



COMMITTEE OF
EUROPEAN
AUDITING
OVERSIGHT
BODIES

CEAOB 2020-026
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CEAOB Work Programme 2021

I. Introduction

The CEAOB will continue to work under the general objectives first established in the 2019 Work Programme which was built on four mission-based objectives. The different work streams will support these four objectives. The work programme takes into account that the majority of work streams and tasks have ongoing activities and have to be carried forward into future years. As was alluded to in the 2019 programme, challenges lie in the economic and political environment in which the CEAOB is operating. The Covid-19 pandemic added a challenge which had not been fully anticipated, but to which all stakeholders involved in the production of financial reporting reacted swiftly by adopting new IT tools to allow for remote working on a large scale. The pandemic which is likely to result in a higher risk of default for EU companies, and a higher risk of fraud, whether related to remote working or not, increase the level of expectation from the general public and the public authorities vis-à-vis both the auditors and their supervisors. These challenges, combined with shifts in the EU landscape, with new legal or regulatory requirements such as ESEF or the new standards on quality management at firm level (ISQM), require from the CEAOB that it adapts and improves the support provided to its members. In order to achieve this an ad-hoc task force was created during the summer. Its aim is to take a renewed look at the way the CEAOB addresses its four objectives, and possibly to make recommendations to the plenary.

Over recent years a stream of financial fraud which had not been identified by auditors has reached the headlines. Not all occurred in the European Union, but some did. It is the CEAOB's responsibility to provide a framework that will help its members obtain a better understanding of the root causes, and adapt their processes consequently.

The reforms of 2006 and 2014 were two important stepping stones in the development of audit oversight in the EU. In 2020 the European Commission has launched a study on how the Audit Directive and the Audit Regulation were implemented in order to assess their effects on auditing in the European Union, and to identify improvements to the existing regulatory framework. Since 2016, members of the CEAOB have built an invaluable experience in auditor oversight. The CEAOB will coordinate their contributions in response to requests for information that the Commission might make. Further, the CEAOB will seek its members' contributions to identify improvements to the regulatory framework to be proposed to the Commission.

II. Objectives

The essence of CEAOB's mission is to consistently support audit quality and consequently to keep and increase confidence and trust of investors and the broader public in statutory financial reporting published in the European Union. Auditor supervision on a national level requires taking into consideration the high level of integration of local firms into the global network to which some of them belong. The CEAOB framework aims at providing a practical, consistent and comprehensive platform for cooperation between EU audit regulators with a view to achieving a high degree of convergence at EU level. To ensure this, the activities of the CEAOB have been designed to reflect our four objectives:

1. **Cooperation:** Active participation of all CEAOB members and observers ensures that the cooperation within the CEAOB is based on intensive sharing of experience, knowledge and information as well as other forms of internal cooperation. The development of common understanding, methodologies and practices throughout the various oversight activities will increase its impact on audit quality.
2. **Communication:** The CEAOB and its members are acting in the public interest, thus the transparency of the CEAOB's work and the dialogue and cooperation with external parties is a key aspect of its activities. This is crucial for the public perception of audit regulators work and their impact on the audit market. External communication and interaction with a broad range of stakeholders will increase awareness on the importance of high quality audits and will facilitate the stakeholders' commitment to this goal, especially in its engagement with audit committees.
3. **Interconnectivity:** Given the interconnectivity of economies worldwide and the global operations of audit networks and their clients, it is of the utmost importance that audit regulators cooperate at the same level. In order to ensure a high standard of statutory audit in not only the EU but also globally, the CEAOB will contribute to a sound cooperation between European and third country audit regulators.
4. **Monitoring:** The work of the CEAOB takes place in a challenging political and economic environment and more specifically in a changing and complex audit environment. The specific risks and changes of the audit and financial markets in Europe need to be continually assessed and taken into consideration in CEAOB's work. Analysis of the environment and identification of possible risks is crucial to anticipate developments and to react adequately and effectively in view of the protection of the public interest in the long term.

1. Cooperation

Active participation of all CEAOB members and observers ensures that the cooperation within the CEAOB is based on intensive sharing of experience, knowledge and information as well as other forms of internal cooperation. The development of common understanding, methodologies and practices throughout the various oversight activities will increase its impact on audit quality.

