

# **COMMITTEE OF EUROPEAN AUDITING OVERSIGHT BODIES (CEAOB)**

**Work Programme  
Period ending 2017**

**November 2016**

## 1. Introduction

The Rules of Procedure of the Committee of European Auditing Oversight Bodies (CEAOB) state that it should adopt an annual work programme, along with work plans for its sub-groups. This work programme relates to the overall tasks of the CEOAB. More detailed separate work plans have been prepared by each of the sub-groups (refer to further details in section 3.1 on key priorities). The first period of the work programme covers the period ending 31 December 2017.

The governance and structure of the CEOAB has been put in place, including the election of the Chair and the appointment of the vice Chair at the July 2016 plenary meeting and the set-up of a consultative group. Plenary meetings of the CEOAB will be held at least three times a year.

Section 2 of this work programme sets out an overview of the CEOAB, along with details of its strategic objectives. Section 3 describes the key priorities in the short term and section 4 explains the activities of the CEOAB. Appendix 1 provides an overview of the work programme and appendix 2 sets out background information on the CEOAB, including details of the sub-groups and Colleges of competent authorities.

## 2. Overview and strategy

### 2.1 Overview of the CEOAB

<b>Mission</b>	<b>Contribute towards effective cooperation between competent authorities in the EU</b>				
<b>Strategic objectives</b>	<b>Improve audit quality</b>			<b>Improve confidence in audits through effective communications</b>	
<b>Activities (see section 4 for details)</b>	Develop cooperation and consistency among the competent authorities	Contribution to technical assessments and provision of advice to the Commission and to competent authorities	Effective communications and outreach to external parties	Market monitoring	
<b>CEOAB level</b>	Chair, consultative group and plenary meetings				
<b>Sub-groups (see appendix 2 for details)</b>	Inspections	International auditing standards	Enforcement	Market monitoring	International Equivalence and Adequacy

## **2.2. Key activities to achieve the strategic objectives of the CEAOB**

The strategic objectives of the CEAOB are to improve audit quality and to improve confidence in audits through effective communications. The aim will be to achieve this primarily through the following activities in the EU:

### *Develop cooperation and consistency among the competent authorities (see 4.1)*

- Cooperation and consistency of inspection and enforcement activities, which will lead to the improved effectiveness of those activities.

### *Contribution to technical assessments and provision of advice to the Commission and to competent authorities (see 4.2)*

- Sharing of experience and exchange of criteria for the practical application of the Regulation and Directive among members of the CEAOB, which will help ensure it is implemented on a consistent basis.
- Provision of advice to the Commission in relation to the Regulation and Directive which will also help ensure it is implemented on a consistent basis.

### *Effective communications and outreach to external parties (see 4.3)*

- Dialogue with the audit firms which will help drive their quality agenda in order to ensure that there is continuous improvement in audit quality in those firms.
- Communications with standard setters of recurring inspection findings and potential improvements in standards which will lead to more effective auditing standards.
- Communications to investors and other stakeholders which will help improve confidence in audits.

### *Market monitoring (see 4.4)*

- Facilitation of the monitoring of the quality and competition in the market which will also help to improve confidence in audits.

Further details of these activities are set out in section 4.

The CEAOB will consider the merits of preparing a separate three year strategy setting out details of its longer term activities.

### **3. Key priorities**

This section focuses on the short term priorities for the CEAOB, which would be carried out in the first period of the work programme. These largely relate to the establishment and functioning of the sub-groups and central CEAOB activities.

#### ***3.1 Ensure the sub-groups are adequately resourced and meet on a regular basis***

A key criterion for the success of the CEAOB in the first year will be establishment of the sub-groups and progress being made in those sub-groups.

Chairs for each sub-group were appointed at the July 2016 plenary meeting, except for the Enforcement sub-group. Terms of references and work plans for each of those sub-groups have since been prepared, for presentation at that CEAOB meeting in November 2016. A chair of the Enforcement will be appointed as soon as possible. The participation of representatives from the national audit authorities, in calls and meetings, will be important in ensuring that these sub-groups make progress in the first year.

