

EUROPEAN GROUP OF AUDITORS' OVERSIGHT BODIES (EGAOB)

**Centre Albert Borschette – Room 4A
Rue Froissart 36, Brussels
19 December 2006**

SUMMARY RECORD

I Welcome – adoption of the agenda

Chairman (Jurgen Tiedje, Head of Unit F4) welcomed EGAOB members and asked whether the draft agenda could be adopted.

As there were no objections the agenda was adopted.

II Update on the work performed by EGAOB sub-groups

The Chairman provided an update on the work done in the three EGAOB sub-groups.

EGAOB subgroup Cooperation deals with 3rd countries' assessments. The Commission intends to launch a public consultation early next year, possibly on the 8th of January. The EGAOB members will be provided with the first interim reports for the next EGAOB meeting.

On ISAs, which are dealt with by the EGAOB subgroup ISA, a public consultation is also possible in the first half of 2007. The consultation should mainly help to contribute to finding the best way how to deal with the adoption of ISAs if the Commission decides to do so. It should in particular help to prepare a review on ISAs as required by the new 8th Directive.

With respect to the Quality Assurance subgroup, the Chairman indicated that it was likely that the work in the subgroup would focus more on the audits of PIEs (Public Interest Entities). The need for more guidance on Article 29 was also examined. Meeting with the PCAOB on quality assurance issues is possible in the future.

**III Follow-up on discussions with Mark Olson, Chairman
PCAOB**

The Chairman informed the members of the future actions the Commission intends to take in dealing with the US, in particular the idea of a roadmap. The Chairman explained

the experience the Commission had on accounting and indicated that a similar approach could be followed in dealing with auditing matters.

In this respect the Chairman mentioned that the next meetings between the Commission authorities and the US authorities were already planned. Commissioner Charlie McCreedy is expected to meet the PCAOB chairman Mark Olson in early March 2007. In addition, the next Financial Markets Regulatory Dialogue between DG MARKT, US Treasury and SEC is scheduled for 9th February. The ultimate goal in dealing with the US via all these channels is mutual recognition of equivalence of public oversight systems. The outcome of the meetings will be reported back to the EGAOB and the AuRC.

The Chairman also outlined a number of elements that might be taken into account when dealing with the equivalence issues.

Several Member States underlined that discussions with the PCAOB would likely have an impact on the way quality assurance systems should be organised in the EU. The Chairman added that the issues concerning organisation of quality assurance systems were already discussed at the EGAOB subgroup Quality Assurance.

There was general support for the Commission actions in dealing with the PCAOB.

Finally, the Chairman invited EGAOB members to provide the comments/ideas to the Commission by early January before the Commission officials leave to Washington.

IV Scoreboard

The Commission services introduced the first draft Scoreboard, which depicts public oversight systems of Member States as of mid 2006. The Scoreboard serves the purpose of sharing of information on public oversight practices amongst Member States and should enable structured comparison based on the criteria which benchmark various aspects of public oversight structures.

Some Member States emphasized that the public oversight system should be better reflected, rather than focusing on the specific public oversight body; there can also be possible misinterpretation on the differences between the disciplinary actions and penalties. An EEA representative requested his country to be presented and benchmarked with other Member States in the Scoreboard.

The Chairman offered the members to provide the comments on the Scoreboard to the Commission by 10th of January.

The Chairman also invited those Member States which have plenty of experience on public oversight to render visits to those Member States which are developing their public oversight systems.

V-I Meeting with European Associations

The Commission invited representatives from FEE, ECG, EGIAN and EFAA to explain their current activities and to briefly enumerate their priorities in the context of the implementation of the new 8th Directive.

The FEE indicated that they defend the same goal as the EGAOB, namely to enhance audit quality in Europe. The FEE considers that we should arrive at a comparable audit quality all over Europe. They also consider that different Quality Assurance systems (e.g. monitored QA and monitored peer-review QA) may provide the same level of quality.

