

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

## INTRODUCTION

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 five 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.

## 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 which coordinated the national provisions on the presentation, content Directive (Directive 78/660/EEC) 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; 5 - Very high; Don't know / no opinion / NA

|    |
|----|
| NA |
|----|

**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?**

| Areas | I. Effectiveness in reaching | II. Efficiency: has the | III. Relevant in terms of | IV. Coherence with other | V. EU Added value: was |
|-------|------------------------------|-------------------------|---------------------------|--------------------------|------------------------|
|       |                              |                         |                           |                          |                        |

|  | its objectives | framework been cost efficient | overall needs and objectives | related EU frameworks / internal coherence | and is EU intervention justified? |
|--|----------------|-------------------------------|------------------------------|--|-----------------------------------|
| a) Corporate governance  | 3              |                               | 3                            |  | 4                                 |
| b) Statutory audit   | 4              |                               | 4                            |  | 4                                 |
| c) Supervision by public authorities of statutory auditors/audit firms | 4              |                               | 4                            |  | 4                                 |
| d) Supervision by authorities of corporate reporting                   | 4              |                               | 4                            |  | 3                                 |
| e) The eco-system composed of all of the above                         | 3              |                               | 3                            |  | 4                                 |

**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?**

NA

*2000 character(s) maximum*

The notes ESMA report on enforcement and regulatory activities of European enforcers in 2020 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 / NA

NA

**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.**

The quality of corporate reporting has been a subject of discussion in the Netherlands in recent years. The primary responsibility for reliable (correct and complete) corporate reporting lies with the audited entity itself.

At the end of 2018, the Dutch Authority for the Financial Markets (AFM) concluded in a report that due to vulnerabilities in the structure of the accountancy sector, the quality of statutory audits could fall short of the socially desirable quality level. Against this background, the Minister of Finance set up the Committee on the Future of the Accountancy Sector with effect from 1 January 2019 and instructed it to investigate whether additional interventions in the sector are necessary and to advise which measures would be most suitable. The Committee's overarching conclusion was: the inexistence of a 'silver bullet' to solve the problems of the functioning of the auditing profession. And in that sense, the proposed measures also stressed the interaction between the three pillars: corporate reporting, corporate governance, and statutory audit and supervision. The measures were broad and included the improvement of (i) transparency of the audit sector (through the establishment of audit quality indicators), (ii) improvements in the governance of accounting firms, (iii) focus on improvements in the working culture within accounting firms, where the primary focus is on delivering quality instead of focussing on commercial interests (iv), (v) improving the profession's focus on identifying fraud and going concern problems, and (vi) increasing the focus of the supervisory body (AFM) on different levels of audit quality. Also further research was recommended on (i) the internal control statement, (ii) strengthening of the positioning of shareholders to get information, (iii) evaluation of and experiment with alternative structure models for the auditing sector (joint audit model, audit only model, and intermediary model). The Dutch government adopted nearly all recommendations. Two specially appointed Quarter Masters supervise the implementation of these recommendations.

2000 character(s) maximum

**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 - NA

| Question   | Answer      |
|--|-------------|
| Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?      | 3 – neutral |
| Is it possible to have clear and reliable indicators to measure the quality of corporate reporting, of statutory audit and the effectiveness of supervision? | 3 – neutral |
| Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?           | 3 – neutral |

**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:**

One of the recommendations by the Committee on the Future of the Accountancy Sector (please refer to the answer to question 3.1) was the development of criteria for 'measuring' quality of

statutory audits (the so-called audit quality indicators) and conducting more scientific research. Furthermore it recommends that audit firms must report on the quality of the audits they perform on the basis of these audit quality indicators. The reports must be collected and made available in one publicly accessible place. The reasoning is that data and scientific research contribute to a good discussion and to taking well-founded decisions. This provides all stakeholders with insight into the quality level of the sector and provides a basis for a more well-founded debate about quality for the sector in the future. In addition, this information supports public and private organizations in selecting a good quality audit firm, provides the sector with an incentive to continuously improve its results on audit quality indicators at the audit firm and engagement level, and provides insight into which points may need to be adjusted. The audit quality indicators must be as objective as possible. The Dutch government accepted these recommendations and has announced to come with a legislative proposal that will lay down the obligations with regard to the audit quality indicators. A report has just been published with the proposed set of audit quality indicators.

We would support an effort by the European Commission to develop indicators on the quality of statutory audits. For indicators on corporate reporting and effectiveness of supervision we would first welcome the Commission to analyse whether the measures proposed are effective and its benefits weigh against the costs for the companies.