#### ***3.2 Integration of the European Audit Inspection Group (EAIG) into the CEAOB structure***

The EAIG was integrated into the CEAOB between June and November 2016, primarily as part of the inspections sub-group, and a number of the previous activities of the EAIG will continue to be developed within the CEAOB. The existing sub-groups of the EAIG will become the Colleges of competent authorities, as these are already established. There will also be continued development and access to the database of audit inspections findings ("Findings Database") by national audit authorities who are CEAOB members, subject to confidentiality considerations.

#### ***3.3 Sharing of experience of implementation of the Regulation and Directive***

Consideration needs to be given as to the best mechanism of sharing experience of implementation of the Regulation and Directive, as well as working to resolve any problems arising and providing related advice to the Commission (refer to 4.2 for further details).

#### ***3.4 Development of a communications strategy***

The communications strategy will need to include decisions on how we communicate externally, which external parties we should meet, how frequently and at what level, i.e. CEAOB or sub-group (refer to 4.3 for further details).

## 4. Activities of the CEAOB

This section focuses on the range of activities of the CEAOB. While it is expected that many of these activities will be achievable in the first period of the work programme, it is recognised that it is aspirational to perform all of the activities in this period.

### 4.1 *Develop cooperation and consistency among the competent authorities*

One of the objectives of the CEAOB is to facilitate the exchange of information, expertise and best practices and to contribute to the improvement of cooperation of the oversight of public interest entities' auditors, audit firms and their networks.

#### *Inspections activities*

The cooperation and consistency of inspection activities of competent authorities will take place in the inspections sub-group and will build on the recent activities of the EAIG. This will include the following:

- Ongoing dialogue between those involved in inspections. The members of the inspections sub-group will meet to share inspection findings and practices and to discuss areas of focus, including topics such as developments in data analytics, offshoring and root cause analysis.
- Sharing inspection findings through analysing the Findings Database. This is an important aspect of the facility to exchange information between inspection teams. It enables the identification of inspection findings by firm, for use by the Colleges and discussion with the firms. It also enables review of potential root causes of the findings, which can assist in the discussions with the Standard Setters. Access to the Findings Database by competent authorities will remain subject to maintaining confidentiality requirements and the German Auditor Oversight Body (AOB) will host and maintain the database.
- Sharing inspection findings and practices of the major audit firms in co-ordination with the Colleges, with the aim of improving the effectiveness of inspections of those firms.
- Sharing inspection findings and practices relating to audits of Financial Services entities.
- Consistency of inspection methodology. Ongoing progress of the Common Audit Inspection Methodology (CAIM) initiative, with the aim of further improving the consistency of inspection practices.

The inspection activities could also involve coordinating quality assurance reviews following a request from the competent authorities of the Member States.

These activities would be undertaken by the inspections sub-group, which would report back to the CEAOB plenary and would input into its annual report.

### *Enforcement activities*

The CEAOB will facilitate the exchange of information, expertise and best practices in the area of investigation and sanctions (Article 23 of the Regulation and Article 30 of the Directive) and will collect and annually publish aggregated information on all administrative measures and sanctions imposed by competent authorities in accordance with Chapter VII of the Directive (Article 30f (1) of the Directive). This will be undertaken by the Enforcement sub-group, who would also:

- Establish guidelines for collecting Member State information on administrative measures and disciplinary sanctions.
- Collate submissions from competent authorities.
- Prepare report for publication.
- Establish a mechanism for competent authorities to communicate to the CEAOB temporary prohibitions (Article 30a (1) of the Directive).

The sub-group would report back to the CEAOB plenary and would input into its annual report.

### *Educational qualifications for statutory auditors*

The CEAOB will contribute to the cooperation and convergence with regard to educational qualifications for statutory auditors, particularly those carrying out statutory audits of public-interest entities (Article 6 of the Directive). This would be considered at a CEAOB level, as part of the plenary meetings.

### *Development of guidelines and thought papers*

The CEAOB may adopt non-binding guidelines or thought papers, which would be developed at different levels and agreed on at CEAOB level, as part of the plenary meetings. The potential topics of such non-binding guidelines or thought papers are subject to further discussion.

## **4.2 Contribution to technical assessments and provision of advice to the Commission and to national competent authorities**

### *Implementation of the Regulation and Directive*

The CEAOB will provide advice to the Commission and to national competent authorities, at their request, on issues related to the implementation of the Regulation and Audit Directive, including compiling a list of exceptional situations of non-application of the Regulation (Article 2 of Regulation) and issuing guidelines on the practical application of the Directive and Regulation, including aspects of the auditor's independence that have cross border effects (including audit fees, prohibited services, rotation) with the aim to reach a common approach in these matters, pursuant with the Regulation. It should also seek convergence of

the requirements of adaptation periods and aptitude tests (Article 14 of the Directive). This would be performed at a CEAOB level.

