when drafting its technical assessment, which

they will then communicate to the European Commission to inform them in their decision-making about the revision of the EU adequacy decision on China.

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

A primary focus of the IEA Subgroup is to contribute to a sound cooperation between

European and third country audit regulators through equivalence and adequacy assessments of third country audit legal and supervisory frameworks.

The IEA Subgroup started discussions on the EU adequacy decision on China, which is limited in time until 14 November 2024, and the best approach towards its re-assessment.



11. Market Monitoring Subgroup

11.1. Leadership and information of the Market Monitoring Subgroup

The Market Monitoring Subgroup (MMSG) is composed of members from 15 NCAs: Bulgaria, Cyprus, Czech Republic, Germany, Finland, France, Ireland, Italy, Luxemburg, Malta, The Netherlands, Poland, Portugal, Slovakia and Spain. The chair of the Subgroup is Francisco Javier Puente Berdasco, from the Instituto de Contabilidad y Auditoría de Cuentas (ICAC), Spain.

The purpose of the subgroup is to facilitate the monitoring of the quality and competition of the market for providing statutory audit services to public-interest entities, relating to assisting the Commission in preparing the joint report regulated in article 27 of the Regulation.

The subgroup will contribute to the convergence and coordination of the monitoring carried out by national authorities.

In 2023 the Market Monitoring Subgroup (MMSG) held six virtual meetings.

11.2. Market Monitoring Report

In 2023 the MMSG has finalised the draft of the third Market Monitoring Report covering the period 2019-2021. In compliance with Article 27.2 of Regulation (EU) 537/2014, after review by the CEOB plenary in November, the draft has been submitted to the European Commission for finalisation and publication.

Data collection : the process began in 2022 and ended in 2023, with the collection of all the reports drafted by NCAs on developments in the market for providing statutory audit services to public-interest entities, on data from Member States in respect of audit market and audit quality as well as information on audit committees' adherence

to the requirements of the audit Regulation and Directive. Indicators of particular relevance to the report were those regarding:

- Market concentration;
- Risks arising from audit quality deficiencies;
- Performance of their duties by Audit Committees.



Review by the NCAs was key to check quality of information reported. This also contributed to the different members having provided comments, suggestions, and improvements in the preparation of the report. It helped reaching agreed conclusions.

Discussion and approval of the draft report:

Once the data consolidation process was completed, the members of the Subgroup discussed the draft report, and the tables and graphs which were to illustrate some important items in the report.

Greatest challenges:

- Enhance comparability: adapting data included in the previous report was necessary in order to allow comparisons and to draw reliable conclusions, as the previous report included data from the UK Financial Reporting Council (FRC).

- Consolidating data at EU-level remains a difficult challenge due to the fact that some Member States lack legal provisions that would enable the National Competent Authority to collect national data on audit turnover and revenues, and to impose specific reporting requirements to audit firms.
- Comparability in quality assurance indicators remains a challenge, due to the use of different methodologies by NCAs.

To improve the conclusions and the understanding of the data, additional information has been included, such as analysis and charts on the revenue structure by firm, a new paragraph about systemic risk, and a more in-depth quantitative analysis of the data collected from Audit Committees.

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

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

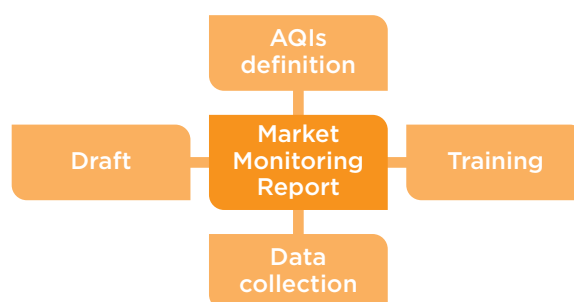
Draft:

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

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

The preparation of the report is divided into five phases:

- Checking the understanding of the information collected;
- Data compilation;
- Quantitative draft;
- Qualitative draft;
- Conclusions.



Continuous communication with all the National Competent Authorities and all the members of the MMSG is needed.

