



# Audit Oversight in the European Union and Western Balkans

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# Abbreviations

<b>AAAPVIM</b>	Lithuanian Authority of Audit, Accounting, Property Valuation, and Insolvency Management
<b>AJN</b>	Estonian Audit Supervisory Board
<b>AMF</b>	French Securities Market Regulator
<b>AOB</b>	Audit Oversight Board/Body
<b>APAB</b>	Austrian Audit Oversight Authority
<b>APOA</b>	Slovenian Agency for Public Oversight of Auditing
<b>APOB</b>	Audit Public Oversight Body of Ukraine
<b>APAS</b>	German Audit Oversight Body
<b>CAOAC</b>	North Macedonian Council for Advancement and Oversight of Audit
<b>CEAOB</b>	Committee of European Audit Oversight Bodies
<b>CFRR</b>	World Bank Centre for Financial and Sustainability Reporting Reform
<b>CPD</b>	Continuing Professional Development
<b>CPE</b>	Continuing Professional Education
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>EC</b>	European Commission
<b>ELTE</b>	Hellenic Accounting and Auditing Standards Oversight Board
<b>ESAP</b>	European Single Access Point
<b>ESRS</b>	European Sustainability Reporting Standards
<b>EU</b>	European Union
<b>H2A</b>	French Audit Oversight Body
<b>IAASA</b>	Irish Auditing & Accounting Supervisory Authority
<b>IFIAR</b>	International Forum of Independent Audit Regulators
<b>IOSCO</b>	International Organization of Securities Commissions
<b>ISA</b>	International Standards on Auditing
<b>KCFR</b>	Kosovo Council for Financial Reporting
<b>MOU</b>	Memorandum of Understanding
<b>PANA</b>	Polish Agency for Audit Oversight
<b>PIE</b>	Public Interest Entity
<b>POS</b>	Public Oversight System
<b>QA</b>	Quality Assurance



**Effective audit oversight helps improve the quality of financial information, which is crucial to good governance and economic growth.**

This paper aims to assist European Union (EU) candidate and potential candidate countries, particularly in the Western Balkans, to establish effective oversight of corporate audit. It was prepared as a part of The Road to Europe: Program of Accounting Reform and Institutional Strengthening for Small and Medium Enterprises (REPARIS for SMEs), a regional program supporting six Western Balkan countries implemented by the World Bank Centre for Financial and Sustainability Reporting Reform (CFRR).

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## About the CFRR

The CFRR, located in Vienna, Austria, supports countries in the Europe and Central Asia region to strengthen private and public sector financial and sustainability reporting and auditing. As part of the World Bank's Institutions Global Department, the CFRR helps client countries build strong accounting, reporting, and auditing practices which bring sustainable and equitable private sector-led growth, strengthened governance, and accountability.

The CFRR provides knowledge services including analytical and advisory services; learning and skills development; know-how and knowledge transfer; and technical assistance and institutional strengthening.

Activities are focused on four areas of expertise:

i) raising awareness of the importance of the financial and sustainability reporting reform agenda and contributing to legislative reform; ii) building institutional capacity by addressing knowledge gaps and offering tailored advice in areas such as public oversight and standards; iii) encouraging strong and engaged professional accountancy organizations; and iv) promoting the development of internationally compatible accounting education. Tools used by the CFRR to inform and support client country reforms include Reports on the Observance of Standards and Codes on Accounting and Auditing. These provide a detailed analysis of the extent to which national accounting, reporting, and audit systems comply with international good practice, and the capacity of institutions to implement and enforce such systems. The reports provide recommendations which national governments can use to help develop and assess legislative reform and which guide CFRR's engagement.

The CFRR also manages a range of regional and country-specific programs focused on improving financial and sustainability reporting including REPARIS for SMEs. Funded by the EU as part of the Western Balkans Enterprise Development and Innovation Facility, the Program aims to support: (i) further improvement of access of SMEs in the Western Balkans to professional accounting and financial management services, and (ii) alignment of Western Balkans corporate financial reporting frameworks with relevant EU directives and regulations.



# Executive Summary

The provision of high-quality financial information by corporate and state-owned entities, supported by effective audit, underpins private sector economic development, facilitates domestic and foreign direct investment, enables appropriate corporate governance and transparency, and increases the fiscal tax base for governments. Reform, development, and capacity building of private and state-owned entity sector financial reporting, accounting, and audit contributes to and underpins financial stability and economic growth.

This paper aims to assist European Union (EU) candidate and potential candidate countries, particularly in the Western Balkans, to establish effective oversight of corporate audit. It:

- ✦ summarizes relevant EU legislation,
- ✦ considers the impact of recent EU reforms,
- ✦ highlights recent developments relating to audit oversight,
- ✦ outlines the characteristics of EU public oversight systems (POS) in small, medium, and large countries,
- ✦ profiles the progress of establishing audit oversight in countries of the Western Balkans,
- ✦ highlights solutions to common challenges faced by audit oversight boards/bodies (AOBs), and
- ✦ identifies the implications of these for aspiring EU Member States when establishing a POS as part of the alignment process.

## The EU regulatory framework for the public oversight of audit

Many countries worldwide have enacted reforms to improve audit oversight. The EU requires public (independent) oversight of the provision of private-sector audit services in all Member States. Countries aspiring to EU membership should implement these reforms and requirements in their own jurisdictions as part of preparing for EU accession.

The 2006 EU Statutory Audit Directive 2006/43/EC (Audit Directive) sets out the requirements for public oversight of statutory audit and auditors in Member States. It was amended significantly in 2014 to improve audit quality and independence. Further requirements for public oversight of statutory audit were added in 2014 by EU Statutory Audit Regulation 537/2014 (Audit Regulation). This sets out specific obligations regarding the statutory audit of public-interest entities (PIEs).

The Audit Directive and Regulation were amended in 2022 by the Corporate Sustainability Reporting Directive (CSRD) 2022/2464 (EU). This gives powers of supervision and oversight over auditors and audit firms when they provide assurance of sustainability reporting.



## Lessons from implementing public oversight of audit in the EU

A number of recent studies provide analysis of the implementation of public oversight in the EU. The implications from those studies and experiences for countries aspiring to establish audit oversight systems similar to the EU include:

### It seems to be worth it...

- ✦ Establishing audit oversight seems to have raised auditor independence (and most likely audit quality). Market concentration in the EU has reduced a little but remains high, which is similar to audit markets worldwide.

### ...but challenging...

- ✦ Aspiring states are not alone in facing challenges to establish audit oversight systems. EU states have found implementing EU audit requirements to be challenging and there are 'disparities' among Member States in how the legislation is actioned and enforced.
- ✦ Systemic risks across all audits seem to be rare, but many deficiencies in audit quality are found across EU member states.
- ✦ EU member states are still in the process of implementing the additional requirements contained in the CSRD for the oversight of assurance providers for sustainability reporting and it is proving challenging. While countries aspiring to establish audit oversight similar to the EU should explore implementing these new requirements, it is not yet urgent.

### ...and international cooperation helps.

- ✦ Discussing and coordinating with EU audit oversight bodies (AOB) will help with the challenge of inspecting and investigating international audit networks.
- ✦ International cooperation helps in relation to audits of multinational PIEs and global audit networks that provide cross-border audit services.
- ✦ While information sharing can be limited due to confidentiality and legal restrictions it may be possible through signing individual or EU-wide

Memorandums of Understanding (MoUs) with other AOBs. Example MoU's are available from international organizations like the International Forum of Independent Audit Regulators (IFIAR) and International Organization of Securities Commissions (IOSCO).

## Implementing EU audit oversight requirements

The clear takeaway for AOBs aspiring to establish audit oversight similar to the EU is that there is no "one size fits all" solution. The Audit Directive is implemented by EU Member States in national legislation, meaning a range of approaches have been used. Even the requirements of the Audit Regulation that apply directly allow for different models of implementation.

Aspiring countries, such as those in the Western Balkans, should observe the variety and characteristics of EU models of audit oversight as good practice examples, but ultimately the best system to implement will depend on the country's own specific circumstances. For example, some countries may find it relatively easy to gain funding from the state budget and locate the oversight function within a government ministry. In other environments, an independent body funded by a levy on auditors may be more appropriate.

## Status of implementation in Western Balkan countries

Each of the Western Balkan countries has begun the process of establishing a POS that complies with the EU legislative framework. Two countries, Albania and Serbia, have worked in depth with the World Bank and are significantly more advanced in implementing audit oversight and quality control inspections compared to their peers. Other countries, such as Montenegro and the Bosnian jurisdiction of Republika Srpska, have begun a program of on-site inspections of audit firms. Some are in the process of preparing for such inspections. Challenges currently being addressed in Western Balkan countries include: establishing a



single competent authority at the country level in Bosnia and Herzegovina, as required in EU legislation; enabling the AOB in North Macedonia to perform quality assurance (QA) inspections directly, including of public interest entities' (PIE) audits; and establishing the right institutional set-up and funding for the AOBs in Kosovo and North Macedonia to effectively perform their QA inspection function.

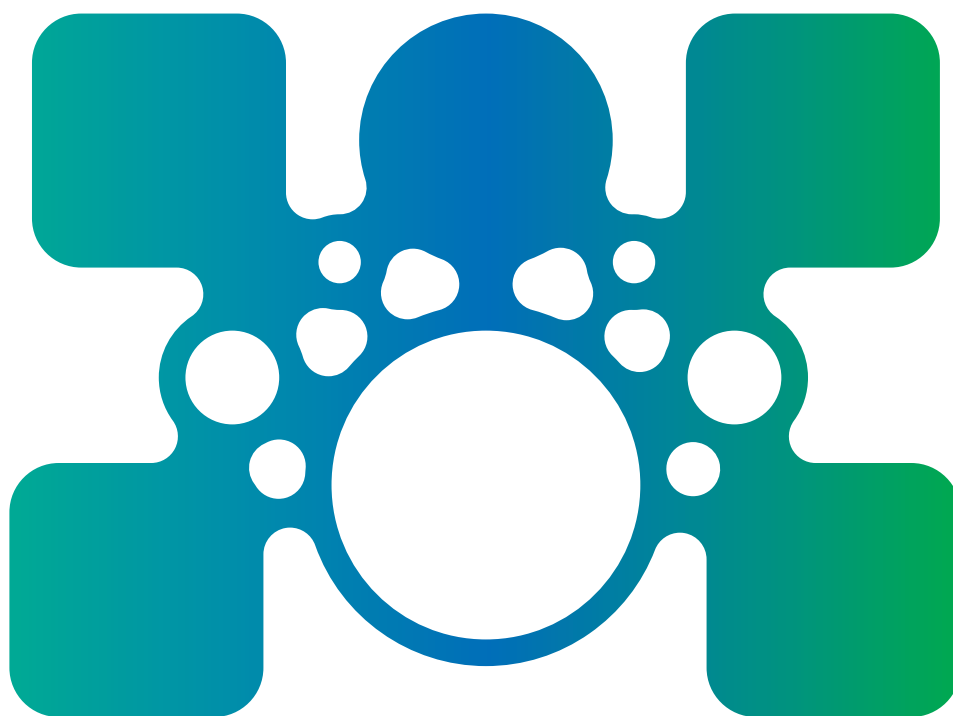
## Common challenges and possible solutions

Some common challenges faced by early-stage AOBs and possible solutions include:

- ✦ Challenges in balancing independence and competence for board and staff members can be addressed by appointing a mix of experienced non-practicing auditors after a suitable “cooling-off period” together with skilled professionals from other fields and avoiding any potential conflicts of interest.
- ✦ Challenges to adequately compensating inspectors who may have earned high salaries in audit practice can be addressed by, for example, creating an attractive package where salary is only one component, with increased holiday allowances, flexible working, and a reasonable approach to working hours.
- ✦ Challenges to determining the overall quality of audit within a firm by providing an single overall rating to audit firms following inspections can be addressed by adopting a flexible approach to ratings and allowing experienced inspectors to judge the quality based on experience, rather than counting breaches for example.
- ✦ Challenges of many audit quality issues being identified in first-time inspections can be addressed by supporting auditors deemed able to improve with obtaining training, with the goal to enhance audit quality rather than to punish auditors through issuing fines or warnings.
- ✦ Challenges of burdensome legal processes can be addressed by improving communication between auditors and inspectors to make clear what improvements are needed, and on what timeline.

## Conclusions

Implementing audit oversight is worth doing – it brings improvements to audit quality and independence which improves the quality of financial information crucial to good governance and economic growth. Countries aspiring to introduce EU-style audit oversight can learn from the experiences of EU Member States in establishing and operating their systems, and seek to cooperate with EU audit oversight bodies to the benefit of all. However, the variety of models seen in EU member states shows that, ultimately, the best audit oversight system will be determined by country characteristics.

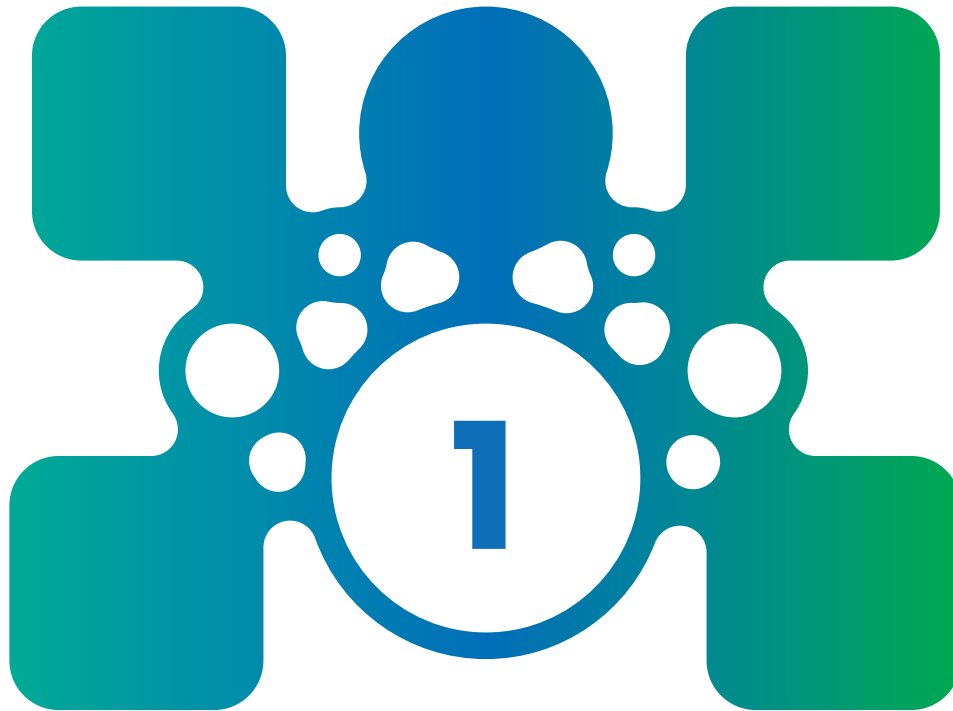


## Introduction

The provision of high-quality financial information by corporate entities contributes to financial stability and economic growth. It underpins private sector economic development, facilitates domestic and foreign direct investment, enables appropriate corporate governance and transparency, and increases the fiscal tax base for governments. Audit helps ensure that the financial information reported is fair and accurate. Audits should build trust, identify potential issues, and improve accountability in corporate financial reporting.

In response to a string of financial reporting and auditing scandals, countries worldwide have enacted reforms requiring independent oversight of audit.<sup>1</sup> As part of wider reforms of audit in 2014, the EU strengthened requirements for independent regulation and oversight of corporate audits and auditors. Public (independent) oversight of the provision of private-sector audit services was enhanced and stricter requirements were introduced. Countries aspiring to EU membership should implement these reforms and requirements in their own jurisdictions as part of the accession process.

<sup>1</sup> For background on the purpose and characteristics of public oversight systems see World Bank. 2017. Public Oversight Systems for Statutory Audit in the EU <https://documents1.worldbank.org/curated/ar/566531534767662438/pdf/Public-Oversight-Systems-for-Statutory-Audit-in-the-EU.pdf>



# The EU Regulatory Framework for the Public Oversight of Auditors and Audit Firms

## 1.1. The evolution of EU legislation on public oversight of audit

The 2006 EU Statutory Audit Directive 2006/43/EC<sup>2</sup> (hereinafter the “Audit Directive”) sets out the requirements for public oversight of statutory audit and auditors in EU Member States. The Audit Directive

was amended significantly in 2014 by EU Directive 2014/56<sup>3</sup> which implemented reforms that sought to improve audit quality and independence.

Further requirements for public oversight of statutory audit were added in 2014 by EU Statutory Audit Regulation 537/2014<sup>4</sup> (the “Audit Regulation”). The Audit Regulation sets out specific obligations regarding the statutory audit of public-interest entities (PIEs).

**Figure 1.** The evolution of EU legislation on public oversight of audit



<sup>2</sup> See <https://eur-lex.europa.eu/eli/dir/2006/43/oj/eng>

<sup>3</sup> See <https://eur-lex.europa.eu/eli/dir/2014/56/oj/eng>

<sup>4</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0537&qid=1723568140116>

The Audit Directive and Regulation were then amended in 2022 by the Corporate Sustainability Reporting Directive (CSRD) 2022/2464 (EU).<sup>5</sup> This added responsibilities for AOBs in the area of assurance of sustainability reporting. The Audit Directive was further amended by the European Single Access Point (ESAP) Directive 2023/2864 (EU).<sup>6</sup> The ESAP Directive did not affect public oversight of audit or assurance.

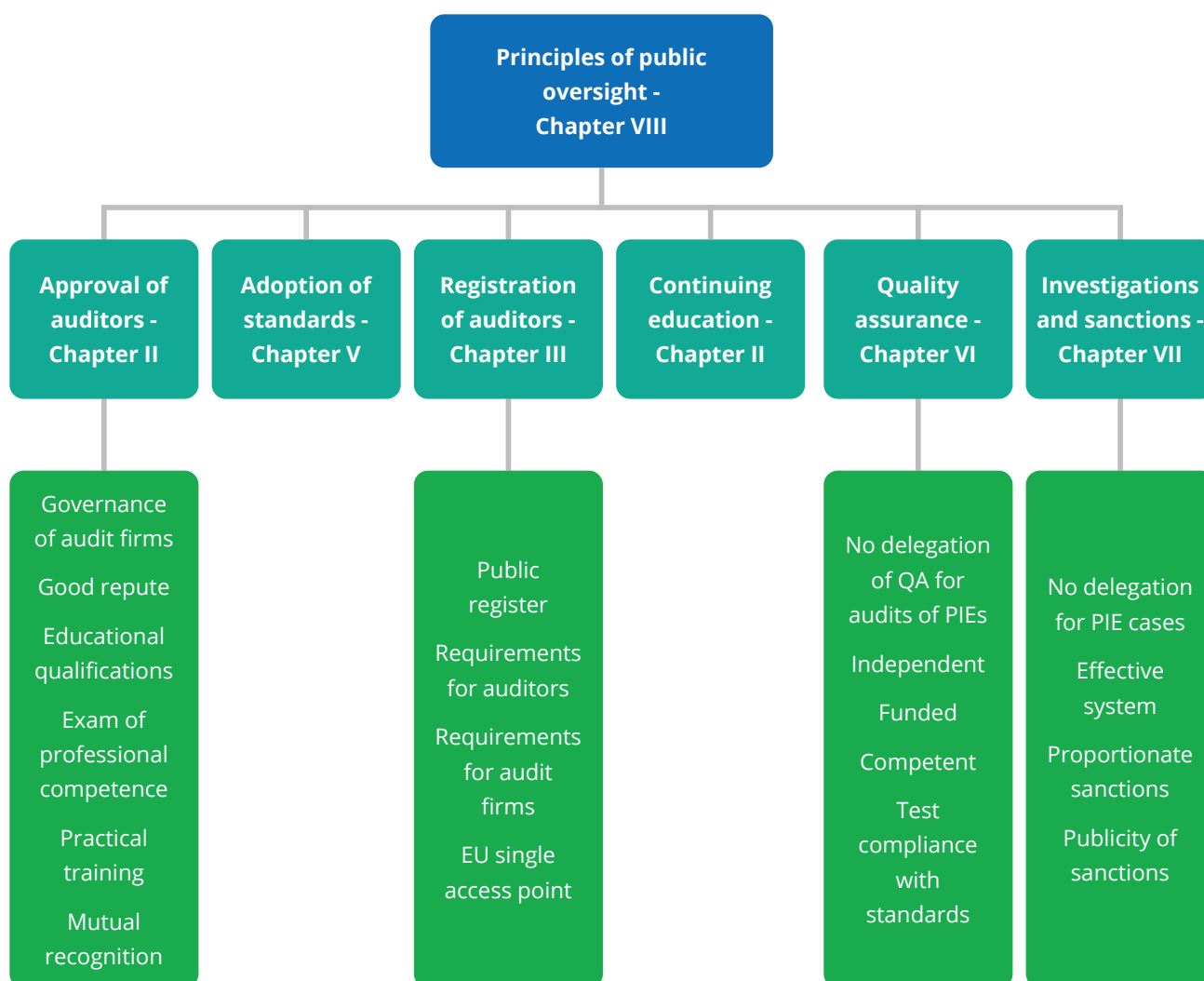
The consolidated text of the amended Audit Directive<sup>7</sup> is available on the EU-Lex website, as is the amended Audit Regulation.<sup>8</sup> Following the CSRD, the legislative

instruments may better be described as the Statutory Audit and Assurance Directive and Regulation.