By facilitating the exchange of information, experience, expertise and best practices amongst European auditor oversight bodies, a solid basis for cooperation and consistency is established. The overall objective is, of course, to achieve a high degree of convergence regarding the work of the audit regulators. This cooperation takes place mainly in the following areas:

- a. Application of the Audit Regulation and Directive (ARD)
 - i. Sharing experience and best practice regarding the application of the ARD.
 - ii. Providing advice to the Commission and members upon request regarding the application and interpretation of the ARD with the aim to reach a common approach wherever possible, in particular regarding provisions with cross-border effects. For this purpose it is planned to use and further develop arrangements to ensure that questions of CEAOB members related to the application of the ARD are dealt with quickly and in a consistent manner, including the use of the internal forum on the Wiki platform and the assistance of the internal Review Team.
 - iii. Developing guidelines and thought papers for its members regarding auditor oversight and the application of the legal framework.
- b. Inspection-related activities
 - i. Continuing to share and discuss inspection findings through analysis of the inspection findings database as well as inspection approaches.
 - ii. Sharing inspection findings and practices regarding Financial Services and IT in the relevant Task Forces.
 - iii. Continuing to develop the Common Audit Inspection Methodology (CAIM), share individual inspection approaches and/or innovative approaches to performing inspections.
 - iv. Reviewing the use of data analytics and level of off shoring by the Big 4 audit firms.
 - v. Sharing experiences regarding coordinated quality assurance reviews between members and of joint inspections with third countries.
 - vi. Exploring training needs for inspectors and the means of increased interaction among members, e.g. by using a specialist database and exploring secondment opportunities.

- c. Enforcement-related activities
 - i. Conduct surveys regarding specific issues in the area of enforcement, including administrative measures and sanctions as well as the state of the administrative and disciplinary regimes in the member states.
 - ii. Further improve the understanding of the investigation and sanctioning regimes in EU member states through regular exchanges and case studies.
 - iii. Exploring training needs for enforcers and the means of increased interaction among members, e.g. by sharing experiences resulting from enforcement decisions and by exploring secondment opportunities.
- d. Standard-related activities
 - i. Discuss relevant standards related issues regarding the application of EU regulations and directives on auditing matters.
 - ii. Discuss the impact of differences identified between ISAs and EU or national provisions applicable in the member states.
 - iii. Discuss developments in current IAASB projects and determine whether and when the CEAOB should engage on selected issues.
 - iv. Analyse the CEAOB database inspection findings pointing to deficiencies in auditing standards used.
- e. Provision of a framework for discussing wider issues beyond the scope of individual sub-groups and facilitate the work between the sub-groups
 - i. Sharing information about one-to-one meetings with local audit firms where information gathered might be of interest to other members of the CEAOB.
 - ii. Sharing information gathered from third parties (media, whistle-blower, etc.) on suspected fraud and conflicts of interest or deficiencies which could have an impact on a public interest entity audit performed in the EU.
- f. Explore the role of national competent authorities regarding access to the profession (i.e. educational qualifications)

2. Communication

The CEAOB and its members are acting in the public interest, thus the transparency of the CEAOB's work and the dialogue and cooperation with external parties is a key aspect of its activities. This is crucial for the public perception of audit regulators work and their impact on the audit market. External communication and interaction with a broad range of stakeholders will increase awareness on the importance of high quality audits and will facilitate the stakeholders' commitment to this goal, especially in its engagement with audit committees.

This communication will take place mainly through the following means:

- a. Communication with external stakeholders: In 2019, the CEAOB has developed internal guidance for its stakeholder outreach to ensure that the stakeholder contacts are of maximum benefit to the members and stakeholders alike. It will continue to seek dialogue with relevant external parties based on its stakeholder outreach and communications strategy and additional internal discussions, specifically with a view to understanding the public's expectations regarding its work. In 2021, the CEAOB will explore the possibility of creating a dedicated Stakeholders Group. When selecting specific stakeholders to engage with, the CEAOB will look for a good mix of persons and organisations from various backgrounds to ensure that the exchange will lead to a comprehensive reflection of stakeholder needs and considerations. In that spirit, the CEAOB will strive to seek a dialogue mainly, but not exclusively, with the following stakeholder groups in 2021:
 - Groups and associations representing audit committees, audit committee Chairs and investors.
 - Auditors, audit firms (including the largest EU networks) as well as professional bodies and related organisations.
 - Auditing and Ethical Standard Setters.
 - Banking/insurance regulators and other related organisations.
 - Representatives from academia.
- b. Publication of technical alerts: In 2020, the CEAOB published a technical alert dealing with the consequences of Covid-19 on the work of auditors related to the 2019 annual financial statements. Building on this experience, the CEAOB will have a proactive communication with regards to emerging issues or issues that its members see as critical to audit quality.
- c. Publication of guidelines and thought papers: the CEAOB will continue to explore opportunities for providing guidance regarding its understanding of the legal framework and the role of auditor oversight bodies. Taking into consideration which topics are most likely to have an impact on the audit environment in terms of a consistent understanding and application of the ARD, the CEAOB will publish non-binding guidelines or opinions on specific topics, where appropriate.