2000 character(s) maximum

**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 (options)?**

- 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 - NA

| Area  | Answer              |
|---|---------------------|
| Improve the corporate governance pillar                 | 2 – rather disagree |
| Improve the statutory audit pillar                      | 4 – rather agree    |
| Improve the supervision of PIE auditors and audit firms | 4 – rather agree    |
| Improve the supervision of corporate reporting          | 3 – neutral         |
| Improve all of the above in a coordinated manner        | 3 – neutral         |

**If you think there is a need to improve other areas than those listed above please indicate which areas you have in mind:**

N/A

2000 character(s) maximum

**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:**

Listed companies are currently facing many developments in the field of reporting, among others on sustainability with the Taxonomy Regulation and the Corporate Sustainability Reporting Directive. Therefore we would favour prioritising EU action on improving the quality of the audit and auditor supervision.

*2000 character(s) maximum*

**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 – NA

| Question   | Answer             |
|--|--------------------|
| Companies themselves should take action to improve their reporting                         | 4 – rather agree   |
| Auditors themselves should take action to improve audits                                   | 5 – strongly agree |
| Audit supervisors themselves should take action to improve their functioning               | 4 – rather agree   |
| Individual Member States should take action if the situation in their market requires this | 4 – rather agree   |
| The EU should take action  | 3 - neutral        |
| Several of the above should take action  | 4 – rather agree   |

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

In our opinion the primary responsibility for corporate reporting lies with the company itself. Furthermore the quality of audit primarily lies with the auditors and audit firms. Both companies and audit firms should take action to improve the quality of reporting and auditing respectively.

*2000 character(s) maximum*

**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 – NA

| Question   | Answer |
|--|--------|
| The green transition   | NA     |
| The digital transition   | NA     |
| Facilitating doing business by SMEs  | NA     |
| Reducing burdens and/or simplification   | NA     |
| Better corporate social responsibility, including tax transparency and fair taxation | NA     |

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

Corporate reporting can play an important role in the green transition. This is one of the priorities of the Netherlands and therefore we welcome the initiative for the Corporate Sustainability Reporting Directive and support an ambitious directive. The digital transition as well as facilitating doing business by SME's are important topics that are currently addressed in other proposals and consultations within the CMU-action plan, for example the ESAP proposal and the consultation on the Listing Act. Paying attention to the reduction of burdens should always be part of any proposal in the field of corporate reporting.

2000 character(s) maximum

## 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?

1 - Very low; 2 - Low; 3 - Medium; 4 - High; 5 - Very high; Don't know / no opinion / NA

| Topic  | I. Effectiveness in reaching its objectives | II. Efficiency: has the framework been cost efficient | III. Coherence with relevant EU rules |
|--|---|---|---------------------------------------|
| a) Board responsibilities for reporting            | NA  | NA  | NA                                    |
| b) Liability of company boards for reporting       | NA  | NA  | NA                                    |
| c) Obligation to establish an audit committee      | NA  | NA  | NA                                    |
| d) Rules on the composition of the audit committee | NA  | NA  | NA                                    |

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

**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?

In general the Netherlands recognizes that the audit committee plays an important role in the financial reporting process. Measures that enable the audit committee can therefore be beneficial to company reporting. However, first we welcome the Commission to analyse whether the measures proposed are effective and its benefits weigh against the costs for the companies. Therefore we look forward to the results of this consultation.

2000 character(s) maximum

**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

3 - To some extent

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

Avoiding material departures from IFRS are a key responsibility of company boards, audit committees and auditors. When these actors function adequately and their roles and responsibilities are adequately organized, material reporting mistakes should generally be avoided.

2000 character(s) maximum

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

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

| Topic | I. Effectiveness | II. Efficiency in term |
|-------|------------------|------------------------|
|-------|------------------|------------------------|



|  |    | <b>of cost/benefits of action</b> |
|--|----|-----------------------------------|
| a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting   | NA | NA                                |
| b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)   | NA | NA                                |
| c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer) or the Chief Financial Officer) and their liability on corporate reporting   | NA | NA                                |
| 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 | NA | NA                                |
| e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period  | 4  | NA                                |
| f) Remove exemptions in EU legislation for establishing an audit committee   | NA | NA                                |
| 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   | NA | NA                                |
| h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)  | NA | NA                                |
| 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  | NA | NA                                |
| j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements  | NA | NA                                |
| k) Strengthen the role of shareholders on corporate reporting  | NA | NA                                |

**Question 9.1 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

Don't know / no opinion / not applicable

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

The Netherlands is of the opinion that the primary responsibility for reliable (correct and complete) reporting lies with the company itself and that therefore opportunities for improvement at the audited entity should be looked into. We acknowledge the importance of proper expertise in the board, clear responsibilities of board members (also for risk

management and internal control systems including on fraud and continuity), and transparency of company boards about the effectiveness of the risk management report. We do not however favor EU action on these topics at this moment for the Netherlands. We are of the opinion that further alignment of the rules and best practices applicable to corporate governance could be beneficial for the quality of reporting within the EU.

