



COMMITTEE OF  
EUROPEAN  
AUDITING  
OVERSIGHT  
BODIES

# **CEAOB Annual Report 2018**

## 1. Chair Remarks

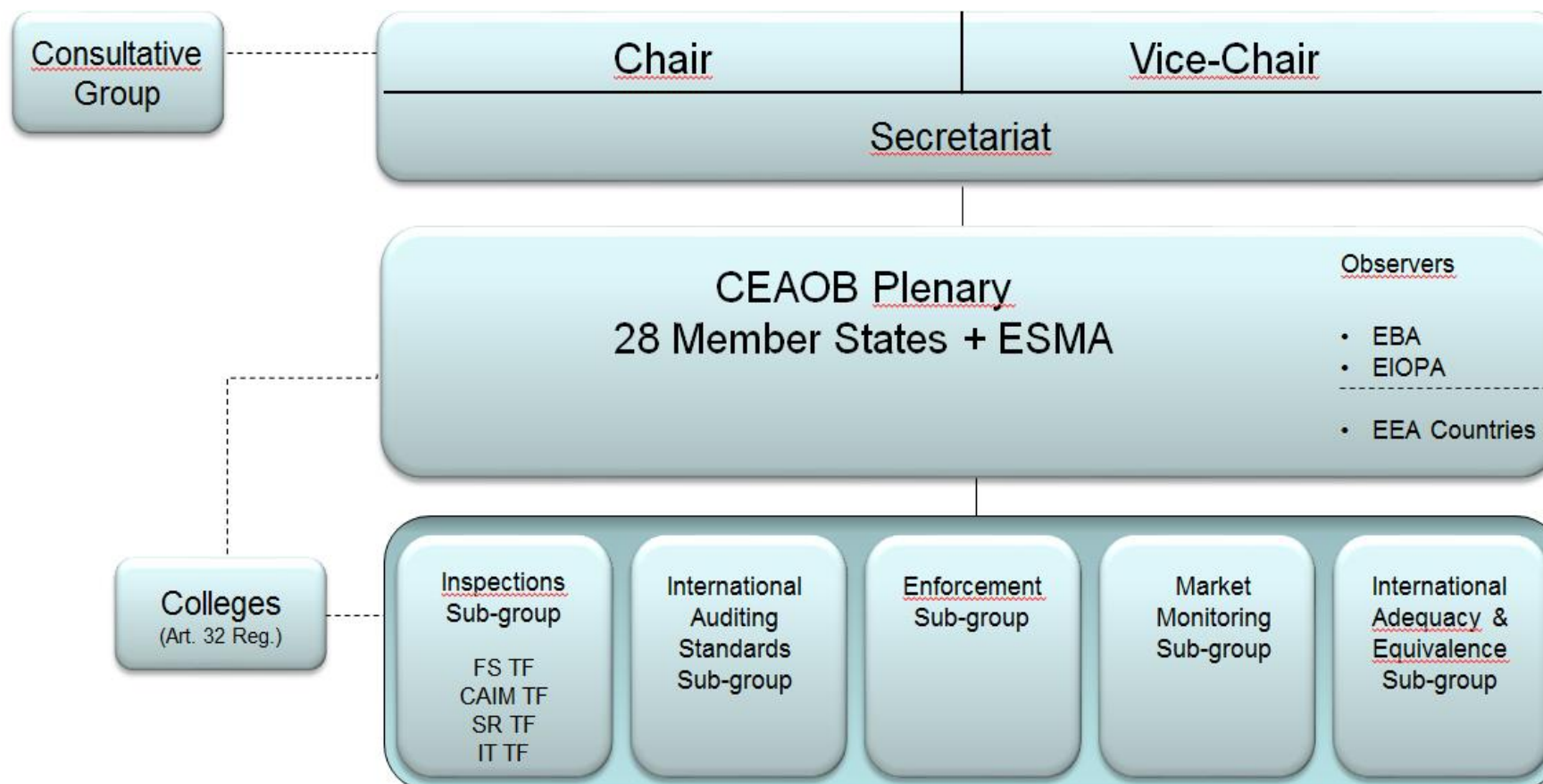
It is my pleasure to announce that the CEOB has successfully shifted from its establishing period to a fully-fledged operational Committee where the exchange of information and experience among the members is followed as the main objective to ensure high audit quality and strengthen public confidence. This also includes an intensified external output to the political and economic audit environment. While having achieved an immense progress in cooperation, the CEOB has also continued to prove itself as a valuable platform regarding a common European auditor oversight approach.

