

## **Annual Report of the CEAOB 2016**

### **Chair's message**

In mid-2016, the European auditor oversight landscape was changed considerably by the reform of the EU statutory audit market. The intensity of this reform compares to the initial implementation of the EU Audit Directive of 2006, where EU Member States saw themselves moving away from auditors' self-regulation towards systems of independent public auditor oversight.

The 2010 European Commission Green Paper preparing the reform called for the supervision of audit firms in Europe to take place on a more integrated basis, with close cooperation between the competent authorities. That is why one of the important elements of the reform was the establishment of the Committee of European Auditing Oversight Bodies (CEAOB). The CEAOB was officially established on 17 June 2016 and, starting with its inaugural meeting on 12 July 2016, immediately began working on the tasks and functions assigned to it.

Compared to its predecessor, the European Group of Auditors' Oversight Bodies (EGAOB), the CEAOB has a clear leadership role rather than being an advisory body to the European Commission. This gives the members of the CEAOB a much greater responsibility.

The CEAOB serves the public interest as an important element in the larger system of the European oversight of the financial markets. Its key objectives are enhancing investor confidence by improving audit quality and furthering the cooperation among the EU audit regulators. Although not a regulator itself, the CEAOB and its sub-groups constitute an overarching structure in support of the national competent authorities in their work, while aiming at promoting common understanding and consistent application of the new rules. The CEAOB will also liaise with other international organisations, such as the International Forum of Independent Audit Regulators (IFIAR), and with competent authorities outside the EU.

It is the expertise, the input and the initiative of the CEAOB members and of the European Commission which will enable the CEAOB to thrive and to help ensure a consistently high quality of statutory audits in the EU. It is imperative that the Member States fully cooperate and facilitate the exchange of information, expertise and best practice for the thorough implementation of the EU legislation. This will be the basis for the future work of the CEAOB

Ralf Bose  
Chair of the CEAOB

**I. Establishment of the CEAOB**

The EU audit<sup>1</sup> reform led to the establishment of the CEAOB based on Art. 30 of Regulation (EU) No 537/2014. The main tasks of the CEAOB are set out primarily in Art. 30 (7) of the Regulation. The overarching goal is, of course, to ensure that cooperation between auditor oversight authorities in the EU and the other bodies involved in the CEAOB framework is taking place for the benefit of everyone involved and ultimately, for the benefit of the financial markets in Europe. Moreover, the exchange of information, expertise and best practices will also facilitate a harmonised implementation of the Regulation and the Audit Directive.

**II. Inaugural meeting, election of the Chair and Commission decision for appointment of the Vice Chair**

The CEAOB officially took up office on 17 June 2016 and held its inaugural plenary meeting on 12 July 2016 in Brussels. Ralf Bose, Chief Executive Director of the German Auditor Oversight Body, was appointed as Chair by the members according to the Rules of Procedure. His term is four years. With Decision C(2016) 4277 the Commission appointed as Vice-Chair a Director from the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) in charge of policy related to statutory audit. First Erik Nooteboom and currently Nathalie de Basaldúa, Acting Directors for investment and company reporting in DG FISMA, held that position.

In the inaugural meeting, the CEAOB took important organisational decisions. It adopted its Rules of Procedure and discussed the Work Programme. Another important decision was taken regarding transparency of the work of the CEAOB, for example by publishing the high-level results of the CEAOB plenary meetings on the CEAOB website. At the same time, the protection of the confidential information exchanged within the framework of the CEAOB was recognised as being vitally important to ensure the ability of the members to freely share information amongst each other. The safeguards required for the work in the sub-groups are specifically addressed in the sub-groups' Terms of Reference. Additional safeguards for the CEAOB as such will be addressed in a confidentiality procedure pursuant to Rule 16 (3) of the CEAOB's Rules of Procedure. Further decisions were taken related to the participation of EEA countries and Switzerland in the work of the CEAOB to the extent permitted by the legal framework.

**III. Work Programme of the CEAOB**

After a thorough discussion in the inaugural meeting, the CEAOB adopted a work programme to determine its focus points until the end of 2017. In the initial phase, the CEAOB members will focus on cooperating with each other in the implementation of the EU audit reform to ensure its smooth and coherent harmonisation and to support a common understanding of the rules. Furthermore, the CEAOB will concentrate on the other tasks assigned to it by law, including engagement with stakeholders and other parties such as the European Systemic Risk Board (ESRB). It will also liaise closely with its observers (EBA, EIOPA) and ensure that

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<sup>1</sup> Amended EU Directive 2006/43/EC as amended by the Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 and the Regulation (EU) No. 537/2104 of the European Parliament and of the Council of 16 April 2014.

the work done in the sub-groups is consistent with the work programme and is transparent for the members of the CEAOB.

The work programme is published on the CEAOB website.

**IV. The establishment of the sub-groups and the adoption of their Work Plans and Terms of Reference**

In its inaugural meeting, the CEAOB established five sub-groups:

- International Equivalence and Adequacy sub-group
- Inspection sub-group
- International Auditing Standards sub-group
- Market Monitoring sub-group
- Enforcement sub-group.

Four of the sub-groups are led by Chairs who were nominated by the competent authorities of France, Ireland, Finland and, as required by Article 30 (12) of the Regulation, for the International Equivalence and Adequacy sub-group, by the European Securities and Markets Authority (ESMA). Regarding the Inspection sub-group, the CEAOB decided to appoint a coordinator from the FRC (UK) who will, in close cooperation with an organising committee, lead the sub-group. This specific structure was chosen to pay extra attention to the integration of the former European Audit Inspection Group (EAIG) into the framework of the CEAOB where it will be part of the Inspection sub-group. Also, the inspection findings data base established by the EAIG will continue to be hosted by the AOB (Germany). In particular, the data will not be stored or be able to be accessed by any third party other than the national competent authorities. A rigorous confidentiality regime is in place to ensure that the data is fully protected from any unauthorised access.

The Work Plans and Terms of Reference of the sub-groups are published on the CEAOB website.

**V. The establishment of the Colleges**

The work of the colleges, which had previously taken place under the auspices of the EAIG, will continue under the new framework. As intended by Article 32 of the Regulation, the CEAOB has established the colleges for the four biggest audit firm networks. Each college is led by a facilitator. The facilitators are representatives from the national competent authorities of France, the Netherlands, the UK and Germany. While the colleges operate within their own responsibility and outside of the CEAOB framework, apart from the initial establishing act of the CEAOB, there will be close interaction between the colleges and the CEAOB, in particular with its Inspection sub-group.

**VI. The adoption/discussions on the stakeholder outreach and the next steps**

The CEAOB has already carried out internal work on stakeholder outreach through effective communications. An internal 'Stakeholder Engagement Plan' sets out some details regarding the means, addressees and focus points of the intended outreach activities of the CEAOB.

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However, this will be subject to further discussion within the CEAOB to decide the order and the format of stakeholder interaction.

This Annual Report was adopted by the CEAOB in its meeting on 22 March 2017.