CONSULTATION DOCUMENT

STRENGTHENING OF 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.

CONSULTATION QUESTIONS

1. PART I - THE EU FRAMEWORK FOR HIGH QUALITY AND RELIABLE CORPORATE REPORTING

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

Today, the Accounting Directive 2013/34/EU, the Statutory Audit Directive (2006/43/EU) and Audit Regulation (537/2014) and the Transparency Directive 2004/109/EC provide the main requirements that ensure the quality of corporate reporting and its enforcement in the EU. Moreover, the ESMA Regulation (EU)1095/2010 gives tasks to ESMA in relation to corporate reporting[1].

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.

[1] 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.

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? **On a scale of 1 (low) to 5 (high)**	**5**

Question 2. On a scale of 1 (low) to 5 (High), 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 its objectives**	**II.** **Efficiency: has the framework been cost efficient**	**III.** **Relevant in terms of overall needs nd objectives**	**IV.** **Coherence with other related EU frameworks / internal coherence**	**V.** **EU Added value – Was and is EU intervention justified?**
a) Corporate governance	2		2		5
b) Statutory audit	4		5		5
c) Supervision by public authorities of statutory auditors/audit firms	4		5		5
d) Supervision by authorities of corporate reporting	4		5		5

Areas	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Relevant in terms of overall needs nd objectives	IV. Coherence with other related EU frameworks / internal coherence	V. EU Added value – Was and is EU intervention justified?
e) The ecosystem composed of all of the above	4		5		5

Question 2.1 Please describe the main issues that you see, if any, in the four areas mentioned in the table above. 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?

The AFM believes the entire EU framework for corporate reporting, audit, and supervision has added to the quality of corporate reporting and the audit thereof. However, the interaction between regulation and supervision of corporate reporting and audit should be further improved.

The AFM is, amongst others supervisor of financial reporting of listed companies as well as supervisor of statutory audits and audit firms. Based on these experiences, we believe that the corporate governance requirements for listed companies could be strengthened. Amongst others, the legislation could be clearer with regard to audit committees, and further harmonised at the European level to ensure a level playing field.

The AFM invites the EU to expressly confirm the respective responsibilities of parties involved under the regulatory framework on corporate reporting for PIEs. The EC has identified the first level of responsibility resting with the company's management under the supervision of the board of directors/supervisory board, the second level of responsibility with the statutory auditor and the third level with the supervisory authorities. The balance of rules and regulations should reflect this.

Question 3.

The ESMA report on Enforcement and regulatory activities of European enforcers in 2020[2] notes that supervisors undertook the examination that year of 729 financial statements drawn up in accordance with International Financial Reporting Standards (IFRS). Based on these examinations, European enforcers took enforcement actions against 265 issuers in order to address material departures from IFRS. This represents an action rate of 38%.

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

Based on your own experience how do you assess the quality and reliability of corporate reporting by listed EU companies on a scale of 1 (low) to 5 (high)?	**3**

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 AFM, based on its supervision on the corporate reporting by listed entities, notes that the quality and reliability of corporate financial reporting has improved significantly over the past two decades, in part as a result of supervision and enforcement. However, the quality and reliability of non-financial/sustainability reporting still suffers greatly from deficient data and a lack of relevance and comparability (due to the lack of adequate standards).

The AFM observes in its supervision of audit firms a significant number of deficiencies in its iaudits inspected. However, as there is not always an automatic link between the quality of audit work or audit supervision and the quality of financial information provided by PIEs, a clear distinction between the quality of work of the auditor and the financial reporting must be made:

A statutory auditor may have complied with all applicable auditing standards and have issued a qualified opinion due to significant errors in the financial statements. In such a case, the entity's reporting lacks the quality required by financial reporting standards, however, as the auditor has performed all required audit procedures, there is no deficiency in the audit work.

In other circumstances, a statutory auditor may have recommended improvements to the financial statements prepared by the entity (whether with respect to accounting or with respect to disclosures), but these improvements may not have been implemented by the management of the entity. The auditor may in the end consider that this decision from management has no impact on the audit opinion, while the financial reporting issued by the entity is not optimal.

