



COMMITTEE OF  
EUROPEAN  
AUDITING  
OVERSIGHT  
BODIES

# **CEAOB Annual Report 2017**



## **Chair's Remarks**

It is my pleasure to present the first annual report of the CEOB that pertains to the first full year of office for the CEOB. The establishment of the Committee and its respective sub-groups in 2016 ensured that significant progress was made in both the Committee's agenda and 2017 work programme.

Clearly, this is a testimony to the skills, expertise and dedication of the Committee and in particular of the sub-group Chairs and members, and I am extremely grateful for their contributions.

In the same way, the advice and work of the Consultative Group was indispensable in preparing the topics in accordance with the CEOB's 2017 work programme. To its members, I am similarly grateful, as I am for the support of the Vice Chair, the Secretariat and of everyone else involved in the work of the CEOB in the past year.

As demonstrated by the increased intensity of cooperation within the CEOB, I am happy that more individual regulators have found their voices and have brought valuable expertise and experience to the Committee's table for the benefit of all its members. This will make the work of the CEOB thrive further in 2018, and I am confident that it will continue proving itself a stable and valuable platform for cooperation between auditor oversight bodies in the EU.

Berlin, February 2018

Ralf Bose

Chairman

## 1. Introduction

2017 was CEAOB's first full year of office after it was established mid-2016 based on Article 30 of the EU Audit Regulation<sup>1</sup>.

The CEAOB carried out its tasks as set out mainly in Article 30 (7) of the EU Audit Regulation and in the Audit Directive<sup>2</sup> (ARD). The CEAOB's main objective is to ensure good cooperation between the EU audit oversight authorities and the other bodies operating in the framework in view of furthering regulatory convergence and ultimately improve audit quality. This involved, in particular, facilitating the exchange of information, expertise and practices related to the implementation of the EU ARD, but also cooperation of a general nature.

In 2017, the CEAOB continued to establish its internal structures and to address its various work streams. By holding three annual plenary meetings and the additional meetings of its five sub-groups, it ensured smooth cooperation between EU audit oversight authorities and the other bodies operating in the CEAOB framework.

The CEAOB also established regular contact with external stakeholders, in particular, by initiating dialogues and inviting representatives of the different stakeholder groups to its plenary meetings. It stressed the importance of understanding the expectations of the various stakeholder groups so that the CEAOB can take them into consideration when possible.

Some of the 2017 highlights include the launch of the Smaller Regulators Inspectors' Task Force within the Inspection sub-group. As the name suggests, this initiative is intended to address the specific topics and issues smaller regulators are faced with during inspections. This initiative came from within the CEAOB membership. It was particularly welcomed because it has been a concern from the very beginning that the work of the CEAOB should benefit smaller and larger regulators alike.

Moreover, as required by Article 12 of the EU Audit Regulation, the CEAOB held its first meeting with the European Systemic Risk Board (ESRB) and statutory auditors/audit firms of global systemically important financial institutions (G-SIFIs) authorized within the Union in November 2017.

In addition, the International Auditing Standards sub-group examined the proposals for revision of the auditing standard dealing with the audit of accounting estimates (ISA 540) published by the IAASB<sup>3</sup> and the comments on the evolutions of this

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<sup>1</sup> Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