This would involve sharing of experiences among the competent authorities, the mechanism for which needs consideration (this could include setting up a system to receive information or queries, analysis and response by a sub group and communication of guidance to competent authorities). CEAOB will establish arrangements to ensure that questions from CEAOB members related to the implementation of the Regulation and Directive are dealt with in a consistent manner.

#### *International auditing standards*

The CEAOB will contribute to the technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption at Union level, either for the Commission's wish to use the powers in Article 26 or for the adoption at national level. The CEAOB will also determine the standards related issues on which it will liaise with international standard setters and issue comments. This would be carried out by the international auditing standards group, which would report back to the CEAOB plenary and would input into its annual report.

#### *International Equivalence and Adequacy*

The CEAOB will analyse the impact of the new EU audit regulatory framework on the equivalence and adequacy assessments and prepare guidelines on the content of cooperation agreements and exchange of information with the competent authorities of third countries (Article 36 (4) of the Regulation). The sub-group will carry out the technical assessment of third countries public audit oversight with a view of providing advice to the Commission on whether to grant equivalence and adequacy to third countries. This is a development of the prior work of the former EGAOB. The work will be carried out by the International Equivalence and Adequacy sub-group, which would report back to the CEAOB plenary and would input into its annual report.

### **4.3 *Effective communications and outreach to external parties***

#### *Overview*

The CEAOB will seek to have dialogue with a number of external parties. This is considered to be an important part of meeting its objectives, especially as these communications are likely to have a positive effect on audit quality and confidence in audits.

A separate stakeholder outreach and communications strategy will be developed, identifying stakeholder groups and means of communication with them.

#### *Investors, Audit Committees and other stakeholders*

The CEAOB will enter into a dialogue with investors and other stakeholders and consider how to respond effectively on the outcome of these discussions. The CEAOB will also seek to

have dialogue with Audit Committees, in order to make them aware of the importance the CEAOB attaches to their role and responsibilities.

### *Major audit firms*

The CEAOB will have on-going dialogue with the audit profession. Discussion topics will include the network's role in audit quality, current strategic issues and trends in the audit profession. The CEAOB, through the Inspection sub-group, will also share findings and observations from inspections in relation to each network and discuss measures for remediation. This will build on the previous dialogue between the EAIG and audit firms. Discussions are expected to initially focus on the six largest European networks of audit firms. Consideration will need to be given as to avoid unnecessary duplication of meetings with firms invited to IFIAR meetings.

Colleges will be developed for each of the four largest European networks of audit firms (see appendix 2). These will build on the sub-groups formed by the EAIG, who have had recent dialogue with those firms. The Colleges will be responsible for preparing and facilitating the on-going dialogue with the respective networks.

Some of the meetings with the audit firms should be held jointly with the European Systemic Risk Board in relation to the audit of global systemically important institutions (GSIFIs) (Article 12(2) of the Regulation). This will be carried out at a CEAOB level.

It might also be considered to have a dialogue with other relevant networks of European audit firms and with the ECG and EGIAN.

### *Professional bodies*

Consideration will be given to communications with professional bodies, including FEE at a CEAOB level.

### *Auditing standard setters*

There will be a regular dialogue with international standard setters, in particular the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), including the feedback on inspection findings and related implications for standards. This will primarily be undertaken by the international auditing standard (IAS) sub-group, and will build on the related activities undertaken by the EAIG.

### *Banking/ insurance regulators*

The inspections sub-group will include a group of experts for the inspections of bank and other financial institution audits. This group will facilitate the exchange of practices and findings amongst European audit regulators in relation to the audits of financial institutions and will provide a platform to engage with the European financial regulators (EBA, EIOPA and ESMA in matters relating to financial services institutions). This group will support the



CEAOB in organising and carrying out the annual meetings according to article 12(2) of the Regulation (see above, meeting with ESRB).

#### *Non EU audit regulators*

Many of the members of the CEOB will also be members of IFIAR. The CEOB will ensure there is ongoing dialogue with members of IFIAR and ensure there is co-ordination with the work of IFIAR to address any concerns of duplication.

