ACCOUNTANCY EUROPE.

# AUDIT SUPERVISION IN THE EU

## Principles and good practices

Discussion paper

VIEWS.

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## HIGHLIGHTS

This publication presents principles, good practices and recommendations to enhance the coherence and effectiveness of audit supervision in the EU, particularly for PIE and cross-border audit engagements. These include developing a more shared inspection methodology, understanding of ISAs for inspection purposes, improving the clarity and transparency of inspection outcomes, fostering greater alignment in sanctioning approaches, strengthening the focus on firm-wide quality management systems, and making fuller use of existing cooperation tools such as CEAOB colleges, thematic reviews and targeted supervisory coordination.

These proposals are meant to help authorities work together more effectively in areas where cross-border activity creates a shared supervisory interest. At the same time, the paper recognises that national differences in supervision reflect local legal frameworks, markets and practices, many of which work well for domestic, non-PIE audits and should continue unchanged. The aim is to support greater cooperation and consistency where it adds value, while preserving what already functions effectively at national level.

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# EXECUTIVE SUMMARY

In this paper, Accountancy Europe sets out principles and good practices to support more effective and coherent audit supervision in the EU, particularly for PIE and cross-border audits where multiple national authorities are involved.

While national approaches differ due to local legal, governance, reporting and market frameworks, many systems work well, particularly for non-PIE audits, where supervision should remain primarily national. The paper therefore focuses on where cooperation and consistency can add value within the current EU framework.

The Audit Directive 2014/56/EU and the PIE Audit Regulation 537/2014 provide an effective EU framework to strengthen audit quality, independence and oversight. Member States have established effective public oversight systems, including EU-level cooperation. Audit supervision has developed well in a decentralised way, though differences remain in inspection methods, enforcement, transparency and review frequency, highlighting the value of targeted cooperation and alignment.

## PRINCIPLES AND GOOD PRACTICES FOR MORE EFFECTIVE SUPERVISION

### CLEAR AND CONSISTENT UNDERSTANDING OF ISAS AS THE BENCHMARK FOR INSPECTION

A more consistent understanding of how ISAs are used as benchmarks in inspections could support greater clarity across the EU. This relates solely to the use of ISAs in supervisory work, not to the setting or modification of auditing standards, which must remain the responsibility of standard-setters.

### PROPORTIONATE OVERSIGHT BASED ON ENGAGEMENT SIZE AND RISK

Cross-border and PIE audits may benefit from more coordinated supervisory approaches, while non-PIE audits should remain subject to proportionate, locally focused oversight.

### CONSISTENT INSPECTION METHODOLOGY

The Common Audit Inspection Methodology (CAIM) provides a foundation for greater consistency, but it is used unevenly across the EU. The paper suggests clarifying the core components of inspections, including the structure and depth of file reviews, the criteria for selecting engagements, and the way significant judgements are evaluated.

### TRANSPARENCY OF INSPECTION OUTCOMES

Transparency practices vary significantly among Member States. For PIE audits, a more individualised and structured publication of inspection outcomes could be considered, including clearer descriptions of deficiencies, themes emerging from inspections and supervisory expectations. For non-PIE audits, transparency should remain proportionate, relying on summarised findings or anonymised reports.

### FAIR AND TRANSPARENT SANCTIONING PROCESSES

Differences in sanctioning powers, criteria and appeal rights affect consistency across the EU. Shared principles or indicative sanctioning guidelines could help promote greater convergence while respecting national legal traditions. Firms should also have access to robust procedural safeguards, including the right to be heard, the ability to appeal decisions, and the opportunity to lodge complaints through independent and impartial mechanisms.

### EMPHASIS ON QUALITY MANAGEMENT SYSTEMS

A stronger focus on firm-wide quality management under ISQM 1 can improve oversight efficiency, particularly for firms operating across multiple jurisdictions.

### TIMELY COMPLETION OF THE SUPERVISORY PROCESS

The full oversight process from inspection planning to the issuance of the final report and any follow-up actions should be conducted within clear and reasonable timelines to be effective. Delays can also create operational uncertainty for audit firms. In a cross-border context, coordination of timelines among national oversight bodies can be helpful in certain cases, particularly where misaligned schedules would significantly limit the effectiveness of joint work.

### PUBLISHING GOOD PRACTICES ALONGSIDE FINDINGS

Highlighting examples of good practices, whether in audit documentation, use of technology, sustainability assurance or internal quality control, can balance the predominantly deficiency-focused nature of oversight reporting.