And finally, an auditor may not have complied with all applicable auditing standards, but the financial reporting of the audited entity could be free of significant errors. In this situation, there is no deficiency in the entity's reporting, but the quality of the work performed by the auditor does not meet regulatory audit requirements.

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 on a scale of 1 (strongly disagree) to 5 (strongly agree)?

Questions	Scale

Would it be useful to have specific indicators to measure the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	3
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
Should the European Commission develop indicators on the quality of corporate reporting, of statutory audits and the effectiveness of supervision?	3

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.

Regarding quality indicators for statutory audits, the AFM is supportive of the thrust of the “Kwartiermakers”, mandated by the Dutch Minister of Finance, to develop audit quality indicators (AQI’s) for the Dutch audit market. Given that there are arguably more similarities than differences between EU members’ audit markets, it makes sense to gather and consolidate experiences of different EU member states in the development of AQI’s. The European Commission would be a logical stakeholder to take the lead in this as well as involve the users of corporate reporting and audit reports.

The AFM does like to stress that AQI’s are generally indicators of factors that contribute or correlate with audit quality, but should not in itself be considered a measurement of audit quality (such as an inspection report of independent authority). This positioning of AQI’s is important in order to maximize AQI’s use and not have unintended consequences.

Regarding quality indicators for reporting and supervision quality, the AFM is not in principle against attempts to develop relevant indicators. However, we are somewhat skeptical of the feasibility of reporting and supervision quality indicators in practice. Practical hurdles exist in the need for indicators to have a clear correlation with quality. Any indicators should also be used with caution given the risk of unintended consequences (an indicator may become a standard in itself, which may be counterproductive).

Question 5. In your view, should the Commission take action in the areas of the

- **corporate governance pillar**
- **statutory audit pillar**
- **supervision of PIE auditors and audit firms**
- **supervision of corporate reporting**

to increase the quality and reliability of reporting by listed companies?

- <u>Yes, there is a need to improve **some or all of the areas listed above**</u>
- 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

Please indicate on a scale of 1 (strongly disagree) to 5 (strongly agree) 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:

Improve the corporate governance pillar	**5**
Improve the statutory audit pillar	**4**
Improve the supervision of PIE auditors and audit firms	**4**
Improve the supervision of corporate reporting	**4**
Improve all of the above in a coordinated manner	**4**

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

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.

The AFM believes that priority should be given to the following actions:

<u>Corporate governance</u>

- Greater clarity on audit committees' responsibilities and on NCA supervision and enforcement of audit committees' responsibilities, together with more harmonisation of NCA powers, which should be appropriate to the audit committees' duties and proportionate in comparison to the oversight and enforcement of company management.

<u>Audit supervision</u>

- Enhance and harmonise resources and powers for NCAs and the CEAOB to face the continuous developments in audit areas such as the development of IT tools and artificial intelligence or the requests for assurance in new fields such as on non-financial reporting. It is essential for NCAs and for the CEAOB to respond to investments made by audit firms in these areas and to continue improving their cooperation,
- Improve ways to provide transparency on audit supervision, including communicating outcomes from inspections and investigations in appropriate ways and on a more consistent basis. Providing the ability for NCAs to share these results with the audit committees of the audited entity would contribute to improving the existing regulatory framework,

- Harmonise and expand NCA powers in the fields of enforcement and sanctioning of auditors and audit firms,
- Provide for appropriate requirements regarding the exchange of information between supervisory authorities that are part of the financial reporting framework (audit, corporate reporting and corporate governance, banking and insurance).

Statutory audit

- A complete ban on non-audit services where an audit firm performs a statutory audit of a PIE; such a ban already applies in the Netherlands
- Harmonise rotation requirements

Corporate reporting

- In order to improve the convergence in supervision of corporate reporting, we suggest to further explore whether the risk analysis, with the objective to select the financial reporting for an (interactive) review, should be done on ESMA level.

5.2 If you responded that you think that there is a need to improve the quality of corporate governance, audit, audit supervision and/or supervision of corporate reporting, at what level should action be taken, rating the relevance of each level on a scale of 1 (strongly disagree) to 5 (strongly agree)?