11.3. Other tasks:

- Solving issues resulting from the Regulation;
- The Subgroup also had discussions regarding the Market Monitoring Report publication process and how it could be improved.

11.4. Next steps:

- The Subgroup will start the process for elaborating the 4th Market Monitoring Report.
- The MMSG will also continue to discuss which Audit Quality Indicators (AQIs) should be selected for the 4th Market Monitoring Report, and which changes should be made to the existing templates.
- The Subgroup will further cooperate with the Inspection Subgroup to refine market monitoring indicators and identify new market monitoring indicators.

12. International Auditing Standards Subgroup

The International Auditing Standards Subgroup (SSG) comprises members from 16 EU Member States. The chair of the subgroup is Marjolein Doblado, from the Haute Autorité de l'Audit (H2A), France. In 2023, the SSG organised 17 online meetings and one in-person meeting in Brussels.



12.1. Input to the initiatives of the international standard setters IAASB and IESBA

The SSG prepared the CEOB responses to the six exposure drafts issued during the year by the two international standards setters on audit related matters, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

11 April 2023 – Response to the IAASB exposure draft on the 2024-2027 strategy and work plan of the international standard setter

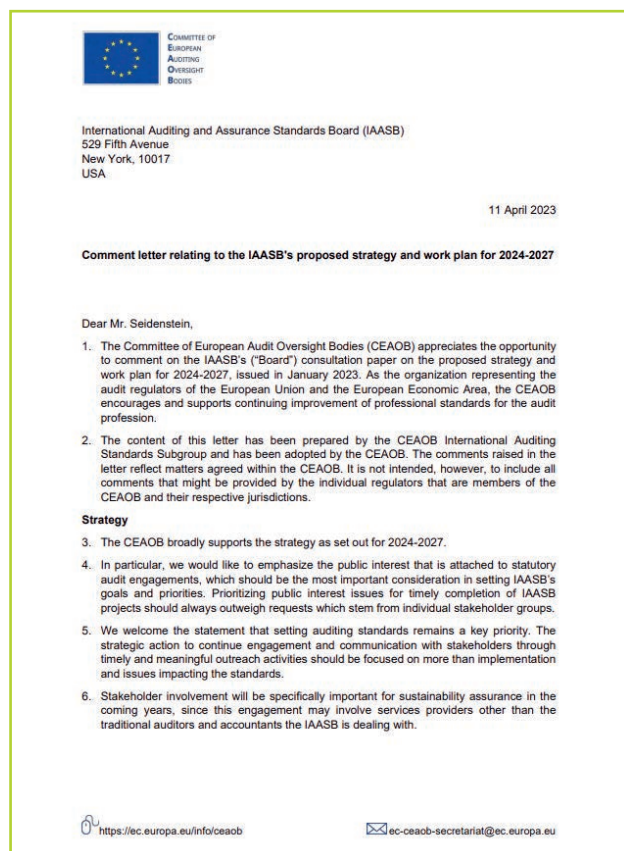
The CEOB asked to give priority to the assurance on sustainability information, by

editing a standard before the end of 2024 in response to the CSRD requirements in Europe, and, based on the concerns reported in the CEOB materiality survey report, to a project to assess and enhance the standards on materiality, in order to facilitate consistent approaches between audit firms for the determination of materiality levels.

The CEOB continued to urge the IAASB to revise and clarify ISA 330 “Responding to Assessed Risks of Material Misstatement”, to drive more consistent and appropriate responses provided by auditors facing similar circumstances, as findings in areas covered by ISA 330 remain the most frequent in inspections of audit engagements carried out by the CEOB members.

The CEOB also supported, given the increasing use of financial statements in digitalised format and the prospect of preparation of sustainability statements in such a format, the development of an ISA to address the specific needs and challenges for the audit of statements produced in electronic format. The CEOB recalled that the guidelines adopted by the CEOB could be used as a starting point by the IAASB.