- d. By seeking opportunities to increase transparency regarding the conclusions it draws from its work and cooperation (e.g. by analysing the inspection findings database) and in its external communication (e.g. by the use of infographics).
- e. By liaising with standards setters and providing comments on relevant projects under the lead of the International Auditing Standards sub-group.
- f. Through the annual joint meeting with the ESRB and auditors of G-SIFIs as required by the EU Audit Regulation.
- g. Through communication with audit firms and discussion of their audit quality initiatives.
- h. By interacting with the colleges of competent authorities regarding specific audit firm networks which are established pursuant to Art. 32 of the Audit Regulation.
- i. By issuing aggregated information regarding administrative measures and sanctions pursuant to Art. 30f (1) of the Audit Directive.

3. Interconnectivity

Given the interconnectivity of economies worldwide and the global operations of audit networks and their clients, it is of the utmost importance that audit regulators cooperate at the same level. In order to ensure a high standard of statutory audit in not only the EU but also globally, the CEAOB will contribute to a sound cooperation between European and third country audit regulators.

Regarding this level of cooperation, the CEAOB intends to:

- a. Take the next steps following the analysis of the impact of the EU audit regulatory framework on the equivalence and adequacy assessments, including technical assessments based on predetermined priorities. These priorities will be established in consultation with the EU Commission.
- b. Explore ways how to provide guidance to the members to support them in their bilateral interactions with third countries, including guidelines on cooperation agreements and exchange of information as well as aspects surrounding the application of the General Data Protection Regulation (GDPR).
- c. Have a particular focus on the developments surrounding the UK leaving the EU ("Brexit") and the implications for the national competent authorities tasked with audit regulation and the CEAOB.
- d. Exchange of information on interactions with third country regulators, e.g. in the area of inspections.

4. Monitoring

The work of the CEAOB takes place in a challenging political and economic environment and more specifically in a changing and complex audit environment. The specific risks and changes of the audit and financial markets in Europe need to be continually assessed and taken into consideration in CEAOB's work. Analysis of the environment and identification of possible risks will be crucial to anticipate developments and to react adequately and effectively in view of the protection of the public interest in the long term.

In this area, CEAOB's main role will be to

- a. Collect and analyse data in member states, including data on audit markets, audit quality and audit committees.
- b. Support cooperation, in particular the sharing of experience and information, amongst national competent authorities regarding the monitoring of developments in the national audit markets including the risks arising from high incidences of audit quality deficiencies and the discussion of mitigating measures.
- c. Share and discuss other shortcomings and adverse developments in the audit market, in particular if these events are potentially of an EU dimension.
- d. Identify and analyse trends, potential risks and vulnerabilities relevant to auditor oversight in order to determine if and how the CEAOB should react to them.

III. Longer term Outlook

One of the most important and constant work streams of the CEAOB is the exchange of information, expertise and best practices for the application of the ARD that takes place both on plenary and sub-group level. However, as the work of the CEAOB progresses after its establishment phase with the increasing experience of the members, the focus will shift more towards the CEAOB's external impact. Similarly, the common understanding on crucial topics related to auditor oversight in the EU is bound to increase. The CEAOB will therefore strive to exert more influence wherever possible.

The CEAOB is continuing to work on the topics included in last year's outlook. In terms of longer term planning which goes beyond 2021, the following topics and work streams are envisaged to have a growing impact on audit quality and may therefore become more prominent aspects in the work of the CEAOB:

- Further exploration of developments in the audit market and the environment in which auditors operate, including potential influences on audit quality.
- Further improvements in external communication of the CEAOB (for example by the use of the website and/or social media, where appropriate).
- Exploration of new areas of cooperation (for example strategies on oversight of professional bodies).
- Analysis of the impact of new audit tools and technologies on audit quality and auditor oversight as well as cyber security risks.
- Specific developments in the audit markets may require the engagement of the CEAOB with regard to different or additional topics in future work programmes.