Companies themselves should take action to improve their reporting	**5**
Auditors themselves should take action to improve audits	**5**
Audit supervisors themselves should take action to improve their functioning	**4**
Individual Member States should take action if the situation in their market requires this	**3**
The EU should take action	5
Several of the above should take action	5

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

In the opinion of the AFM, the primary responsibility for corporate reporting lies with the company's management under the supervision of the board of directors/supervisory board, and the framework should reflect this. Equally, the AFM believes that the responsibility for increasing audit quality lies in the first instance with auditors and audit firms.

Companies should take action especially regarding the quality of sustainability reporting, and auditors and audit firms should take action to improve the assurance of sustainability-related information.

NCAs, both individually and collectively through the CEAOB and ESMA, are constantly seeking ways to further develop their cooperation and supervisory approaches. Enhanced and harmonised resources and powers at national and EU level would support these endeavours.

Question 6. To what extent is there a need to modify the EU framework on corporate reporting to support the following objectives (on a scale of 1 (not at all necessary) to 5 (highly necessary)?

I. The green transition	4
II. The digital transition	4
III. Facilitating doing business by SMEs	4
IV. Reducing burdens and/or simplify	4
V. Better Corporate Social responsibility, including tax transparency and fair taxation	4

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

2. PART II - CORPORATE GOVERNANCE

Question 7. On a scale of 1 (low) to 5 (High), 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?

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	2		
b) Liability of company boards for reporting	2		
c) Obligation to establish an audit committee)	4		
d) Rules on the composition of the audit committee	4		
e) Tasks of the audit committee	4		
f) External position of the audit committee (e.g. in relation to shareholders).	3		

Question 7.1 Please describe the main issues you see, if any, as regards corporate governance (*role boards, audit committee role, shareholders and other stakeholders*) and, where possible, please provide concrete examples and evidence supporting your assessment.

You may 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?

Audit committees play an important, but very specific, role to enhance audit quality. Currently their tasks relating to the field of audit include notably the selection of the auditor, the approval of non-audit services provided by the auditor and the supervision of the financial reporting process and the audit.

The AFM notes that in practice the extent of the audit committee's supervision of the financial reporting process and the audit varies significantly. It might be useful to clarify what is expected from audit committees in this respect.

The current role of NCAs in this field is not clear and should be enhanced. NCAs currently monitor compliance by audit committees. Furthermore, rules for supervision and enforcement are unclear and not harmonised.

The supervision, and where necessary enforcement, needs to be appropriate to the audit committees' duties and also proportionate in comparison to the oversight and enforcement of company management.

In the field of corporate sustainability reporting, the responsibilities of the board and specific board members should be strengthened and more clearly defined. The AFM notes that the quality and reliability of sustainability reporting improve when the CFO and 'financial column' take responsibility for this. It might be benificial to promote such engagement of CFO's, or other board members, with sustainability reporting.

Question 8.

Considering the level of material departures from IFRS reported in the ESMA report on Enforcement and regulatory activities of European enforcers in 2020, to what extent (on a scale of 1 (not at all) to 5 (to a very large extent)) can such departures be attributed to deficiencies of the EU framework on corporate governance?	3

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

In the AFM's view, 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 are generally avoided.

It should be noted however that IFRS requirements are relatively complex and some simplifications in these requirements might be considered, without leading to a loss of relevance and reliability.

Question 9. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies, on a scale of 1 (Not effective/efficient) to 5 (Very effective/efficient)?

Areas	I. Effectiveness	II. Efficiency in term of cost/benefits of action
a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting	5	5
b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)	5	5
c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer) or the Chief Financial Officer) and their liability on corporate reporting	5	5
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	5	5
e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period	5	4
f) Remove exemptions in EU legislation for establishing an audit committee	4	
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	4	
h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)	5	
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	5	5
j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements	5	5

k) Strengthen the role of shareholders on corporate reporting	3	3

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

Question 9.1.1 If you have replied 'yes' to question 9.1 please explain which action(s) you have in mind.

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 AFM is of the opinion that it might be useful to increase sanctions for board members in serious cases of misreporting, although a downside of such a measure might be that company boards will increase their resistance when enforcers note irregularities in their corporate reporting.

