

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

**Work Programme  
Period ending 2018**

**November 2017**

## 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 CEAOB. More detailed separate work plans have been prepared by each of the sub-groups. This work programme covers the period ending 31 December 2018.

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

## 2. Overview and strategy

### 2.1 Overview of the CEAOB

<b>Regulatory framework</b>	<b>Contribute towards effective cooperation between competent authorities</b>				
<b>Objective</b>	<b>To continue to improve audit quality and confidence in audits</b>				
<b>Activities (see sections 2.2 and 4)</b>	Development of 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>CEAOB level</b>	Chair, consultative group and plenary meetings				
<b>Sub-groups (see appendix 2)</b>	Inspections	International Auditing Standards	Enforcement	Market Monitoring	International Equivalence and Adequacy

The Rules of Procedure state that the CEAOB is the framework for cooperation between competent authorities on audit oversight in the European Union. The objective of effective cooperation is to improve audit quality and confidence in audits.

Continuous improvement in audit quality is important as high quality auditing helps provide investors and other relevant parties with assurance that the financial statements give a true and fair view, and provides a reliable basis for them in taking decisions.

Audit firms are regulated at a country level, yet those firms are increasingly operating at a global and European level in terms of their audit related procedures and initiatives to improve audit quality. It is therefore important that audit regulators in Europe cooperate in an effective manner to improve the effectiveness of the regulation of those audit firms.

The objective to continue to improve audit quality and confidence in audits can be achieved through the activities set out in 2.2 below. These are largely organised through five separate sub-groups, which have different areas of focus.

## **2.2. Key activities to achieve the objective of the CEAOB**

### *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 they are 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 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.

### **3. Key priorities**

The key priorities of the CEAOB in the period of this work programme are as follows:

#### **3.1 *Continue the work of the sub-groups and ensure that they are adequately resourced and meet on a regular basis***

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

In the course of 2016, Chairs for each sub-group were appointed and terms of references and work plans for each of those sub-groups were adopted by the CEAOB Plenary. As the majority of the work of the CEAOB takes place within the sub-groups, as set out in their individual work plans, the participation of representatives from the national audit authorities, in calls and meetings, remains important in ensuring that these sub-groups continue to make progress. In addition, sub-groups will cooperate to ensure alignment of multidisciplinary work streams where appropriate.

#### **3.2 *Enhancing internal communication by sharing of experience regarding the implementation of the Regulation and Directive***

Consideration has been 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.

For this purpose, an electronic information sharing tool in the shape of a wiki platform has been created to facilitate the exchange of views on matters related to the interpretation of the Audit Regulation and Directive. Members will be encouraged to engage in the discussions on this platform. A Review Team has been established to coordinate the discussions. The Team will also help to identify which topics may be of particular importance to member states and whether a common view exists. The CEAOB may then determine whether to adopt an opinion or a guideline regarding the specific issue. Wiki will also serve as a tool for information sharing and communication among the CEAOB members.

#### **3.3 *Further develop the CEAOB's external communication/interaction***

The CEAOB will take further decisions on how it can communicate externally and with regard to which topics/area of oversight (including the adoption of non-binding guidelines/opinions), which external parties it should meet, how frequently and at what level, i.e. CEAOB or sub-group (refer to 4.3 for further details). The potential for intensifying interaction with third parties, such as stakeholders, should be explored and based on an appropriate assessment.

## 4. Activities of the CEAOB

### 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.

#### *Inspection activities*

The cooperation and consistency of inspection activities of competent authorities will take place in the inspections sub-group. 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. These areas will include topics such as developments in audit quality initiatives by the firms (including root cause analysis), data analytics and the culture of the firms. There will be increased focus on sharing inspection approaches among sub-group members and consideration of the training needs of members. Some of these matters will be discussed in sub-group task forces related to Financial Services (FS), Information Technologies and Smaller Regulators.
- Sharing inspection findings through maintaining and 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 the requirement to maintain confidentiality. Consideration will be given as to whether any themes or trends arising from this analysis could merit communication to the market monitoring sub-group, a separate discussion at a CEAOB Plenary meeting and/or could be published by the CEAOB.
- 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 and IT inspections, including consideration of smaller regulators.
- 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.
- Sharing experience of joint inspections and considering whether more co-ordinated reviews could be carried out between members' inspections teams.