Subsequently, the FEE made a summary presentation of their advance draft comprehensive study on "*Quality Assurance Arrangements across Europe*". The study will be finalised soon and published early next year by FEE. In about 12-18 months, coinciding with the implementation date of the 8th Directive, FEE plans to revise their findings.

Member States found the timing of the study appropriate. There were some questions, however, as to the validity of the descriptions in some countries stemming from the fact that authorities in those countries apparently had not been consulted by their respective industry before sending their contributions.

In the discussion, the following main issues were raised:

- a) Article 29 of the new 8th Directive requires an external quality review for audit firms and auditors. It is an open question whether this implies that only a selected number of auditors in an audit firm should be controlled and which selection method should be chosen.
- b) Whilst recognising that there is currently a wide variety of quality reviews in Member States, it will be a major challenge to carryout cross-border co-operation workable in particular with regard to public interest entities (PIEs)
- c) The publication policy for the findings of inspections needs to be clarified. In addition, there should be a speedy communication between the audit firm concerned and the public oversight on the outcome of any quality control.

The ECG representative made an oral presentation of where they are in the development of an early warning system in case an audit firm, in Europe or elsewhere, is facing a situation which, directly or indirectly, may endanger the stability of the EU capital markets. The initiative has been triggered, primarily, but the events earlier this year related to the demise of the Japanese member of the PwC network. The ECG is well placed to deal with this matter because they represent the 6 largest networks of audit firms. They are still at an early stage but progress is already underway. Member States welcome this initiative but recognised that is a delicate matter that deserves further reflexion by both audit firms and regulators.

The UK (Mr Boyle, FRC Chief Executive) explained where they are in their initiative on Competition and Choice in the UK market. They acknowledge that the subject is

complex. They intend to go for a national solution because a "global solution" may take too long. A first report may be ready by mid-2007 and the final one by end-2007. The implementation should start immediately after. One of the priorities would also be to focus on what mid-tier audit firms could achieve and which drivers could help to increase choice on the audit market.

The Chairman thanked the delegations and associations for the fruitful discussion. He suggested that the next exchange of views should take place on 1st June 2007. In this regard, perhaps audit market concentration, in particular the role of mid-tier audit firms, but also training and education for small practitioners and inspections might be discussed.

V-II KPMG merger – presentation by John Griffith-Jones, CEO KPMG UK

Mr Griffith-Jones explained the reasons behind their initiative as well as the main expected gains for them and for the European audit market in general. He also invited the Commission and Member States to consider their case as a "guinea pig" in the discussions related to the implementation of the 8th Directive.

VI Discussion about general supervisory issues in the context of a cross-border merger of audit firms

The presentation of the KPMG and the discussion paper provided by Audit Oversight Commission of Germany for this meeting, triggered fruitful discussion on regulatory issues that could emerge as a result of the merger of audit firms.

EGAOB members discussed various conditions that could lead to the need for closer co-operation between public oversight systems. The more audit firm-wide decisions, such as on internal control system, remuneration of partners, are made in another jurisdiction by the holding company – audit firm, the broader the scope for co-operation and exchanging information between the regulatory authorities will be required; repercussions on quality assurance systems should also not to be underestimated. The Chairman suggested that the latter should be discussed at the EGAOB subgroup Quality Assurance.

VII Preparation of a publication of EGAOB's work in 2007

The Chairman underlined the importance of reporting on the activities of EGAOB work in 2006.

The EGAOB members supported to provide transparency from this group. However, a substantial number of members believed that it is too early to publish Scoreboard report as part of the official publication on the EGAOB activities. They believed it is better to

focus on the work of the EGAOB and other subgroups, rather on a particular oversight bodies in Member States.

The Chairman concluded that this point would be further discussed at the next EGAOB meeting.

VIII AOB

The tentative calendar for the EGAOB meetings in 2007 was distributed and discussed. The next EGAOB meeting is foreseen for 25th of January, 2007. The next meeting with the industry has been scheduled for 1st June 2007.

The Chairman also invited EGAOB members to provide the IAASB with the inspection reports as an input for the future IAASB strategy and forward a copy to the Commission. This should preferably be done by the end of 2006.