The Committee and its Sub-groups consistently supported the independence and a high level of audit quality to keep and increase confidence and trust of investors and the broader public in financial reporting in the European Union. This was not only done by facilitating the consistent application of the European framework but also due to great contribution with the best expertise of our members who are dedicated to a stable and efficient oversight. I am extremely grateful for not only the sub-groups' hard work, most notably of course the contributions of the sub-group chairs, and their ongoing support but also for the Consultative Group's dedication, support and indispensable attribution which effectively helped to kick-off the topics in line with the annual work programme. I am similarly grateful for the support of the Vice Chair, the Secretariat and of everyone else involved in the work of the CEOB in the past year.

Moreover, the CEOB could reach out to important stakeholders bringing their valuable expertise and experience to the Committee's table, but also give them a better understanding of our mission as well as of our daily tasks. Our intention is to intensify this exchange in the coming year with a specific focus on learning more about stakeholders' expectations towards the CEOB.

Bearing all this in mind I am confidently looking forward to the Committee's upcoming year of operation, even in these challenging times for Europe, and the Committee's enhanced contribution to high quality auditor oversight in the European Union.

## 2. CAOAB structure and sub-groups



### 3. CAO 2018 activities

CAOB's 2018 main objectives were to improve audit quality and strengthen public confidence in audits. In order to achieve these objectives, a set of activities have been defined and included in its 2018 work plan (in Italics below). The section below contains a description of how they were fulfilled throughout the year.

#### ***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."*

Two meetings of the Inspections sub-group members were held, one in Porto on 4 and 5 June 2018 and one in Vienna on 28 and 29 November 2018. Moreover, the Inspections sub-group Organising Committee held two meetings in Amsterdam and London throughout 2018.

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

- Recent developments at Inspections sub-group member organisations;
- Updates from the different task forces (see below for further information);
- Presentations on country specific inspection approaches (Ireland and Norway);
- Presentations on Audit Committee Communications;
- Details of analysis of reporting regimes and grading systems;
- Survey on the delegation of inspection of non-PIE audits;
- Details of impact of General Data Protection Regulation (GDPR);
- Presentation on audit firm culture;
- Preparation for potential Brexit impact;
- Co-operation with the Market Monitoring sub-group and ESMA;
- A joint meeting of the Inspections sub-group and International Auditing Standards sub-group with the standard setters.

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

The inspections findings database has continued to be populated with inspection findings. Analyses of the database have been used for the following purposes:

- Presentations to Inspections sub-group members on common findings related to ISA 600, ISA 240, inventory and disclosures;
- Presentation to the audit firms and standard setters on common inspection findings.

*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 2018, the following firms have attended meetings with the Inspections sub-group members:

- Porto – KPMG and Mazars;
- Vienna – PwC.

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.

In addition, the Colleges (for the Big 4) met with the firms at separate meetings (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 Inspections sub-group members at the meeting in Vienna.

*d) " Sharing inspection findings and practices relating to audits of Financial Services entities and IT inspections, including consideration of smaller regulators."*

The Financial Services Task Force:

- Held a meeting and calls during 2018;
- Prepared the annual meeting with the European Systemic Risk Board and G-SiFi auditors in November 2018 at the European Central Bank in Frankfurt;
- Reviewed and discussed common inspection findings related to banking and insurance audits;
- Undertook thematic reviews for loan loss provisions and Key Audit Matters for audits in financial services;
- Prepared all financial services related elective sessions for the IFIAR Inspection Workshop 2018 and 2019.