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). It will collect and publish annually aggregated information on all administrative measures and all 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, which will also:

- Establish guidelines and tools for collecting Member State information on all administrative measures and all sanctions.
- Collate submissions from competent authorities.
- Prepare a report for publication.
- Facilitate the use of a mechanism for competent authorities to communicate to the CEAOB temporary prohibitions (Article 30f (2) of the Directive).

The sub-group will report back to the CEAOB plenary and provide input to its annual report.

### *Educational qualifications for statutory auditors*

The CEAOB will contribute to cooperation and convergence activities 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 after increasing the understanding of the status quo in member states.

### *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.

### *Risk monitoring by national competent authorities*

Consideration will be given to how the competent authorities are addressing their responsibilities for risk monitoring under Art. 27 (1) of the Regulation and what role (if any) the CEAOB should play in this respect.

#### **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, with the aim to reach a common approach. This activity will include issuing guidelines on the practical application of the Directive and Regulation, in particular in relation to aspects of the auditor's independence and to provisions that have cross border effects. 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. CEAOB will build on the arrangements to ensure that questions from CEAOB members related to the implementation of the Regulation and Directive are dealt with in a consistent manner, including the use of the wiki platform and the assistance of the internal Review Team.

##### *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 will be carried out by the international auditing standards group, which will report back to the CEAOB plenary and provide input to its annual report.

##### *International Equivalence and Adequacy*

The CEAOB will analyse the impact of the new EU audit regulatory framework on the previous equivalence and adequacy decisions 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. 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 has been developed, identifying stakeholder groups and means of communication with them. For 2018, the CEAOB will strive to seek a dialogue mainly with the following stakeholder groups:

*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 a dialogue with audit committee chairs, members or organizations representing them, 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. Discussions are mainly focused on the largest European networks of audit firms. Consideration will be needed on how to avoid unnecessary duplication of meetings with firms invited to IFIAR meetings. Dialogue may also be considered with the ECG (European Contact Group) and EGIAN (European Group of International Accounting Networks).

The CEAOB will also pay attention to mid-size/smaller networks of European audit firms to the extent this is covered by its mandate according to the EU Directive.

Colleges will continue for each of the four largest European networks of audit firms (see appendix 2). The Colleges will be responsible for preparing and facilitating the on-going dialogue with the respective networks. Consideration will be given whether to establish further colleges relating to the larger networks.

*Professional bodies*

Consideration will be given to communications with professional bodies, including Accountancy Europe, 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, with a joint meeting with the Inspections sub-group.



### *Banking/ insurance regulators*

The Inspections sub-group includes a group of experts for the inspections of bank and other financial institution audits (Financial Services task force). This task force 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 task force will be responsible for organising and carrying out the annual meetings which are required by Art. 12 (2) of the Regulation. These meetings will be held with the audit firms, jointly with the European Systemic Risk Board (ESRB) in relation to the audit of global systemically important institutions (GSIFIs).

### *Non EU audit regulators and other organisations*

Many members of the CEAOB are also members of the International Forum of Independent Audit Regulators (IFIAR). The CEAOB Chair will ensure there is ongoing dialogue with IFIAR and ensure there is co-ordination with the work of IFIAR to address any potential concerns about duplication.

Cooperation within the CEAOB also includes the involvement of, and cooperation with, EEA countries and third countries as appropriate.

### *Academia*

Dialogue with representatives from academia will also be considered where appropriate.