#### **4.4 Market monitoring**

##### *Monitoring Market Quality and Competition*

The CEOB will facilitate and streamline the monitoring of the audit market with a focus on quality and competition of the market for providing statutory audit services to public-interest entities (Article 27 of the Regulation). The sub-group on market monitoring will assist the Commission in preparing joint market monitoring reports. This may involve cooperation in this regard with the European Competition Network, as necessary. This will be undertaken by the Market Monitoring sub-group, which will also involve:

- Establish guidelines, in collaboration with the Commission, for preparing Member State market monitoring reports.
- Establish a sound and consistent methodology in order to collect the necessary data for comparable European benchmarks. This includes reviewing existing or establishing new KMMI (key market monitoring indicators) where needed.
- Evaluation and assessment of main gaps in data collection in the national markets.
- Facilitate the exchange of expertise and best practices in the area of data collection and market monitoring in the national markets.
- Discussion on the reports received from each national competent authority focusing in particular on:
  - Risks to audit quality and measures to mitigate them
  - Market concentration
  - Performance of audit committees

Article 27 of the Regulation requires that a report be drawn up at least every three years. The activities of the sub-group are therefore determined by the length of reporting cycle in light of the frequency of the Commission's joint report.

## Appendix 1

### Overview of work programme

Planned activities	Output	Lead
<p><b>Develop cooperation and consistency among the competent authorities</b> <i>Section 4.1</i></p>	<p><b>Integration of the EAIG into the CEAOB</b></p> <p>Sharing and discussing inspection findings through maintaining and analysing the Findings Database on Audit Inspections.</p> <p>Co-ordination with Colleges regarding the major audit firms.</p> <p>Consistency of inspection methodology. Ongoing progress of the Common Audit Inspection Methodology (CAIM) initiative.</p> <p>Exchange of information, expertise and best practices in the area of investigation and sanctions.</p> <p>Collect and annually publish aggregated information on administrative measures and sanctions imposed by competent authorities.</p> <p>Contribution to the cooperation and convergence with regard to educational qualifications for statutory auditors.</p> <p>Development of non-binding guidelines and thought papers.</p>	<p>Inspections sub-group</p> <p>Inspections sub-group</p> <p>Inspections sub-group</p> <p>Inspections sub-group</p> <p>Enforcement sub-group</p> <p>Enforcement sub-group</p> <p>CEAOB</p> <p>CEAOB</p>
<p><b>Contribution to technical assessments and provision of advice to the Commission and to national competent authorities</b> <i>Section 4.2</i></p>	<p><b>Sharing of experience and providing advice to the Commission and to national competent authorities on issues related to the implementation of the Regulation and Audit Directive.</b></p> <p>Contribution to the technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption at Union level either for the Commission's wish to use the powers in Article 26 or for the adoption at national level.</p> <p>Initiate examination of international auditing standards under the new Regulation and Directive and issue comments.</p>	<p>CEAOB</p> <p>IAS sub-group</p>

Planned activities	Output	Lead
	Assessments in relation to the regulation of third country auditors and to cooperation with third countries. Advice to the Commission on whether to grant equivalence and adequacy to third countries.	International Equivalence and Adequacy sub-group
<b>Effective communications and outreach to external parties</b> <i>Section 4.3</i>	<b>Produce a communications strategy</b>  Discussions with investors and other stakeholders, including Audit Committees.  Dialogue with the audit profession, with a particular focus on the largest European networks of audit firms.  Dialogue with the professional bodies  Dialogue with international standard setters including the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).  Dialogue with the European financial regulators (EBA, EIOPA and ESMA in matters relating to financial services institutions).  Dialogue with members of IFIAR.	CEAOB  CEAOB  Inspections sub-group  CEAOB  IAS sub-group  Inspections sub-group  CEAOB
<b>Market monitoring activities</b> <i>Section 4.4</i>	<b>Facilitating and streamlining monitoring of the quality and competition of the market for providing statutory audit services to public-interest entities.</b>  Provide assistance to the Commission in preparing joint market monitoring reports.  Establish guidelines and a sound and consistent methodology, including revision of indicators, for preparing Member State market monitoring reports and ensuring accurate, consistent and easily aggregated data.  Discuss the reports received from each national competent authority and help sharing best practices.	Market Monitoring sub-group

## **Appendix 2**

### **Background information**

#### *Background to CEAOB*

The new European Union (EU) audit legislation came into force in June 2014 and took effect on 17 June 2016. The legislation comprises a Regulation, which includes provisions that apply to the statutory audits of PIEs, and a Directive, which applies to all statutory audits in the EU.