The IT inspections task force held a meeting in Paris in July 2018, in addition to the regular calls to:

- Share experiences between IT specialists;
- Improve the consistency of practices and approaches on IT inspections;
- Review and discuss common inspection findings related to IT.

The smaller regulators task force held two conference calls in 2018 and organised, in cooperation with the Financial Services task force, a two day training event on Banking and Insurance Inspections, which took place in October 2018 in Berlin. In

addition, CEOB members can now use templates uploaded on the Wiki platform to submit specific requests for use of specialists and secondments.

Inspections sub-group members were updated on the activities of these task forces in both meetings.

*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 Porto meeting. In addition, the task force held a meeting and a number of calls.

In 2018, the guidance paper on inspection procedures for audit engagement reviews was updated and a work programme for the inspection of revenue (financial statement line item/class of transactions) was developed. Both documents were approved by members in June 2018 during the inspection sub-group meeting in Porto and published on the CEOB's webpage.

*f) " Sharing experience of joint inspections and considering whether more co-ordinated reviews could be carried out between members' inspection teams. "*

This was not covered in the sub-group meetings in 2018 but will be considered in 2019.

### *3.1.2. Enforcement activities*

*a) "Establish guidelines and tools for collecting Member State information on all administrative measures and all sanctions. "*

The Enforcement sub-group held one face-to-face meeting in January 2018 and 8 conference calls throughout the year. The sub-group shared information among its members about enforcement regimes, policies and practices. Methods for collecting and sharing information were discussed. Conclusions were made on how to proceed regarding the collection and sharing of information (mainly through questionnaires / surveys and reports). The conclusions focused on exchanging information, expertise and best practices as regards enforcement related issues with other CEOB sub-groups where appropriate.

*b) "Collate submissions from competent authorities"*

The Enforcement sub-group collated information received from national competent authorities by carrying out an Enforcement Survey (see next point). In addition, the sub-group drafted its second Survey which was focused on collecting statistics regarding all administrative measures and sanctions imposed in accordance with Chapter VII of the Audit Directive. The second Enforcement Survey was finalised and

sent out in June 2018. Responses were received in October-November 2018. The preparation of the second report started in November 2018.

*c) "Prepare report for publication"*

The Enforcement sub-group prepared a "Report on the 2017 CEOB Enforcement questionnaire" which was approved by CEOB members in written procedure and published on the CEOB's webpage in June 2018.

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

The Enforcement sub-group prepared a procedure for the CEOB members to be used for notification of the temporary prohibitions referred in the Audit Directive Article 30a(1) points c and e. The procedure was introduced to the CEOB plenary meeting in February and the CEOB decided to use it.

*3.1.3. Educational qualifications for statutory auditors*

*"The CEOB 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 CEOB level, as part of the plenary meetings after increasing the understanding of the status quo in member states"*

As the European internal market contributes to the free movement of services and workers, more and more auditors and audit firms are operating cross-borders within the European Union. To ensure a consistent high quality of auditing, high-educated auditors among the whole Union are essential. The European framework effectively supports this: the CEOB ensures a consistent application of the Audit Directive to ensure cooperation and convergence activities with regard to educational qualifications. The CEOB provides constant support through the Wiki-platform to assure good implementation of the Directive requirements.

*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 potential topics of such non-binding guidelines or thought papers are subject to further discussion".*

An indispensable part of the CEOB's work relates to the development of a consistent approach as well as a proper application of the EU legal framework which is inter alia done by non-binding guidelines and thought papers whenever complex matters are concerned. A task force created in 2018 under the auspices of CSSF Luxembourg successfully developed such non-binding guidelines on how to calculate the cap for the provision of non-audit fees as it is required by Art 4 (2) of the Audit

Regulation. These were subsequently adopted by the CEOB. This topic (as well as other potential topics for similar publications in the future) was selected based on the need for a more practical guideline and the relevance for the Member State's national competent authorities.