In the field of sustainability reporting, a stronger emphasis than exists at present on the responsibility of the Chief Financial Officer or other board members would be welcome and beneficial to its relevance and reliability.

Auditors providing separate assurance on systems and internal controls would be a significant development of the auditors' role. Were it to be introduced it would need to be preceded by the introduction of explicit director statements of responsibility for such controls. The AFM believes the pros and cons should be further explored. Were such further analysis be done, attention should be given for example to the following issues:

- if auditors are required to provide assurance on internal controls, this would create a partial overlap of responsibilities with audit committees' responsibilities for the supervision of internal control systems,
- - a further conflict of interest could arise when considering the supervisory role of audit committees on auditors.

3. 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. On a scale of 1 (low) to 5 (high), 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)

Areas	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 nonaudit services	**2**	**2**	**3**
d) The rules on auditor/audit firm rotation	**4**	**3**	**3**
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?

The AFM sees a lack of harmonisation across the EU in certain areas of the framework, which causes challenges. For instance, Member State options regarding the provision of non-audit services both in principle and in detail create unwanted complexity for auditors and companies. Similarly, differences in audit rotation rules across Member States due to Member States options create difficulties both for auditors and companies. Both of these should be elements of a broader move towards greater consistency and clarity in requirements. In this regard, the AFM would like to propose a complete ban on non-audit services where an audit firm performs a statutory audit of a PIE; such a ban already applies in the Netherlands, which greatly reduces the complexity for both auditors and companies. Furthermore, the European framework should better take into account the corporate structures of audit firms. Also, regulatory oversight of audit networks is an area for improvement as many policies are decided at network level. Other areas where the AFM believes that the framework may be improved include: - better and more informative audit firms' transparency reports, including information on measures firms take to improve audit quality, - clarification of the role and supervision of audit committees, and - the system of registration and supervision of third country auditors / audit firms should be revised and streamlined in order to ensure a more efficient and effective functioning. Ideally, a mandate would be given to a European authority. The CEAOB plays a critical role in implementing the framework, seeking to ensure consistency in application, and reporting on its impact. The CEAOB should be enhanced and provided with further resources and powers to ensure that improving audit quality is an ongoing rather than periodic process at EU level.

Question 12. On a scale of 1 (strongly disagree) to 5 (strongly agree), please share to which extent you agree to the following statements.

1 strongly disagree 2 rather disagree 3 neutral 4 rather agree 5 strongly agree

Question	Scale
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	**4**
V. Joint audits contribute to the quality of audit	**1**

Question	Scale

Question 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:

Capital markets participants put their trust in audit reports under the assumption that the auditor owns the necessary sector and technical expertise, is independent, and has an efficient internal quality control system. The expanded audit report and additional report to the audit committee have contributed to better information, although they could be expanded to include information on materiality.

The AFM sees that auditing standards are not 100% harmonised across Europe and that progress in quality could be driven by further integrating EU requirements in common (global) standards.

As is visible in the 2021 Market Monitoring Report of the European Union on the basis of information of the European audit oversight bodies, the inspections from NCAs still result in many findings, which impacts its assessment of the reliability of the inspected audits.

In several countries PIEs have struggled to comply with the requirements to present to their shareholders two alternative auditor's proposals for selection (Audit Regulation-Art. 16), which indicates limited choice. This is sometimes also the case for large PIEs with international activities, and in sectors such as banking and insurance.

The Dutch Minister of Finance mandated two "Kwartiermakers" (Quarter Masters) to investigate the national and international experiences with the joint audit model, to see whether this leads to an increase in audit quality. Requested by the Kwartiermakers, the Erasmus Competition & Regulation institute (ECRi) affiliated to the Erasmus University of Rotterdam performed research, which 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
Supported by this research of the ECRi, the AFM questions whether joint audit leads to an increase in audit quality. Even if joint audit contributes to audit quality, the question is whether the added costs of joint audits are proportionate to the quality gains.

The AFM considers that clearer requirements for PIE auditors would benefit competition and facilitate supervision. A full ban on the provision of NAS to PIE statutory audit clients would strengthen auditor independence.