## 1.2. The requirements of EU legislation on public oversight

The Audit Directive contains the basic requirements for public oversight of audit and auditors. The Audit Regulation adds extra detail to the requirements for public oversight in relation to specifically auditors of PIEs.

**Figure 2.** Elements of audit oversight in the Audit Directive



<sup>5</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32022L2464>

<sup>6</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023L2864>

<sup>7</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006L0043-20240109>

<sup>8</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0537-20240109>

## Audit Directive Chapter VIII – The Principles of Public Oversight

The principles of audit oversight, set out in Chapter VIII of the Audit Directive, require that the AOB designated by the Member State must:

	Have oversight of all statutory auditors and audit firms
	Be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit and, where applicable, to the assurance of sustainability reporting. They shall be selected in accordance with an independent and transparent nomination procedure <sup>9</sup>
	Have ultimate responsibility for the oversight of approval, continuing education, registration, quality assurance and investigation of auditors, and for adoption of standards
	Be organized in such a manner that conflicts of interests are avoided
	Be able to initiate and conduct investigations of auditors and audit firms and take appropriate action
	Have the powers necessary to conduct oversight
	Be transparent
	Be adequately funded with the funding secure and free from any undue influence by statutory auditors or audit firms

**Areas subject to oversight:** The AOB is required to perform oversight of a list of specified areas and functions. While only oversight of the functions is required, it is implied that the AOB must perform the

tasks of delivering the functions unless the tasks are delegated.

The areas are:

- the approval and registration of statutory auditors and audit firms;
- the adoption of standards on professional ethics, internal quality control of audit firms, auditing and the assurance of sustainability reporting, except where those standards are adopted or approved by other Member State authorities;
- continuing professional education (CPE);
- quality assurance systems;
- investigative and administrative disciplinary systems.

**Delegation:** The Audit Directive states as part of the principles that Member States may delegate, or allow the AOB to delegate, any of its tasks to other authorities or bodies that shall be organized in such a manner that conflicts of interest are avoided. Article 24 of the Audit Regulation states<sup>10</sup> that **quality assurance, investigations, and sanctioning of auditors of PIEs cannot be delegated** (except for delegating sanctioning to a body where the majority of the persons involved in the governance of the delegated body concerned is independent from the audit profession).

**Oversight of auditors and audit firms providing assurance of sustainability reporting:** The CSRD amendments mean that the public oversight of statutory auditors and audit firms applies not just when they perform statutory audit services but also when they perform sustainability assurance services.

**Cooperation between POS at the EU level:** Member States are required to ensure that regulatory arrangements for POS include effective cooperation at the EU level in relation to oversight activities, thereby only one AOB should take overall responsibility for ensuring this cooperation. All EU AOBs are required by Article 30 of the Audit Regulation to be members of the Committee of European Audit Oversight Bodies (CEAOB).

<sup>9</sup> The Audit Regulation sets out more detailed and stringent independence requirements for the members of governing bodies of the AOBs on oversight of auditors of PIEs

<sup>10</sup> Regulation: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0537-20240109>

The CEAOB is composed of representatives of the national audit oversight bodies of the EU and the European Securities and Markets Authority.<sup>11</sup> It is chaired by a representative of one of the AOBs and the European Commission (EC)<sup>12</sup> provides the vice-chair.

The European Banking Authority,<sup>13</sup> the European Insurance and Occupational Pensions Authority,<sup>14</sup> representatives of the national audit authorities of the European Economic Area from Iceland, Liechtenstein, and Norway, and the Audit Public Oversight Body of Ukraine<sup>15</sup> (APOB) are observers.

The CEAOB's subgroups and task forces are detailed in **Figure 3** below.

## Audit Directive Chapters II - VII

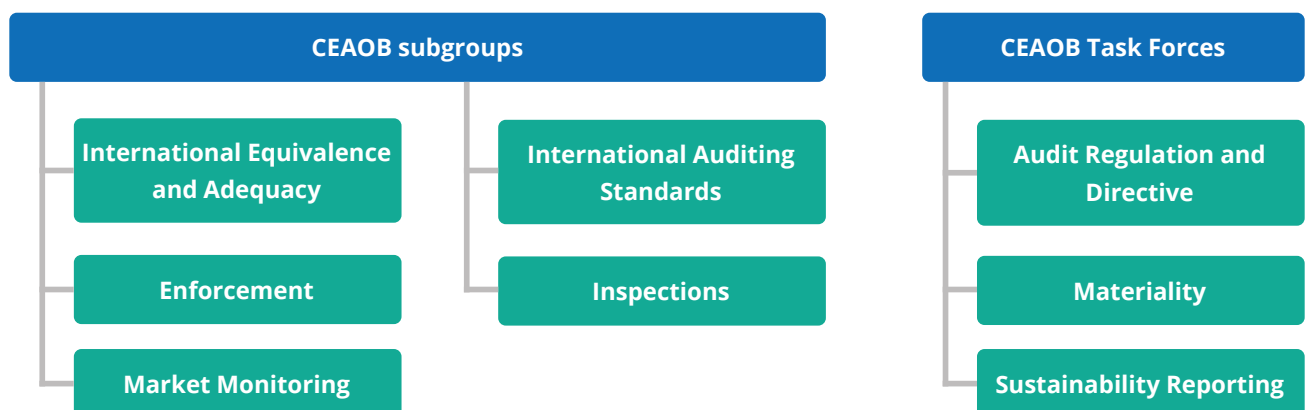
Chapter VIII of the Audit Directive relates specifically to public oversight, but other Chapters include the detail of the functions of auditor approval, registration, continuing professional education, the system of independent quality assurance, and investigation and discipline. The requirements for audit regulation in each of these Chapters are important for AOBs, as they must either apply them directly (e.g. quality

assurance of PIE auditors) or actively oversee any organization to which they have delegated the functions (e.g. auditor qualification is often delegated).

## Chapter II - Approval of auditors

AOBs must perform or oversee the approval of auditors. Requirements for approval are set out in Chapter II and include **governance** - audit firms must be controlled by a majority of auditors; **good repute** - persons or firms must be of good repute; **educational qualifications** - auditors must hold an educational qualification as set out in the Directive to be approved (requirements include entrance requirements, a list of the subjects to be covered, and a specification that theoretical knowledge must be tested up to university degree level); **exam of professional competence** - auditors must pass a test of professional competence to be approved; **practical training** - a requirement for three years of practical training, of which two-thirds must be with a qualified auditor; **mutual recognition** - that Member States must recognize auditors approved in other Member States, subject to tests in local tax and law; **continuous professional education** - that auditors must maintain their theoretical knowledge, professional skills, and values at a sufficiently high level to stay approved.

**Figure 3.** CEAOB's subgroups and task forces



<sup>11</sup> See <https://www.esma.europa.eu/>

<sup>12</sup> The Directorate-General for Financial Stability, Financial Services and Capital Markets Union

<sup>13</sup> See <https://www.eba.europa.eu/homepage>

<sup>14</sup> See [https://www.eiopa.europa.eu/index\\_en](https://www.eiopa.europa.eu/index_en)

<sup>15</sup> See [https://www.apob.org.ua/?page\\_id=17&lang=en](https://www.apob.org.ua/?page_id=17&lang=en)

## Chapter III - Registration of auditors

AOBs maintain or oversee the register of approved auditors. Requirements for the registration process and characteristics of the register are set out in Chapter III and include: **public register** – requirements for the characteristics of the public register of approved auditors; **requirements for auditors** – the information needed on the register for individual auditors; **requirements for audit firms** – the information needed on the register for audit firms; and **EU single access point** – requiring information on the register of auditors to be submitted in a data extractable format.

## Chapter V - Adoption of standards

Chapter V sets out requirements for the **standards** that auditors must use when conducting audits. It requires the use of the International Standards on Auditing (ISAs) and International Standards on Quality Management 1 and 2 as adopted by the European Commission. Oversight of the adoption of standards on professional ethics, internal quality control of audit firms, auditing, and the assurance of sustainability reporting is a function required in Chapter VIII. However, if the standards are adopted at European Commission level then no oversight by the AOB is actually needed.

Regarding sustainability reporting assurance standards, the Commission will adopt standards relating to limited assurance in 2026. Until then, AOBs are responsible for setting the standards for assurance. The CEAOB has issued guidance in relation to these standards.

## Chapter VI - Quality Assurance Systems

Chapter VI requires that the quality assurance system operated or overseen by the AOB should be **unbiased** – independent from those being reviewed, free from conflicts of interest by reviewers, free from undue influence by those being reviewed; **competent and resourced** – carried out by trained, competent individuals with relevant experience and adequate funding; **proportionate** – appropriate and proportionate depending on the scale and complexity of the statutory auditor/firm; and **comprehensive**

– inclusive of reviews that assess compliance with auditing standards, independence requirements, adequate testing, internal quality control systems, resources, and fees charged.

The system should include annual reports to be published of the overall results of reviews with follow-up actions.

## Chapter VII - Investigations and Sanctions

Chapter VII requires that the investigation and disciplinary systems operated or overseen by the AOB should be **effective** and include sanctions and penalties to **detect and prevent** issues found in the execution of statutory audits. Sanctions and corrective measures imposed on statutory auditors / audit firms, shall be **appropriately reported** to the public.

Sanctioning powers shall include consideration of the **gravity and duration of breach** (current and previous), the potential financial liability, any profits or loss gained, level of cooperation with the AOB, before imposing a sanction.

Sanctions available to the AOB should include: the withdrawal of approval of statutory auditor or audit firm status; notices (warnings) for the breach of legislation or regulations; public statements (on official websites) detailing the related breach; a temporary prohibition from carrying out statutory audits and signing audit reports; declaration that an audit report does not meet Article 28 of the Audit Directive / Article 10 of the Audit Regulation 537/2014; and pecuniary sanctions (fines). Public statements should be anonymous if publication could harm the stability of financial markets or cause disproportionate harm to individuals or organizations. The time period that the sanction remains public should be five years, subject to rights of appeal.

## Key aspects of the Audit Regulation

The Audit Regulation sets out additional requirements in respect of the statutory audit (and assurance of sustainability reporting) of PIEs:

- ✦ conditions for carrying out statutory audit and assurance of PIEs (articles 4-15);



- ✦ the appointment of PIE statutory auditors, audit firms, and assurance providers (articles 16-19);
- ✦ oversight of the activities of statutory auditors and audit firms carrying out statutory audit of PIEs (articles 20-35); and
- ✦ cooperation with third country authorities (articles 36-40).

### Annual report and market monitoring

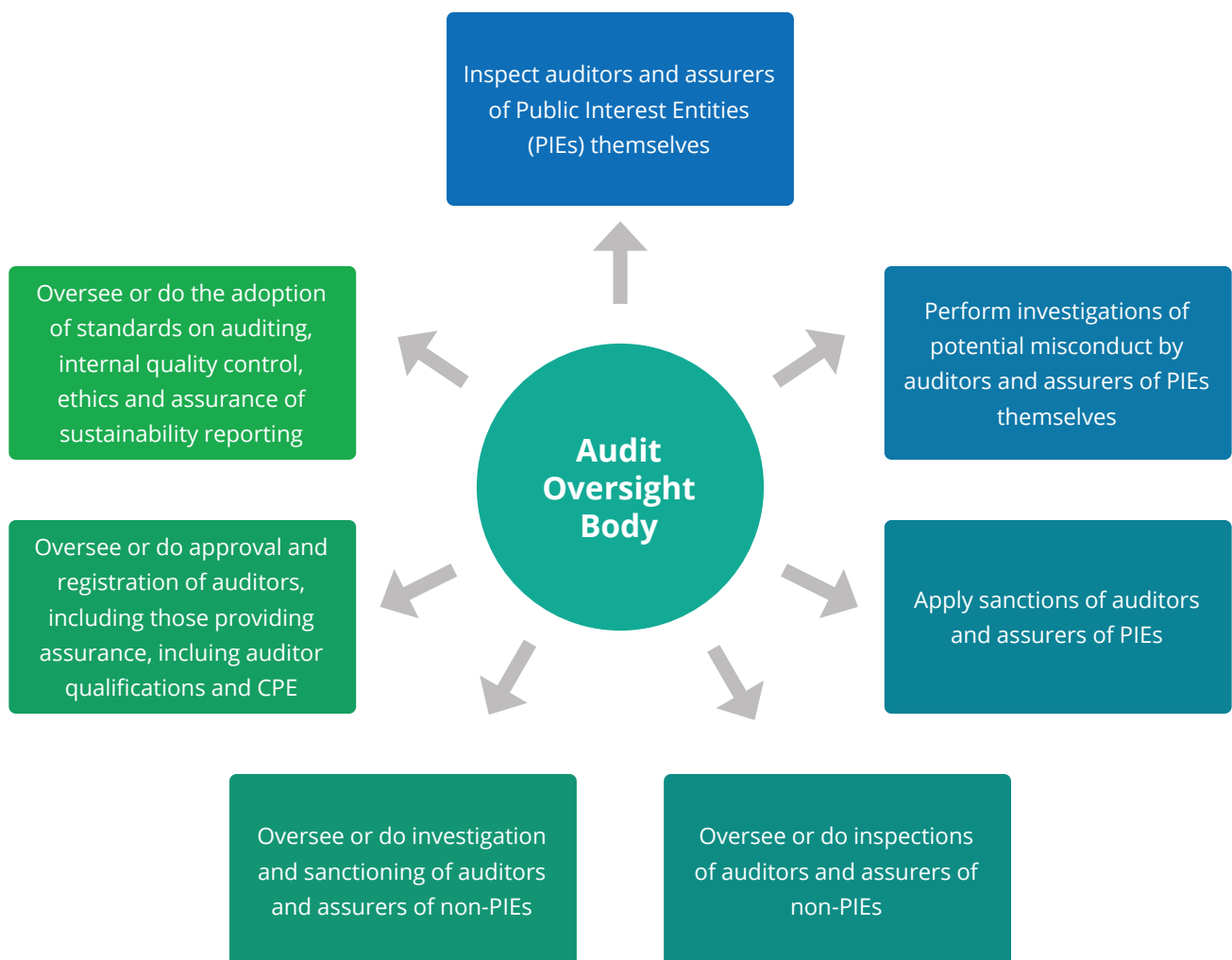
Under Article 28 of the Audit Regulation, AOBs are required to report annually on their regulatory activity, their annual work plan, the overall results of the quality assurance system, and the aggregated information on the findings and conclusions of

inspections. Article 27 requires AOBs to perform monitoring of developments in the market for providing statutory audit services to PIEs in their jurisdiction and publish the results once every three years.

## 1.3. Assurance of sustainability reporting and oversight of the assurance

The CSRD was adopted on December 14, 2022. It amended the Audit Directive, the Audit Regulation, and 2 other Directives:

**Figure 4.** The functions of an EU AOB



- ✦ Directive 2013/34/EU (the Accounting Directive) on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.
- ✦ Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

In January 2025 the EC published the Competitiveness Compass which included a new roadmap to restore Europe's dynamism and boost its economic growth. It aimed to simplify and reduce regulatory and reporting burden.<sup>16</sup> On 26 February 2025, the EC adopted a new package of detailed proposals to simplify rules and requirements on sustainable finance reporting and the EU Taxonomy for consideration by the European Parliament and Council.<sup>17</sup>

## Sustainability Reporting

The CSRD aims to strengthen corporate sustainability reporting requirements for large, listed, and public-interest companies as defined through the application of harmonized European Sustainability Reporting Standards (ESRS) developed by EFRAG (previously known as the European Financial Reporting Advisory Group)<sup>18</sup> and adopted by the European Commission. The requirements to report are being phased in; the first cohort of companies were required to begin applying the ESRS from January 2024 to report sustainability information covering environmental, social, and governance topics. Simplification proposals announced in February 2024, if approved, would reduce by 80% the number of undertakings required to report on sustainability matters. The reporting requirements would only apply to large undertakings with more than 1000 employees and either a turnover above EUR 50 million or a balance sheet above EUR 25 million. Other simplifications refer to the use of voluntary reporting based on the SME standard developed by EFRAG, reduced value chain reporting, sector specific standards not being implemented and the reduction of prescribed datapoints for the Taxonomy.

## Assurance of sustainability reporting

The CSRD also requires limited assurance of sustainability reporting by assurance providers (Article 34 of the Accounting Directive as amended), beginning approximately two years after reporting is required. Article 34 requires an assurance opinion on compliance with the ESRS based on a limited assurance engagement to be given by a statutory auditor or audit firm. An additional option is given for an independent assurance services provider (i.e. not an auditor) to be able to provide the required opinion, but only if the assurance provider is subject to similar requirements to those for auditors providing assurance as set out in the Audit Directive. This includes the training and education requirements, continuing professional education (CPE), quality assurance, ethics and independence, appointment and dismissal, investigations and sanctions, organization of work, and reporting of irregularities.

A number of Member States have decided to only allow statutory auditors to provide such assurance services. They have added requirements for extra education and training for auditors to be able provide assurance and have made the regulations and oversight applied to statutory audit apply to assurance of sustainability reporting, as set out in the Audit Directive. Proposed simplifications include the removal of an existing requirement for reasonable assurance. This will provide clarity that there will be no future increase in costs of assurance for undertakings in scope.

## Oversight of sustainability reporting assurance

The CSRD amendments to the Audit Directive set responsibilities for assurance providers similar to existing AOB responsibilities for auditors. AOBs assume oversight of auditors and audit firms when they perform sustainability reporting assurance services. Proposed simplifications replace an obligation for the EC to adopt standards for sustainability assurance with targeted assurance

<sup>16</sup> See press release announcing the EU Competitive Compass [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_25\\_339](https://ec.europa.eu/commission/presscorner/detail/en/ip_25_339)

<sup>17</sup> See EC press release at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_25\\_614](https://ec.europa.eu/commission/presscorner/detail/en/ip_25_614)

<sup>18</sup> See <https://efrag.org/>

guidelines by 2026. This will allow the Commission to more quickly address emerging issues in the field of sustainability assurance that may be generating unnecessary burden on undertakings that are subject to the reporting requirements.

Key additional requirements for auditors that perform sustainability reporting assurance services are included in the amended Audit Directive:

#### **Chapter II – Approval, CPE, and mutual**

**recognition:** The amended Article 6 notes that additional educational qualifications are needed for approval to carry out sustainability reporting assurance services. Article 8 adds subject areas of theoretical knowledge related to sustainability reporting which assurance providers need to cover, in addition to the subjects relating to audit. Article 10 notes that at least eight months of the required three years of practical experience must relate to assurance of sustainability reporting.

**Chapter III – Registration:** Article 16 is amended so that the register of auditors shall indicate whether an audit firm is approved for just audit, just assurance services, or both.

**Chapter IV – Professional ethics, independence, objectivity, confidentiality, and professional secrecy:** Articles 24b, 25b, and 25c add requirements for how assurance engagements are carried out ethically and with appropriate independence, objectivity, and confidentiality. Article 25 addresses audit and assurance fees as part of this.

**Chapter V – Auditing standards and audit reporting:** a new Article 26a requires assurance providers to apply assurance standards adopted by the European Commission. New Article 27a sets out requirements of a group auditor when performing assurance of consolidated sustainability reporting. New Article 28a details requirements for the assurance report.

**Chapter VI – Quality Assurance:** Amendments to Article 29 add requirements for quality assurance of sustainability reporting to aspects of quality assurance for statutory audit, using the phrase ‘and, where applicable, assurance of sustainability reporting’ or similar.

**Chapter VII – Investigations and sanctions:** As with quality assurance, amendments to Article 30 add

sustainability reporting assurance to requirements for investigations and sanctions functions for statutory audit.

#### **Chapter VIII – Public oversight and regulatory arrangements between Member States:**

Amendments to Article 32 add knowledge of assurance of sustainability reporting to the requirements for governance of competent authorities (AOBs) and add a reference to sustainability reporting standards. New Article 36a addresses requirements for regulatory arrangements between Member States as regards the assurance of sustainability reporting.

**Chapter IX – Appointment and dismissal:** Articles 37 and 38 are amended to cover appointment and dismissal of assurance providers as well as statutory auditors.

**Chapter X – Audit committees:** Article 39 is amended to include sustainability reporting assurance within the remit of audit committees.

**Chapter XI – International aspects:** Amendments to Articles 45 and 48a add requirements regarding third-country audit entities providing sustainability reporting assurance and regarding third-country equivalence assessments, among other topics.

#### **Key implications of the CSRD for countries establishing a POS similar in nature to the EU include:**

- ✦ Assuming responsibilities for the oversight of assurance providers of sustainability reporting will be a significant challenge for existing AOBs. New expertise and experience in sustainability reporting and assurance will be needed at board and staff levels.
- ✦ EU Member States are in the very early stages of overseeing assurance of sustainability reporting. Non-EU countries looking to implement similar requirements to those in the CSRD can proceed in a measured manner learning from experience of EU countries and adapting them to local circumstances.