IV. Summary

Planned activities	Output	Lead
<u>1. Cooperation</u>		
<i>Application of the ARD</i>	Sharing experience and best practice regarding the transposition and the application of the ARD	CEAOB
	Providing advice to the EU Commission and members upon request, including via the Wiki	CEAOB
	Developing guidelines and thought papers for its members	CEAOB
<i>Inspection-related activities</i>	Sharing, discussing and analyzing inspection findings (through database)	Inspection SG
	Further develop CAIM	Inspection SG
	Exploring consequences of means such as data analytics and off-shoring on audit quality	Inspection SG
	Identify specific issues of inspections of financial services, IT and smaller regulators	Inspection SG
	Sharing experiences regarding coordinated quality assurance reviews between members	Inspection SG
	Exploring training needs for inspectors and means of increased interaction among members	Inspection SG
<i>Enforcement-related activities</i>	Conduct surveys regarding specific issues, including administrative measures and sanctions as well as the administrative and disciplinary regimes in the member states	Enforcement SG
	Prepare the issuing of aggregated information regarding administrative measures and sanctions (see under Communication)	Enforcement SG
	Exploring training needs for enforcers and means of increased interaction among members	Enforcement SG
<i>Standard-related activities</i>	Discuss standards-related issues regarding the application of the EU framework on auditing matters	ISA SG
	Discuss impact of differences identified between ISAs and EU	ISA SG

Planned activities	Output	Lead
	Use the inspection findings database to identify any findings that point to deficiencies in auditing standards	ISA SG
	Discuss developments in IAASB projects and prepare comment letters when deemed appropriate	ISA SG
<i>Other</i>	Provide a framework for discussion of wider, cross-cutting issues between sub-groups and facilitate their cooperation	CEAOB/Sub-groups
	Identify and analyse trends, risks and vulnerabilities relevant to auditor oversight	MM SG, CEAOB
<u>2. Communication</u>	Communication with external stakeholders	CEAOB
	Publication of technical alerts	CEAOB
	Publication of guidelines and thought papers	CEAOB
	Issue comment letters regarding the conclusion drawn by the CEAOB based on the work of its members	CEAOB
	Liaising with standard setters	ISA SG/ Inspection SG
	Hold joint meeting with ESRB/Auditors of G-SIFs	CEAOB
	Communication with audit firms and discussion of their audit quality initiatives	Inspection SG/CEAOB
	Interacting with Colleges of competent authorities (Art. 32 of the Audit Regulation)	Inspection SG
	Issue aggregated information regarding administrative measures and sanctions pursuant to Art. 30f (1) of the Audit Directive	Enforcement SG/CEAOB
<u>3. Interconnectivity</u>	Technical assessments of third countries to determine adequacy and equivalence	E&A SG
	Explore possible guidance for members in their bilateral interactions with third countries	E&A SG
	Look at developments and consequences of “Brexit” and potential consequences for national competent authorities and the CEAOB	CEAOB/E&A SG
	Coordinate on interactions with third country regulators	E&A SG/Inspection SG

Planned activities	Output	Lead
<u>4. Monitoring</u>	Monitor audit market and audit quality	Market Monitoring SG
	Support cooperation regarding monitoring of developments in the national audit markets	Market Monitoring SG/ CEAOB
	Share and discuss shortcomings and adverse developments in the audit market	Market Monitoring SG/ CEAOB

V. CEAOB Sub-groups work plans for 2021:

- *International equivalence and adequacy sub-group - work plan 2021:*

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-subgroups-2021-equivalence-work-plan_en.pdf

- *International auditing standards sub-group - work plan 2021:*

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-subgroups-2021-auditing-work-plan_en.pdf

- *Enforcement sub-group - work plan 2021:*

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-subgroups-2021-enforcement-work-plan_en.pdf

- *Inspections sub-group - work plan 2021:*

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-subgroups-2021-inspections-work-plan_en.pdf

- *Market monitoring sub-group - work plan 2021:*

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/ceaob-subgroups-2021-monitoring-work-plan_en.pdf