2000 character(s) maximum

### 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?**

1 - Very low; 2 - Low; 3 - Medium; 4 - High; 5 - Very high; Don't know / no opinion / NA

| Topic  | I. Effectiveness in reaching its objectives | II. Efficiency: has the framework been cost efficient | III. Coherence with relevant EU rules |
|--|---|---|---------------------------------------|
| a) The rules on independence of auditors/audit firms and absence of conflicts of interest                                | 3   | 3   | 3                                     |
| b) The rules on the content of the audit and of the audit report   | 4   | 4   | 4                                     |
| c) The rules applicable to non-audit services  | 2   | 2   | 3                                     |
| d) The rules on auditor/audit firm rotation  | 4   | 3   | 4                                     |
| e) The rules on transparency (transparency report, additional reports to other parties / audit committees / supervisors) | 2   | 3   | 3                                     |

**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?

Capital markets participants put their trust in audit reports under the assumption that the auditor has the necessary sector and technical expertise, is independent, and has an efficient internal quality control system. This trust should not be violated.

As such, the Netherlands implemented several member state options. For example, in the Netherlands, PIE audit firms are already subject to additional national requirements regarding their internal governance. PIE audit firms are required to install a supervisory board comprising of at least three members, all of whom need to be independent from the audit firm. Furthermore the Netherlands already made use of the Member State option to prohibit services other than those listed in Article 5(1) of the Audit Regulation, by implementing a complete ban on non-audit services alongside a statutory audit for a PIE.

Nevertheless, we are currently taking additional steps to improve audit quality (please see also question 3.1 and the attached documents). With the implemented member state options and these additional measures, the Netherlands took an additional step to increase audit quality. As such, there is no need for additional EU rules at this moment. However, as pointed out by the AFM as well, we see that there is a lack of harmonization across the EU in certain areas of the framework. A broader move towards greater consistency and clarity in requirements could therefore be beneficial for society. In this respect, we can imagine that (some of) the steps we took as the Netherlands, or are currently in the making, would be beneficial for the whole EU and suitable for EU legislation.

2000 character(s) maximum



**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 – NA

| Statement | Answer |
|-----------|--------|
|-----------|--------|

|  |   |
|--|---|
| I. Statutory audits contribute as much as is possible to the quality and reliability of corporate reporting by PIEs            | 3 |
| II. I am satisfied with the role of the statutory auditors / audit firms of PIEs   | 3 |
| III. The work of auditors is reliable so I trust their assessment and reports and their work inspires trust in capital markets | 4 |
| IV. There is not enough choice for public interest entities in finding an audit firm at appropriate costs                      | 3 |
| V. Joint audits contribute to the quality of audit   | 2 |

**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:**

The Dutch Minister of Finance mandated two Quarter Masters (please refer to question 3.1) a.o. i) to investigate whether the joint audit model and the audit only model will lead to an increase in audit quality and ii) to perform an experiment with the intermediate model to investigate whether such a model will increase audit quality. The Erasmus Competition & Regulation institute (ECRi) carried out the research to the joint audit model on behalf of the Quarter Masters. Their research showed a lack of practical evidence for the added value of joint audits with regard to audit quality. The ECRi report has been sent to the House of Representatives of the Dutch Parliament, and can be found here:

<https://www.rijksoverheid.nl/documenten/kamerstukken/2021/11/26/kamerbrief-onderzoeksresultaten-joint-audit-model-in-de-accountancysector>.

Nevertheless, the Dutch minister of Finance and the Dutch Parliament did not yet decide on the introduction of joint audits, as the audit only investigation and the experiment with the intermediate model is still ongoing. When these investigations are finished, the Dutch minister of Finance will have another look at the three options for changes in the structure of the audit that were investigated.

*2000 character(s) maximum*

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

2- To a limited extent

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

Please refer to question 11.