### OVERSIGHT AS A DRIVER OF QUALITY IMPROVEMENT

Enforcement and sanctions remain necessary tools, but the primary purpose of audit oversight should be to raise and sustain audit quality. Oversight bodies can adopt a more constructive approach by integrating remediation plans, training initiatives, and regular dialogue with firms into their processes.

### RECONSIDERATION OF GROUP INSPECTIONS

The paper gives a potential solution to improve the coordination of the inspection work on cross-border and PIE group audits which could be to establish “group inspections” in Member States. In such a model, the authority responsible for inspecting the group audit could have an enhanced role in coordinating with the authorities reviewing the audits of significant subsidiaries in other Member States, with the aim of meeting the overall objectives of the group audit inspection.

### THEMATIC AND RISK-BASED REVIEWS

Thematic and risk-based reviews help identify emerging risks efficiently, and elements of cooperative compliance can encourage a more preventive supervisory approach.

### RELATIONSHIPS AND TRANSPARENCY BETWEEN NCAS

NCAs currently do not carry out structured reviews of each other’s work. Without any form of comparison or external benchmarking, supervisory approaches can gradually diverge, even when NCAs are addressing the same risks or applying the same legislation.

## RECOMMENDATIONS AND GOOD PRACTICES FOR GREATER CONSISTENCY

The paper also sets out a number of recommendations to CEAOB that could help promote greater consistency in audit supervision across the EU while respecting national frameworks. These recommendations are linked to the principles and best practices mentioned above.

# INTRODUCTION

The quality of audits is influenced not only by the competences of auditors, but also by the broader ecosystem in which audits take place. This includes company law and corporate governance frameworks, corporate reporting's robustness, standards applied, supervision's role and the public audit oversight mechanisms, skills availability and market capacity. Most importantly, audit quality is affected by the quality of individual companies' internal reporting systems, processes, controls and governance, which directly influence the auditor's ability to perform an effective audit.

This is especially important for audits of Public Interest Entities (PIEs) as PIE audits and cross-border audits play a vital role in maintaining trust in European Union (EU) and European capital markets.

The EU audit environment has grown more complex with new technological innovations and globalisation. Many large groups operate internationally and their audits frequently span several jurisdictions and involve multiple National Competent Authorities (NCAs). New demands such as sustainability reporting assurance and the increasing use of technology in audits create new challenges for regulators.

## OBJECTIVE

This publication aims to provide the European Commission (EC) and other EU and European stakeholders with a clear picture of the challenges to be addressed to ensure robust, effective and proportionate audit oversight. Rather than advocating for a specific supervisory model, we identify key differences and gaps; and outline fundamental principles and good practices that could enhance consistency among national oversight bodies, especially for PIE and cross-border audits.

In doing so, the paper also reflects on several areas increasingly raised in the policy debate:

- the value of a more consistent inspections approach across Europe,
- the need to improve the clarity of inspection outcomes without punitive disclosure,
- the importance of national oversight bodies working together more strategically,
- exploring ways to pool expertise and resources and to respond more effectively to technological developments such as digitalisation, automation, and Artificial Intelligence (AI).

## BACKGROUND: WHY EU AUDIT SUPERVISION DIFFERS ACROSS MEMBER STATES

The Audit Directive 2014/56/EU and the PIE Audit Regulation 537/2014 provide an effective common EU framework for audit supervision with the aim of strengthening audit quality, independence and oversight of statutory audits. Member States established an effective system of public oversight of statutory auditors, including effective cooperation of oversight on the EU level.

Indeed, audit supervision in the EU has developed reasonably well, in a decentralised way due to its legal and institutional framework. The 2006 Statutory Audit Directive (revised in 2014), sets out the responsibility for public oversight of auditors and audit firms and established minimum requirements for all statutory audits but granted Member States a level of discretion in how to implement them. This flexibility led to differences in inspection methodologies, enforcement, approaches, transparency requirements, and frequency of reviews.

The PIE Audit Regulation 537/2014 complemented the Directive by introducing stricter requirements for audits of PIEs and by establishing the Committee of European Auditing Oversight Bodies (CEAOB) as a forum to strengthen cooperation and coordination among national competent authorities (NCAs). Despite these steps, in a number of specific areas, supervisory coordination remains insufficient, contributing to a diverse set of national practices that differ in depth, capacity, and legal powers.