### *3.1.5. 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 CEOB should play in this respect".*

From a market monitoring sub-group perspective new risk indicators have been developed in respect of systemic risk analysis. Where it is appropriate for national competent authorities to comment on potential systemic risk factors there is now the opportunity to do so in the updated market monitoring reporting template.

## **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 Regulation and Audit Directive, with the aim to reach a common approach."*

Whenever questions regarding the implementation of the audit legislation arise members are encouraged to explain the specific situation and suggest a solution with the possibility for other members to comment. However, the positions which are taken by member states are non-binding and are merely for the purpose of gaining a better understanding of how other member states deal with the specific issues raised.

The internal communication platform established in 2017 through the CEOB's internal wiki system was used during 2018 as well. It allows members to address questions or raise topics of discussion among them and gain a better understanding of how specific tasks relating to the Audit Regulation and Directive are fulfilled in other Member States. A Review Team has been coordinating the respective platform.

Moreover, the CEOB continued the presentations of its member organisations in its plenary meetings. The presentations cover the institutional set-up, possible challenges and solutions in order to support mutual understanding and sharing of good practice.

The plenary also served as a forum, in which the members discussed some important policy topics, e.g. developments regarding the European Single Electronic Format and its implications for auditors or the entry into force of the General Data Protection Regulation.



Sub-groups and task forces equally served as a forum for the above mentioned objective. As presented under point 3.1.4 above, a task force successfully developed non-binding guidelines on how to calculate the cap for the provision of non-audit fees as it is required by Art 4 (2) of the Audit Regulation.

Moreover, the International Auditing Standards sub-group exchanged views and practices on various questions regarding the implementation of the audit legislation, in order to promote consistency. Among the addressed topics were: periodicity of issuance of the additional report of the auditors to the audit committee, mention of the date of appointment in the audit report, indication of any services provided to the audited entity and its controlled undertakings, and which have not been disclosed in the management report or financial statements, and the scope of application of the provisions of ISA 701 on “key audit matters” to entities which are listed on non-regulated stock exchanges.

### *3.2.2. 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 International Auditing Standards sub-group held 13 conference calls and one physical meeting in 2018, and involved 14 regulators members of the CEAOB. A joint meeting of the International Auditing Standards and Inspection sub-groups with the standard setters was held in November 2018 in Vienna.

During 2018, the sub-group also prepared a detailed analysis of the differences between the International Standards on Auditing (ISAs) and various provisions stemming from the Audit Directive and Regulation. Information was collected within the sub-group, regarding additional national differences with the ISAs, which analysis will be finalized in 2019.

The sub-group provided detailed input to the consultation led by the Monitoring Group regarding the enhancement of the governance of the standards setting boards in charge of elaborating international standards applicable for auditors. The outcome of the work was adopted in February 2018 by the CEAOB and was made public on the CEAOB website.

The sub-group examined the revisions of the standard on risk assessment (ISA 315), and prepared comments after the issuance, by the IAASB of an exposure draft, based on regulators' experience in inspections at audit firms, with a view to improve the quality of the assessment made by auditors in their audits. The CEAOB comments were adopted in October 2018 and are available on the CEAOB website.

Dialogue was organised by International Auditing Standards sub-group with the IAASB (International Auditing and Assurance Standards Board), IESBA (International

Ethics Standard Board for Accountants) and PIOB (Public Interest Oversight Body). Main projects on the agendas of the standards setting Boards were discussed, and regulators' feedback was provided by the CEAOB members.

### ***3.2.3. 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".*

Despite its limited resources (only 7 members of the CEAOB), the sub-group held one physical meeting and several conference calls during 2018.

During 2018, the sub-group carried out an analysis of the impact of the 2014 EU audit regulatory framework into the equivalence and adequacy assessment frameworks. As a result, the equivalence assessment framework was updated to incorporate the new criteria and performance indicators introduced by the 2014 EU audit regulatory framework. This revised equivalence framework will be the basis for re-assessing the previous equivalence decisions adopted on the basis of the 2006 EU audit legal framework. The adequacy assessment framework was not deemed necessary to be updated.