## **4.4 Market monitoring activities**

### *Monitoring Market Quality and Competition*

The CEAOB will facilitate and streamline monitoring of the EU audit market. It will focus on quality and competition in the market 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:

- Establishment of guidelines, in collaboration with the Commission, for Member State Competent Authority data collection.
- Refinement and testing of the methodology in order to collect the necessary data for comparable European benchmarking. This includes reviewing existing or establishing new KMMI (key market monitoring indicators) where needed in addition to providing guidance on member state data collection.
- Facilitation of the exchange of expertise and good practices in the area of data collection and market monitoring in the national markets.

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- 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>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>Establish guidelines for collecting Member State information on administrative measures and sanctions as well as facilitate the use of a mechanism for competent authorities to communicate temporary prohibitions to the CEAOB (Art. 30f (2) of the Directive).</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>Risk Monitoring of the National Competent Authorities</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>Enforcement sub-group</p> <p>CEAOB</p> <p>CEAOB/sub-groups</p> <p>CEAOB</p>
<p><b>Contribution to technical assessments and provision of advice to the Commission and to national</b></p>	<p>Sharing of experience and providing advice to the Commission and to national competent authorities on issues related to the implementation of the Audit Regulation and Directive.</p> <p>Contribution to the technical examination of international auditing standards, including the</p>	<p>CEAOB</p> <p>International Auditing</p>

Planned activities	Output	Lead
<p><b>competent authorities</b></p> <p><i>Section 4.2</i></p>	<p>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>Continue examination of international auditing standards under the Regulation and Directive and issue comments.</p> <p>Assessments in relation to the third-country legal and supervisory framework for auditors and to cooperation with third countries. Provision of advice to the Commission on whether to grant equivalence and adequacy to third countries.</p>	<p>Standards sub-group</p> <p>International Auditing Standards sub-group</p> <p>International Equivalence and Adequacy sub-group</p>
<p><b>Effective communications and outreach to external parties</b></p> <p><i>Section 4.3</i></p>	<p>Discussions with investors and other stakeholders, including audit committee chairs, members or organizations representing audit committees.</p> <p>Dialogue with the audit profession, with a particular focus on the largest European networks of audit firms, but including mid-size/smaller networks of European audit firms where appropriate.</p> <p>Continue cooperation within the established colleges of competent authorities and consider the establishment of further colleges.</p> <p>Participate in the organization of the annual meeting with the audit firms held jointly with the European Systemic Risk Board (ESRB) (Art. 12 (2) of the Regulation).</p> <p>Dialogue with the professional bodies</p> <p>Dialogue with international standard setters including the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).</p> <p>Dialogue with the European financial regulators (EBA, EIOPA and ESMA in matters relating to financial services institutions).</p> <p>Dialogue with IFIAR</p>	<p>CEAOB</p> <p>Inspections sub-group</p> <p>CEAOB</p> <p>Inspections sub-group</p> <p>CEAOB</p> <p>International Auditing Standards sub-group</p> <p>Inspections sub-group</p> <p>CEAOB</p>

Planned activities	Output	Lead
<p><b>Market monitoring activities</b> <i>Section 4.4</i></p>	<p>Facilitating and streamlining monitoring of the quality and competition of the market for providing statutory audit services to public-interest entities.</p> <p>Provision of assistance to the Commission in preparing joint market monitoring reports.</p> <p>Establishment of guidelines and a sound and consistent data collection methodology. This includes revision of indicators used in the preparation of Member State market monitoring reports to ensure accurate, consistent and easily aggregated data.</p> <p>Discussion of the reports received from each national competent authority and assisting in the sharing of good practices within the market.</p>	<p>Market Monitoring sub-group</p> <p>Market Monitoring sub-group</p> <p>Market Monitoring sub-group</p> <p>Market Monitoring sub-group</p>

## **Appendix 2**

### **Background information**

#### *Background to CEAOB*

The 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 appointed by 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.

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- 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 set up five permanent sub groups. Four of them 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 2017 the CEAOB established Colleges for the four largest European networks of audit firms. These operate outside the structure of the CEAOB.