While the Directive has strengthened consistency across Europe, national differences remain. These differences do not necessarily indicate problems, but they may warrant further evidence-based analysis before considering any legislative change. Many supervisory systems work well domestically, and the need for supranational convergence is limited where there is no cross-border dimension. The priority should be to preserve what functions effectively at national level while identifying and sharing good practices to support continuous improvement.

### ROLE AND LIMITATIONS OF THE CEAOB

The CEAOB was established in 2016 as part of the revised EU audit legislation. Its main role is to facilitate cooperation between national audit oversight authorities, promote consistent application of the Statutory Audit Directive and Regulation, and coordinate supervision of cross-border audit engagements, particularly for PIEs. The CEAOB operates primarily as a forum for exchange and coordination rather than as an enforcement authority.

The CEAOB's activities include developing common positions and guidelines to promote supervisory convergence across Member States. Its guidance is non-binding, partially inconsistently applied, and its public communication is limited.

It also coordinates inspections of cross-border audit engagements for networks with a significant presence in the EU, ensuring that such work benefits from a more harmonised oversight approach. In addition, the CEAOB plays an important role in facilitating the exchange of information between NCAs which supports early identification of emerging issues.

While the CEAOB has improved communication and built a foundation for cross-border cooperation, its impact is constrained by its advisory and coordinating mandate. In the last section of this publication, we outline recommendations on areas where the CEAOB could take on a stronger role and contribute to stronger cooperative audit supervision across Member States.

## SUPERVISORY DIFFERENCES BETWEEN EUROPEAN COUNTRIES

Company law and corporate governance are not harmonised at EU level and differ significantly between Member States. These national frameworks shape how companies are structured, governed and managed, which in turn influences various aspects of corporate reporting and audit.

Only accounting and reporting standards for consolidated financial statements of listed entities are fully harmonised through the EU Transparency Directive, which requires the use of IFRS[1]. As a result, while reporting standards for listed groups are aligned, the underlying legal and governance environments in which audits take place remain largely national. In addition, local official languages being mandated for use in audit files in a number of Member States, rather than an internationally recognised one, add another layer of complexity to both reporting and audit processes.

Audit supervision represents only one component of this broader framework, and its context therefore differs across Members States. Because audit sits at the end of the reporting process, greater consistency, harmonisation or even centralisation of audit supervision cannot be considered in isolation. Any move in this direction would inevitably interact with and depend on other areas that remain largely national, including company law, corporate governance frameworks, accounting and reporting requirements, enforcement structures, and professional liability regimes.

This is particularly difficult for PIEs, whose operations and ownership structures are often cross-border. While PIE audits may be performed across jurisdictions, the legal, governance, enforcement and liability regimes underpinning those audits remain national and are not aligned. Any considerations for change should therefore be limited to cross-border and PIE audits, which are the main focus in this paper.

### FUNDING MODELS

The funding of national audit oversight bodies varies significantly across European countries, influencing their operational capacity and independence. Only 5 countries rely entirely on state funding, where budgets are

[1] Adopted by the European Union

allocated directly from government resources. This model can provide stable and predictable financing but may also subject the oversight body to political budgetary constraints or even control by the government or the public authorities responsible for allocating funds, although audit oversight should not be subject to any undue influence.

In other countries, oversight bodies are primarily funded through fees charged to audit firms, professional accountancy organisations or PIEs and only partly through state funding. These fees may be based on the size of the audit firm, the volume of audits performed, or other criteria. While this model aligns funding more closely with the audit profession and market, it can create disparities in resources among oversight bodies depending on the audit market size and the fee structure.

The level of financial and human resources available to oversight bodies varies across Europe, resulting in significant differences in the scale and depth of supervisory activities. Better-resourced authorities are generally able to conduct more comprehensive inspections, invest in specialist expertise, and cover a wider range of audit firms and engagements. In contrast, bodies with more limited resources may need to prioritise certain activities or adjust the frequency and depth of their inspections.

## METHODOLOGY OF INSPECTIONS AND SANCTIONS

There are significant differences across EU Member States in how auditing oversight bodies conduct inspections, gather data and apply sanctions. Methodologies for inspecting audit firms vary in terms of scope, depth, frequency, and risk focus.

Some NCAs emphasise a rules-based approach, focusing on detailed compliance checks against auditing standards, while others adopt a principles-based approach that considers the broader context and judgment exercised by auditors.

Additionally, the process for finalising reports varies significantly, particularly on how much feedback auditors can provide and the extent to which that feedback is considered and reflected in the final outcome.