Moreover, the CEOB stressed the benefits of not revising ISA 500 “Audit Evidence” alone, but together with other standards in the ISA 500-series and ISA 330, and to incorporate the potential benefits of new technology into the standards and address the audit regulators’ concerns around the assessment of sufficiency of audit evidence.



Link: https://finance.ec.europa.eu/system/files/2023-04/230411-ceaob-comment-letter-iaasb-swp-2024-2027_en.pdf

24 April 2023 – Response to the IAASB exposure draft on ISA 500 Audit Evidence

The CEAOB supported the objectives pursued by the IAASB:

- To modernise and adapt the standard to the current environment, in particular regarding the use of technology by the entity and the auditor (including the use of automated tools and techniques);
- To emphasise the importance of professional scepticism of the auditor.

However, the CEAOB expressed concerns on the proposed revision:

- The proposed revision only focuses on ISA 500, while the level and recurrence of findings

in the inspections of audit engagements carried out by the CEAOB members point out the need for an in-depth analysis of audit evidence-related issues, encompassing other standards relevant to the topic, especially ISA 330 “Responding to Assessed Risks of Material Misstatement”;

- The proposed revision of the standard is principle-based and will likely lead to inconsistencies, both between auditors and across jurisdictions, as it does not provide sufficient direction apart from high level considerations. The CEAOB also raised the significant challenge for regulators to enforce a standard that is open to a range of interpretations. The CEAOB asked therefore to strengthen and detail the requirements, in order to improve audit quality.

Link: https://finance.ec.europa.eu/system/files/2023-04/230424-ceaob-comment-letter-iaasb-ed-isa-500_en.pdf

2 May 2023 – Response to the IAASB exposure draft on audits of group financial statements of the less complex entities (LCEs)

As already expressed in its previous letter dated 24 January 2022, the CEAOB continued to voice concerns as to the uncertain benefits of issuing a separate standard for LCE audits, since this would create two different categories of audits, thereby fragmenting the audit market. In addition, the CEAOB recalled its concern that the co-existence of two “sets” of auditing standards raises questions regarding the “value” of an opinion based on the ISA for LCE compared to one based on the full set of ISAs, in particular regarding the level of assurance provided in the audit report.

The CEAOB furthermore expressed reservations regarding the use of the ISA for LCE in a group audit situation, in particular related to the scope of applicability and the absence of transition regime from LCE to non-LCE audits.

Consequently, the CEOB recommended that the IAASB issue scalability guidelines for LCE audits as a supplement to the current ISAs, instead of a standalone ISA for LCEs.

Link: https://finance.ec.europa.eu/system/files/2023-05/230502-ceaob-comment-letter-iaasb-isa-lce-group-audit_en.pdf

7 July 2023 – Response to the IESBA exposure draft on the 2024-2027 strategy and work plan of the international standard setter

The CEOB consistently encouraged IESBA to enhance the quality, clarity and enforceability of the IESBA Code of ethics, and therefore to include clear ethical principles along with clear requirements.

The CEOB expressed support for the IESBA project aimed at developing ethical provisions for assurance engagements on sustainability information, not only for auditors, but for other assurance services providers, to prepare ethical principles equivalent to those that apply to statutory auditors. The CEOB however warned that the IESBA project on sustainability should in no way undermine the current provisions already applicable to auditors for audit engagements on financial statements.

The CEOB recalled that one critical factor of success will be the coverage of the European legal requirements set by the Corporate Sustainability Reporting Directive (CSRD) and the consistency with the provisions of the European Sustainability Reporting Standards (ESRS). The CEOB therefore encouraged the IESBA to take into consideration in its work all the relevant standards setters, especially the work of the European Financial Reporting Advisory Group (EFRAG) on the ESRS.

Regarding IESBA engagement with stakeholders, the CEOB emphasised that understanding the ethical frameworks of assurance providers who are outside the audit profession will be a matter of utmost

importance. The CEOB also stressed that reaching out to professional standard-setters or bodies issuing professional guides and standards on sustainability assurance would also be beneficial.