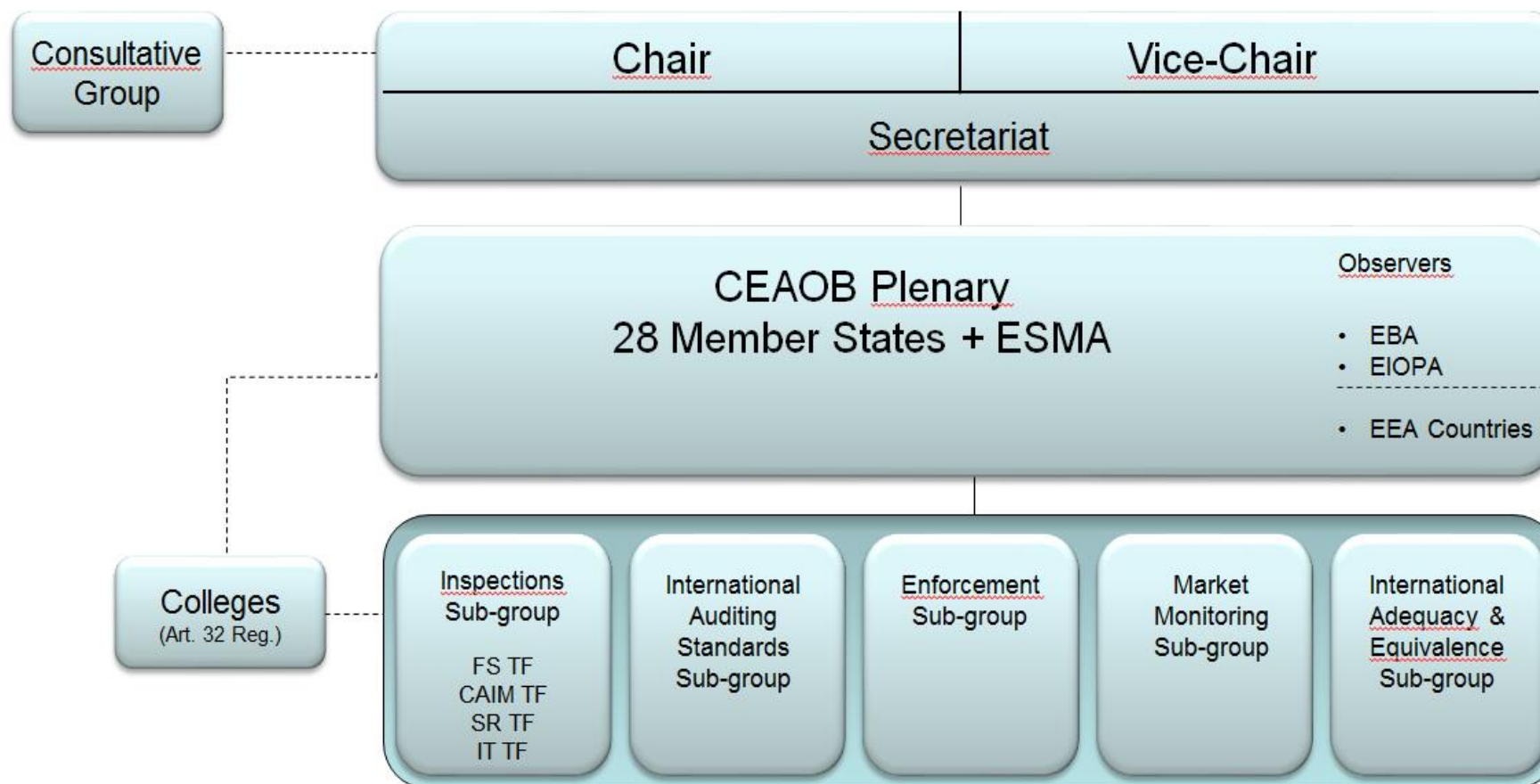
<sup>2</sup> Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual and consolidated accounts

<sup>3</sup> International Assurance and Auditing Standards Board

standard expected by the membership of the CEOB were provided through a letter which was published in July 2017.

The year concluded with an assessment of CEOB's and its sub-groups' work as well as the adoption of their work plans for 2018, which was performed to ensure that the work and the priorities of the CEOB are in accordance with its legal mandate and overall/strategic objectives. The assessments concluded with very positive outcomes and provided a good basis for the preparation of the CEOB's work in 2018.

## 2. CAOAB structure and sub-groups



### 3. CEOB 2017 activities

CEAOB's 2017 strategic objectives were to improve audit quality and confidence in audits through effective communications. A set of activities have been defined in order to achieve these objectives. The next section provides an overview of the CEOB activities as included in its 2017 work plan (in *Italics* below) and how they were fulfilled.

#### **3.1. Develop cooperation and consistency among the competent authorities**

##### *3.1.1. Inspection activities*

*a) "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. "*

Two meetings of the Inspections sub-group members were held in Prague on 7 and 8 June 2017 and Dublin on 11 to 13 October 2017.

A number of subjects were discussed at these meetings, including:

- Surveys on data analytics and offshoring;
- Sharing of root cause analysis inspection approach and findings;
- Discussion on PCAOB and joint inspections;
- Presentation on country specific inspection approach;
- Set up of the smaller regulators task force (which held its first call in November 2017);
- Set up the IT task force.