The frequency of inspections can also differ widely, with some oversight bodies inspecting large audit firms annually, while others conduct reviews less frequently or with a focus on specific risk areas. In the PIE Audit Regulation 537/2014 it is required that firms performing PIE audits are inspected at least once every 3 years and non-PIEs at least every 6 years. Approaches to inspecting group audits present challenges, as subsidiaries or branches of a group audit may be audited under different national regimes with varying inspection rigor.

When it comes to sanctions, the criteria for triggering enforcement actions and the severity of penalties also vary. Some oversight bodies may emphasise corrective and educational measures aimed at improving audit quality, whereas others apply more punitive sanctions, including financial penalties or public reprimands.

For audits of non-PIEs, half of the Member States have opted for a model in which certain quality assurance tasks, particularly inspections, are delegated, in full or in part, to professional bodies, under the ultimate responsibility of the public audit oversight body. In contrast, the delegation of disciplinary or sanctioning powers to professional bodies is less common and varies considerably. These national models have developed over time to reflect local legal frameworks, institutional structures, and market characteristics. As such, the diversity in approaches does not necessarily indicate a need for a single EU-level model but illustrates the underlying structural differences to consider in any discussion.

## TRANSPARENCY OF INSPECTIONS AND SANCTIONS

Transparency practices across Member States vary significantly, including differences in the level of detail and whether reports are publicly accessible or issued only in national languages. In 7 countries (5 EU Member States), individual audit firm quality or other inspections results are published and made publicly available in general or at least for PIE audits. In other countries, overall national results are published.

### TRANSPARENCY OF INSPECTIONS' RESULTS[2]

| COUNTRY | Individual audit firm quality/other inspections' results published and publicly available | Overall national results published |
|---|---|---|
| | Bulgaria, Denmark, Estonia, Ireland, the Netherlands, Norway, the UK | Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden |
| | TOTAL = 7 | TOTAL = 23 |

### TRANSPARENCY OF DISCIPLINARY MEASURES AND SANCTIONS[3]

When it comes to disciplinary measures and sanctions, in 12 countries they are published on a name (auditor) basis. In other countries, this is done on an anonymous basis. In addition, in some countries, decisions on disciplinary measures and sanctions are made publicly available on an anonymous basis but the public can request further information on individual cases.[4]

| COUNTRY | Disciplinary measures and sanctions published on a name basis and publicly available | Disciplinary measures and sanctions published on an anonymous basis |
|---|---|---|
| | Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, the Netherlands, Slovakia, Spain, the UK | Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Iceland, Italy, Latvia, Lithuania, Malta, Norway, Poland, Portugal, Romania, Slovenia, Sweden |
| | TOTAL = 12 | TOTAL = 18 |

## TIMELINE OF INSPECTIONS AND INVESTIGATIONS

The timeframes for completing audit inspections and communicating final outcomes also vary considerably across EU Member States. In some jurisdictions, oversight bodies can provide feedback and issue final inspection reports within a few months of the on-site work. In others, the process can extend significantly, sometimes taking a year or more before the audited firm receives the final conclusions or any related enforcement decision. Such differences can create additional challenges for cross-border audits, where delays and inconsistencies in inspection outcomes can have a broader impact on supervisory effectiveness.

## STRUCTURAL AND OPERATIONAL VARIATIONS

National oversight bodies differ in their institutional setup and legal frameworks. In some countries there is one competent authority functioning as a stand-alone entity for audit oversight and other countries have a dedicated ministerial unit (mostly within the ministry of finance) or an entity under the securities market authority or another authority with wider competences, which carries out audit oversight.

[2] Public audit oversight publication (June 2022). The study cover 27Member States and Iceland, Norway and UK.
[3] Public audit oversight publication (June 2022). The study cover 27Member States and Iceland, Norway and UK.
[4] Status as per June 2022

There is an advisory committee including practitioners in less than half of the counties which support the public oversight body. This mechanism allows the public oversight body to consult experts and practitioners with up-to-date practical expertise and experience.