*2000 character(s) maximum*

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

| <b>Topic</b>   | <b>I. Effectiveness</b> | <b>II. Efficiency in term of cost/benefits of action</b> |
|--|-------------------------|--|
| 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 | 2                       | 2  |
| b) Strengthen the informational value of audit reports   | 4                       | 3  |
| c) Improve the internal governance of audit firms  | 5                       | 4  |
| d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market   | 2                       | 1  |
| e) Further harmonise the rules on mandatory rotation   | 4                       | 3  |
| f) Limit the scope for statutory auditors and audit firms to provide non-audit services  | 4                       | 4  |
| g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors   | 1                       | 1  |
| 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   | 4                       | 4  |
| 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                       | 1  |

**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

|     |
|-----|
| Yes |
|-----|

**Question 14.1.1 If you have replied 'yes' to question 14.1 please explain which action(s) you have in mind.**

|   |
|---|
| <p>Please refer to question 11.</p> <p>With regard to the question on auditors' disclosures on fraud (Question 14.a), we believe that the disclosure should not (only) relate to the audit work performed (process), but rather on the findings (outcome). This is a current topic in the Netherlands, whereby the Nederlandse Beroepsorganisatie van Accountants (NBA) -the Dutch professional institute- introduced</p> |
|---|

additional transparency regulations for fraud and (dis)continuity. Please see: [Bestuursbesluit verplichte rapportage continuïteit en fraude \(nba.nl\)](#).

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

Please see question 11.

*2000 character(s) maximum*

## **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).

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?**

1 - Very low; 2 - Low; 3 - Medium; 4 - High; 5 - Very high; Don't know / no opinion / NA

| <b>Topic</b>   | <b>I. Effectiveness in reaching its objectives</b> | <b>II. Efficiency: has the framework been cost efficient</b> | <b>III. Coherence with relevant EU rules</b> |
|--|--|--|--|
| a) The supervision of PIE statutory auditors and audit firms in the EU | NA   | NA   | NA   |
| b) The establishment and operation of national audit oversight bodies  | NA   | NA   | NA   |
| c) The Member State systems for investigations and sanctions           | NA   | NA   | NA   |
| d) The role of the CEAOB   | NA   | NA   | NA   |

**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?

Currently there are significant differences between Member States with regards to the supervision of statutory auditor and audit firms for PIEs. The differences are even larger for the supervision of non-PIE audit firms. This is primarily caused by the Member State options in the EU audit framework.

PIE and other auditors are often not supervised by the same authority. The Netherlands has recently centralized the supervision of all audit firms within the Dutch Authority for the Financial Markets (AFM). This makes the supervision simpler and more transparent.

*2000 character(s) maximum*

**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 / NA

NA

**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:**

NA

*2000 character(s) maximum*

**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?**

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

| Topic  | I. Effectiveness | II. Efficiency in term of cost/benefits of action |
|--|------------------|---|
| a) Ensure better the independence and appropriate resources of supervisors of auditors and audit firms | 3                | 3   |
| b) Increase the transparency of audit supervisors  | 5                | 4   |
| c) Increase the consistency of supervision of cross-border networks of audit firms                     | 3                | 3   |
| d) Ensure supervision of audit committees  | 2                | 2   |

|   |   |   |
|---|---|---|
| e) Harmonise and strengthen the investigation and sanctioning powers of audit supervisors   | 3 | 3 |
| f) Ensure that at European level there are legal instruments available that ensure supervisory convergence as regards statutory audit of PIEs | 4 | 4 |
| g) Grant a European body the task to register and supervise PIE statutory auditors and audit firms  | 3 | 3 |

**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?**

Yes/ No/ Don't know / no opinion / not applicable

NA

**17.1.1 If Yes, please explain which actions you have in mind.**

NA

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

NA

**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 / NA

3 - Medium

**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:**

NA

*2000 character(s) maximum*

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

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

| <b>Topic</b>  | <b>I. Effectiveness</b> | <b>II. Efficiency in term of cost/benefits of action</b> |
|---|-------------------------|--|
| 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 | 5                       | 5  |
| 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  | 5                       | 5  |
| c) Strengthen the rules ensuring the independence of national authorities or entities involved in the supervision of corporate reporting  | 5                       | 5  |
| d) Increase the resources of national authorities or entities involved in the supervision of corporate reporting  | 4                       | NA   |

|  |   |   |
|--|---|---|
| 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. | 3 | 3 |
| f) Improve cooperation and coordination between national authorities of different Member States  | 5 | 5 |
| g) Increase transparency on the conduct and results of enforcement activities by national authorities  | 4 | 3 |
| h) Strengthen the role of ESMA on the enforcement of corporate reporting   | 3 | 3 |

**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

NA

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

NA

*2000 character(s) maximum*

**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.