The CEOB cautioned the IESBA against replacing amendments to the IESBA Code by the issuance of non-authoritative material, which does not have the same enforceability for regulators and can thus never replace clear and robust standards. The CEOB also voiced support for actions taken by the IESBA to monitor emerging (technology) developments, like for instance the developments in artificial intelligence techniques and tools.

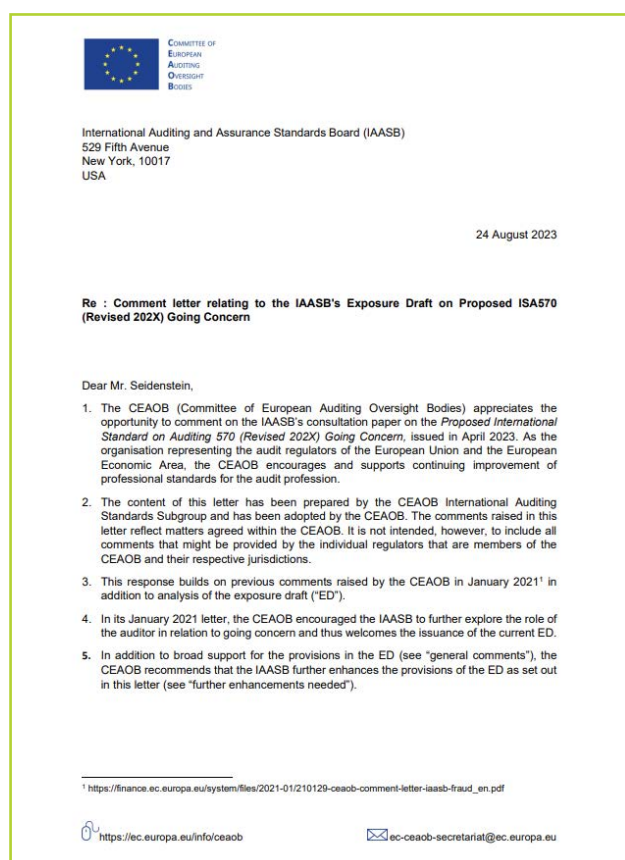
Link: https://finance.ec.europa.eu/system/files/2023-07/230707-ceaob-comment-letter-iesba-strategy_en.pdf

24 August 2023 – Response to the IAASB exposure draft on ISA 570 Going Concern

The CEOB agreed with the IAASB proposal for expanding the auditor's role in relation to going concern. In particular, regarding the timeline to be considered when assessing the validity of the going concern assumption, the CEOB supported the IAASB's proposal to inform about a future material uncertainty arising after the twelve months period required as a minimum by the International Accounting Standard for preparation of the financial statements.

The CEOB also supported the proposal to clarify what a material uncertainty is, to allow for further consistency in audit approaches. However, since the IAASB planned to request the auditor to determine, through his professional judgement, what is, or is not, a material uncertainty, the CEOB asked the IAASB to further specify on which basis this judgement shall be made. In particular, the CEOB asked to clarify the definition of "significant doubt".

The CEOB supported provisions aiming at requesting the auditor to inform relevant authorities in case of issues related to going concern. However, the CEOB asked the IAASB to introduce more demanding provisions to require communication to relevant authorities regardless of whether it is stipulated by national regulation. In the CEOB view, the communication to authorities should be requested, unless laws or regulations prohibit this communication.



Link: https://finance.ec.europa.eu/system/files/2023-08/230824-ceaoab-comment-letter-iaasb_en.pdf

1 December 2023 – Response to the IAASB exposure draft on ISSA 5000, General requirements for Sustainability Assurance Engagements

The CEOB reiterated its support for IAASB's ISSA 5000 project and for the timely development of profession agnostic standard(s) for assurance engagements on sustainability reporting.