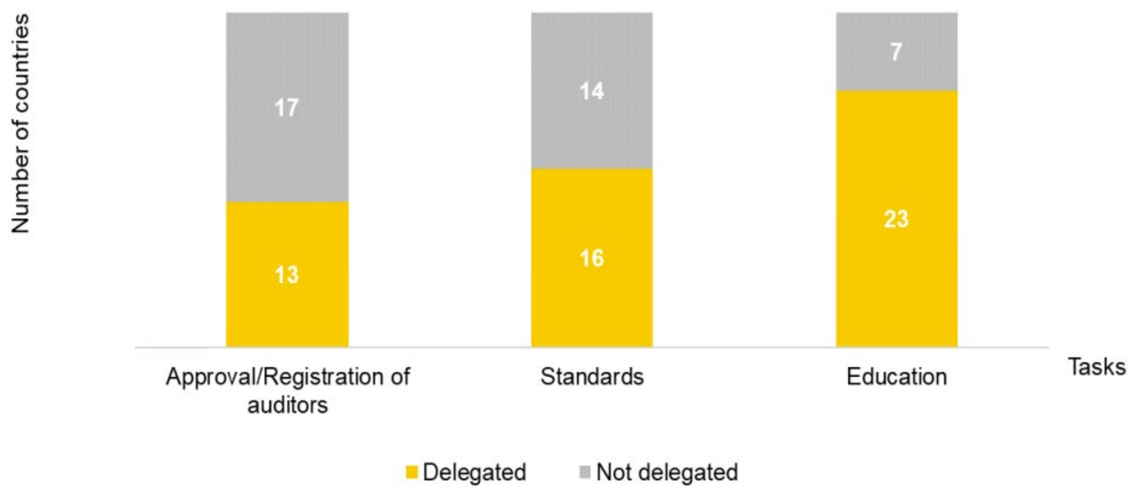
In addition, in 16 jurisdictions, there are separate oversight mechanisms for PIE and non-PIE audits, with non-PIE supervision often partly delegated to professional bodies, under the ultimate responsibility of the public audit oversight body.

Supervisory priorities and focus areas differ among national bodies depending on their mandates, risk assessments, and stakeholder expectations. Some prioritise audits of larger or higher-risk entities, while others maintain a broader supervisory scope. This variation can affect inspection planning, enforcement actions, and engagement with audit firms and other stakeholders.

## LEGAL DIFFERENCES BETWEEN COUNTRIES

The Audit Directive 2014/56/EU and, in particular, the PIE Audit Regulation EU537/2014 establish a common framework for audit oversight across the EU. Despite this legislation, national legal frameworks and the many Member State options shape how audit oversight is conducted and enforced, and these frameworks vary considerably across the EU.

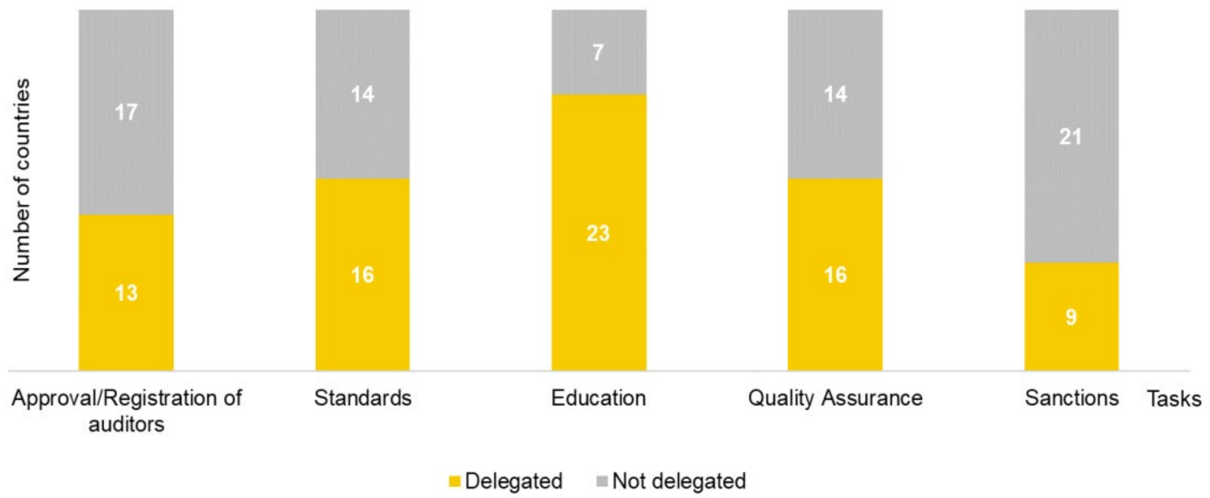
### DELEGATION OF TASKS FOR AUDITS OF PIES[5]




[6]

[5] Status as per November 2021 publication.
[6] The graph presents information on 27 EU Members States, Iceland, Norway and the United Kingdom.