*b) "Sharing inspection findings through analysing the Findings Database".*

The inspections findings database was transferred from the European Audit Inspection Group (EAIG) and has continued to be populated since with 2017 inspection findings. The database is not managed by the CEOB. Analyses of the data base have been used, among others, for the following purposes:

- Presentations to the sub-group members on common findings related to revenue, ISA 330 and ISQC1;
- Presentation to the audit firms and standard setters on common inspection findings;
- Meeting with the European Systemic Risk Board (ESRB) according to Article 12 (2) of the EU Audit Regulation);
- Preparation of interaction and discussion with Colleges.

c) *"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."*

During 2017, the following firms have attended meetings with the Inspections sub-group members: Deloitte, BDO, GT in Prague and EY in Dublin. The sub-group agreed on meeting some other firms in the future, based on their size and market share in Europe. They will meet each Big 4 firm every second year and the next three firms every third year on a rotating basis.

At those meetings, there were presentations and discussions with the firms on the subject of inspection findings (internal and external), data analytics, root cause analysis and other audit quality initiatives.

The decision of the CEOB to establish Colleges of regulators for the four big networks became effective on 15 January 2017.

The Colleges met with the Big 4 firms separately (generally one additional meeting in the year) and there were meetings and calls between the College members to share experience on inspections. The activities and plans of the Colleges were communicated to the sub-group members at the meeting in Dublin.

d) *"Sharing inspection findings and practices relating to audits of Financial Services entities"*

The Financial Services (FS) Task Force updated the sub-group members at the Prague meeting. In addition, the task force:

- Held a meeting in Berlin in November, in addition to a number of calls during 2017;
- Prepared and held a meeting with the European Systemic Risk Board in November 2017;
- Reviewed and discussed common inspection findings related to banking and insurance;
- Undertook a survey on materiality for FS audits;
- Supported the preparation of the draft of the CEOB's comment letter on ISA 540 from a financial services audit perspective;
- Prepared and held several elective sessions at IFIAR's Inspection Workshop in Athens in early 2017.

e) *"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 CAIM task force updated the sub-group members at the Dublin meeting. In addition, the task force held a meeting and a number of calls to:



- Develop an internal guidance paper on the selection of PIE audit files and inspection areas;
- Progress development of a work programme for the inspection of the audit of revenues (financial statement line item/class of transactions). At the end of 2017 this was at pilot phase in the task force.

### 3.1.2. Enforcement activities

- a) *"Establish guidelines for collecting Member State information on administrative measures and disciplinary sanctions and*  
b) *Collate submissions from competent authorities"*

The Enforcement sub-group developed and sent out an Enforcement Survey Questionnaire in September 2017. The questionnaire sets a basic formula for collecting data on sanctions and administrative measures. Responses were received in October-November 2017 from EU and EEA competent authorities. The information addresses the legal framework of the EU competent authorities, their powers and responsibilities as well as statistics on sanctioning for the year 2016.

- c) *"Prepare report for publication"*

A draft report on Enforcement Survey was initiated in 2017 for publication in year 2018.

- d) *"Establish a mechanism for competent authorities to communicate to the CEAOB temporary prohibitions (Article 30f (1) of the Directive)"*

At its meeting in June 2017, the sub-group decided to propose to the CEAOB a tool for reporting "temporary prohibitions" through the CEAOB wiki platform<sup>4</sup>. The mechanism was discussed in the CEAOB plenary meeting on 13 November 2017. The "temporary prohibitions" link is in place on the wiki.

### 3.1.3. 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"*

The members of the CEAOB Consultative Group discussed during their meetings in 2017 on how this topic should be tackled by the CEAOB in order to increase cooperation and convergence between the Member States. The Chair and the Vice-Chair established contacts with representatives of the Common Content Project and will discuss possible interactions with this initiative. Representatives of the initiative will be invited to a CEAOB plenary meeting.

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<sup>4</sup> The wiki is an IT internal platform used for cooperation between the members of the CEAOB.

**3.1.4. Development of guidelines and thought papers**

*"The CEOB may adopt non-binding guidelines or thought papers, which would be developed at different levels and agreed on at CEOB level, as part of the plenary meetings".*

The International Auditing Standards sub-group examined the proposals for revision of the standards dealing with the audit of accounting estimates (ISA 540) published by the IAASB in 2017, in the light of the European provisions for auditing. Considering the practical experience of CEOB members in inspections and the most common findings encountered during inspections performed of audit firms, the CEOB suggested areas for improvement of the standard under revision to address the practical challenges faced by auditors and regulators. The comments of the membership were published through a letter signed in July 2017.