For more detail of the EU legislation relevant to public oversight of auditors and audit firms, please see **Appendix 1**.



## Recent Studies on EU Audit Oversight and their Implications for Aspiring POSs

### 2.1. EU study on the impact of audit reform in the EU

*A Study on the Audit Directive and the Audit Regulation*<sup>19</sup> carried out by the EC was published in October 2022. It analyses the impact of the Audit Directive and Regulation on the achievement of the objectives of audit reform implemented in 2013.

The reform of the EU Statutory Audit Market had four objectives:

- ✦ to enhance transparency for investors through minimum requirements for the content of audit and audit committee reports;
- ✦ to reinforce auditors' independence towards their clients, including mandatory rotation of audit firms and prohibition of certain non-audit services;

- ✦ to promote competition in the audit market; and
- ✦ to strengthen pan-EU supervision through public oversight.

In summary, the study highlights the following:

### Overall impact of the 2013 reforms

Despite some clear improvements in the harmonization of national frameworks, significant disparities remain between countries in the implementation and enforcement of EU audit legislation (e.g. in relation to audit requirements that apply to different types of undertakings, rotation requirements, investigations, sanction regimes).

<sup>19</sup> See <https://data.europa.eu/doi/10.2874/374003>

## PIE audits

The majority of audit reports for PIEs:

- ✦ are led by members of the Big Four,
- ✦ do not contain information about corporate governance practices applied over and above the national requirements,
- ✦ do not appear to go beyond the EU legal requirements,
- ✦ many of the compliance issues identified relate to the requirements related to the management report and the corporate governance statement.

## Transparency, independence, and competition

On the appointment of statutory auditors:

- ✦ more than half of the companies in the sample changed their audit firm or statutory auditor in the period between 2016 and 2020,
- ✦ the large majority of the companies preferred to have the same audit firm for all the companies in their corporate group.

In relation to independence and competition:

- ✦ the reform had effectively increased levels of independence but had not impacted competition as intended,
- ✦ the switch across different types of auditors had been limited, with a persistently high market share for the Big Four,
- ✦ the non-Big Four audit firms were often invited to participate in the tender procedures, but the more complex the company concerned (size, structure, geographical coverage, etc.) the less likely they were to participate and receive the assignment,
- ✦ nevertheless, according to audit committee representatives, and to a lesser extent the auditors, mandatory rotation had contributed to improved quality of audit services, independence of the auditors, and competition between audit firms.

In relation to the 70% cap on fees for provision of non-audit services to PIEs:

- ✦ of the 234 audited firms that exceeded the cap in 2015, more than half reduced their non-audit fees below the limit by 2018,
- ✦ an additional 84 firms exceeded the cap in 2018,
- ✦ most undertakings had implemented more stringent internal limits on the use of non-audit services,
- ✦ this had - according to the audit committee representatives - made an important contribution to the independence of the auditors and, to a lesser extent, improvement in quality,
- ✦ it had also, at least for some undertakings, reduced the competition.

In relation to audit fees, the analysis shows:

- ✦ a very large range in the costs of audits, with significant differences depending on the sector,
- ✦ significantly higher fees for PIEs than for non-PIE audits,
- ✦ lower fees where regular tender procedures were not carried out.

## Cross-border cooperation with third-party countries

In relation to cross-border cooperation between EU Member States and with countries outside of the EU (third-party states), as required by the Audit Directive and Regulation:

- ✦ Czechia, France, Ireland, Italy, Lithuania, Poland, Romania, and Norway noted no major challenges regarding cross-border cooperation with third-party states.
- ✦ Germany suggested that cooperation with third-party auditors would benefit from the introduction of a simplified procedure for comprehensive exchange that addressed limiting factors such as adequacy decisions or the requirement for cooperation agreements and data protection agreements.

- ✦ Spain suggested strengthening cross-border cooperation by giving the CEAOB the status of European supervisory authority, with the associated power and resources.
- ✦ The Netherlands stated exchange of relevant information with regulators outside the EU is subject to the limitations of Article 47 of the Audit Directive and that cooperation is hindered by the fact that few adequacy decisions are taken, instead the focus has been on equivalence decisions which do not allow for exchange of confidential information from the audit file.
- ✦ All countries treat cross-border information confidentially, with secured email addresses, complying with the duty of professional secrecy established under national law. Most countries do not appear to have specific channels in place to exchange such confidential information.

**Key implications of the study for countries establishing a POS similar in nature to the EU include:**

- ✦ Some EU Member States seem to have experienced challenges establishing effective oversight as there are “disparities” between the EU audit legislation and how it has been implemented and enforced.
- ✦ Implementing audit reforms, including establishing a POS, may have raised auditor independence (and possibly quality), but has not affected competition between audit firms.
- ✦ There is a very large range of audit fees among countries and across sectors. This can be a challenge for a POS as a very low audit fee is a strong indicator of poor quality.
- ✦ Cross-border cooperation between EU and third-party AOBs can have significant challenges, even when the third-party state POS is assessed as “equivalent” (but not fully “adequate”). The study highlighted difficulties with supervising component audits of EU group companies which is relevant to third-party state regulators.

## 2.2. CEAOB report on developments in the EU PIE audit market

A joint report on developments in the EU market for statutory audit services to public interest entities from 2019 to 2021<sup>20</sup> was prepared by the CEAOB on behalf of the European Commission, the European Central Bank, and the European Systemic Risk Board. It was published in March 2024. It draws on market reports prepared every three years by EU AOBs required by Article 27 of the Audit Regulation.<sup>21</sup> The report addresses developments in the EU market for carrying out statutory audits on PIEs from 2019 to 2021 and focuses on:

- ✦ market concentration;
- ✦ risks arising from audit quality deficiencies; and
- ✦ the performance of audit committees.

Key findings include:

- ✦ The number of individual auditors and audit firms had declined.
- ✦ Audit firms continued to focus on non-audit services (in addition to statutory audit work).
- ✦ The big four maintained a high degree of market concentration but there had been a small shift towards the remaining 10 key audit firms in the European audit market.
- ✦ AOBs continued to detect a high frequency of deficiencies in their inspections, although no systemic risk had been identified.
- ✦ Generally, audit committees had improved their performance (in relation to supervisory responsibilities, including more oversight and scrutiny of non-audit services).
- ✦ The impact of inflation, rising interest rates, geopolitical instability, and increasing use of data analysis tools and artificial intelligence in relation to audit may pose challenges in coming years and should be monitored.

<sup>20</sup> See <https://data.consilium.europa.eu/doc/document/ST-8738-2024-INIT/en/pdf>

<sup>21</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014R0537&from=DE#d1e2376-77-1>



### Key implications of the report for countries establishing a POS similar in nature to the EU include:

- ✦ Market concentration reduced a little in the EU but remains high, which may be similar in their own markets. It would be worth discussing and coordinating with EU AOBs on how best to address inspection and investigation of international audit networks.
- ✦ Systemic risks across all audits seem to be rare, but many deficiencies in audit quality are found across EU Member States. This may be similar to the challenges found in their countries.
- ✦ Identified key challenges should be addressed by developing mitigating responses and ensuring ongoing monitoring.

## 2.3. IFIAR survey of international enforcement regimes

IFIAR is the international organization of AOBs. Nearly all EU AOBs are members; of the Western Balkans states, only Albania is currently an IFIAR member, though others are in discussions to join.

IFIAR helps to facilitate international cooperation and coordination of audit oversight inspections and investigations via working groups, meetings, reports, and surveys. This is particularly relevant to aspiring AOBs as they consider how to work and share information with AOBs in other jurisdictions.

In June 2023, IFIAR published a Survey of Enforcement Regimes,<sup>22</sup> which noted that:

*“The prevalence of multinational PIEs and global audit networks that provide cross-border audit services has resulted in increased international investigatory activity. The ability to share confidential information with other regulators has therefore become critical for IFIAR members. While the potential for increased international cooperation exists, impediments to sharing information remain.”*

## Key highlights from the survey findings

Generally, respondents reported that they could share confidential investigative information with foreign authorities. However, their ability to share may be limited and that sharing with some foreign authorities might require a letter of cooperation, memorandum of understanding (MoU), or similar agreement. Examples include the IFIAR model MoU, IOSCO MoU, or through applicable EU directives or regulations for EU Member States.

Regarding restrictions on sharing information with foreign authorities, respondents that have legal authority to share confidential investigative information with foreign authorities reported that:

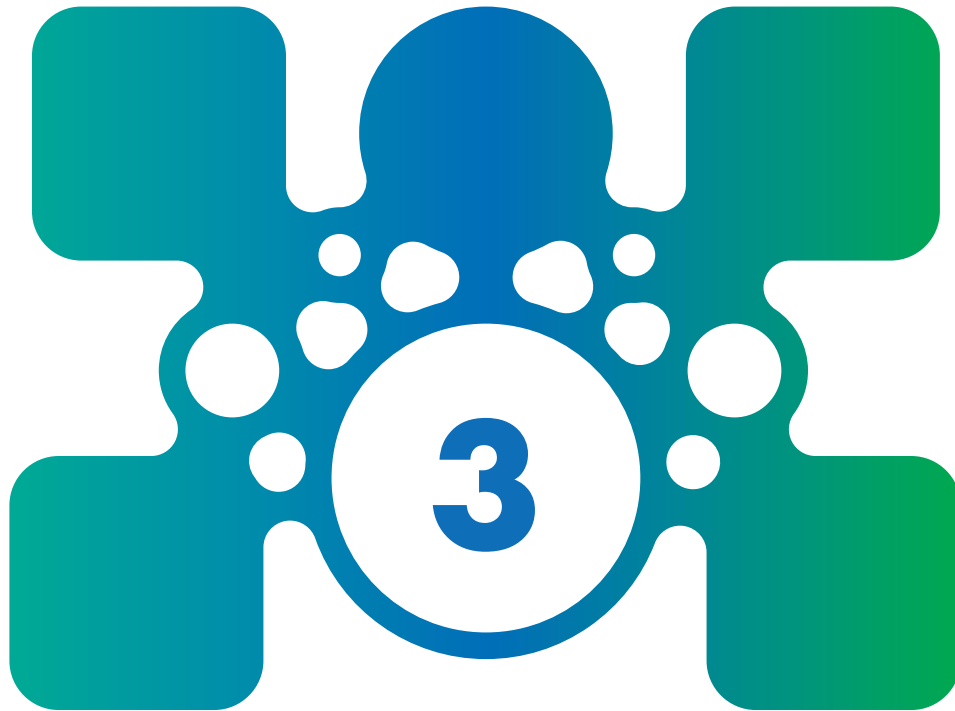
- ✦ There are restrictions on either the extent of the information they may share or the circumstances in which they may share.
- ✦ Such restrictions arose out of underlying statutes or agreements with other authorities and they often involved confidentiality, notice and approval, permissible use of the information, and whether the sharing of such information was relevant to the business or duties of the other organization.

### Key implications of the IFIAR survey for countries establishing a POS similar in nature to the EU include:

- ✦ AOBs benefit from international cooperation and information sharing, particularly in relation to audits of multinational PIEs and global audit networks that provide cross-border audit services. However, information sharing can be limited due to confidentiality and legal restrictions.
- ✦ Sharing outside of the EU is often made possible through signing MoU's with other oversight bodies. Example MoU's are available from IFIAR and IOSCO.

<sup>22</sup> See <https://www.ifiar.org/?wpdmdl=15761>





## Public Oversight Systems in Selected EU Member States

The EU study on the impact of audit reforms (see Section 2.1) suggested significant differences in how countries implement and enforce the audit legislation. Areas where these differences can be seen include:

1. Legislation – whether the requirements are in a separate law or incorporated in an existing law
2. Location of the Competent Authority/AOB
3. Governance of the AOB
4. Resources and capacity of the POS
5. Delegation of functions by the AOB to other organizations

This section summarizes the approaches taken in

these areas, to the extent information is publicly available, in a number of small and medium-sized EU countries. The countries selected have similar sized populations as Western Balkan countries, and some may also have historical and legal characteristics in common.

### Countries used for comparison to REPARIS countries

The table below shows the comparator countries used and the sizes of their populations relative to the Western Balkan countries.

Country	SMALL			SMALL / MEDIUM			MEDIUM		
	Estonia	Kosovo	Latvia	Montenegro	Albania	Bosnia and Herzegovina	Lithuania	North Macedonia	Serbia
Population (in mil)	1.366	1.762	1.881	0.617	2.778	3.323	2.872	2.058	6.664

**France and Germany** are also included as best practice examples.

The following table summarizes characteristics for the selected EU Member States. A similar table of characteristics for Western Balkan states is shown in Section 4.

**Table 1.** Characteristics for the selected EU Member States

Austria	Estonia	Greece	Ireland	Latvia	Lithuania	Slovenia
Government department responsible for the POS						
Federal Ministry of Finance	Ministry of Finance	Ministry of Finance	Dept of Enterprise, Trade and Employment	Commercial Companies Audit Policy and Oversight Unit of the Ministry of Finance	Ministry of Finance	Ministry of Finance
Relevant Legislation						
Auditor Supervision Act <sup>23</sup> and Regulation (EU) No. 537/2014	Auditors Activities Act; <sup>24</sup> Regulation <sup>25</sup>	Law 3148/2003, as amended by Law 4449/2017 and further enhanced in 2008 with the adoption into Greek legislation of the EU Directive 2006/43/EC with Law 3693/2008 as adapted by the enforcement of Regulation 537/2014/EU, and Directive 2014/56/EU with Law 4449/2017	The Companies Act of 2014 (as amended 2018) and the Statutory Instrument No 360 of 2017 (SI No. 360 of 2017)	Law on Audit Services 2004 (amended in 2019) Section 26 states that the responsible body is the Ministry of Finance	Act No. 458 of 06-05-2015 and Audit Law <sup>26</sup> No. XIII-96 of 2017, and Regulation (EU) No. 537/2014	Auditing Act (ZRev-2) and Regulation (EU) No. 537/2014
Name of the audit oversight body						
Austrian Audit Oversight Authority (APAB)	Auditing Activities Oversight Council	Hellenic Accounting and Auditing Standards Oversight Board (ELTE)	Irish Auditing & Accounting Supervisory Authority (IAASA)	Audit Advisory Council, established by the Minister of Finance as a consultative body	The Authority of Audit, Accounting, Property Valuation and Insolvency Management (AAPVIM) under the Ministry of Finance	Agency for Public Oversight of Auditing (APOA)

<sup>23</sup> See <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009615>

<sup>24</sup> See <https://www.rigiteataja.ee/akt/117032023006#para121lg3>

<sup>25</sup> See <https://www.rigiteataja.ee/akt/131102017003>

<sup>26</sup> See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/40997e20566b11e78869ae36ddd5784f?jfwid=pfffeukkkm>

Austria	Estonia	Greece	Ireland	Latvia	Lithuania	Slovenia
<b>Details of the governing body</b>						
6 members in total. 2 managing board members are appointed by the Austrian Federal Government for a period of 5 years. Both board members are independent of any other board member	7 members including chair. Term of office is 5 years. 3 members are proposed by the Financial Supervision Authority, the National Audit Office and the Ministry of Justice respectively	7 members including chair, 2 deputy chairs, 4 other members: Representatives from Bank of Greece, Hellenic Capital Market Commission, Federation of Greek Industries and Economic Chamber of Greece	9 Directors - 1 is CEO, 8 are non-executives and appointed by the Minister upon nomination by: Dept of Enterprise, Trade and Employment - 2, Prescribed accountability bodies - 2, Central Bank of Ireland -1, Corporate enforcement authority -1, Irish Stock Exchange - 1, Revenue Commissioners - 1	Ministry of Finance	7 Board Members (incl. Chair). One member each appointed by the Ministry of Finance, the Ministry of Justice, the Ministry of Economy, the National Audit Office, and the Bank of Lithuania, and two members appointed by the Chamber of Auditors	9 Members appointed for 6 years with possibility of re-appointment - Chair is President of the Council of Experts, plus representatives from Securities Market Agency, Slovenian Institute of Auditors, Ljubljana Stock Exchange, Bank of Slovenia, Insurance Supervision Agency, University of Ljubljana, Ministry of Economy, Tourist and Sport, Ministry of Finance
<b>Functions delegated to another body</b>						
Audit and ethics standard setting, education and CPE and inspection of non-PIE auditors delegated to the Austrian Chamber of Public Accountants and Tax Advisors	Continuing professional education and development delegated to the Estonian Association of Auditors	Quality inspections of non-PIE auditors and some licensing, education/ CPE	Non-PIE audits inspected by the recognized accountability bodies. Licensing, registration and education/ CPE are also delegated.	(i) Professional education and examination; (ii) Licenses and the register for auditors, subject to oversight and approval of the Commercial Companies Audit Policy and Oversight Unit; (iii) Continuing professional education; (iv) Register of Third Country Auditors; (v) Quality assurance reviews and investigation and disciplinary procedures for audits of non-PIEs.	Licensing, Registration, CPE	None, APOA is directly responsible for Licensing, Registration, Audit/Ethics, Education/CPE, inspection, and enforcement
<b>Source of funding</b>						
Financing is provided by the Federal Ministry of Finance, the Chamber of Tax Consultants and Auditors, the cooperative auditing associations and the Savings Banks	Part funded by audit firms and part from the state budget - per legislation, state financing is up to 50%	Funding comprises a statutory levy on all auditing firms calculated as a flat percentage of their gross audit fees - this percentage is legislated and can only be amended by a change in legislation. ELTE's annual budget is approved by the Ministry of Finance and all payments are subject to procedures applicable to the public sector	Funding for oversight of the accountability bodies is received from the Exchequer (40%) and from the prescribed accountability bodies (60%). Funding for adoption of auditing standards is received from the Exchequer (40%) and from the recognized accountability bodies (60%). Funding for audit inspection activities is received from the public-interest audit firms.	Fully funded by the state budget	Funded by the Government of the Republic of Lithuania (through the Ministry of Finance)	Funding from the state budget and from audit firms for APOA's supervisory activities (c. 60% state budget, 40% audit firms). APOA's employees are civil servants, whose salaries are determined by the law. Audit firms pay the fee on annual basis in accordance with the fee schedule, 0.9% of their annual income.

Austria	Estonia	Greece	Ireland	Latvia	Lithuania	Slovenia
Number of Staff (including professional staff)						
8.7 full-time equivalents. Group A (4 staff) - Inspections and Investigations with inspectors on full-time basis. Must be qualified and have audit and financial reporting experience as well as specific training on QA reviews. Group B (3 staff) - Legal affairs, international affairs and QA - legal counsel in charge of enforcement and peer to peer quality reviews of non-PIE audit firms	4 quality control specialists and 1 administrator		12 inspectors		49 staff in total. Audit quality - 1 dept head, 1 chief specialist and 5 senior specialists. Licensing Dept - 1 head dept, 1 chief specialist, 3 senior specialists.  Legal Dept - 1 head, 3 senior specialists. Appraisal quality control - 1 head, 3 senior specialists. Sustainability/Accountability - 1 staff  Other departments - 28 staff	9 staff as at end 2023 - budget for 11
Number of audit firms, auditors						
288 audit firms, 29 auditors	114 audit firms	67 audit firms, 4 statutory auditors that carry out statutory audits on an individual capacity, 1,329 active statutory auditors	1,083 audit firms, 45,896 members of prescribed accountancy bodies	167 audit firms	153 audit firms, 314 individual auditors	48 audit firms, 168 auditors
Number of PIE audit firms						
15	No separate category	No separate category	8	No separate category	6	10
Number of PIE Statutory audits						
264 (including audits of consolidated accounts), 176 PIEs	n/a	205	502	n/a	182	84
Annual Report Published						
Yes	Yes	Yes	Yes	Yes	Yes	Yes

Small

Small / Medium

Medium

Large

### 3.1. Responsibility for legislation

All Member States have implemented the EU requirements for establishing a POS and an AOB. However, the responsibility for the legislation establishing the POS, and the law in which the relevant legislation is situated, can be different. The following analysis shows this for the chosen comparator countries and also France and Germany.

#### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ In many EU countries the Ministry of Finance is responsible for the POS but there are also examples of alternatives, including other Ministries and Securities Commissions.
- ✦ Where there is a separate Law on Audit in a jurisdiction, it is generally this Law that is amended.