**DELEGATION OF TASKS FOR AUDITS OF NON-PIES**[7]



[8]

### RESOURCES AND TECHNOLOGICAL CONSTRAINTS

Some national oversight bodies, particularly in smaller Member States, operate with limited human and financial resources. This limits their ability to contribute meaningfully to complex cross-border inspections, which require specialist skills, sector-specific knowledge, and significant time investment.

At the same time, the technological landscape of auditing is changing rapidly. The use of advanced data analytics, automation, AI-assisted audit techniques, and cybersecurity-related procedures is expected to expand substantially in the coming years. Oversight bodies will therefore need the capacity to understand, assess, and challenge these developments, not only at the level of individual audit files, but also within firms' quality management systems. This shift will place pressure on all NCAs, not only the smaller ones. Consistency is also critical for audit firms, as it enables the use of the necessary investments in technology, training, and methodology across borders.

## PRINCIPLES AND GOOD PRACTICES FOR MORE EFFECTIVE SUPERVISION

The Audit Directive 2014/56/EU and the PIE Audit Regulation 537/2014 already provide an effective common EU framework for audit supervision with the aim of strengthening the quality, independence and oversight of statutory audits. In accordance with the Directive, Member States are required to establish an effective system of public oversight of statutory auditors and to enable effective cooperation of oversight on the EU level.

The reforms reinforced the role of audit committees in PIEs and supported greater consistency with international auditing standards (ISAs), although their formal adoption remains a national-level decision. Oversight of how audit committees function is also important, as they form a key part of the overall audit quality ecosystem.  However, as was outlined in previous sections, while the framework has improved the consistency of audit oversight, practical challenges remained. Based on the challenges outlined above, the following principles and good practices may help improve consistency.

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[7] Status as per November 2021 publication.
[8] The graph presents information on 27 EU Members States, Iceland, Norway and the United Kingdom.

## CLEAR AND CONSISTENT UNDERSTANDING OF ISAS AS THE BENCHMARK FOR INSPECTION

One of the main challenges in cross-border supervision is the variation in how national audit oversight bodies understand, interpret and apply ISAs. This concerns the understanding of ISAs as benchmarks used in inspections, not the setting or modification of ISAs by standard setters or the application of ISAs by audit firms. Indeed, the roles and functions of standard setters and supervisory bodies should be different and should not be merged into one single organisation.

Developing a common non-binding understanding could reduce divergence in supervisory approaches and ensure that similar audit engagements are assessed and reported on against comparable benchmarks. This could help not only supervision bodies but also stakeholders, like audit committees, relying on inspection reports as well as auditors for efficiency and consistency of audit quality.

## PROPORTIONATE OVERSIGHT BASED ON ENGAGEMENT SIZE AND RISK

Cross-border and PIE audits may warrant more intensive coordination and inspection, while smaller, purely national audits could follow proportionate procedures. A differentiated approach would allow NCAs to focus resources where the potential impact on financial stability and investor confidence is greatest.

## CONSISTENT INSPECTION METHODOLOGY

The EU could explore the development of a more consistent inspection methodology to promote greater consistency in the performance, transparency and timeliness of inspections of cross border and PIEs audits. While the CEAOB has already adopted a Common Audit Inspection Methodology (CAIM), this framework serves primarily as guidance and is not yet applied uniformly by the NCAs.

A more coherent approach could start with clarifying the core components of an audit inspection, including the structure and depth of file reviews, the principles for assessing risks and selecting engagements, and the way significant judgements made by auditors are evaluated. Establishing a common framework to categorise findings and describe deficiencies would further enhance comparability.

Any effort to promote greater methodological consistency must also clearly distinguish on the one hand cross border and PIE audits and on the other hand non-PIE audits. Given the level of public interest involved, inspections of PIE audit firms should follow more robust and more aligned procedures across Member States. For non-PIE audits, however, proportionality remains essential.

## TRANSPARENCY OF INSPECTIONS OUTCOMES

Differences in transparency procedures currently create uneven incentives for audit firms. Oversight bodies publish annual activity reports, but the level of detail, structure, and accessibility of published information still vary. Currently, published audit inspections results cannot be used as indicators of audit quality in a Member State since the selection of inspected audits is risk-based and very difficult to extrapolate.

A more aligned approach would help stakeholders better understand inspection results and the broader performance of the supervisory system. For audits of PIEs, a more detailed and structured publication of inspection outcomes could be considered. This may include clearer descriptions of the nature and severity of identified deficiencies, themes emerging from inspections and supervisory expectations that follow.