The sub-group also finalised the technical adequacy report for the Chinese audit regulatory framework and launched the assessment of those third countries under the equivalence transitional regime (Bermuda, Cayman Islands, Egypt and Russia) and the adequacy transitional regime (Indonesia and South Africa).

Another activity carried out by the sub-group was a survey to assess the current relevance of the third countries under transitional regime in the EU market by identifying (i) the number of entities from these third countries with transferable securities admitted to trading on EU/EEA countries and (ii) the number of relevant third-country auditors providing an audit report of those entities.

The sub-group also monitored the implementation of the General Data Protection Regulation.

It additionally performed an initial assessment of the legal and practical impact of the UK departing from the EU.

### ***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 and other organisations*
- g) Academia".*

The stakeholder outreach activities take place based on a stakeholder communication paper adopted by the CEOB plenary. The general approach is to have a balanced mix of stakeholder representatives, and the main purpose is to give a first-hand account to members on the issues that stakeholders consider as important.

The CEOB's stakeholder outreach is not only important to its members to benefit from other's expertise but also to raise consciousness of CEOB's work and tasks with the general public. For each plenary meeting, the CEOB issued invitations to different stakeholder group's representatives. This ensures that the CEOB has its ear close to those who either benefit from its efforts to enhance audit quality or who share similar goals. At the same time, it helps the CEOB to be more transparent and communicative about its own work and any current issues it is working on.

The following external parties were invited to the CEOB plenary meetings in 2018:

- February: Representatives from the Common Content Project were invited to join the CEOB Plenary meeting. They held a presentation on their organisation and activities. Topics touched by them included their current membership and operational structure, project materials and documents with education requirements, project purpose and background as well as the common content model and benefits.
- June: The first presentation at the June Plenary meeting came from ICAEW UK as well as from the Chamber of Financial Auditors in Romania. It provided an overview of the activities of the Quality Assurance Network on non-PIE audits for quality improvement. The second presentation was given by a Professor, who not only holds a chair of accounting and auditing at a German University but is also the Secretary General of the European Auditing Research Network, a member of several supervisory bodies and audit committees as well as a former member of the IAASB. The presentation covered topics such as the multiple expectation gaps in terms of audit quality and challenges faced by audit committees after the audit reform.
- October: A representative from the Dutch Central Bank was invited by the CEOB plenary as a guest speaker on the global regulators' priorities and activities in relation to auditors and audit regulation.

The second meeting between the CEOB and ESRB with auditors of G-SIFIs was held in Frankfurt on 15 and 16 November 2018. The meeting was considered successful in terms of informing the ESRB on developments in the G-SIFIs market.

As referred to in other sections in the report, throughout the year, the CEOB sub-groups held meetings with different groups of external parties (e.g. major audit firms, the European Systemic Risk Board, standard setters etc.).

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

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

*a) "Establishment of guidelines, in collaboration with the Commission, for Member State Competent Authority data collection."*

In 2018 the Market Monitoring sub-group focused on the development of the template which will be used in the second market monitoring report data gathering exercise.

As part of this work the sub-group updated and revised the guidelines that support the completion of the template. In order to better promulgate the guidelines a market monitoring champions list was developed so that all member state competent authorities have a direct point of contact in the Market Monitoring sub-group.

*b) "Refinement and testing of the methodology in order to collect the necessary data for comparable European benchmarking"*

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 2018.

- Market Concentration Indicators

In 2018 the sub-group refined audit market indicators and took steps to address any data gaps arising in the first data gathering exercise.

- Audit Quality Indicators

The sub-group looked at ways to standardise audit quality indicators given the varying regulatory oversight models across European jurisdictions. Practical steps included more structured indicators as well as more detailed explanations of the data required.

- Audit Committee Indicators

The sub-group developed an audit committee questionnaire which is currently being distributed to audit committees across member states, the data from which will be used in the next market monitoring report on a consolidated basis. The sub-group

also developed a set of core audit committee indicators which provide information on the oversight and nature of audit committees within the respective member states.