**Table 2.** Responsibility for the legislation establishing the POS and the relevant legislation law

Country	Austria	Estonia	France	Germany	Greece
<b>Government Department responsible for the POS</b>	Federal Ministry of Finance	Ministry of Finance	Ministry of Justice	Federal Office for Economic Affairs and Export Control	Ministry of Finance
<b>Legislation</b>	Auditor Supervision Act <sup>27</sup> and Regulation (EU) No. 537/2014	Auditors Activities Act, <sup>28</sup> Regulation <sup>29</sup>	H2A Ordinance no. 2023-1142 of 6/12/2, (H3C) Law on Financial Security 1/8/2003	Auditor Oversight Reform Act	Law 3148/2003, as amended by Law 4449/2017

Country	Ireland	Latvia	Lithuania	Poland	Slovenia
<b>Government Department responsible for the POS</b>	Dept of Enterprise, Trade and Employment	Commercial Companies Audit Policy and Oversight Unit of the Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance
<b>Legislation</b>	The Companies Act of 2014 (as amended 2018) and the Statutory Instrument No 360 of 2017 (SI No. 360 of 2017)	Law on Audit Services 2004 (amended in 2019) Section 26	Act No. 458 of 06-05-2015 and Audit Law <sup>30</sup> No. XIII-96 of 2017, and Regulation (EU) No. 537/2014	Amended Act of 11 May 2017 on statutory auditors, audit firms and public oversight	Auditing Act (ZRev-2) and Regulation (EU) No. 537/2014

■ Small
 ■ Small / Medium
 ■ Medium
 ■ Large

<sup>27</sup> See <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009615>

<sup>28</sup> See <https://www.riigiteataja.ee/akt/117032023006#para121lg3>

<sup>29</sup> See <https://www.riigiteataja.ee/akt/131102017003>

<sup>30</sup> See <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/40997e20566b11e78869ae36ddd5784f?jfwid=pflfeukkmm>

## 3.2. Location of public oversight systems

AOBs in EU Member States are variously located in government departments, with another regulator, or as an independent oversight body. Each country has determined the best location for the oversight system based on individual national circumstances. EU AOBs have significantly developed their oversight systems and structures, including through sharing experiences with other AOBs, since the last World Bank publication on EU POSs in 2017,<sup>31</sup> but there has been little change in where the public oversight systems are located.

### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ There are EU precedents for a range of options for locating the AOB – most common are as part of a government body or as an independent organization (though an independent body is likely to be close to a sponsoring government ministry).
- ✦ The best location will reflect the country's political environment. The funding model may also be a factor.

## 3.3. Governance of the AOB

Good governance supports public confidence in the oversight process. The following should be in place:

- ✦ Clarity over the role of the AOB, including its ability to challenge strategic management issues such as budget and performance reviews.
- ✦ Accountability to the sponsoring department of government for how funding is spent and for ensuring that the regulatory function is robust as well as representing value for money.
- ✦ Periodic review of how the framework is operating to ensure that it stays relevant and up to date.

The following table shows the governance structure of the AOBs in comparator countries.

### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ AOBs or equivalents have between three and 14 members. There is a wide range of board member backgrounds, reflecting the development of audit and its links with other professions and stakeholders e.g. investors, donors, and indeed the public sector within each country.

**Table 3.** Governing body structure and requirements

Country	Composition of the Governing Body	No. of Members	Term of Office	Majority of Members are non-practitioners	Subject to independence requirements per Article 21 of 537/2014
Austria	Managing Board and Supervisory Board	6	5 years	yes	yes
Greece	Board of Directors	5	3 years	yes	yes
Ireland	Board of Directors	9	n/a	yes	yes
Lithuania	Audit Oversight Committee	7	n/a	yes	yes
Poland	The Council	10	4 years	yes	yes
Slovenia	Council of Experts	9	6 years	yes	yes

■ Small ■ Small / Medium ■ Medium ■ Large

<sup>31</sup> World Bank. 2017. Public Oversight Systems for Statutory Audit in the EU

### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ There is no one best practice model. However, the EU requirement for an annual public report introduces necessary transparency. In addition, member profiles on the IFIAR website for AOBs that are members of IFIAR provide comprehensive publicly available data about the governance of AOBs.

Crucially, AOBs must work with policymakers to make sure that there is sufficient funding available to be able to work efficiently and effectively. It is important to have suitably qualified and experienced leaders driving the organization from top-down.

Often AOBs must justify a budget within government or the sponsoring ministry. This justification can be achieved by:

- ✦ Undertaking an analysis of the work that will need to be carried out by the AOB staff to achieve their aims and objectives and, alongside this, identifying the skills and resources needed to carry out this work effectively.
- ✦ Carrying out a gap analysis (which includes capacity and capabilities) for the key responsibilities of the AOB. This would assess the knowledge and skills of current staff and evaluate the additional skills required for the AOB to meet expectations in all areas, i.e. quality assurance and inspections, reporting, disciplinary and enforcement, and public reporting.

## 3.4. Resources and funding

Article 32(7) of the EU Audit Directive states that:

*“The system of public oversight shall be adequately funded and shall have adequate resources [...]. The funding of the public oversight system shall be secure and free from any undue influence by statutory auditors or audit firms”.*

AOBs must consider the level of resources (capacity and skills) which they need to be able to deliver effective oversight. Current and future skills requirements need to be identified. Human resource policy and processes are key to ensure appropriate remuneration, effective recruitment, and staff retention.

Publicly available information on staffing of AOBs (number, functions, and remuneration) is generally limited. The resources available will vary depending on, for example, the size of the country and prevailing salary levels. The following information was readily and publicly available – this appears to indicate that the number of audit quality inspectors ranges from 4 to 12:

**Table 4.** Number of AOB Staff

Country	Austria	Estonia	Greece	Ireland
<b>Number of Staff (including professional staff)</b>	8.7 full-time equivalents. Inspections and investigations with inspectors on full-time basis – 4 staff. Legal affairs, international affairs and quality assurance – 3 staff. Administrative 1.7 FTE staff.	4 Quality Control Specialists and 1 administrator	n/a	12 inspectors

Country	Latvia	Lithuania	Slovenia
<b>Number of Staff (including professional staff)</b>	n/a	49 staff in total. Audit Quality – 7 staff. Licensing Dept – 5 staff.  Legal Dept – 4 staff. Appraisal Quality Control – 4 staff, Sustainability Accountability - 1 staff. 28 staff work in other areas not related to audit oversight	9 staff as at end 2023 - budget for 11

■ Small

■ Small / Medium

■ Medium

■ Large



#### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ AOBs must have the necessary resources and funding to carry out their responsibilities under the relevant legislation.
- ✦ Suitably experienced and qualified staff are not always available in less developed markets.
- ✦ Justifying funding is always a challenge for AOBs. Aspiring AOBs might engage bilaterally to obtain comparable information on resources, in support of funding requests.

auditors. AOBs may typically delegate functions to the local professional accountancy or audit body, for example for QA of non-PIE audits. In some cases, such delegation can help where there is very limited funding available by sharing some of the resource burden with the organizations to which the functions are delegated.

Analysis of the comparator countries suggests that education and CPE are most commonly delegated. Inspection of non-PIE auditors is sometimes but not always delegated, and registration of auditors likewise. In one case, no functions are delegated. The table below illustrates the range across the comparator countries (profiles of POSs in the comparator EU Member States are shown in Appendix 2).

### 3.5. Delegation of responsibilities

As set out in Article 32 (4b) of the Audit Directive, AOBs may delegate some functions on a case-by-case basis as long as they retain ultimate responsibility and can reclaim the function.

However, the Audit Regulation states that some functions relating to audits of PIEs may not be delegated, including QA of auditors of PIEs.

In general, delegation of functions occurs in the larger EU jurisdictions, where there are a large number of statutory audits, audit firms, and registered

#### Key implications for countries establishing a POS similar in nature to the EU include:

- ✦ Delegation can be helpful where funding is limited as it shares the resource burden.
- ✦ There is no consensus on whether and which functions should be delegated.
- ✦ Where possible, legislation should set out clearly the basis for delegation, such as making it clear that ultimate responsibility remains with the AOB and setting out the mechanism for the AOB to reclaim delegated functions on a case-by-case basis.

**Table 5.** AOBs' functions delegated to another body

Country	Austria	Estonia	Greece	Ireland
Functions delegated to another body	Audit and ethics standard setting, education/CPE, and inspection of non-PIE auditors delegated to the Austrian Chamber of Public Accountants and Tax Advisors.	Continuing professional education delegated to the Estonian Association of Auditors.	Quality inspections of non-PIE auditors and some licensing, education, and CPE	Non-PIE audits inspected by the recognized accountancy bodies. Licensing, registration, and education/CPE are also delegated.

Country	Latvia	Lithuania	Slovenia
Functions delegated to another body	(i) Initial professional education, examination and CPE; (ii) Licenses and the register for auditors, subject to oversight and approval of the Commercial Companies Audit Policy and Oversight Unit; (iii) Register of Third Country Auditors; (iv) Quality assurance reviews and investigation and disciplinary procedures for audits of non-PIEs.	Licensing, registration, CPE	None. APOA is directly responsible for licensing, registration, audit/ethics, education/CPE, inspection, and enforcement

■ Small

■ Small / Medium

■ Medium

■ Large



## Public Oversight Systems in Western Balkan States

### 4.1. Progress in establishing public oversight systems

**Albania** is well advanced in establishing a POS, supported by World Bank and other technical assistance. This is not surprising as Albania has benefited from international assistance programs, primarily as part of World Bank funded programs with very significant funding. Albania's Audit Oversight Body (AOB), the Public Oversight Board of Albania (POBA), has completed six cycles of inspections of PIE audit firms and is progressing with the seventh cycle. It has an advanced inspection methodology reflecting international best practice, developed during the assistance programs and further improved based on its own capacities and practical oversight experience. The established inspection practice comprises reporting the findings to auditors in a quality assurance inspection report, agreeing an action plan which requires remedial actions to address the deficiencies, and requiring a periodic report on

the implementation of the agreed remedial actions. Albania is a long-standing member of IFIAR and in the past two years has been very active as part of IFIAR working groups and at the IFIAR inspection workshops. The investigation and sanction systems are operational and effective. The latest amendments of the audit law have established robust yet proportionate sanctions to strengthen enforcement. The POBA does face some challenges – improving audit quality through an effective inspection process is a continuous process shared by all AOBs worldwide. More can always be done with access to more resources, and with having sufficient enforcement power. In summary, Albania is an example for others to follow, albeit having received significant assistance from a project focussed solely on the country.

**Serbia's** oversight system is similarly advanced, again having been supported by World Bank technical assistance. It has completed inspections of the major PIE audit firms and followed up on inspection findings in subsequent inspections. It has an international-standard audit inspection methodology based on the

inspection methodology used by the French regulator. Its investigation and sanctions system is operational and has pursued a number of cases. As with Albania, there are ongoing challenges of improving inspections, gaining more resources, and possibly increasing sanctions options and amounts.

**Montenegro** is relatively advanced in establishing a POS. It has strong leadership and support from government, and has appointed two inspectors, with two more budgeted and planned to be recruited in the short-term. It has begun inspections of audit firms using the international-standard inspection methodology provided as part of the REPARIS for SMEs program. A number of both PIE and non-PIE auditors have been inspected and the process of discussing findings following the inspections is underway. This is a good start, but challenges remain; recruiting appropriate staff is difficult and the inspection process is developing as the first stage of inspections is undertaken. With ongoing support from international experts, the program can be well established in the short term and progress should continue.

Three POSs in **Bosnia and Herzegovina** have been established in the three constituent jurisdictions. In its recent assessment of compliance, the EU noted that EU law requires one competent authority to be designated in any member state. The primary challenge for Bosnia and Herzegovina is to establish a single authority to oversee audit across the whole country. A recent conference was held under the REPARIS for SMEs program to discuss ways to make this happen. Republika Srpska has taken steps to begin audit inspections. A lead staff member has been appointed and has completed an audit market analysis as a precursor to beginning an inspection process. Inspections will use available international methodologies. The Federation of Bosnia and Herzegovina has not yet established an independent program of inspection of PIE auditors; inspections are still delegated to the Chamber of Auditors. Establishing this program is the main challenge for the AOB. The

difficulty of obtaining sufficient resources is probably the biggest obstacle. The Council for Accounting and Auditing in the Brcko District has appointed a staff member with responsibility for audit quality control but no inspections have yet been undertaken.

**Kosovo** has begun the first stage of inspections of PIE auditors, with significant support from the REPARIS for SMEs program. The first stage of inspections was undertaken for the largest international network audit firms, and some follow-on work has been performed. However, Kosovo still lacks its own dedicated inspection team. Securing sufficient funding to recruiting and retain suitably qualified independent inspectors is the most significant challenge for the Kosovo Council for Financial Reporting.

**North Macedonia** has not yet begun an inspection program. While the Council for Advancement and Oversight of Audit (COAC) is established and operational, inspections are only performed by the professional organization. Steps to recruit suitable inspectors and begin audit quality control of at least PIE auditors is the next step necessary to progress towards compliance with the EU legislative framework.

**In conclusion**, a wide range of progress has been made in establishing POSs that comply with the EU legislative framework. Effective leadership and support from international organizations and experts have resulted in strong progress in Albania and Serbia, where fully operational AOBs can claim a high level of compliance with EU requirements. Both countries offer good practice examples for other countries with less advanced POSs. Montenegro has made progress in following their lead. Other states are still in early stages of establishing inspection programs. Resource constraints and maintaining strong political support remain major challenges. Detailed profiles of the public oversight systems in each of the Western Balkan states are included in Appendix 3. Some of the key characteristics are summarized in the following table.

Table 6. Characteristics for the Western Balkan states

Albania	Federation of Bosnia and Herzegovina	Republika Srpska - Bosnia and Herzegovina	Brčko District - Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Government department responsible for the POS							
Independent regulatory authority <sup>32</sup>	Ministry of Finance	Ministry of Finance	Finance Directorate	Ministry of Finance, Labor, and Transfers	Ministry of Finance	Ministry of Finance	Securities Commission
Relevant Legislation							
Law on Statutory Audit and Organization of the Accountancy Profession No. 10091, dated 5 March 2009, amended in April 2016 by Law No. 47/2016, and amended in December 2024 by Law No. 126/2024. The Council of Ministers Decree 786/2016, as amended	Decision of the Government of the Federation of Bosnia and Herzegovina number: V.1163/2022 dated July 28, 2022. (Official Gazette of the Federation of Bosnia and Herzegovina, number: 61/22).  The Law on Accounting and Auditing (Official Gazette of Bosnia and Herzegovina, number 42/04).  Law on Accounting and Auditing in the Federation of BiH (Official Gazette of the Federation of BiH, number 15/21).	The Law on Accounting and Auditing of Republika Srpska (Official Gazette of Republika Srpska, issue No. 94/15, 78/20)  Instruction on Conducting Oversight (Official Gazette of Republika Srpska 3/25 from January 17, 2025)	The Law on the Directorate for Finances of the Brčko District of Bosnia and Herzegovina  The Law on Accounting and Auditing of the Brčko District	Law No.06/L-032 on Accounting, Financial Reporting and Audit, effective in 2019	2017 Law on Audit (Official Gazette of Montenegro No 01/17)	The Audit Law of North Macedonia (Official Gazette of the Republic of North Macedonia No. 122/21)	Law on Audit (Official Gazette 73/2019) and Law on Capital Market (Official Gazette 129/2021)
Name of the Audit Oversight Body							
Public Oversight Board	Public Audit Oversight Committee	Council for Accounting and Auditing in the RS	Council for Accounting and Auditing in the Brčko District	Public Oversight Board of Kosovo, under supervision by the Council for Financial Reporting	Audit Council, Department for Audit Oversight	North Macedonian Council for Advancement and Oversight of Audit (CAOAC)	Public Audit Oversight Committee
No of Members							
5	5	5	7	5	5	7	7
Source of funding							
3% from PIE audits fees, funds from the contributions from the PAO, grants allocated for the QA and oversight function, state budget.	State budget	State budget	State budget	State budget	State budget	State budget, levy on registered audit firms and certified auditors – sole proprietors	1) Specific contribution from auditors for performing practice quality review of audit firms; 2) Fees from other sources in accordance with the Law.

<sup>32</sup> Board members appointed by Minister of Finance, including proposals by higher education institutions, and the Parliamentary Commission responsible for Economy and Finance

Albania	Federation of Bosnia and Herzegovina	Republika Srpska - Bosnia and Herzegovina	Brcko District - Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Functions delegated to another body							
Non-PIE inspections are delegated to the professional organization of statutory auditors - IEKA. The translation of ISAs, the IESBA ethics code and international assurance services standards are also delegated to IEKA.	Inspection of audit firms is delegated to the Auditors' Chamber of the Federation of Bosnia and Herzegovina	Certification of auditors is performed by the professional association - Association of Accountants and Auditors of Republika Srpska.	No audit oversight functions are delegated	No audit oversight functions are delegated.	Responsibility for the implementation of the program of continuous education for statutory auditors (set by the Ministry of Finance) is delegated to the Institute of Certified Accountants. ICA prepares the CPD program; it is reviewed by the Audit Council on opinion and approved by MoF	Inspections are carried out by the professional organization, the Institute of Certified Auditors of Republic of North Macedonia, within the competences determined by the Audit Law.	Functions delegated to the Chamber of Authorized Auditors of Serbia include: Certified auditor examinations; continuing professional development; licensing of certified auditors and audit firms; implementation of ISAs and the Code of Ethics for Auditors.
Number of Staff (including professional staff)							
1 Executive Director, 3 Senior QA Inspectors, 1 Legal Affairs Specialist, 2 specialists for finance and admin.	n/a	3	1 staff member appointed with responsibility for audit quality control	None at reporting date	3 staff including the Executive Director and 2 inspectors. 2 more inspectors planned	7 employees in the Professional service of the Council	n/a
Number of auditors							
71 audit firms and 143 auditor sole practitioners, 26 auditors employed in audit firms	85 audit firms	38 audit firms	21 audit firms	24 audit firms and 69 licensed auditors	31 audit firms and 108 statutory auditors	265 certified auditors, 29 audit firms, and 14 certified auditors sole practitioners	77 audit firms
Number of statutory audits							
3,784	2,777	1,090	n/a	725	Approx. 550	n/a	5,999
Number of PIE audit firms							
62	n/a	270	21	12-16	20	270	27
Number of PIE Statutory audits							
1,006	470	490	n/a	313	n/a	200	n/a

Small

Small / Medium

Medium

Large



## Common Challenges and Suggested Solutions in the Implementation of EU POSs

Many European AOBs have experienced similar challenges in establishing and implementing audit oversight. Some of these are described below, together with solutions implemented by AOBs.

### 5.1. Appointing board members

Appointing board members can be a significant challenge. Article 32 (3) of the EU's Audit Directive requires that:

*"The competent authority shall be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit."*

Article 29(a) states that:

*"the quality assurance system shall be organized in such a manner that it is independent of the reviewed statutory auditors and audit firms".*

Taken together, this leads to a potential problem – the governance and staff of the AOB should be knowledgeable in areas relevant to audit while also being independent of the profession. This can be difficult to achieve in practice. The most knowledgeable individuals regarding audit are those who have worked as auditors in the country at the highest level. However, such individuals have many real and potential independence issues. They are likely to know many of the auditors and audit firms subject to inspection, especially in small countries. They are likely to have worked for one or more of the audit firms in a country. They may have a pension which relates to an audit firm.

Complete independence could come with a limited amount of knowledge. A lawyer or regulator may have deep commercial experience but may not know the ISAs in much depth. Governance of AOBs will require consideration of complex audit issues. At least some



of the Board need the experience and competence to withstand challenges from experienced and competent senior auditors.

IFIAR acknowledged this issue when drafting their Core Principles for member organizations. Some members proposed to word a principle such that “all conflicts of interest must be avoided” but it was agreed to state that all material conflicts must be avoided as it was agreed that some remnant conflict would inevitably remain.

**Solutions** in practice almost always include some play-off between competence and independence. The optimum solution is likely to involve appointing a balanced mix of experienced non-practicing auditors after a suitable ‘cooling-off period’ (not having practiced for say three or five years) together with a majority of skilled professionals, regulators and others with less connection to auditors or audit firms, such as regulators, lawyers, civil servants etc.

## 5.2. Appointing (and retaining) staff

Similar challenges can exist with staffing. It can be very difficult if not impossible in some markets to find inspectors with sufficient competence and experience to properly challenge senior auditors while having independence and no potential conflicts of interest. This is a particular issue in small national audit markets, though it does exist in larger markets. For example, audit partners or senior managers are needed to inspect complex audits and challenge audit judgments made by senior audit partners in international network firms. Potential inspectors of that caliber have often worked at one or two international network firms in the country and have potential conflicts of interest as a result. These conflicts can be mitigated to some extent by the inspector not inspecting their ‘own’ firms until after a ‘cooling-off’ period, but the conflict remains to some extent, particularly in small countries.

**Solutions** include having levels of review of the inspection files, outcomes and findings, so that more than one staff member is involved in finalizing any one

inspection. This cross-review is implemented in even small audit inspection teams with just 2-3 staff. Other solutions include carefully managing the inspection program so that staff do not need to inspect firms they have worked for. While it is necessary to trust senior inspectors’ integrity, such safeguards help to ensure that independence can be demonstrated clearly.

## 5.3. Salary levels for the best staff

A universal challenge is offering salaries or compensation packages sufficient to attract and retain experienced senior staff. This can be the single largest component of funding where inspections are the key focus of an AOB, which arguably should be the case. As mentioned, having inspectors who are equivalent to the senior staff being inspected can be necessary to effectively challenge key audit judgments. Such staff may require market salaries, which can be beyond the financial capacity of an AOB. Additionally, where inspectors are part of a government department, the staff are subject to civil service pay scales which can be severely restrictive.