Oversight of the audit profession in the EU continues to be carried out at the Member State level. The legislation requires each Member State to designate a single competent authority to bear ultimate responsibility for the audit public oversight system, where they have not already done so.

Previously, cooperation and coordination of oversight activities at an EU level are ensured by one representative of each competent authority participating in a Commission-chaired group, the European Group of Auditors' Oversight Bodies (EGAOB).

The Regulation provided for a new body to be established to ensure closer cooperation and harmonisation of oversight at an EU level. The CEAOB is the new framework for cooperation between competent authorities on audit oversight in the European Union. It comprises one representative from each national audit authority and one member approved by the European Securities and Markets Authority (ESMA). The CEAOB is chaired by one of the representatives of the national audit authority. The vice chair is from the European Commission.

#### *Tasks of the CEAOB*

As stated in the Rules of Procedure, these should include the following:

- Facilitate the exchange of information, expertise and best practices for the implementation of the Regulation and of the Directive.
- Provide expert advice to the Commission, as well as to the competent authorities, at their request, on issues related to the implementation of the Regulation and of the Directive.
- Contribute to the technical assessment of public oversight systems of third countries and to the international cooperation between Member States and third countries in this area, as referred to in Articles 46(2) and 47(3) of the Directive.
- Contribute to the technical examination of international auditing standards, including the processes for their elaboration, with a view to their adoption at Union level.
- Contribute to the improvement of cooperation mechanisms for the oversight of public interest entities' statutory auditors, audit firms or the networks they belong to.

- Carry out other coordinating tasks in the cases provided for in the Regulation or in the Directive.
- Discuss any other matters relevant to audit quality within the scope of the Directive and the Regulation.

For the purpose of carrying out its tasks, the CEAOB may adopt non-binding guidelines or opinions.

The CEAOB will also publish an annual report on its activities.

### *Sub-groups of CEAOB*

The Rules of Procedure state that the CEAOB will establish sub groups on a permanent basis and can set up additional sub-groups on an ad hoc basis to examine specific issues within the scope of its mission and tasks. They shall operate according to their own terms of reference, which shall be in line with the Rules of Procedure and subject to the CEAOB's approval. They shall report to the CEAOB.

The CEAOB has the following permanent sub groups. All of these shall be chaired by a member or a substitute with specific expertise, except for the International Equivalence and Adequacy sub group, which shall be chaired by ESMA.

- Inspections sub-group: facilitating the exchange of information, expertise and best practices in the area of quality assurance procedures in accordance with Article 26 of the Regulation and Article 29 of the Directive;
- International auditing standards sub-group: facilitating the task referred to in point (d) of Article 30 (7) of the Regulation.
- Enforcement sub-group: facilitating the exchange of information, expertise and best practices in the area of investigation and sanction as referred to in Article 23 of the Regulation and Article 30 of the Directive.
- Market Monitoring sub-group: facilitating the tasks referred to in Article 27 of the Regulation.
- International Equivalence and Adequacy sub group: facilitating the tasks referred to in point (c) of Article 30(7) of the Regulation.

### *Colleges of competent authorities*

Colleges of competent authorities may be established, according to Article 32 of the Regulation with regard to specific statutory auditors, audit firms or their networks. In relation to this work programme it is proposed that there are initially Colleges for the four largest European networks of audit firms. These are outside the structure of the CEAOB.

### *European Audit Inspection Group (EAIG)*

It was agreed by the EGAOB in January 2011 that the activities of the EGAOB Inspection sub-group would continue outside the formal remit of the EGAOB, in the form of the EAIG. Since then the EAIG has met regularly and has carried out its activities as an independent group, with no formal direct link with the European Commission or the EGAOB. Representatives of the European Commission have attended the EAIG meetings as observers.

The primary purpose of the EAIG has been to create awareness of important issues and promote cooperation and consistency amongst European audit regulators on inspections. For this, it has been necessary for the EAIG to undertake activities through sharing practices among its members and have discussions with third parties in relation to the topic of inspections.