Furthermore, during 2017, the CEOB discussed possible topics for the adoption of guidelines regarding the consistent application of the ARD, some of which address current trends identified in the audit industry.

**3.2. Contribution to technical assessments and provision of advice to the Commission and to national competent authorities****3.2.1. Implementation of the Regulation and Directive**

*"The CEOB will provide advice to the Commission and to national competent authorities, at their request, on issues related to the implementation of the Audit Regulation and Directive."*

An internal communication platform was established in 2017 through the CEOB's internal wiki system together with a Review Team coordinating the respective platform. The platform's objective is for members to address questions or raise topics of discussion among them and gain a better understanding of how specific tasks relating to the ARD are fulfilled in other Member States.

The EU Audit reform's coming into force often coincided with changes within the audit oversight authorities in the Member States, particularly in terms of structure and staff. Consulting one another and getting insight into processes and problem solving by other Member States was an important way to gain assurance and feedback about important topics, as well as furthering the harmonisation of the EU audit framework's application between the Member States. In that view the CEOB initiated presentations of its member organisations in its plenary meetings that cover the institutional set-up, possible challenges and solutions in order to further mutual understanding and sharing of good practice.

Moreover, the members of the International Auditing Standards and Market Monitoring sub-groups discussed several aspects of the new EU Audit reform requirements, including areas stemming differences between the EU legislation and

the provisions of the international auditing standards (ISAs). Specific discussion took place on questions related to the new content of the audit report, to facilitate consistency in implementation of the new regulation.

The Market Monitoring sub-group supported the Commission in refining the market monitoring indicators and in developing a consistent methodology in order to collect the necessary data for comparable European benchmarks for future market monitoring reports.

In November 2017, the CEOB members have equally met representatives of the audit industry, the European Contact Group (ECG), who provided them with an overview of the main trends and issues identified by the industry following the application of the Audit reform.

### *3.2.2. International auditing standards*

*"The CEOB 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."*

Seven teleconferences and one physical meeting were organised in 2017 by the International Auditing Standards sub-group.

The members of the sub-group worked mainly on the following topics in 2017:

- Panorama on the use of ISAs: the sub-group organised a survey to understand which auditing standards are currently applicable in the EU and EEA Members States and to identify the extent to which international standards issued by the IAASB are used in Europe. Competent audit oversight bodies from 28 EU and 2 EEA countries contributed to the survey between January and May 2017, and the panorama was presented and approved by the CEOB in November 2017;
- Audit reporting: the members of the sub-group discussed several aspects of the new audit reporting requirements related mainly to differences between requirements stemming from the EU legislation and the provisions of the ISAs dealing with audit reporting to facilitate consistent understanding;
- Audit of accounting estimates: the sub-group examined the proposals for revision of the international auditing standard dealing with the audit of accounting estimates (ISA 540) published by the IAASB in 2017 and the comments were published through a comment letter signed in July 2017;
- Dialogue between the International Auditing Standards and Inspections sub-groups and the IAASB leadership was organised in October 2017, in Dublin. Topics covered were progress made in current projects by Standards Setting Boards: ISA 540 (audit of accounting estimates), ISQC1 (quality control), ISA 315 (risk assessment), ISA 330 (responses to assessed risks), ISA 600 (group audit), professional scepticism and data analytics; the exchanges also covered IAASB's responses to CEOB comments, and presentation of issues

identified during inspections by CEOB members (on ISA 540, ISA 315, ISA 330 namely);

- At the same meeting, dialogue with IESBA leadership was organised. The meeting covered current IESBA<sup>5</sup> projects: structure of the Code, safeguards, professional scepticism and fees. Information on inspection findings related to ethics and the provision of non-audit services were provided by the CEOB members to the IESBA representatives;
- Liaison with PIOB was organised after issuance of the comment letter on ISA 540 in July 2017 by the Chair of the International Auditing Standards Sub-group, to facilitate PIOB's monitoring of the incorporation of regulators' concerns during the finalisation of the related standard setting process;
- Regarding the process for elaborating standards, the International Auditing Standards sub-group started discussing the content of the Monitoring Group public consultation and explored the possibility of developing a CEOB response. Work is ongoing on this topic and final decision on the CEOB contribution is to be taken early 2018.