**Solutions** need to reflect specific conditions in each country. Creating a whole package where salary is only one component can help, with increased holiday allowances, flexible working, and a reasonable approach to working hours can help to enhance a medium level salary package, particularly where audit firms have long hours and a weekend working culture. Another approach is to enhance less experienced staff’s competence through intensive training. Attractive compensation packages can also help with staff retention, if returning to audit firms would involve a negative lifestyle impact, to offset against a salary increase.

## 5.4. Rating inspections

AOBs can struggle to give an overall rating to audit firms following inspections as it is not always easy to determine the overall quality of audit within a firm. Awarding a single rating can often be an over-



simplification of the findings of an inspection. The degree to which an auditor follows ISAs or other similar standards is taken as a proxy for audit quality, but they are principles-based standards and require significant audit judgments. It is usually these judgments that determine the quality of the audit, particularly with complex audits. For example, ISA 500 requires that sufficient audit evidence is obtained to support the audit opinion – but it is a matter of judgment for both auditor and audit inspector as to how much evidence is sufficient.

Audit standards overlap and some have more impact on the safety and justification of the audit opinion than others. Counting the number of breaches of individual audit standards is often used by AOBs in Europe to generate a rating, both for individual audit files and for overall audit firm ratings. One reason given for this is that it helps with subsequent conflicts and legal prosecution of consequences for poor audit quality. However, it is possible that most audit standards can be followed but that one significant inappropriate audit judgment can invalidate an audit and the lowest rating should automatically follow, such as where an independence issue arises or a significant bank balance is not evidenced. The inspector must be able to use their experience and judgment to assess the severity and impact of a breach of a standard, not just count the number of standards which have a breach.

In a similar way, it can be difficult to “add” the ratings from each audit file assessment together to give an overall rating for an audit firm, particularly where more than one audit partner is assessed. A simple average of file ratings could ignore significant risks to companies audited by a poor-quality auditor.

**Solutions** may include the AOB adopting a flexible approach to rating audit inspections within the particular legal characteristics of a jurisdiction. The best way to rate audit quality can be to allow an experienced inspector to judge the quality, rather than counting breaches which can restrict the ability of an inspector to use their instinct and experience. The rating should be discussed with the inspector's manager or another inspector to confirm their judgment of the findings.

## 5.5. First-time inspection findings

All established AOBs have experienced very similar challenges in the initial phases of audit inspections in a country. In many cases, the first inspection cycle of audit firms encounters three types of auditor – those who perform little or no audit work, those who try to perform a good audit but fail, and those who perform a reasonable or high standard audit but need improvement.

**Solutions** to these different findings can vary but have many common characteristics across all AOBs.

Auditors who basically sell audit opinions without doing any or much work require a strong response, such as the removal of license with a referral to a disciplinary case for the individual auditors involved. However, this can often be difficult and relies strongly on the sanctioning powers of the AOB in such cases. Often, the AOB may have to use legal proceedings to remove the license, or the auditor will appeal to the courts.

Auditors who try to perform a good audit but fail need a more nuanced response. The primary goal of established AOBs is to increase audit quality, not to raise fines or otherwise punish auditors. Findings of very poor audits in the first inspection cycle may reflect that audit firms do not have a comprehensive audit methodology which complies with auditing standards. They will often be performing ‘ad-hoc’ methods and have low levels of training and knowledge of the standards. In such cases, the inspectors should explain what the audit firm needs to do before the next inspection to reach an acceptable standard. The AOB may wish to impose some conditions on the auditor to protect their clients while the auditor makes the necessary improvements. For example, it could require another audit firm or training organization to review the audit before the opinion is signed. If the auditor fails to improve sufficiently before the next inspection, stronger sanctions should be considered.

Auditors who need to improve their audit quality should be given details of the required improvements,

with the goal again being to enhance audit quality rather than punish auditors through issuing fines or warnings.

Auditors who are deemed able to improve should be directed to acquire a standards-compliant audit methodology and obtain training on how to use it to perform a high-quality audit. They should be re-inspected on a short cycle to assess the success of applying the methodology. An AOB may consider making such a methodology available at low or no cost so that smaller auditors can compete with international audit networks who are provided with a methodology by the network.

## 5.6. Burdensome legal process

One challenge to establishing an effective audit quality inspection process is where an AOB is faced with a burdensome legal process. Ideally, the normal course of inspections should not require engaging with the country's courts or legal process. Where the focus is on improving audit quality, this should be possible through effective dialogue between regulator and auditors. There should only be the need to resort to quasi-legal or full-legal processes in the case of serious disputes between the AOB and auditors. After all, both auditors and the regulator share the common goal of improving audit quality. The costs and delays of an extended legal process can severely impact the effectiveness and efficiency of the inspection process, spending valuable resources that could be used on improving audit quality in practice.

Unfortunately, this is not always possible. One EU regulator faces a relatively extreme legal framework within their country, where the outcome of every inspection has to be taken to the civil court, regardless of the outcome. As a result, even inspections with few or no findings can take up to three years to complete – and inspections with dangerously poor results can also take three or more years before the public and companies are protected from the unacceptably bad auditing. An indication of the extreme costs of such a legal burden is that the regulator is forced to employ an equal number of lawyers as audit inspectors. Emerging market AOBs struggle to engage sufficient inspection staff, never mind equal numbers of lawyers. While there is a need for some legal competence in an AOB, especially where some sanctions are needed, this should ideally be a small part of the resource burden.

**Solutions** involve AOBs seeking to cooperate with auditors, while still maintaining the appropriate independence and oversight function. Inspection findings should be clearly communicated to auditors and inspectors should make it clear what improvements are needed, and by what timeline. The auditor should be expected to agree to the findings and to the actions needed to achieve the necessary improvements. This cooperative but firm approach can achieve audit quality improvements without inducing conflict with auditors. Only in more extreme cases of many significant findings should a legal or quasi-legal process be needed. Many AOBs have a mediation process to resolve disputes before the courts get involved. These best practices should be targeted, to the extent that they are possible within the jurisdiction's legal framework.



## References

### European Union:

- ✦ Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014, on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC<sup>33</sup>

Amended by:

- DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022
- REGULATION (EU) 2023/2869 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 December 2023

- ✦ Directive 2006/43/EC of the European Parliament and of the Council of May 17, 2006, on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC<sup>34</sup>

Amended by:

- Directive 2008/30/EC of the European Parliament and of the Council of March 11, 2008
- Directive 2013/34/EU of the European Parliament and of the Council of June 26, 2013
- Directive 2014/56/EU of the European Parliament and of the Council of April 16, 2014
- Directive (EU) 2022/2464 of the European Parliament and of the Council of December 14, 2022

### European Commission:

- ✦ Study on the Audit Directive (Directive 2006/43/EC as amended by Directive 2014/56/EU) and the Audit Regulation (Regulation(EU) 537/2014)<sup>35</sup>

<sup>33</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0537-20240109>

<sup>34</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006L0043-20240109>

<sup>35</sup> See <https://cdn.ceps.eu/wp-content/uploads/2023/02/study-on-the-audit-directive-directive-200643ec-as-EV0120603ENN.pdf>

**IFAC:**

- ✦ Member Country Information<sup>36</sup>

**IFIAR:**

- ✦ Members Directory<sup>37</sup>

**Estonia:**

- ✦ Auditor Activities Act<sup>38</sup>

**France:**

- ✦ Three-year monitoring report on the statutory audit market – June 2022<sup>39</sup>

**Science Direct Journal of Accounting and Economics:**

- ✦ Insights into auditor public oversight boards: Whether, how and why they 'work'<sup>40</sup>

**World Bank Centre for Financial Reporting Reform:**

- ✦ Public Oversight Systems for Statutory Audit in the EU –2017
- ✦ Audit Oversight to Enhance Trust and Transparency in Corporate Financial Statements: Challenges in Developing Countries – 2019

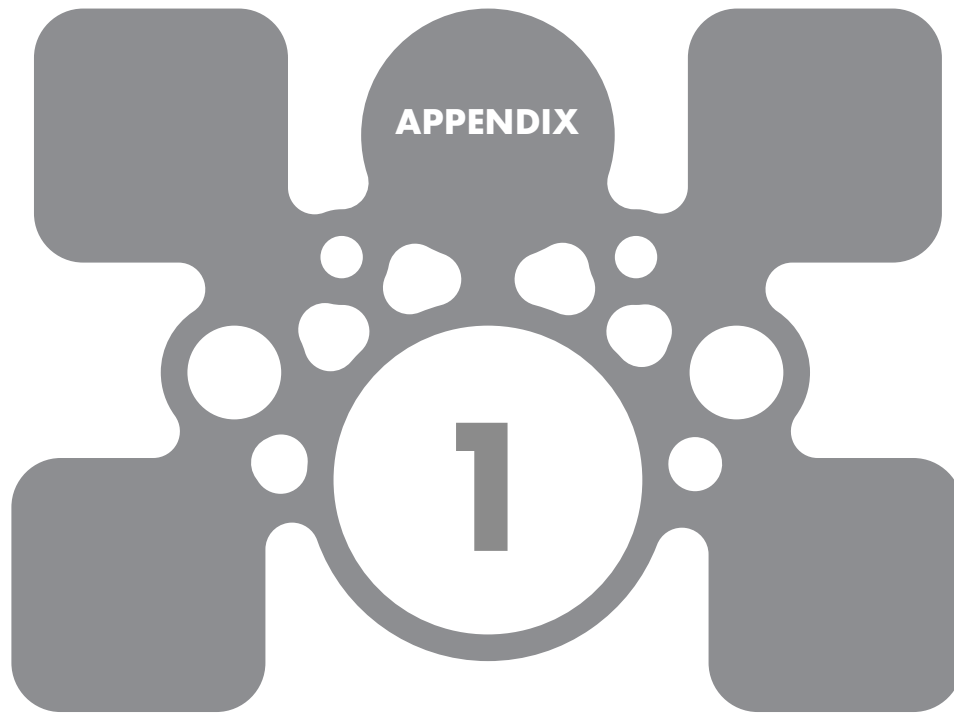
<sup>36</sup> See [www.ifac.org/who-we-are/membership](https://www.ifac.org/who-we-are/membership)

<sup>37</sup> See <https://www.ifiar.org/members/member-directory/>

<sup>38</sup> See <https://www.riigiteataja.ee/en/eli/504092017006/consolide#54b91ae7-bd5f-4ac3-943e-dd5d55aa69ab>

<sup>39</sup> See <https://h2a-france.org/publications/rapport-2022-du-h3c-relatif-au-suivi-du-marche-du-controle-legal-des-comptes/>

<sup>40</sup> See <https://www.sciencedirect.com/science/article/abs/pii/S0165410122000209>



# Summary of Relevant Sections of the Statutory Audit Directive and Regulation

## Establish POS

Member States should organize an effective POS for statutory auditors, audit firms, and providers of assurance on sustainability reporting, and should designate a competent authority (AOB) to be responsible for such oversight.

## Governance

The AOB should be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit, and, where applicable, to the assurance of sustainability reporting. They should be selected in accordance with an independent and transparent nomination procedure.

Non-practitioners are defined as persons who have not within the preceding three years carried out statutory audit, held voting rights in an audit firm, been a member of the administrative, management, or supervisory body of an audit firm or been employed or otherwise associated with an audit firm.

## Responsibilities of competent authority

The AOB shall:

- ✦ have the ultimate responsibility for the oversight of:
  - a. the approval and registration of statutory auditors, audit firms and assurance providers;

- b. the adoption of standards on auditing and assurance, professional ethics, internal quality control of audit firms and assurance providers;
  - c. continuing education, quality assurance and investigative and disciplinary systems.
- ✦ have the right to conduct investigations in relation to statutory auditors and audit firms and the right to take appropriate action.
  - ✦ publish annual work programs and activity reports.
  - ✦ be adequately funded. The funding shall be secure and free from any undue influence by statutory auditors or audit firms.

## Delegation of tasks

Member States may delegate, or allow the competent authorities to delegate, any of the tasks required to be undertaken by the Directive and Regulation to other authorities or bodies designated to carry out such tasks, except for tasks related to:

- a. the quality assurance system for auditors of PIEs;
- b. investigations arising from that quality assurance system or from a referral by another authority; and
- c. sanctions and measures related to the quality assurance reviews of auditors of PIEs or investigation of statutory audits of PIEs.

## Quality assurance system for auditors

Regular inspections are a good means of achieving a consistently high quality in statutory audits.

Quality assurance should:

- ✦ be independent of the reviewed statutory auditors and audit firms and subject to public oversight;
- ✦ be performed directly by the AOB in respect of the audits of PIEs;
- ✦ have quality assurance reviewers that have appropriate professional education and relevant

experience in statutory audit and financial reporting combined with specific training on quality assurance reviews;

- ✦ select reviewers so that there are no conflicts of interest.

## Frequency of inspections

Quality assurance reviews shall take place at least every three years in respect of the auditors of public interest entities and at least every six years in the case of all other statutory auditors.

## Other requirements in the Audit Directive and Regulation

The Audit Directive also sets requirements for auditors and assurance providers in the areas of:

- ✦ qualifications (articles 3-13);
- ✦ registration (articles 15-20);
- ✦ professional ethics (articles 21-24);
- ✦ standards (article 26);
- ✦ aspects of the audit and assurance process (articles 25, 27-28);
- ✦ monitoring, investigation and sanctioning (articles 29-30);
- ✦ oversight by competent authorities (articles 32-36, 47); and
- ✦ regulation of third country auditors and assurance providers (articles 44-46).

There are also some obligations in the Audit Directive on audited/assured entities, relating to:

- ✦ appointment of auditors and assurance providers (article 37);
- ✦ dismissal of auditors and assurance providers (article 38); and
- ✦ establishment of an audit committee (article 39).

The Audit Regulation sets the following requirements in respect of the statutory audit and assurance of PIEs:

- ✦ conditions for carrying out statutory audit and assurance of PIEs (articles 4-15);
- ✦ the appointment of statutory auditors, audit firms, and assurance providers by PIEs (articles 16-19);
- ✦ surveillance of the activities of statutory auditors and audit firms carrying out statutory audit of PIEs (articles 20-35); and
- ✦ cooperation with third country authorities (articles 36-40).

## The Audit Regulation (Article 31)

The Audit Regulation (article 31) requires AOBs to cooperate with regard to quality assurance reviews, investigations, and on-site inspections.

### Article 31: Cooperation with regard to quality assurance reviews, investigations, and on-site inspections

1. Competent authorities shall take measures to ensure effective cooperation at EU level in respect of QA reviews.
2. The AOB of one Member State may request the assistance of the AOB of another Member State with regard to the QA reviews of statutory auditors or audit firms belonging to a network carrying out significant activities in the requested Member State.
3. Where an AOB receives a request from an AOB of another Member State to assist in the QA review of a statutory auditor or an audit firm belonging to a network carrying out significant activities in that Member State, it shall allow the requesting AOB to assist in such QA review.

The requesting AOB shall not have the right to access information which might breach national security rules or adversely affect the sovereignty, security, or public order of the requested Member State.

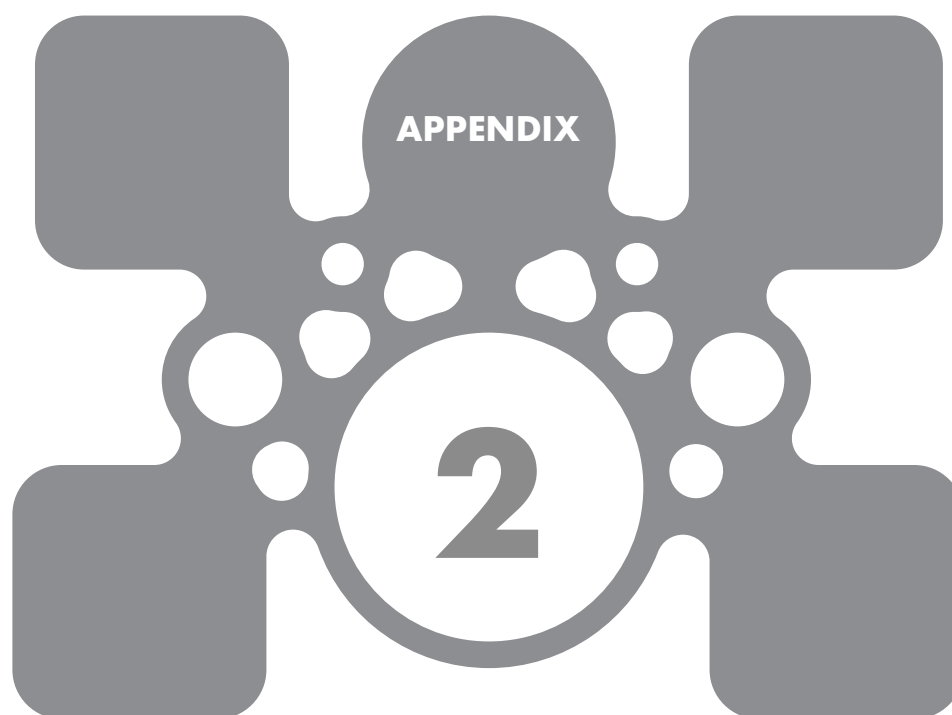
4. Where an AOB concludes that activities contrary to the provisions of this Regulation are being carried out or have been carried out on the territory of another Member State, it shall notify the AOB of the other Member State of that conclusion in as specific a manner as possible. The AOB of the other Member State shall take appropriate action. It shall inform the notifying AOB of the outcome of that action and, to the extent possible, of significant interim developments.
5. An AOB of one Member State may request that an investigation be carried out by the AOB of another Member State on the latter's territory.

It may also request that some of its own personnel be allowed to accompany the personnel of the AOB of that Member State in the course of the investigation, including with regard to on-site inspections.

The investigation or inspection shall be subject throughout to the overall control of the Member State on whose territory it is carried out.

6. The requested AOB may refuse to act on a request for an investigation to be carried out as provided for in the first subparagraph of paragraph 5, or on a request for its personnel to be accompanied by personnel of an AOB of another Member State as provided for in the second subparagraph of paragraph 5, in the following cases:
  - a. where such an investigation or on-site inspection might breach national security rules or adversely affect the sovereignty, security, or public order of the requested Member State;
  - b. where judicial proceedings have already been initiated in respect of the same actions and against the same persons before the authorities of the requested Member State;
  - c. where a final judgment has already been delivered in respect of the same actions and the same persons by the authorities of the requested Member State.
7. In the event of a QA review or an investigation with cross-border effects, the competent authorities of the Member States concerned may address a joint request to the CEAOB to coordinate the review or investigation.





# Profiles of Public Oversight Systems in Selected EU Member States

## Austria

### Sources

Information is obtained from the Austrian Auditor Supervisory Authority (APAB) annual report,<sup>41</sup> IFIAR,<sup>42</sup> and IFAC.<sup>43</sup>

### Responsibility for legislation

In Austria, the responsibility for the legislation rests with the Federal Minister of Finance

The APAB was established on September 27, 2016, as an independent public law institution and commenced its official activities on October 1, 2016. The main legal bases are the Auditor Supervision Act<sup>44</sup> and Regulation (EU) No. 537/2014.

According to the Auditor Supervision Act S14 (1), the Federal Minister of Finance shall exercise supervision over the APAB to ensure that it fulfils the tasks incumbent upon it by law, does not violate laws and regulations in carrying out its tasks, and does not exceed its scope of duties. Under Section 16 (1), the federal government is liable for damages caused by the bodies and employees of the APAB and by members of the Quality Control Commission.

<sup>41</sup> See <https://www.apab.gv.at/ueberuns/zahlenFakten>

<sup>42</sup> See <https://www.ifiar.org/?wpdmdl=16674>

<sup>43</sup> See <https://www.ifac.org/about-ifac/membership/profile/austria>

<sup>44</sup> See <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009615>

## Location of AOB

The APAB is under the legal supervision of the Federal Minister of Finance. The APAB identifies itself as an autonomous administrative authority free from instructions, however it is part-funded by the Ministry of Finance therefore is not fully independent or autonomous.

## Governance of Audit Oversight Body

The supervisory board of the APAB consists of four members who are appointed for a term of office of five years. Pursuant to Section 9 (3) Auditor Supervision Act, the chair and two other members of the supervisory board are appointed by the Federal Minister of Finance and one member of the supervisory board by the Federal Minister of Labor and Economic Affairs, each after consultation with social partners.

The Quality Audit Commission serves the APAB as an advisory body, has seven members and seven substitute members. These are appointed by the supervisory board of the APAB for a term of office of four years on the proposal of the Chamber of Tax Advisors and Auditors, the Association of Austrian Auditing Associations, and the Savings Banks Auditing Association.

## Sanctions

Pursuant to Section 62 (1) of the Auditor Supervision Act, the APAB is entitled to impose sanctions in the event of violations of the provisions of the Auditor Supervision Act and the Regulation.

The APAB publishes on its website all sanctions imposed for violations of the provisions of the Auditor Supervision Act and the Regulation, for which all legal remedies have been exhausted or the corresponding appeal deadlines have expired.