The CEOB encouraged the IAASB to deliver standards in 2024, taking into account various requests related, amongst others, to:

- The specificities of sustainability information vs financial statements;
- The key notions of double materiality, materiality of a misstatement and performance materiality;
- The assessment of the reporting entity's process to identify material sustainability information to be reported;
- The treatment of forward-looking information, estimates, fraud and risk of greenwashing;
- The need for communication between professionals (i.e. assurance practitioners, financial statements auditors, professionals involved by consolidated entities);
- The digital format of the sustainability information;
- Specific provisions stemming from the EU taxonomy regulation.

Link: https://finance.ec.europa.eu/system/files/2023-12/231201-ceaoab-comment-letter-iaasb-issa-5000_en.pdf

12.2. Dialogue with international standard setters IAASB and IESBA

The SSG organised and maintained regular dialogue with both IAASB and IESBA.

In October 2023 meetings with the IAASB and IESBA Chairs and leaderships were held jointly with the Inspection Subgroup.

The meeting with the IAASB covered the responses of the CEOB to the exposure drafts released by the standard setter in 2023 (in particular on the ISSA 5000 project), and an overview on the IAASB's projects close to

finalisation or mentioned in the strategy and work plan (sustainability assurance, fraud, listed entities, less complex entities' audit, 2024-2027 strategy and work plan).

The annual meeting with the IESBA Chair covered the use of the IESBA Code of Ethics among the CEOB members, and the IESBA projects close to finalisation or mentioned in the strategy and work plan (sustainability-related projects, use of experts, 2024-2027 strategy and work plan).



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

Two meetings with the representatives of the Public Interest Oversight Board (PIOB) were held in June and November 2023. The SSG explained the views expressed by the CEOB and the areas scrutinised by European audit regulators. Feedback was also received about, among others, the implementation of the Monitoring Group's reform of the standards setters' governance, the public interest issues followed more closely by the PIOB on the IAASB and IESBA projects and the projects certified by PIOB in 2023. The SSG also discussed the resources and financing constraints of the standard setting system.

13. CEOB at a glance



CEAOB Members	Austria  Abschlussprüferaufsichtsbehörde	Belgium  Centrale voor de Toezicht op de Rekeningen van de Vlaamse Gemeenschap	Bulgaria  Комисия за професионална одитория дейност	Croatia  REPUBLIKA HRVATSKA MINISTARSTVO FINANCIJA	Cyprus  ΑΡΧΗ ΕΠΙΒΛΕΨΗΣ ΠΡΟΪΟΝΤΩΝ ΚΑΙ ΑΞΙΟΛΟΓΗΣΗΣ ΕΠΙΧΕΙΡΗΣΙΑΚΩΝ ΑΠΟΤΕΛΕΣΜΑΤΩΝ ΑΡΧΗ ΕΠΙΒΛΕΨΗΣ ΕΠΙΧΕΙΡΗΣΙΑΚΩΝ ΑΠΟΤΕΛΕΣΜΑΤΩΝ CYPNOCB
Czech Republic 	Denmark  DANISH BUSINESS AUTHORITY	Estonia  Auditortortegevuse järelevalve nõukogu	Finland  Päättäjien valvontayksikkö	France  HAUTE AUTORITÉ DE L'AUDIT	Germany  Auditor Oversight Body AOR at the Federal Office for Economic Affairs and Export Control
Greece 	Hungary  MINISTRY OF FINANCE	Ireland  Irish Auditing & Accounting Supervisory Authority	Italy  CONSOB Commissione Nazionale per le Società e la Borsa Autorità italiana per la vigilanza del mercato finanziario	Latvia  Ministry of Finance Republic of Latvia	Lithuania 
Luxembourg 	Malta  Accountancy Board	Netherlands  Autoriteit Financiële Markten	Poland  PAA Polska Agencja Nadzoru Audytorskiego	Portugal  COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS	Romania 
Slovakia  Úrad pre dohľad nad výkonom auditu Auditing Oversight Authority	Slovenia  Agencija za javni nadzor nad revidiranjem	Spain  Instituto de Contabilidad y Auditoría de cuentas	Sweden  Revisorsinspektionen Swedish Inspectorate of Auditors	and observers: • EEA: Iceland / Liechtenstein / Norway • other: Ukraine	