Question 13:

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

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

1 (not at all) 2 (to a limited extent) 3 (to some extent) 4 (to a large extent) 5 (to a very large extent) – (don't know / no opinion /not applicable)

Question 13. To what extent can these quality issues be attributed to deficiencies in the EU legal and supervisory framework for statutory audit (on a scale of 1 (not at all) to 5 (to a very large extent))?	**2**

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

The AFM considers that the responsibility for audit quality lies primarily with the audit firms themselves. It should be noted that for the quality of financial reporting, auditors and audit supervision come after management and audit committeesin terms of responsibility.
The existant supervisory framework is working, given that NCAs discover and address audit quality issues.
It would be in the public interest to further enhance the legal and supervisory audit framework as this may help preventing future quality issues. Such enhancements may include harmonisation, clarification, improved coherence and strengthening of European regulation and cooperation in the audit area.

In terms of potential improvements, the AFM notes the following areas:

- Enhancing the CEAOB to better coordinate and harmonise audit supervision in Europe, including appropriate supervisory resources (possibly elevating the CEAOB tot the level of 'authority'),
- Enhancing the financial reporting chain, including responsibilities for (non-) financial reporting quality, oversight by those charged with governance, supervision thereof, etc.,
- Improving audit firm governance, including responsibility for sustained implementation and management of quality (See also our response to question 14.1.1 with regard to supervisory boards for PIE audit firms),
- Improving the regulatory audit oversight of audit networks because of their strong influence on the firms NCAs supervise,
- Improving the informative value of transparency reports by audit firms,
- Strengthening the transparency on the work done by NCAs, including by sharing outcomes of inspections with those responsible for reporting within companies (management and audit committees),
- In some MS there are barriers to exchanging information between supervisory authorities that are part of the financial reporting framework. Consistently with the aim to achieve the CMU, the AFM shares the CEAOB's call for harmonised rules across the EU which would require to exchange information between EU NCAs and relevant supervisors with competences in corporate reporting, corporate governance, and sectoral activities, including ESAs, and with audit regulators outside the EU.

Question 14. How effective and efficient would the following actions be in increasing the quality of statutory audits of PIEs? On a scale of 1 (not effective/efficient) to 5 (very effective/efficient)?

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

- <u>Yes</u>
- No
- Don't know/ no opinion / not applicable

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

The AFM would call for improvements in the internal governance of audit firms. 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. Recently the AFM published a report on the impact of supervisory boards on audit firms (press release and report in English: Supervisory Boards have impact, but differences between audit firms exist | AFM. The assessment shows that supervisory boards of PIE audit firms have impact on the preconditions for quality and may mitigate some vulnerabilities in the structure of the audit sector. The extent to which this is the case differs per supervisory board, partly due to challenges in the governance. Due to the lack of scientific evidence on the effectiveness of joint audit, and the comparatively high costs relative to the expected gain in audit quality, the AFM does not support mandated joint audits (see our response to Q12.1). Due to the public interest associated with the statutory audit of PIEs, the Dutch legislator 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. In order to improve the independence of PIE audits across Europe, the AFM suggests implementing a complete prohibition on the provision of non-audit services for all PIE audits. Limiting the number of Member State options in de EU Audit framework greatly improves consistency in Europe. However, this does not address the biggest hurdle for cross-border statutory audits, namely the differences between Member States in corporate reporting requirements and (to a lesser extent) audit standards. The creation of a passporting system for PIE audit firms does not stimulate cross-border statutory audits enough, without addressing the aforementioned differences in reporting requirements and standards. With regard to the question on auditors’ disclosures on fraud (Question 14.a), the AFM believes the disclosure should not relate to the audit work performed (process), but rather on the findings (outcome).

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

[N.v.t.]

4. 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 Auditing 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. On a scale of 1 (low) to 5 (high), 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?

Topic	I. Effectiveness in reaching its objectives	II. Efficiency: has the framework been cost efficient	III. Coherence with other related EU rules
a) The supervision of PIE statutory auditors and audit firms in the EU	**3**		**2**
b) The establishment and operation of national audit oversight bodies	**4**		**4**
c) The Member State systems for investigations and sanctions	**2**		**4**
d) The role of the CEAOB	**3**		**2**

Question 15.1 Please describe the main issues, if any, you see 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?