## Delegation of responsibilities

The APAB has direct responsibility for:

- ✦ licensing, registration, inspection, and enforcement
- ✦ oversight of audit/ethics standards
- ✦ CPE and training

According to the EU Study on the Audit Directive and the Audit Regulation,<sup>45</sup> para 3.1.1, the division of powers between the APAB and the professional body in Austria does not follow the division PIE/non-PIE. Rather, the task is jointly conducted by the APAB and the professional body, under the responsibility of the APAB.

The APAB is responsible for registration of statutory auditors and audit firms; as well as QA reviews for all mandatory audits; and investigation and discipline of auditors of PIEs and non-PIEs.

All statutory auditors and audit firms that perform statutory audits in Austria are subject to quality reviews at least every six years. Auditors of PIEs are subject to quality reviews at least once every three years.

## Resources and funding

The APAB's financing is laid out in the Auditor Supervision Act under financing and administrative contributions<sup>46</sup> section 2. Funding is provided by the Federal Ministry of Finance, the Chamber of Tax Consultants and Auditors, the cooperative auditing associations, and the Savings Banks Auditing Association, as well as through fee income and levies for inspections.

As of December 31, 2023, the APAB employed a total of 8.7 people (excl. executive board, full time equivalent). Four employees worked in Group A "Inspections and Investigations" and three employees in Group B "Legal, International Affairs and Quality Assurance".

<sup>45</sup> See <https://op.europa.eu/en/publication-detail/-/publication/1e77fe60-71f5-11ed-9887-01aa75ed71a1/language-en>

<sup>46</sup> See <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009615>

## Audit market<sup>47</sup>

In the calendar year 2023, 14 audit firms carried out 264 audits of PIEs financial statements (2022: -3.6%).

## Estonia

### Sources

Information was obtained between July 2024 and December 2024 from IFAC,<sup>48</sup> the Audit Supervisory Board<sup>49</sup> (AJN) (also known as the Supervisory Council), the legislation, and rules of procedures.<sup>50</sup>

### Responsibility for legislation

The AJN is the audit oversight authority in Estonia and was established by the Minister of Finance under the Auditors Activities Act.<sup>51</sup>

It falls under the Auditors Activities Oversight Council<sup>52</sup> (according to IFAC). The link appears to be to the auditing portal and register with a link to the AJN.

### Location of AOB

Because of its proximity to the Ministry of Finance and the Board of Auditors, it is not clear whether the AJN is an independent body. The AJN appears to be located separately from the Board of Auditors and may appear independent from the Board of Auditors. However, in various legal situations that require legal personality, the AJN uses the legal entity of the Board of Auditors on the basis of the authority granted by law. The Accountancy Europe publication from June 2022

indicates that Estonia has a separate autonomous audit oversight body.

The Ministry of Finance holds ultimate responsibility for the AJN, ensuring that it and the Board of Auditors and the local professional accountancy organization (Estonian Association of Auditors) carry out their activities with regard to the public interest.

The competence and tasks of the Ministry of Finance are defined in Section 123 of the Audit Act,<sup>53</sup> the most important of which are the supervision over internal auditors, organization of register maintenance, and administrative supervision over the Board of Auditors.

The AJN is established on the basis of section 21 of the Auditors Activities Act (Chapter 9).<sup>54</sup> Its rules of procedures are available on Riigi Teataja website.<sup>55</sup>

According to the Act (section 124), the role of the AJN is to exercise state supervision (including granting and withdrawing activity licenses and professions; organizing exams; organizing quality control; conducting disciplinary proceedings; investigating (including those concerning the activities of the Board of Auditors); representing Estonia in the European Commission in relation to the supervision of audit activities; etc).

### Governance of Audit Oversight Body

Supervision is carried out by the AJN reporting to the Ministry of Finance. There are five to seven members appointed for a period of five years.

The members and the chair of the AJN are appointed by the minister responsible for the area. Proposals on the composition of the AJN are submitted to the minister responsible for the area by:

<sup>47</sup> Information from the 2023 Annual Report <https://www.apab.gv.at/ueberuns/zahlenFakten>

<sup>48</sup> See <https://www.ifac.org/about-ifac/membership/profile/estonia>

<sup>49</sup> See <https://ajn.ee/tekst>

<sup>50</sup> See <https://www.riigiteataja.ee/akt/131102017003>

<sup>51</sup> See <https://www.riigiteataja.ee/en/eli/504092017006/consolide>

<sup>52</sup> See <https://www.auditortegevus.ee/atr/web/>

<sup>53</sup> See <https://www.riigiteataja.ee/akt/117112017025#para123>

<sup>54</sup> See <https://www.riigiteataja.ee/akt/117112017025#para121>

<sup>55</sup> See <https://www.riigiteataja.ee/akt/131102017003>

1. the Financial Supervision Authority – per member.
2. the National Audit Office – per member.
3. the Ministry of Justice – per member.

## Delegation of responsibilities

The AJN does not delegate its main oversight role.

It carries out the following responsibilities as part of its supervision role: (i) granting, suspending, and revoking of auditing licenses; (ii) adopting auditing and ethical standards; (iii) organizing the professional examinations for auditors; (iv) conducting quality assurance (QA) reviews and disciplinary proceedings; (v) imposing sanctions; and (vi) overseeing activities delegated to the Estonian Association of Auditors, such as continuing professional education and development.

## Resources and funding

The costs of the AJN for the organization of supervision are subject to the law. For the use of earmarked allocations from the state budget for supervision, the Ministry of Finance enters into a separate agreement. The Board of Auditors' interests are also represented by the Chair of the AJN. This is an aspect that suggests lack of independence.

The expenses of the AJN shall be approved by the Chair by signing the relevant expense document. It is prohibited to approve expenses that are not related to the performance of the tasks assigned to the AJN by the Auditing Activities Act or for which there are no funds in the budget.

## France

### Sources

Information is obtained from IFAC,<sup>56</sup> IFIAR,<sup>57</sup> and the H2A website.<sup>58</sup>

## Responsibility for legislation

The legislation falls under the Ministry of Justice.

The H2A is a high-level independent public authority, created by Ordinance no. 2023-1142 of 6 December 2023, to succeed the Haut Conseil du Commissariat aux Comptes (H3C) created by the Financial Security Law on August 1, 2003.

## Location of AOB

The H2A is an independent non-governmental body responsible for oversight of the audit profession.

French Law n°2017-55 of 20 January 2017 sets up a general statute for independent public authorities. Two of its provisions ensure the independence of the members of the H2A Board.

Standards adopted by the H2A are officially approved by the Minister of Justice and published in the French Official Journal.

The Accountancy Europe report from June 2022 states that the audit oversight body operates separately and autonomously.

## Governance of Audit Oversight Body

The H2A Board is composed of 14 members appointed by decree for six year terms, as set out in Article L. 820-2 of the French Commercial Code.

Article 1.1.8 of the H2A rules of procedure provides that former members of the H2A Board may not carry out any activity for the firms they were in contact with within the exercise of their functions, for a period of three years from the termination of their functions. This provision is criminally sanctioned (Article 432-13 of the French Penal Code). H2A staff is binding by the same rules and sanctions.

<sup>56</sup> See <https://www.ifac.org/about-ifac/membership/profile/france>

<sup>57</sup> See <https://www.ifiar.org/?wpdmdl=16906>

<sup>58</sup> See <https://h2a-france.org/>

## Sanctions

The sanctions commission exercises the powers provided for in 7° of article L. 820-1 of the Commercial Code.

The EU Study on the Audit Directive and the Audit Regulation<sup>59</sup> states that several countries have undergone a centralization process since the audit reform. In France, the disciplinary sanctioning powers were transferred from the local professional body to the audit supervisor (H2A).

## Delegation of responsibilities

As part of its mandate, the H2A has delegated some activities to the Compagnie Nationale des Commissaires aux Comptes —the professional accountancy organization for statutory auditors in France. These include: (i) registration of statutory auditors and audit firms, except for non-EU statutory auditors and audit firms; (ii) QA inspections of non-PIEs; and (iii) monitoring of CPE for statutory auditors.

The H2A and the securities market regulator, the Autorité des Marchés Financiers (AMF),<sup>60</sup> signed a cooperation agreement in 2010 setting out the procedures for the AMF to assist in performing periodic inspections of statutory auditors appointed to companies under AMF's supervision. The Commercial Code provides that the AMF can assist in the periodic inspections of statutory auditors auditing the accounts of persons under AMF's supervision.

## Resources and funding

The H2A is financially independent. According to Articles L820-10, L820-11 and L820-12 of the French Commercial Code, the compulsory contributions from the statutory auditors and independent assurance

services providers, calculated on the fees invoiced to the audited entities during the previous calendar year, form the funding of the H2A. Its board adopts the H2A budget, on the basis of a proposal from the chair of the board.

## Audit market

These figures are those of the H3C 2022 Market Monitoring Report:

- ✦ Number of audit firms: 6,411 in total
- ✦ Number of individuals auditors: 11,448

## Germany

### Sources

Information is obtained from IFAC,<sup>61</sup> IFIAR,<sup>62</sup> and the German Audit Oversight Body (APAS) website.<sup>63</sup>

## Responsibility for legislation

The APAS is established by national law by the Auditor Oversight Reform Act and amended by the Public Accountant Act, 1961.

## Location of AOB

Oversight is carried out by the APAS.

It is funded by the federal budget and inspection fees. The federal budget is approved by the German Parliament.

<sup>59</sup> See <https://op.europa.eu/en/publication-detail/-/publication/1e77fe60-71f5-11ed-9887-01aa75ed71a1/language-en>

<sup>60</sup> See <https://autorite.qc.ca/en/general-public/>

<sup>61</sup> See <https://www.ifac.org/about-ifac/membership/profile/germany>

<sup>62</sup> See <https://www.ifiar.org/?wpdmdl=16822>

<sup>63</sup> See [https://www.bafa.de/DE/Home/home\\_node.html](https://www.bafa.de/DE/Home/home_node.html)

## Governance of Audit Oversight Body

The APAS makes decisions through decision-making chambers in relation to inspections and professional investigations, as well as all related ancillary decisions. Two chambers have five staff members each, a chair and four assessors. The chamber chair is the head of the relevant sub-department. The four assessors of the chambers are not part of the management of the APAS and are appointed by the head of the APAS, taking into account their specialist knowledge and affinity with the area of responsibility of the respective chamber and the activities of the assessor in the APAS.

An advisory board, formed in accordance with Article 2 & 3 Auditor Oversight Reform Act, advises the APAS in the performance of its tasks and can also make recommendations for the general development of supervisory practice. The five members of the advisory board are appointed by the Federal Ministry for Economic Affairs and Climate Action for a four-year term.

## Delegation of responsibilities

The APAS has delegated some of its responsibilities to the local professional body.

## Resources and funding

The APAS is funded mainly by fees (~70%, e.g. charged for inspections) and also from the Federal Budget (~30%). The APAS's budget is part of the budget of the Federal Office for Economic Affairs and Export Control and therefore ultimately part of the Federal Budget approved by the German Parliament.

- ✦ Number of audit firms subject to inspections: 52 (Audits in 2023)

- ✦ Number of PIEs: 993 (PIE: listed entities, non-listed banks and insurance companies) (as of 31.12.2022)
- ✦ Staff: 15 in total: CEO, 2 exec directors, further 12 staff members (of which 6 staff members must have a legal background and be qualified to hold the office of a judge)

## Greece

### Sources

Information is obtained from IFAC,<sup>64</sup> IFIAR,<sup>65</sup> and the ELTE.<sup>66</sup>

## Responsibility for legislation

The Ministry of Finance is responsible for Law 3148/2003, amended by the Law 4449/2017<sup>67</sup> which established the ELTE.

## Location of AOB

IFIAR information states that ELTE is the independent public oversight authority of the auditing profession in Greece subject to the supervision of the Ministry of Finance.

The Accountancy Europe report June 2022 states that the audit oversight body operates separately and autonomously.

## Governance of Audit Oversight Body

The Board of Directors consists of seven-members and consists of the President, two Vice-Presidents and four members. Its term of office is three years.

<sup>64</sup> See <https://www.ifac.org/about-ifac/membership/profile/greece>

<sup>65</sup> See <https://www.ifiar.org/?wpdm=16842>

<sup>66</sup> See <https://elte.org.gr/organizational-structure/>

<sup>67</sup> See [http://www.elte.org.gr/images/files/pdf/Nomos\\_ELTE\\_4449.pdf](http://www.elte.org.gr/images/files/pdf/Nomos_ELTE_4449.pdf)

## Delegation of responsibilities

The ELTE has delegated some of its responsibilities to the local professional body. The application and supporting documents of the statutory auditor/audit firm to the Institute of Certified Public Accountants of Greece, which records the total of the submitted supporting documents and certifies to the ELTE that all the submitted documents are valid, accurate, and complete or indicate any deficiencies. The ELTE has the ultimate responsibility to decide on the licensing or not of a statutory auditor/audit firm and registers those who qualify for a professional license.

## Resources and funding

The funding arrangements comprise a statutory levy (i.e. established by Law) on all auditing firms calculated as a flat percentage of their gross fees - this percentage is legislated and can only be amended by a change in legislation.

- ✦ The ELTE annual budget is approved by the Ministry of Finance and all payments are subject to procedures applicable to the public sector.
- ✦ Per IFIAR 2024 information, 67 audit firms are subject to inspection.
- ✦ There are also some (approx. four) statutory auditors who periodically carry out statutory audits in an individual capacity.
- ✦ Public interest audits are approx.: 205.
- ✦ Other audits are approx.: 10,000 (statutory audits).

## Ireland

### Sources

Information is obtained from IFAC,<sup>68</sup> IFIAR<sup>69</sup> and the Irish Auditing and Accounting Supervisory Authority (IAASA) website.<sup>70</sup>

## Responsibility for legislation

The legislation for audit oversight in Ireland is the responsibility of the Department of Enterprise, Trade, and Employment.

The IAASA was established under the provisions of the Companies (Auditing and Accounting) Act 2003, replaced by the Companies Act 2014 ('the 2014 Act') as amended in 2018, and SI 360 of 2017.

## Location of AOB

The IAASA is an independent and separate autonomous audit oversight body (although has 40% of state funding).<sup>71</sup>

## Governance of Audit Oversight Body

The IAASA is governed by a board of nine directors, eight of whom are non-executive and appointed by the Minister having been nominated by the Dept of Enterprise, Trade and Employment (2), prescribed accountancy bodies (2), Central Bank of Ireland, Corporate enforcement authority, Irish Stock Exchange, and the Revenue Commissioners.

## Sanctions and Enforcement

The IAASA is directly responsible for enforcement in relation to PIE audit matters, which is carried out in accordance with Section 934 of the Companies Act 2014. All other matters are the responsibility of the recognized accountancy bodies. The IAASA has specific legal powers allowing it to oversee these activities and to require the bodies to make changes to their process if necessary. It has issued mandatory guidelines for the bodies' investigation and disciplinary functions.

<sup>68</sup> See <https://www.ifac.org/about-ifac/membership/profile/ireland>

<sup>69</sup> See <https://www.ifiar.org/?wpdmdl=16668>

<sup>70</sup> See <https://iaasa.ie/>

<sup>71</sup> Aligns with Accountancy Europe paper from June 2022



## Delegation of responsibilities

The IAASA has delegated some of its responsibilities. Non-PIE audits and auditors are inspected by the recognized accountancy bodies.

Registration and licensing are carried out by the recognized accountancy bodies with oversight from the IAASA.

Note that the recognized accountancy bodies are a subset of the prescribed accountancy bodies, who are permitted to grant approval for members to become statutory auditors.

## Resources and funding

The IAASA board prepares an annual budget and associated levy proposals. The funding mechanism is set out in the legislation and the budget requires the Minister's approval. Funding for oversight of accountancy bodies is received from the Exchequer (40%) and from the prescribed accountancy bodies (60%).

Funding for adoption of auditing standards is received from the Exchequer (40%) and from the recognized accountancy bodies (60%).

Funding for audit inspection activities is received from the public-interest audit firms.

The IAASA is ultimately responsible for oversight of all auditors. PIE auditors are inspected directly by the IAASA. There are 7 PIE auditors in Ireland, auditing approximately 575 PIE entities.

Direct inspections are carried out by the Audit Quality Unit which has sanction for twelve inspectors.

PIE auditors are required to be subject to inspection at least every 3 years. Currently, the IAASA inspects all PIE firms annually.

## Latvia

### Sources

Information is obtained from IFAC<sup>72</sup> and the Latvia Ministry of Finance<sup>73</sup> – Latvia has no membership of IFIAR.

### Responsibility for legislation

Law on Audit Services 2004 (amended in 2019) Section 26 states that the responsible body is the Ministry of Finance.

### Location of AOB

The Ministry of Finance<sup>74</sup> is responsible for the regulation and public oversight of auditors through its Commercial Companies Audit Policy and Oversight Unit which sits within the Ministry of Finance.

The Central Bank of Latvia<sup>75</sup> is also involved in the oversight system of the activities of sworn auditors for the financial market and its participants.

The 2022 Accountancy Europe report states that the audit oversight body operates within or attached to a Ministry.

### Governance of Audit Oversight Body

The Council of the Central Bank has set up the Supervision Committee for its supervision of the financial market.

Sanctions are published on the bank's website.<sup>76</sup>

<sup>72</sup> See <https://www.ifac.org/about-ifac/membership/profile/latvia>

<sup>73</sup> See <https://www.fm.gov.lv/en/auditing>

<sup>74</sup> ibid

<sup>75</sup> See <https://www.bank.lv/en/>

<sup>76</sup> See <https://uzraudziba.bank.lv/en/market/sanctions/>

## Delegation of responsibilities

Oversight of financial market participants is carried out by the Central Bank, however this is not under delegated powers from the Ministry of Finance.

## Resources and funding

The Commercial Companies Audit Policy and Oversight Unit is funded through the state budget – this is in accord with the 2022 Accountancy Europe paper although there is no mention of the financial market participants' oversight and funding.

The financial market participants supervised by the Central Bank, fund it for expenditure directly or indirectly related to the regulation and supervision of the financial market and its participants, the application of resolution, and the provision of compensation disbursement schemes. The Central Bank determines the number of payments by the financial market participants and also the procedures for the calculation and making of such payments.

## Lithuania

### Sources

Information is obtained from IFAC,<sup>77</sup> IFIAR,<sup>78</sup> and the Authority of Audit, Accounting, Property Valuation and Insolvency Management (AAPVIM) website.<sup>79</sup>

### Responsibility for legislation

The Ministry of Finance is responsible for the legislation, i.e. Act No. 458 of 06-05-2015 and Audit Law No. XIII-96 of 2017.

## Location of AOB

The AAPVIM is the AOB in Lithuania, accountable to the Ministry of Finance. It is not a separate body.

## Governance of Audit Oversight Body

- ✦ The audit oversight committee has 7 members.
- ✦ The Accountancy Europe report 2022 states that the audit oversight body operates within or attached to a Ministry.

## Sanctions

Sanctions are submitted to the audit oversight committee for discussion. Final decision to impose sanction takes the Director of the AAPVIM, after consultation with the audit oversight committee.

Publicly announced sanctions are on the website.<sup>80</sup>

## Delegation of responsibilities

According to the EU study on the Audit Directive and Regulation,<sup>81</sup> para 3.1.1 on Lithuania, the division of powers between the AAPVIM and the local professional body does not follow the division PIE/non-PIE. Rather, the task is jointly conducted by the AAPVIM and the professional body, under the responsibility of the AAPVIM.

## Resources and funding

The AAPVIM is fully funded by the Government. Its operating costs in relation to all its activities are currently funded by the Government of the Republic of Lithuania (through the Ministry of Finance).

<sup>77</sup> See <https://www.ifac.org/about-ifac/membership/profile/lithuania>

<sup>78</sup> See <https://www.ifiar.org/?wpdmdl=16609>

<sup>79</sup> See <https://avnt.lrv.lt/lt/>

<sup>80</sup> See <https://avnt.lrv.lt/lt/veiklos-sritys/auditas-1/auditoriu-ir-audito-imoniui-viesoji-prieziura/viesai-skelbiami-nurodymai-ir-poveikio-priemones/>

<sup>81</sup> See <https://op.europa.eu/en/publication-detail/-/publication/1e77fe60-71f5-11ed-9887-01aa75ed71a1/language-en>

## Poland

### Sources

Information is obtained from IFAC,<sup>82</sup> IFIAR,<sup>83</sup> Polish Agency for Audit Oversight (PANA) website,<sup>84</sup> and CFRR information.

### Responsibility for legislation

Responsibility for the legislation rests with the Ministry of Finance.

### Location of AOB

The PANA was established in 2019 by virtue of the amended Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight. The Minister of Finance oversees PANA's activities.

The 2022 Accountancy Europe report suggests that the PANA is a separate autonomous body.

Per IFIAR, the PANA is an independent public oversight body and is composed of the Chair and the Council as its decision-making bodies.

### Governance of Audit Oversight Body

The PANA Council comprises 10 members, with the Chair, Deputy Chair, and members appointed by the Ministry of Finance for a four year tenure.