### *3.2.3. International equivalence and adequacy*

*"The CEOB 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.*

*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 sub-group held quarterly conference calls in 2017 and carried out several tasks:

- It assessed the impact of the new audit regulatory framework on the third-country assessments. The sub-group concluded and proposed to the CEOB the need for reflecting the new requirements of the ARD in the methodological frameworks used for assessing third-country legal and supervisory systems for auditors. The revised methodological framework will be used for assessing new third-country legal frameworks, those under the transitional regime as well as for revising previous equivalence decisions adopted under the previous EU audit legal framework;
- The sub-group also decided and proposed to the CEOB that, at this stage, there is no need to develop further guidelines on the criteria for carrying out equivalence assessments. It concluded that the best approach would be to first perform the equivalence assessment and afterwards the adequacy assessment;

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<sup>5</sup> International Ethics Standards Board for Accountants

- It also worked on the content of cooperation agreements and exchange of information with the competent authorities of third countries under Article 36 of the Audit Regulation and Articles 46 and 47 of the Audit Directive;
- The sub-group followed up on the current situation of third countries under equivalence and adequacy transitional regime. It also started the assessment of new requests for adequacy assessments.

### **3.3. Effective communications and outreach to external parties**

*"3.3.1. The CEAOB will seek to have dialogue with a number of external parties.*

*a) Investors, Audit Committees and other stakeholders*

*b) Major audit firms*

*c) Professional bodies*

*d) Auditing standard setters*

*e) Banking/ insurance regulators*

*f) Non EU audit regulators"*

The following external parties were invited to the CEAOB Plenary Meetings in 2017:

- March 2017: A representative from the European Audit Committee Leadership Network (EACLN). He held a presentation on the objectives and activities of the network. In April, the CEAOB Chair attended the EACLN meeting. The Chair's intervention focused on common procedures in Europe, the inspections finding database and the efforts to consistently implement the Audit reform;
- June 2017: A representative from the European Confederation of Directors Associations (ecoDA) gave a presentation of the association's work linked to the role of audit committees. The presentation focused on concerns regarding the impact of the Audit reform. Further topics discussed were group audit tenders and sanctions of members of audit committees. Prior to this meeting, the CEAOB Chair and the Chair of the Market Monitoring sub-group attended an ecoDA Board meeting to prepare and pre-discuss the invitation to the CEAOB plenary meeting;
- November 2017: Representatives from ECG gave a presentation on the group's work and their perspectives on the implementation of audit legislation, independence, rotation and audit committees. Understanding their concerns is very useful for the work of the CEAOB.

In addition, the CEAOB Chair met with further stakeholders such as the Chair of the Global Public Policy Committee (GPPC) and the ESMA Audit working group. He participated in various meetings of organizations such as EACLN, European Group of International Accounting Networks and Associations (EGIAN), Financial Stability Board (FSB) and Accountancy Europe throughout the year in order to further the dialogue with these stakeholders, to exchange views and perspectives, to present the CEAOB, explain its tasks and how it intends to fulfil them in the future.

As referred to in the sections above, during the year:

- The Inspections sub-group held meetings with four of the major audit firms, with additional meetings between the Colleges and the Big 4 firms;
- The Financial Services Task Force met the European Systemic Risk Board;
- There was a joint meeting of the Inspections and International Auditing Standards sub-groups with the auditing standard setters.

### **3.4. Market monitoring activities**

#### *3.4.1. Monitoring Market Quality and Competition*

*a) "Establish guidelines, in collaboration with the Commission, for preparing Member State market monitoring reports."*

The work of the sub-group in revising the methodology was facilitated through monthly conference calls. A face to face meeting was held in October 2017.

To better facilitate the refinement of market monitoring indicators three project teams were set up to work on specific market monitoring areas:

- Audit Market Project Team: In 2017 the Project Team sought to refine audit market indicators and address any data gaps arising in the first data gathering exercise;
- Audit Quality Project Team: The Audit Quality Project Team looked at ways to standardise audit quality indicators given the varying regulatory oversight models across European jurisdictions;
- Audit Committee Project Team: The Audit Committee Project Team developed an audit committee questionnaire which is intended to be distributed to audit committees, the data from which will be used in the next market monitoring report on a consolidated basis.