Due to the consistency of adverse findings in audit files, the goal of increasing confidence in, and the liability of, the statutory auditors and the audit firms carrying out the statutory audit of public-interest entities, has not been reached to a sufficient degree.

The AFM believes the level of harmonisation is limited, primarily due to the amount of Member State options in the EU audit framework. Furthermore, we would like to note that the entry point, including responsibilities for corporate management for company accounting, based on European Accounting Directives etc, and on national company, tax and other relevant law

hampers moving from national markets for audit services to a truly European market. It should be noted that only taking measures to harmonise the auditing market does not appear to be successful. A study on the root causes for these limitations could provide useful insights. Whilst efficiency may always be encouraged through simplification, the problem of the audit market remains the quality of audits conducted. This won't be resolved through simplification per se, although further harmonisation of the entire corporate governance/financial reporting chain could contribute to both quality and efficiency

Question 16.

1 very low, 2 low, 3 medium, 4 high, 5 very high

Considering the findings in the Commission monitoring report and reports of national audit oversight bodies how would you rate (on a scale of 1 to 5) the quality of audit supervision?	**4**

Question 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.

According to the AFM, audit supervision has been successful in identifying many issues with respect to quality, and in that sense has been in and of itself delivering good quality. It should be noted that European supervision through the CEAOB does not go beyond exchange of information, non-binding guidelines and meetings in which audit firms and standard setters are influenced and held to account on an informal. Further integration, harmonisation and strengthening of the European oversight structure could add to the quality of supervision, as well as powers at network level (within the EU). For that, we suggest giving a European institution the following responsibilities: • Direct responsibilities for network supervision; • Direct responsibilities for third country audit registration and inspection (the latter potentially through coordination with national regulators); • Peer review programme to ensure consistency and quality of national regulatory work, including appropriate powers to follow up on findings; • Setting of binding guidelines and powers vis-à-vis auditing / assurance (for CSRD) standards, and; • Support to Colleges of regulators.

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? On a scale of 1 (not effective/effective) to 5 (very effective/efficient)?

Areas	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	**4**	**4**
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	**3**	**3**
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	**4**	**4**

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

Answer Yes

Answer No

Answer Don’t know / no opinion/ not applicable

Question 17.1.1 If you have replied ‘yes’ to question 17.1 please explain which action(s) you have in mind.

Please see our response to question 16.1

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

[n.v.t.]

5. 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.[2]

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?	3

Question 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.

Limited harmonisation and integration of EU capital markets impedes corporate learning processes in the field of corporate reporting. Companies will be better able to adequately face difficult reporting challenges if corporate reporting enforcers (are enabled to) provide greater clarity into good and bad practices within their jurisdictions and to share these insights across member state borders. Clear accounts of good and bad practices shared throughout the EU are

[2] ESMA letter of 26 February 2021 to the Commissioner McGuinness on next steps following Wirecard (ESMA32-51-818)

probably especially useful for companies active in relatively small or upcoming sectors. And usefulness of such accounts will be further increased when greater harmonisation of supervision is achieved.

Question 19. How effective and efficient would the following actions be in increasing the quality and reliability of reporting by listed companies on a scale of 1 (not effective/efficient) to 5 (very effective/efficient)?

Areas	I. Effectiveness	II. Efficiency in term of cost/benefits of action
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	4
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.	4	4
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	4
h) Strengthen the role of ESMA on the enforcement of corporate reporting	4	4

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

- **Yes**
- No

Question 19.1.1 If you have replied 'yes' to question 19.1 please explain which action(s) you have in mind.

	The AFM recommends that the Commission explores the pros and cons of harmonised/centralised risk analysis to improve the consistency of supervision and enforcement across Europe.

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

In a number of MS there are barriers to exchanging information between supervisory authorities that are part of the financial reporting chain. With the aim to achieve the CMU, rules across the EU should be harmonised to allow NCAs to exchange relevant information with appropriate relevant regulators with competences in corporate reporting, corporate governance, banking and insurance, and audit. Furthermore, exchange of information and experience with other EU regulatory agencies should be fostered.