### Sanctions

According to the EU study on the Audit Directive and Regulation, in relation to sanctions there is an overlap of competence between PANA and the Polish Financial

Supervision Authority, as both authorities have the power to sanction members of a PIE (either with a ban or pecuniary sanctions). In addition, the Polish Chamber of Statutory Auditors can issue temporary prohibitions on exercising functions within the audited entity against its own members.

### Delegation of responsibilities

The PANA carries out oversight of the auditing profession and the Polish Chamber of Statutory Auditors are responsible for oversight of statutory auditors. The main tasks within the oversight system are carried out by the Polish Chamber of Statutory Auditors with the PANA retaining overall oversight of the system.

### Resources and funding

The PANA is predominantly financed through mandatory levies on audit firms. The maximum fee rate allowed by law is 4% of revenue earned on annual revenue from statutory audits conducted on the territory of Poland, earned in the given calendar year. Additional funding can also be provided through other sources, strictly defined by the law.

According to the 2022 Accountancy Europe publication – it falls under the State funding / fees from auditor/ audit firms although with a caveat stating state funding only if needed.

### Audit market

- ✦ 4,950 statutory auditors, including 2,557 practicing statutory auditors (as of 31 December 2023)
- ✦ 1,231 audit firms (as of 31 December 2023)
- ✦ 58 audit firms auditing PIEs (as of 31 December 2022)
- ✦ 1,230 PIEs (as of 31 December 2022)

<sup>82</sup> See <https://www.ifac.org/about-ifac/membership/profile/poland>

<sup>83</sup> See <http://www.ifiar.org/?wpdmdl=16811>

<sup>84</sup> See <https://pana.gov.pl/>

## Slovenia

### Sources

Information is obtained from IFAC,<sup>85</sup> IFIAR<sup>86</sup> and the Auditing Public Oversight Agency (APOA) website.<sup>87</sup>

### Responsibility for legislation

The APOA falls under the Minister of Finance and is an independent body established in 2008 under the Auditing Act (ZRev-2).

### Location of AOB

The APOA is a legal entity under public law and is independent and autonomous in the performance of its tasks. The bodies of the Agency are the expert council and the director, who are appointed and dismissed by the Government of the Republic of Slovenia upon the proposal of the Minister of Finance.

The 2022 Accountancy Europe report states that Slovenia's oversight body is a separate autonomous body.

### Governance of Audit Oversight Body

Council of Experts membership is nine.

### Delegation of responsibilities

The APOA is directly responsible for the public oversight of the audit profession and audit regulation

as well as appraisal profession and regulation in Slovenia.

The APOA is responsible for carrying out inspections of all audit firms and statutory auditors.

### Resources and funding

The 2022 Accountancy Europe Report states that Slovenia is funded through state funds and fees levied directly on auditors / audit firms.

Funding for carrying out the APOA's tasks is provided from the state budget and from audit firms for APOA's supervisory activities (app. 60% state budget, 40% audit firms). The Ministry of Finance prepares the APOA budget based on planned labor costs and costs of services/material. APOA's employees are civil servants. Audit firms pay the fee on an annual basis in accordance with the fee schedule, 0.9% of their annual income.

The APOA is divided into 2 departments, one is the inspections and regulatory department, which has a team of five inspectors performing inspections full time. The Deputy Director is head of the inspections and regulatory department.

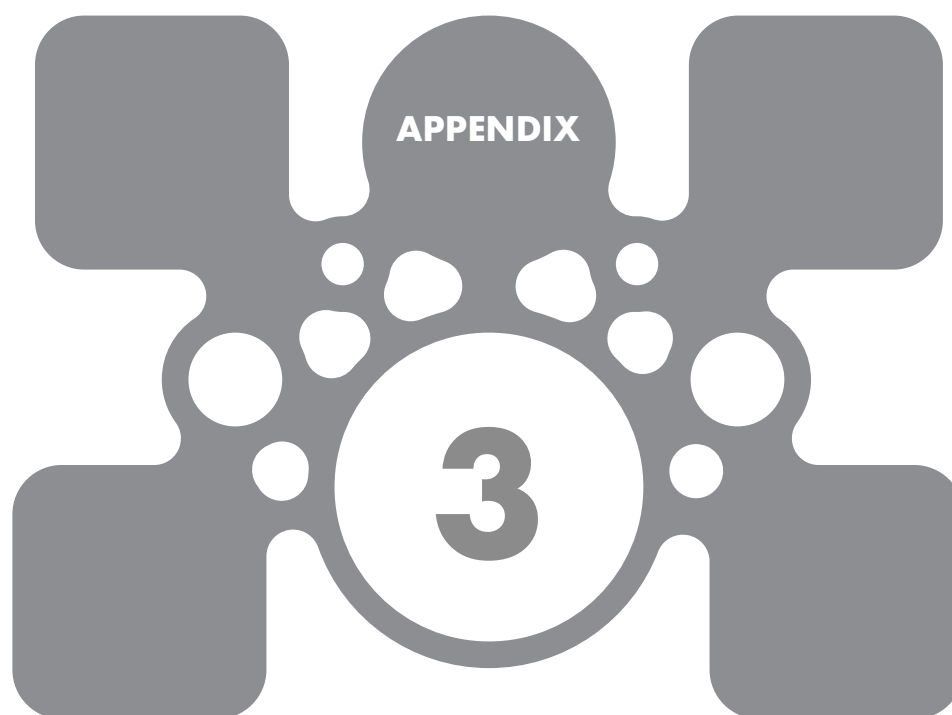
### Audit market

- ✦ Number of audit firms: 46
- ✦ Number of PIE audit firms: 15
- ✦ Number of PIE audits: 176 (as of 31 December 2023)
- ✦ Number of other statutory audits of individual financial statements: 2,200

<sup>85</sup> See <https://www.ifac.org/about-ifac/membership/profile/slovenia>

<sup>86</sup> See <http://www.ifiar.org/?wpdmdl=16589>

<sup>87</sup> See <https://www.anr.si/o-agenciji/predstavitev-agencije/>



# Profiles of Public Oversight Systems in Western Balkan States

## Albania

### Legislation and Oversight Framework

The Public Oversight Board (POB) was established in September 2009 under Law No. 10091, dated March 5, 2009 (as amended), which regulates the audit profession in Albania. Additionally, the Decision of the Council of Ministers (DCM) No. 786, dated November 9, 2016, as amended, specifies procedures for the selection and dismissal of board members and outlines the organizational and operational rules of the POB.

The primary objective of the POB is to enhance oversight of statutory auditors and audit firms and financial reporting directly, by monitoring all statutory auditors and audit firms and through oversight of the professional organization of statutory auditors and the professional organizations for certified accountants. The Public Oversight Board's mission is to provide

greater assurance that statutory audits are performed transparently, responsibly, and prudently, thereby protecting the public interest.

Substantial amendments to the audit legislation were made in 2016 and again in 2024, significantly strengthening the POB's capacities in terms of human and financial resources, operational efficiency, and oversight competencies. These amendments particularly enhanced risk-based quality assurance inspections, investigative procedures, disciplinary mechanisms, and overall regulatory authority. Since January 2025, following approval of the delegation framework, the POB has delegated to IEKA the responsibility for conducting quality assurance inspections of auditors and audit firms serving non-Public Interest Entities (non-PIEs).

The latest amendments, adopted by the Parliament on December 19, 2024, reinforced the provisions related to auditor independence, quality assurance oversight, the POB's role in regulatory standard-

setting, sanctioning powers, and inter-institutional cooperation. These legislative enhancements further solidify the POB's independence and authority, increasing transparency and accountability through improved reporting mechanisms.

From 2018 to 2024, the regulatory frameworks governing licensing and registration, quality assurance inspections, enforcement and disciplinary measures, and monitoring of continuous professional development have been progressively consolidated and enhanced. Further updates to these frameworks will align with the recent amendments to the audit law, ensuring ongoing improvement in oversight effectiveness.

## Governance

The Public Oversight Body (POB) is composed of five non-practitioners with expertise in areas relevant to statutory audit, appointed by the Minister of Finance. The Chair and three members are nominated by the Minister of Finance, including one selected by higher education institutions, and one member is proposed by the Parliamentary Commission responsible for Economy and Finance. Board members must have professional experience in law, accounting, and auditing and are appointed by the Minister of Finance. The Council of Ministers Decision provisions regulate the selection procedures and cases of dismissal of members, as well as the rules for the organization and functioning of the Public Oversight Board.

The latest amendments of the audit law have defined POB as an independent regulatory authority with the status of the public legal entity.

## Inspections

The POB maintains an inspection team composed of three full-time Senior Quality Assurance Inspectors. These inspectors possess extensive experience in auditing, financial reporting, and related fields, and maintain independence from statutory auditors and audit firms. Inspections are conducted transparently and in a controlled environment to serve the public interest.

The primary objective of the inspections is to ensure and foster improvements in audit quality, in alignment with relevant legal and regulatory requirements. Audit quality reviews evaluate the auditors' work, procedures, and policies, particularly emphasizing audits involving public interest entities (PIEs).

Audit firms and specific audit engagements are selected for inspection through a risk-based selection process. The inspection methodology involves two key components: the evaluation of an audit firm's quality management system, designed in reference to the Common Audit Inspection Methodology published by the Committee of European Auditing Oversight Bodies (CEAOB), and the risk-based review of individual audit engagement files. This inspection methodology was developed in collaboration with international consultants and is continually refined based on practical experiences gained during the inspection process.

## Sanctions and disciplinary measures

The POB is the competent body for imposing sanctions and disciplinary measures on auditors, though the professional organisations conduct investigations processes and propose the respective disciplinary measures to POB. The POB has established the Commission for Investigation and Disciplinary Issues, which operates based on the Audit Law and Regulation no.4 dated 29.03.2018 "For investigation and procedures for taking disciplinary measures", as amended.

Based on article 55 of the Audit Law, the sanctions that can be applied to statutory auditors and audit firms are:

0. Warning, whereby the responsible natural or legal person is instructed to cease the violation and refrain from repeating it in the future;
1. Warning with a note in the public register, specifying the responsible person and the nature of the violation;
2. Fine, ranging from 0.5% (zero-point five percent) to 3% (three percent) of the previous reporting period of the annual turnover;

3. Temporary suspension, for a period of one to three years, prohibiting:
  - a. the statutory auditor, the audit firm, or the main audit engagement partner from conducting statutory audits and/or signing statutory audit reports; or
  - b. the statutory auditor, the audit firm, or the main sustainability partner from providing assurance on sustainability reporting and/or signing assurance reports on sustainability reporting.
4. Temporary suspension, for a period of one to three years, prohibiting members of an audit firm or members of an administrative or managerial body of a public-interest entity from performing functions in audit firms or public-interest entities.
5. Revocation of the right to practice the profession, deregistration of the statutory auditor from the public register, and loss of the right to re-register.
4. Reporting and transparency: Prepares and approves its financial statements in compliance with applicable financial reporting framework; Approves and publishes its annual work programs and activity reports and reports it to the Parliament; Reviews and makes decisions on issues within its law object area; Selects and approves the statutory auditor or audit firm for its own financial statements;
5. Regulatory functions: Issues regulatory acts, including rules, regulations, orders, guidelines, manuals, and methodologies, to fulfill its oversight and supervisory functions; Declares as mandatory the professional standards applicable to statutory auditors and audit firms, publishing them in the Official Gazette;
6. Inter-Institutional Cooperation: Approves regulatory acts related to national and international cooperation and the exchange of information.

## Other responsibilities of POB

In addition to inspections and discipline, the POB has the following additional competences and responsibilities:

1. Oversight of Certification and Registration performed by the IEKA: Prepares regulations for auditor certification and registration; Supervises the implementation of certification and registration procedures; Decides on candidates' claims regarding registration; Approves the format of the public register of statutory auditors and audit firms;
2. Ethical and Professional Auditing Standards: Approves and supervises the code of ethics for statutory auditors; Supervises the quality control process and continuing professional development conducted by the professional body of statutory auditors;
3. Investigation and Sanctioning: Approves regulations governing investigation and disciplinary procedures; Conducts additional investigations into statutory auditors and audit firms when necessary; Analyses and decides on disciplinary matters within its authority;

## Delegation

The POB has approved the rules for the delegations of the inspections of non-PIE auditors to the IEKA. The IEKA also performs auditor certification, registration and CPE requirements, overseen by POB.

## Funding

The POB is funded from: 3 percent of the audit fee paid by statutory auditors and audit firms engaged in audits in Public Interest Entities; other funds up to a maximum of 10% as a contribution from professional organizations subject to oversight by the Public Oversight Board; fees charged to statutory auditors and audit firms, subject to disciplinary measures to cover the costs of disciplinary procedures, imposed by the Public Oversight Board; funds reallocated from the professional examination process; Other funds from legal sources and uninfluenced by statutory auditors, including but not limited to grants allocated for quality assurance and oversight of the profession. The audit law also provides for funding from the state budget, however, the POB has maintained its financial independence.



## Audit Market

There are 71 audit firms and 143 auditor sole practitioners in Albania, all of which are subject to inspection from POB. In 2024, there were reported 3784 audited entities, where 1006 are PIEs, from which, 87 entities are financial institutions (banks and non-banks). The oversight responsibilities for the inspections of audits of PIEs remain with POB. Over 2,778 entities are non-PIE entities, whose inspections of audits fall under the POB.

The 6 largest audit firms in terms of revenue account for about 43 % of the public interest companies audit market, the 57% of the auditors are other firms/sole practitioners which consists of mainly local firms.

### Key challenges

- + Audit Quality improvement.
- + Strengthen Enforcement.
- + Improve Organizational Effectiveness

## Bosnia and Herzegovina

The most recent assessment by the European Commission of compliance<sup>88</sup> with EU legislative requirements in the area of public oversight of audit in Bosnia and Herzegovina states:

*“There is still no single country-wide authority for the oversight of statutory auditors.”* and

*“Bosnia and Herzegovina still needs to designate, in line with the EU acquis requirements, one single supervisory authority with country-wide competence responsible for the oversight of statutory auditors.”*

In October 2024, with support from the REPARIS for SMEs regional program, a dialogue among key local stakeholders was initiated. The primary aim of the event was to explore options for establishing a single supervisory authority with country-wide competence responsible for the oversight of statutory audits and auditors, considering the country's regulatory and

institutional setup, and in accordance with EU acquis requirements. While participants acknowledged the need for better approximation to the EU acquis, particularly at the country level, it was noted that some legal constraints and political considerations would need to be addressed alongside policy decisions.

While there is currently no state-level designated competent authority, there are audit oversight functions at the level of the constituent entity level. The Federation of Bosnia and Herzegovina, the Republika Srpska, and Brcko District have each have put in place legal and institutional frameworks relating to accounting and auditing, including public oversight to a greater or lesser extent. Each of these are analyzed below; however, they do not satisfy the EU legislative requirement for one designated competent authority with ultimate responsibility for the oversight of auditors and audit firms at the state level.

## Federation of Bosnia and Herzegovina

### Legislation

Under the Law on Accounting and Auditing of the Federation, the Ministry of Finance of the Federation is ultimately responsible for public oversight of audit in the Federation. Responsibilities of the Ministry of Finance include: (i) licensing audit firms and authorized auditors; (ii) maintaining registers of licensed audit firms and authorized auditors; and (iii) monitoring the performance of auditors, audit firms, and accounting professionals. The Ministry of Finance of the Federation designates the “Public Oversight Committee of the Chamber [of Auditors], audit companies, and licensed authorized auditors in Federation of Bosnia and Herzegovina” to be the audit oversight body in the Federation. The Public Oversight Committee (POC) is established by the following legislation and regulations:

1. The Decision of the Government of the Federation of Bosnia and Herzegovina number: V.1163/2022 dated July 28, 2022 (Official Gazette of the

<sup>88</sup> See [https://neighbourhood-enlargement.ec.europa.eu/document/download/e3045ec9-f2fc-45c8-a97f-58a2d9b9945a\\_en?filename=SWD\\_2023\\_691%20Bosnia%20and%20Herzegovina%20report.pdf](https://neighbourhood-enlargement.ec.europa.eu/document/download/e3045ec9-f2fc-45c8-a97f-58a2d9b9945a_en?filename=SWD_2023_691%20Bosnia%20and%20Herzegovina%20report.pdf)

Federation of Bosnia and Herzegovina, number: 61/22). Law on Accounting and Auditing (Official Gazette of Bosnia and Herzegovina, number 42/04).

2. Article 66 of the Law on Accounting and Auditing in the Federation of BiH (Official Gazette of the Federation of BiH, number 15/21),
3. Rulebook on the manner and conditions for issuing and revocation of licenses to authorized auditors and audit companies (Official Gazette of the Federation of Bosnia and Herzegovina, No. 28/21),
4. The Rules of Procedure of the Board.

The Public Oversight Committee is part of the Ministry of Finance. It has responsibility for the adoption of standards of professional ethics, internal control of the quality of work of auditing and auditing companies and the implementation of continuous education, quality assurance, and system discipline; it also supervises closely the work of the Chamber of Auditors.

## Governance

Article 98 of the Law on Accounting and Auditing defines the requirements and composition for the members of the Public Oversight Committee. It comprises a chair and four members. The members are appointed by the Government on a proposal from the Minister of Finance. Members serve a four-year term, renewable once. Members must have five years of experience in the fields of accounting and finance and be non-practitioners of audit for at least three years before appointment. One member must have five years of experience in audit. Administrative tasks for the purposes of the Public Oversight Committee are carried out by the Ministry of Finance.

## Inspections

The Ministry of Finance and POC do not currently perform independent inspections of auditors of PIEs, as required by EU legislation. Establishing an inspection program for this would be a key step forward in complying with the EU requirements. The Committee does closely oversee the inspections performed by the Chamber of Auditors.

## Sanctions

Where the Chamber of Auditors finds that an audit company subject to control does not remedy deficiencies found in an inspection within a specified time limit, the Chamber provides the Public Oversight Committee with a report on the inspection with the proposal for sanctions. The Public Oversight Committee can propose to the Ministry the following sanctions:

1. issuing orders to remedy irregularities;
2. determining additional sanctions;
3. conditional revocation of the audit license, with adequate justification;
4. revocation of the license to carry out the audit with adequate justification.

An administrative dispute may be brought against the decision to impose sanctions.

## Additional responsibilities

The Public Oversight Committee cooperates with the competent authorities in the Republic of Srpska, Brčko District, member states of the European Union and third countries, especially regarding irregularities in the actions of audit companies and authorized auditors.

## Delegation

Certain oversight duties are delegated to the Chamber of Auditors, for example some inspection activities. In 2023 and 2024, the Chamber performed continuous oversight by inspecting audit reports it received, and through oversight pursuant to POC orders or reports. The Chamber of Auditor's quality control oversight methodology considers key risk factors when selecting firms for review. These risk factors are:

- ✦ issues identified in previous controls;
- ✦ the number of audit engagements, in particular audits of PIEs;
- ✦ the number of auditors compared to the number of audit engagements; and,
- ✦ the time since the last review.

## Funding

The Committee is funded from the Federation budget.

## Audit market

There are 101 audit companies in the Federation. More than 80% of market share is shared by 36 audit companies. Within this there are three international network companies with a combined market share of 28.5%, based on audit services revenue.

## Republika Srpska

### Legislation

The Law on Accounting and Auditing of Republika Srpska (Official Gazette of Republika Srpska, issue No. 94/15, 78/20) and the Instruction on Conducting Oversight (Official Gazette of Republika Srpska 3/25 from January 17, 2025 establish audit oversight in the Republika Srpska. According to the Law, the Ministry of Finance of Republika Srpska is responsible for the supervision of auditors and audit firms that carry out statutory audits, including being responsible for quality assurance. The Ministry of Finance notes that not all the provision of the EU Directive are transposed into Republika Srpska Law, but work is ongoing to achieve this.

The specific requirements in the EU Regulation for audit oversight relating to PIE auditors have not yet been transposed, including additional requirements regarding the audit fee, prohibitions on providing non-audit services, engagements for quality control reviews, audit report and additional report to the audit committee, transparency reports, and the appointment of statutory auditors or audit firms.

### Governance

Supervision of the operations of audit firms is conducted by the Council for Accounting and Auditing, a body appointed by the Minister of Finance. The Council has five members, of which four members hold the professional title of certified auditors, have at least five years of work experience in auditing, are not employed in audit firms, and have no conflicts of interest in performing public oversight.

The Minister of Finance selects the members of the council.

## Inspections

The Ministry of Finance has begun establishing a program of inspecting audit firms and has carried out an initial analysis of the audit market and auditors. Once fully operational, this inspection program will represent a significant step forward in complying with the EU legislative requirements. Inspections are conducted according to the Instructions for Conducting Supervision, which use the following risk factors: the industry in which the company operates (financial institutions and enterprises of significance for the economy of the Republika Srpska); the total revenue of the company being audited; the number of employees; and the reputational risk.

The Ministry of Finance has initiated a program for inspecting audit firms, which has to date completed an analysis of the audit market and auditors, developed a new methodology as the basis for conducting oversight, and conducted continuous oversight, which included reviewing contracts, transparency reports, and other documents required by law. For auditors and audit firms that did not have significant deficiencies, the Ministry of Finance issued recommendations with deadlines for corrections. Such recommendations were issued to 25 audit firms and auditors. For audit firms and entities with significant findings discovered during continuous oversight, the Ministry of Finance will conduct further specific oversight activities. The program is ongoing.