The work of all project teams is ongoing and will continue in 2018.

*b) "Establish a sound and consistent methodology in order to collect the necessary data for comparable European benchmarks."*

Related guidance is also in the course of development in tandem with the market indicator refinement which will provide assistance to competent authorities in the next data gathering exercise.

Direct assistance to competent authorities will be provided when the revised market monitoring indicators have been finalised and rolled out in anticipation of the next data gathering exercise.

*c) "Evaluation and assessment of main gaps in data collection in the national markets."*

As part of the sub-group's work around market monitoring data collection, a critical assessment was undertaken of all areas where there were challenges in the consistency and type of information received from competent authorities. This analysis informed both the refinement of market monitoring indicators and the related guidance supporting the indicators.

*d) "Facilitate the exchange of expertise and best practices in the area of data collection and market monitoring in the national markets."*

Ongoing dialogue between sub-group members identified areas of good practice in data collection and this is being built into revised market monitoring report templates.

In addition, there are ongoing discussions in relation to market monitoring related topics. Of particular note, the sub-group carried out an analysis on the application of Article 14 and Article 16.3 of Regulation 537/2014.

*e) "Discussion on the reports received from each national competent authority".*

A discussion of the national reports received was undertaken as part of the assistance provided to the Commission in analysing the reports. This was facilitated through the following:

- A standing agenda point was included on all sub-group conference calls to assist in Commission queries relating data collected for the first market monitoring report;
- A dedicated call took place in May 2017 to provide commentary to the Commission on data tables in the first market monitoring report.

### **3.5. Other activities**

The Chair and Vice Chair continued to convene regular meetings of the Consultative Group established in 2016 in accordance with the CEAOB's Rules of Procedure. The meetings served to facilitate the coordination and the efficiency of the CEAOB work and the feedback and input from the members was of immense value in terms of thought leadership and preparation of important topics to be addressed and decisions to be made by the CEAOB.

The CEAOB has discussed the Public Consultation on the Operations of the European Supervisory Authorities issued by the European Commission early in 2017. While the consultation did not focus on the CEAOB, it contained a reference to a potential future merger of the CEAOB within ESMA – a suggestion which was raised before and ultimately abandoned during the EU Audit Reform discussions. In line with the many comments that opposed revisiting this suggestion, it was not included in a proposal for a legal framework as a result of the consultation.

#### **4. Main activities of the 2018 work plan**

The CEOB work plan approved by the plenary in November 2017 defines the following key priorities for 2018 to strengthen audit oversight with the aim of improving audit quality and enhance confidence in financial information:

- Continue the work of the sub-groups and ensure that they are adequately resourced to meet on a regular basis. This is a key element to be ensured during 2018 given that the majority of the CEOB work takes place within the sub-groups as set out in their individual work plans.
- Enhance internal communication by sharing of experience regarding the implementation of the ARD. The use of the wiki for this purpose will continue in 2018 with the support of the Review Team. Following the wiki discussions, the CEOB may determine whether to adopt opinions or guidelines on specific issues.
- Further develop the CEOB's external communication/interaction. The potential for intensifying interaction with third parties will be explored in 2018 based on an appropriate assessment.



## **Annex I: CEOB publications in 2017**

General information on the CEOB as well as reports, opinions, summaries and work plans adopted by the CEOB are published on its webpage: <https://ec.europa.eu/info/ceaob>

### **Reports and opinions:**

- [Annual report 2016](#)
- [Comment letter relating to the IAASB's Exposure Draft – ISA 540](#)

### **Summaries from the plenary meetings:**

- [Meeting of 22 March 2017](#)
- [Meeting of 1 June 2017](#)
- [Meeting of 13 November 2017](#)

### **Work programmes:**

- [CEOB Work programme 2018](#)
- [International Equivalence and Adequacy Sub-group: Terms of reference and work plan 2018](#)
- [International Auditing Standards Sub-group: Terms of Reference and Work Plan 2018](#)
- [Enforcement Sub-group: Terms of Reference and Work Plan 2018](#)
- [Inspections sub-group \(ISG\): Terms of reference and work plan 2018-2019](#)
- [Market Monitoring Sub-group: Terms of Reference and Work Plan 2017/2018](#)

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