The consolidated set of indicators were circulated to the CEOB for comments and the finalised set of indicators were adopted at the CEOB plenary in October 2018.

The CEOB Chair and Market Monitoring sub-group Chair attended an audit committee conference hosted by ecoDA (European director body association).

*c) "Facilitation of the exchange of expertise and good practices in the area of data collection and market monitoring in the national markets."*

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

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

As part of monthly conference calls discussions were held around the quality of data from national reports as part of the assessment and refinement of key market monitoring indicators.

### **3.5. Other activities**

The Chair and Vice Chair continued to convene regular meetings of the Consultative Group established in accordance with the CEOB's Rules of Procedure. The meetings served to facilitate the coordination and the efficiency of the CEOB work and the feedback received from members was very useful for the preparation of important topics to be addressed and decisions to be made by the CEOB plenary.

Regular meetings of the sub-group Chairs were also held during 2018 with the main aim of coordinating the work of the different sub-groups. Matters of common interest among the sub-groups were identified and discussed and cooperation among the sub-groups was ensured.

Some important work was also done outside the daily CEOB's work through the activities of the Colleges. There is a College for each of the big 4 audit firms where CEOB members liaise with them on issues that can only be solved by mutual understanding from both sides.

The CEOB has equally established some ad hoc groups, task forces or projects teams in 2018 to deal with topics of high interest for its members or the audit market. It will continue with this practice in 2019.

A discussion of the possible implications of the UK leaving the Union and how it affects the CEOB as well as the audit markets in the member states was initiated in 2018 and it will continue in 2019.

## **4. Main activities of the 2019 work plan**

The CEAOB work plan approved by the plenary in October 2018 defines the following four objectives for 2019 to ensure CEAOB's overall objective of consistently supporting audit quality and keeping and increasing confidence and trust of investors and the broader public in financial reporting in the European Union:

- Cooperation among all CEAOB members and observers for the purpose of developing a common understanding, methodologies and practices throughout the various oversight activities;
- Communication between the CEAOB and external parties for the purpose of increasing awareness on the importance of high quality audits and facilitating stakeholders' commitment to this goal;
- Given the interconnectivity of economies and global operations of audit networks and their clients, the CEAOB will be a key contributor for the purpose of attaining a sound cooperation between European and third country audit regulators;
- The monitoring and analysis of the environment and identification of possible risks will remain part of CEAOB's work for the purpose of anticipating market developments and reacting adequately and effectively in view of the protection of the public interest in the long term.

## **Annex I: CEOB publications in 2018**

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 2017](#)
- [Report on the 2017 CEOB enforcement questionnaire](#)
- [Response from CEOB to the Monitoring Group consultation](#)
- [Guidelines on “Monitoring the fee cap of non-audit services”](#)
- [CEAOB - Comment letter relating to IAASB's exposure draft - ISA 315](#)
- [Common Audit Inspection Methodology \(CAIM\)](#)

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

- [Meeting of 27 February 2018](#)
- [Meeting of 14 June 2018](#)
- [Meeting of 24 October 2018](#)

### **Work programmes and terms of reference:**

- [CEAOB Work programme 2019](#)
- [CEAOB Equivalence and adequacy sub-group: Work plan 2019](#)
- [CEAOB Equivalence and adequacy sub-group: Terms of reference 2019](#)
- [CEAOB International auditing standards sub-group: Work plan 2019](#)
- [CEAOB International auditing standards sub-group: Terms of reference 2019](#)
- [CEAOB Enforcement sub-group: Work plan 2019](#)
- [CEAOB Enforcement sub-group: Terms of reference 2019](#)
- [CEAOB Inspections sub-group: Work plan 2019](#)
- [CEAOB Inspections sub-group: Terms of reference 2019](#)
- [CEAOB Market monitoring sub-group: Work plan 2019](#)
- [CEAOB Market monitoring sub-group: Terms of reference 2019](#)

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