## Other responsibilities

The Ministry of Finance of Republika Srpska licenses auditors and issues permits for the work of audit firms. The Ministry of Finance also administers the register of auditors and audit firms.

## Delegation

Certification of auditors is performed by the professional association – the Association of Accountants and Auditors of Republika Srpska.

## Funding

The financing of the public oversight is from the budget of the Republic of Srpska.

## Audit Market

There are 38 audit firms headquartered in the Republic of Srpska. 24 are from the Republic of Srpska, 12 from the Federation, and 2 from Brcko District.

## The Brčko District

### Legislation

The Finance Directorate of the Brcko District was established in 2007 by the Law on the Directorate for Finances of the Brčko District of Bosnia and Herzegovina. The Directorate is responsible for the oversight of audit in the Brcko District. According to the Law on Accounting and Auditing of the Brčko District, the Directorate has established the Council for Accounting and Auditing in the Brcko District. The Council has the purpose of monitoring the application of accounting and auditing standards in the District. Its aims include improvement and development of the accounting and auditing profession; application of international accounting and auditing regulations as well as harmonization with standards established by the European Commission; and protection of general and individual interest in the performance of work in the audit area.

### Governance

The council has 7 members - one member from among university professors, who is a full professor in the field of accounting and auditing, two employees from the Directorate, two members from among the employees of the Office for the Audit of Public Administration and Institutions, and two members from among other persons who, with their practical and theoretical experience in the relevant field, can contribute to more efficient work of the Council.

## Inspections

The Council for Accounting and Auditing should inspect the work of companies authorized for auditing with headquarters in the Brčko District of Bosnia and Herzegovina at least once every five years. This supervision is to be carried out by hiring legal entities that possess the professional qualifications necessary to perform supervision tasks. However, no financial resources have yet been provided for the implementation of supervision and, accordingly, no supervision has been carried out.

### Other responsibilities

The Finance Directorate maintains the register of authorized auditors.

### Funding

No funding has yet been provided to implement audit inspections or other elements of supervision in the Brcko District.

### Audit market

There are 21 authorized audit firms in the district.

#### Key challenges

- ✦ Establishing a single supervisory authority with country-wide competence responsible for the oversight of statutory auditors.
- ✦ Establishing well-resourced audit inspection functions with appropriate sanctioning powers to inspect all auditors of PIEs on a three-year cycle.
- ✦ Overcoming resource challenges of limited funding and the low availability of suitably qualified and experienced staff to perform inspections.

## Kosovo

### Legislation

Law No. 06/L-032 on Accounting, Financial Reporting, and Auditing became effective in 2019 and is modelled on the EU Audit Law Directive. It requires the establishment of an independent public oversight system to monitor the quality of audits of PIEs. The Law provided for the establishment of the AOB, which is the Kosovo Council for Financial Reporting (KCFR). The KCFR regulates the audit and accounting profession in Kosovo.

The KCFR is effectively part of the Ministry of Finance.

According to Law No. 06/L-032 on Accounting, Financial Reporting and Auditing, the KCFR responsibilities include:

- ✦ oversee the implementation of the Law and sub-legal acts adopted pursuant to the Law, and to take actions on oversight of enforcement and disciplinary measures for improper implementation;
- ✦ approve the IAS in accordance with the IAS approved by the International Accounting Standards Board and relevant EU legislation;
- ✦ approve, supervise and implement audit standards in accordance with ISAs and relevant EU legislation;
- ✦ license, retain, and publish the register of auditors, audit firms, and associations;
- ✦ adopt the standards of professional ethics, internal quality of audit firms;
- ✦ validate the international certificates of auditors and accountants.

All statutory auditors and audit firms are subject to public oversight by the KCFR. The KCFR has the ultimate responsibility for audit quality control, and for investigative and administrative disciplinary systems. It established the Public Oversight Board, which functions as the executive body of the KCFR. The Board has the responsibility for overseeing:

1. Continuing education;

2. Quality assurance systems; and
3. investigative and administrative disciplinary systems.

The most recent assessment for Kosovo by the European Commission of compliance with EU legislative requirements in the area of public oversight of audit is available on EC's website.<sup>89</sup>

### Governance

The Public Oversight Board is governed by a majority of non-practitioners who are knowledgeable in the areas relevant to statutory audit. The nominees for the board members are selected in accordance with an independent and transparent procedure, determined with a sub-legal act by the KCFR. The Public Oversight Board is composed of five members. Two members are from the KCFR, two are members of accounting organizations (associations) and one member will be appointed by the Central Bank of Kosovo (who is not a member of the KCFR). The Head of the Board is appointed by KCFR. The Board is accountable to the KCFR by regularly reporting on its activities.

### Inspections

KCFR regulations require the following in relation to inspections of audit firms and auditors:

All inspections and quality control supported by appropriate audit files tests, which should contain an assessment of compliance with international audit standards and requirements on auditor independence, quantity and quality of resources spent for the audit, as well as the audit cost. Inspections should have a report with conclusions.

The Public Oversight Board will retain the fundamental responsibility in relation to quality control of auditors and audit firms and in relation to investigation and discipline.

- ✦ In order to ensure that inspectors have adequate capacity and an appropriate combination of

<sup>89</sup> See [https://enlargement.ec.europa.eu/document/download/c790738e-4cf6-4a43-a8a9-43c1b6f01e10\\_en?filename=Kosovo%20Report%202024.pdf](https://enlargement.ec.europa.eu/document/download/c790738e-4cf6-4a43-a8a9-43c1b6f01e10_en?filename=Kosovo%20Report%202024.pdf)

education and experience, the Board will employ quality reviewers with the following qualifications: a) to be a certified auditor who has not exercised the profession in the last three years; b) at least four years of auditing experience in a licensed audit firm; c) demonstrated ability to assess professional judgments made by the auditors; d) unquestionable integrity and ethics background; and e) no conflict of interest.

- ✦ In order to ensure sufficient capacity when complex issues are at issue, the Board may determine that it is necessary to engage outside experts, who may include practicing auditors. In such case, the experts shall not be allowed to make any decisions and should not have a conflict of interest with the matter or entity under consideration.

The KCFR has recently began a program of inspections, with support from the World Bank. However, no permanent team of inspectors is currently employed by the KCFR. Establishing such a team is key to compliance with EU requirements. However, funding and resource constraints are a challenge to forming the team. The KCFR uses a risk-based selection procedure for inspections, with key risk factors including the structure of an audit firm; the auditor's market share; and the portion of engagements with PIEs.

The KCFR will report on the results of inspections once the inspection program is fully operational.

## Sanctions

The KCFR has the fundamental responsibility in quality control of auditors and audit firms and investigation and discipline. Part of that responsibility includes enforcement. This enforcement is enacted through the methodology in place approved by KCFR.

## Delegation

There is no delegation of inspection of auditors in effect in Kosovo. The professional accountancy organizations in Kosovo have limited responsibility

for conducting quality controls of their members only, but not for quality control of auditors and audit firms (especially for audit firms engaged for conducting the audit of a PIE).

## Funding

The KCFR is currently funded 100% by the Kosovo state budget. Additionally, funding can be raised through license fees.

## Audit market

There are in the region of 24 audit firms and 69 licensed auditors which fall under the scope of the KCFR/ Public Oversight Board, with around 725 public interest entity audits which fall under the scope of the Public Oversight Board mandate.

### Key challenges

- ✦ The KCFR needs to continue to progress towards establishing and completing the first round of audit inspections of all PIE auditors in Kosovo.
- ✦ The limited availability of resources remains the major impediment to making this progress.

## Montenegro

### Legislation

The Law on Auditing (Official Gazette of Montenegro, No. 1/17) regulates external audit and contains the provisions for the operation of the audit public oversight system in Montenegro. Articles 34-45 of the Law describe the architecture of the public oversight system and its duties and accountabilities. The regulations on public oversight consist of an Act for the appointment of board members and a rulebook on the functioning of the audit oversight board (i.e. the Audit Council).



The Ministry of Finance is responsible for audit oversight; it has established a two-tier system of the Audit Council and the Audit Oversight Division. The system was established in 2017 and functioned effectively except for a pause in operations between 2021 to 2023. In compliance with the Law on Auditing, the system comprises:

- ✦ The Audit Council of five members led by a president. The president of the council is the Director General of the Directorate for Central Harmonization and Development of Internal Controls at the Ministry of Finance, who oversees inter alia the Audit Oversight Division.
- ✦ The Audit Oversight Division is a unit under the Directorate for Central Harmonization of the Ministry of Finance.

The Audit Council has an advisory role, providing guidance on how to improve audit practice, monitoring the application of audit standards, providing advice to help improve the quality of financial reporting, and providing various opinions on aspects of audit oversight.

The Audit Oversight Division operates the system in practice. This includes maintaining the register of audit firms and auditors, ensuring CPE requirements are met, and performing audit inspections.

The audit public oversight system is partially aligned with the provisions of the EU Audit Directive 2014/56 EU, and the EU Audit Regulation. The essential elements of audit oversight are included in the Law on Auditing, including definitions of the roles and responsibilities of the Ministry of Finance, the Audit Council as advisory body, and the Audit Oversight Division and its quality assurance inspectors. Montenegro has a new draft Law on Auditing which transposes all the EU provisions that remain to be transposed. It is currently under review by the EC.

The most recent assessment for Montenegro by the European Commission of compliance with EU legislative requirements in the area of public oversight of audit is available on EC's website.<sup>90</sup>

## Governance

According to the Law on Auditing, the majority of members of the Audit Council must be persons who within three years prior to appointment:

1. do not actively participate in the performance of audit;
2. did not have the right to vote as members of an audit company;
3. were not members of the administrative or executive body of an company; or
4. were not employed by an auditing firm.

## Inspections

The inspection unit of the Audit Oversight Division has commenced audit inspections using the inspection template methodology provided as part of the REPARIS for SMEs project. The template is fully ISA compliant and complies with all the requirements of the EU's Audit Directive. The unit has received training on use of the methodology and has completed the first round of inspections, performing effective inspections and generating a range of relevant findings and recommendations for improvement for the audit firms inspected.

## Sanctions

The system of sanctions in the Law on Auditing specifies the range of sanctions for failure to comply with the Law. The Law requires the use of ISAs, so sanctions can follow inspections findings of non-compliance with ISAs, though the focus of inspections should be on improving audit quality going forward, not punishing firms retrospectively. The Ministry of Finance can levy fines from €500 to €16,500. Article 53 of the Law on Auditing provides for sanctions to an audit firm that fails to request and obtain an auditor's license. Article 54 deals with violations of independence or rules, non-compliance

<sup>90</sup> See [https://enlargement.ec.europa.eu/montenegro-report-2024\\_en](https://enlargement.ec.europa.eu/montenegro-report-2024_en)



with compulsory insurance, not communicating changes to the Ministry of Finance, failure to submit a transparency report, or failure to keep audit documentation. In addition, the Ministry of Finance can revoke an auditor's license in severe cases of non-compliance. It appears that the fines are insufficient to effectively reprimand larger audit firms performing inadequate audits of PIEs, where the threat of removing the audit license is the only effective sanction at present. The Law does not provide for Investigative powers or sanctions other than through the quality assurance system and the consequential sanctions described above. Such powers are a requirement of the EU Audit Law. Montenegro should seek to put such powers and an operating function in place.

## Additional responsibilities

The Ministry of Finance establishes the program of continuing professional education for auditors, which is implemented by the Institute of Certified Accountants. The ICA prepares the CPE program, sends it to the Audit Council for their opinion and then to the Ministry of Finance for approval.

## Delegation

There is currently no delegation of inspection functions to a professional organization in Montenegro. Responsibility for the implementation of the program of continuous education for auditors (set by the Ministry of Finance) is delegated to the Institute of Certified Accountants. The Institute of Certified Accountants of Montenegro is responsible for the adoption, translation, and publication of the IFRS Accounting Standards, ISAs and the Ethics Standard.

## Funding

The Department for Audit Oversight is funded as a part of the Directorate for Central Harmonization and Development of Internal Controls from the annual budget of the Ministry of Finance. The Audit Council is funded from the Budget of Montenegro.

## Audit Market

29 audit firms are licensed to work in Montenegro.

### Key challenges

- ✦ Montenegro needs to continue to develop its inspection program for auditors, drawing on international best practices in inspection methodology and delivery.
- ✦ Montenegro may wish to review the range and amounts of sanctions available to ensure they are sufficient to be an effective deterrent before the extreme option of cancelling registration is required.

## North Macedonia

### Legislation

Article 6 of the Audit Law of North Macedonia (Official Gazette of the Republic of North Macedonia No. 122/21) establishes the Council for Advancement and Oversight of Audit of the Republic of North Macedonia (CAOAC). The CAOAC is an independent and autonomous regulatory body and is the AOB for North Macedonia.

The responsibilities of the CAOAC include issuing and revoking licenses for certified auditors, certified auditors – sole proprietors, and audit firms; overseeing the Institute of Certified Auditors of North Macedonia in their performance of regulatory tasks; imposing measures on auditors, certified auditors – sole proprietors, and audit firms according to the Law; establishing cooperation with domestic, foreign and international institutions; providing guidelines of the Certified Auditors Registry; and performing other tasks determined by the Law.

The most recent assessment for North Macedonia by the European Commission of compliance with EU legislative requirements in the area of public oversight of audit is available on EC's website.<sup>91</sup>

<sup>91</sup> See [https://enlargement.ec.europa.eu/document/download/5f0c9185-ce46-46fc-bf44-82318ab47e88\\_en?filename=North%20Macedonia%20Report%202024.pdf](https://enlargement.ec.europa.eu/document/download/5f0c9185-ce46-46fc-bf44-82318ab47e88_en?filename=North%20Macedonia%20Report%202024.pdf)

## Governance

The CAOAC has seven Members including the the President of the Council. The Government of the Republic of North Macedonia appoints the Councils President and its members. The President of the Council is proposed by the Minister of Finance and the remaining six members are proposed by the following institutions:

- ✦ one representative of the National Bank of the Republic of North Macedonia, employed in the Supervision Department,
- ✦ one representative of the Insurance Supervision Agency,
- ✦ one representative of the Securities Commission,
- ✦ one representative of major business entities, and
- ✦ two certified auditors proposed by the Institute of Certified Auditors.

The term of office of the CAOAC President and members is five years, with the opportunity of re-election for another term. The CAOAC President is a professional employee who receives a salary for their work. CAOAC members also receive a monthly remuneration provided from the CAOAC funds established in the annual financial plan.

## Inspections

The CAOAC has the competence to perform audit quality assurance inspections but has not initiated inspections at the time of this report.

## Sanctions

The CAOAC has the power to impose the following sanctions at their decision:

1. a temporary audit license confiscation; and
2. a permanent audit license confiscation.

The sanction is issued by the CAOAC based on a report from the Institute of Certified Auditors following an

inspection. The sanction can be imposed for the same period for which a disciplinary measure from the Institute is given.

## Delegation

Inspections are carried out by the Institute of Certified Auditors, under a well-established program within the competences determined by the Audit Law. The Institute uses risk-based selection of auditors for visits based on a range of factors and annual information collected from audit firms.

## Funding

The CAOAC is financed from: the Budget of the Republic of North Macedonia; a levy of 15% of the income of the Institute of Certified Auditors of the Republic of North Macedonia in the previous year; income from issuing auditing licenses to audit firms, certified auditors – sole proprietors and certified auditors; and other income realized from performing the CAOAC duties.

### Key challenges

- ✦ The Council needs to begin an inspection program for PIE auditors.
- ✦ The Council also needs to actively undertake its other roles and responsibilities, such as oversight of the Institute.

## Serbia

### Legislation

The Law on Audit of the Republic of Serbia establishes the Securities Commission of the Republic of Serbia as the competent authority for public audit oversight. The following Byelaws under the Law on Audit give legal backing to the audit inspections:

- ✦ *Guidelines on the selection criteria for audit firms, independent auditors and licensed authorized auditors for the quality control reviews of conducted audits*<sup>92</sup>
- ✦ *Regulation on quality control review of audit engagements and quality control review of audit firms, independent auditors, and licensed authorized auditors*<sup>93</sup>

Fees for the public oversight function are set according to the Securities Commission's Rulebook on Fees.<sup>94</sup>

The most recent assessment for Serbia by the European Commission of compliance with EU legislative requirements in the area of public oversight of audit is available on EC's website.<sup>95</sup>

## Governance

The Securities Commission has five commissioners, including the president of the commission – chair, elected and dismissed by the National Assembly of the Republic of Serbia at the proposal of the Assembly's Finance Committee. The commission adopts decisions at sessions headed by the chair, or a commissioner authorized by the chair. The work of the expert staff is managed by the secretary general of the commission. The members of the commission who make decisions with regard to implementation of this Law must be non-practitioners in accordance with the Law on Audit. The commission publishes an annual program of activities and an annual report on the activities performed on its website; it also submits the annual report to the Ministry of Finance and reports to the Ministry on implementing the activities defined by the Law on Audit at least twice annually.

The Law on Audit also established in 2013 an Audit Public Oversight Committee to advise the Commission. This has a chair and six members. The chair and four members are appointed at the proposal of the

Minister of Finance. Other members are appointed at the proposal of the National Bank of Serbia and the Securities Commission, and one further member is a representative of the Chamber of Authorized Auditors of Serbia.

## Inspections

The Securities Commission is empowered to perform inspections of audit firms and licensed certified auditors in order to check whether audit is performed according to ISAs. Two inspectors are currently employed to perform these inspections. The inspections are required to be proportional to the complexity of work performed by an auditor. Quality control for audit work shall be performed to preclude any conflict of interest between the persons performing the practice quality review and auditors, and according to an established inspection methodology. Inspections are performed through: 1) monitoring the financial statements submitted to the Securities Commission by auditors; 2) inspections of auditors; 3) imposing remedial measures and sanctions in accordance with the Law on Audit. Auditors are selected for inspection on a risk-based sample, with a 3-year cycle for PIE auditors and 6-year cycle for others.

## Sanctions

Sanctions available to the Securities Commission for poor quality audit work found during inspections can include: 1) order the elimination of the determined irregularities; 2) issue a public reprimand; 3) conditionally revoke the audit firm license; 4) suspend the audit firm license for up to 3 years; 5) up to a three-year suspension of an individual performing audit functions in an audit firm or PIE; 6) revoke the audit license; 7) issue a fine.

<sup>92</sup> See <https://www.sec.gov.rs/index.php/en/regulations/legislation/bylaws/293-law-on-audit/7287-guidelines-on-the-selection-criteria-for-audit-firms,-independent-auditors-and-licensed-authorised-auditors-for-the-quality-control-reviews-of-conducted-audits>

<sup>93</sup> See <https://www.sec.gov.rs/index.php/en/regulations/legislation/bylaws/293-law-on-audit/7278-regulation-on-quality-control-review-of-audit-engagements-and-quality-control-review-of-audit-firms,-independent-auditors,-and-licensed-authorised-auditors>

<sup>94</sup> See <https://www.sec.gov.rs/index.php/en/regulations/legislation/the-rulebook-on-fees>

<sup>95</sup> See [https://enlargement.ec.europa.eu/document/download/3c8c2d7f-bff7-44eb-b868-414730cc5902\\_en?filename=Serbia%20Report%202024.pdf](https://enlargement.ec.europa.eu/document/download/3c8c2d7f-bff7-44eb-b868-414730cc5902_en?filename=Serbia%20Report%202024.pdf)

## Delegation

The Securities Commission conducts public oversight of auditing in accordance with the Law on Audit, overseeing the work delegated by the Commission to the Chamber of Authorized Auditors of Serbia. In addition to the Commission, the Chamber of Authorized Auditors is also tasked with carrying out QA reviews for its members, which include all auditors and audit firms. The Commission oversees the following functions performed by the Chamber and the Ministry of Finance: 1) Implementing programs for taking, recognizing, and organizing examinations for acquiring the certified auditor title; 2) Determining and implementing the program for CPE of licensed certified auditors; 3) Issuing, renewing, and making ineffective licenses of certified auditors; 4) Issuing and making ineffective audit licenses to audit firms and sole practitioners; 5) ISA implementation; 6) Implementation of the Code of Ethics for Auditors; 7) Conducting investigative, disciplinary, and other proceedings conducted by the Chamber (in relation to non-PIE auditors).

## Funding

The Securities Commission obtains funds for audit supervision work from: 1) a specific contribution for performing practice quality review of audit firms; 2) fees from other sources in accordance with the Law on Audit. The Commission obtains consent from the Ministry of Finance on the amount of the specific contribution and then passes an act according to Article 106 of the Law on Audit.

## Audit market

There are currently 77 audit firms subject to supervision/inspections by the Securities Commission. 27 of the audit firms are permitted to audit PIEs.

### Key challenges

- ✦ Serbia needs to continue to improve audit quality through effective inspections and, where appropriate, strengthened enforcement measures.
- ✦ Serbia needs to continue to ensure that the necessary resources are available within the POS function.