Transparency should also support decision-making by those responsible for audit quality in the market, particularly audit committees. Allowing audit committees of PIEs access to relevant inspection information, such as the inspection report of prospective statutory auditors during a tender, would help them make informed selections and reinforce their accountability for appointing and overseeing auditors.

For non-PIE audits, however, the approach should remain proportionate. A simplified and less resource-intensive transparency framework, such as summarised findings or anonymised reports, would strike the right balance between accountability and administrative efficiency.

A potential model is a tiered reporting framework, combining transparent public reporting of key deficiencies with a confidential section on quality-control matters that may become public if corrective actions are not implemented within a specified deadline.

## FAIR AND TRANSPARENT SANCTIONING PROCESSES

Consistency across Member States is very important, particularly in cross-border PIE audits. Differences in enforcement powers and sanctioning practices can be significant: in some jurisdictions, NCAs can impose a wide range of administrative penalties directly, while in others, sanctions are more limited or require court involvement. Appeal rights also differ between Member States. In most countries, audit firms can ask the court to review supervisory decisions, while in some states the options to challenge sanctions are more limited.

To mitigate these concerns, developing shared principles or indicative sanctioning guidelines at the EU level for all audits could help promote greater convergence while respecting national legal traditions and proportionality.

Firms should also have access to robust procedural safeguards, including the right to be heard, the ability to appeal decisions, and the opportunity to lodge complaints through independent and impartial mechanisms. These rights not only protect due process but also help foster a constructive relationship between oversight bodies and the profession.

## EMPHASIS ON QUALITY MANAGEMENT SYSTEMS

Greater focus should be placed on assessing firms' internal quality management and risk control systems in line with the requirements of ISQM 1[9]. Since its implementation in firms should now be complete, supervisory approaches could increasingly evaluate how effectively these systems operate in practice, rather than relying predominantly on file-by-file inspections. A system-level review allows oversight bodies to evaluate how effectively a firm's governance, leadership, methodology, training, monitoring, and ethical safeguards are designed and implemented across the organisation. This is already happening in some countries but not consistently in all of them.

In the context of cross-border supervision, a stronger emphasis on quality management systems can also reduce duplication of work. If a firm operates under a consistent quality framework across jurisdictions, coordinated system-level assessments by NCAs can replace repetitive inspections of similar files in multiple Member States.

## TIMELY COMPLETION OF THE SUPERVISORY PROCESS

The full oversight process from inspection planning to the issuance of the final report and any follow-up actions should be conducted within clear and reasonable timelines to be effective. Prolonged supervisory processes risk diminishing the relevance of inspection findings, as the circumstances of the reviewed engagement may have changed significantly by the time conclusions are communicated. Delays can also create operational uncertainty for audit firms, particularly when potential sanctions or remedial measures remain pending for extended periods.

One option could be to establish a maximum indicative duration for each stage of the process, such as for inspection fieldwork, drafting reports, firm response and final decisions. This can improve consistency across Member States and help auditors plan and take actions for findings. This does not imply a "a-one-size-fits-all"

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[9] ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

approach, as more complex cases may require flexibility. Having agreed benchmarks would encourage timely completion and reduce the risk for prolonged inspections.

In a cross-border context, coordination of timelines among national oversight bodies can be helpful, particularly where misaligned schedules would significantly limit the effectiveness of joint work. While full alignment will not always be feasible or necessary, timely information-sharing and reasonable coordination, where appropriate, can support more coherent supervision and avoid unnecessary delays.

### PUBLISHING GOOD PRACTICES ALONGSIDE FINDINGS

Oversight reports typically focus on identifying deficiencies and imposing sanctions, which, while necessary, can contribute to a perception that regulation is primarily punitive. Complementing these with examples of good practices observed during inspections can shift the narrative towards continuous improvement. Whether in audit documentation, use of technology, sustainability assurance, or internal quality control, good practices can serve as benchmarks for other firms and stimulate innovation in audit and use of technology in it.

These visible positive examples can help create a more balanced public image of the audit profession. Highlighting that many practitioners deliver high-quality work, not only supports the objective of improving audit quality across the EU but could also enhance the profession's attractiveness for current and future auditors.

### OVERSIGHT AS A DRIVER OF QUALITY IMPROVEMENT

Enforcement and sanctions remain necessary tools, but the primary purpose of audit oversight should be to promote and sustain high audit quality. Oversight bodies can adopt a more constructive approach by integrating remediation plans, improvement initiatives and regular dialogue with firms into their processes. Rather than focusing solely on identifying past deficiencies, NCAs could place equal emphasis on supporting firms in implementing improvements and preventing future issues.

This balanced approach fosters a collaborative relationship between NCAs and the profession, promotes a culture of learning, and ultimately contributes to more resilient audit practices.

### RECONSIDERATION OF GROUP INSPECTIONS

Currently, inspections of large pan-European group audit engagements are normally not performed on a cross-border basis. They are conducted by the national audit oversight authority in the Member State where the group auditor is located. Based on ISA 600[10] for audits of groups, the group auditor' files should include all necessary documentation to support the group audit opinion, including of the audit work performed on subsidiaries in various Member States.

In principle, all documentation necessary to inspect the group audit should therefore already be available in the group auditor's file. However, in some cases, the group inspector may need access to specific documentation held by inspectors of subsidiary audits to assess how the group audit work was supported. Any such access should follow the existing legal mechanisms, such as those in Articles 27 and 36 of the Audit Directive and should not impose obligations that go beyond what international standards already require.

A potential solution to improve the coordination of the inspection work on cross-border and PIE group audits could be to establish "group inspections" in Member States. In such a model, the authority responsible for inspecting the group audit could have an enhanced role in coordinating with the authorities reviewing the audits of significant subsidiaries in other Member States, with the aim of meeting the overall objectives of the group audit inspection. This idea could build on the experience of existing CEAOB colleges of competent authorities, while acknowledging that inspection practices and structures vary across Member States.[11]

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[10] ISA 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
[11] Article 32 of Regulation (EU) No 537/2014.

### THEMATIC AND RISK-BASED REVIEWS

Thematic and risk-based reviews allow NCAs to prioritise areas with the greatest supervisory relevance and identify emerging risks across firms more efficiently than through file inspections alone. Elements of cooperative compliance, where supervisors engage earlier with firms, assess governance and internal quality management systems, and encourage open dialogue to address risks before they materialise can also be used in audit supervision. Applying elements of cooperative compliance in audit supervision can therefore help shift the focus from reactive, file-based inspection to a more preventive approach.

### RELATIONSHIPS AND TRANSPARENCY BETWEEN NCAS

To have a transparent process of audit oversight, each supervisor is already required under the Audit Regulation to publish an annual report covering inspections, investigations, key findings and other supervisory activities.

However, NCAs currently do not carry out structured reviews of each other's work. Without any form of comparison or external benchmarking, supervisory approaches can gradually diverge, even when NCAs are addressing the same risks or applying the same legislation. This lack of mutual insight limits the ability to identify good practices, understand why certain methods are more effective, or detect areas where supervisory approaches may be inconsistent or less developed.

## RECOMMENDATIONS AND GOOD PRACTICES FOR GREATER CONSISTENCY

To promote more aligned supervisory practices across the EU while respecting national frameworks, the following areas could be strengthened, primarily for cross border and PIE audit inspections. CEAOB could be the body to assume these powers and responsibilities. These proposals are worked out in further details in the section "Principles and good practices for more effective supervision":

1. A stronger EU-level coordination mechanism could support a common understanding of ISAs for inspection purposes (without setting or modifying these global standards themselves).
2. EU oversight cooperation could help promote proportionate and risk-based oversight practices, rather than purely rules-driven approaches.
3. More consistent expectations regarding the structure, level of detail, and communication of inspection findings would improve comparability and transparency across jurisdictions.
4. Greater alignment at EU level on sanctioning criteria and procedures would contribute to a fairer, clearer, and more transparent approach.
5. More consistent timelines and supervisory expectations across Member States could reduce unnecessary complexity, particularly for cross-border firms.
6. Existing CEAOB Colleges of Competent Authorities could be further leveraged to promote coordinated group inspections.
7. NCAs could periodically conduct peer reviews using an agreed methodology, with outcomes shared within the CEAOB to identify good practices and strengthen supervisory convergence.

## CONCLUSION

Supervision in EU is fragmented with challenges and differences between the Member States. We share principles and good practices for more effective cross-border cooperation, especially for cross border and PIE audit inspections. Also, we share some of the good practices currently happening in different countries and regions.

This paper emphasises that any consideration of change to the current supervisory model should be informed by a clear understanding of the legal, operational, and political realities in the respective Member States that shape audit oversight today.

Strengthening cooperation, improving consistency, and addressing resource and methodological gaps can already deliver tangible benefits within the current framework. At the same time, acknowledging the diversity of national contexts will be essential to ensure that any future supervisory model is effective and broad.

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