



COMMITTEE OF
EUROPEAN
AUDITING
OVERSIGHT
BODIES

CEAOB Annual Report 2020

I. Chair's Remarks

The period we are in is particularly challenging. The COVID-19 pandemic is putting unprecedented stress on our societies. It has called for strong responses from our governments, resulting most often in lockdown periods which have had both an impact on the ability of entities in some industry sectors to continue their business, and creating an urgent need to work differently. Coping with the situation has been facilitated by new tools, new technologies sometimes developed by emerging companies. All this while the change to new environmental business models comes with questions around the reporting thereon and, as a consequence, the role and responsibility of the auditor.

In this context, high audit quality is more important than it has ever been. It is the cornerstone of investors' trust. Banking institutions, and even governments, as lenders, need to rely on trustworthy financial reporting. Providers of equity, whether from the private equity industry or from capital markets, have also had a significant contribution to developing new business models and to keeping afloat more mature business models. They need to rely on high quality financial reporting.

At the same time, starting in March 2020, auditors and audit firms have been under the constraint of lockdown measures and other measures restraining access to their clients. To cope with this they had to adapt their audit approach, to find solutions for auditing from home, for checking inventory while being off-site, etc. and check their relevance. The pandemic has resulted in heightened risks of error or fraud, requiring additional diligence from auditors in assessing risks, accounting estimates, and the quality of work performed by component auditors. An important aspect of these heightened risks resulted from changes that audited companies have made to their internal controls due to the constraints aforementioned. Oversight bodies of the European Union and the European Economic Area (the members of the Committee of European Auditing Oversight Bodies - CEAOB) will pay particular attention to these risks during their inspections of audits of 2020 financial statements.

Members of the CEAOB have faced similar challenges. The high level of cooperation reached after four years of existence of the CEAOB allowed it to promptly publish a release designed at providing guidance to audit firms with regard to the 2019 audits. This highlights the maturity reached by the organisation, its ability to design new solutions, and the strong dedication of all CEAOB members to work together to enhance auditor oversight. It also demonstrated their determination to take on a leadership role.

As the newly elected Chair of the CEAOB I am very grateful for these achievements which result from the hard work of the first Chair of the CEAOB, his team, the Vice-Chair, the Secretariat, the Consultative Group, the Chairs of the sub-groups and task forces and all the CEAOB's members and observers.

The CEAOB was established in 2016 following the implementation of the Auditing Regulation and Directive from 2014. According to this regulatory framework, its mission and tasks include improving cooperation mechanisms for the oversight of public

interest entities' statutory auditors, promoting a consistent understanding and application of the European law, monitoring developments in the audit market, addressing common inspection findings, examining international auditing standards and the process for their elaboration, and taking a common approach regarding third countries' auditors and oversight bodies. In addition to this, the CEAOB contributes to financial stability in the EU. Together with the European Systemic Risk Board (ESRB) the CEAOB organises an annual meeting with the largest audit networks which aim is to assess potential risks to the auditing of globally systematic important financial institutions (G-SiFis) authorised in the European Union.

The CEAOB is a framework for organising cooperation between its members, and contributing to harmonisation of audit oversight in the EU. A very significant part of the work performed within the CEAOB comes from its five sub-groups and from dedicated task forces. These sub-groups and task forces build on expert knowledge and invaluable professional experience provided by the member organisations. In order to stay tuned to a rapidly evolving environment, the CEAOB, and its members, are committed to maintaining an open outreach with external stakeholders. Stakeholders are frequently invited to the CEAOB plenary meetings. The members of the CEAOB also maintain an on-going dialogue with the four largest audit networks via the "Colleges".

The CEAOB's responses to the quite exceptional situation faced in 2020 demonstrate that choices made upon its setting up were relevant. But new challenges are ahead of us. The European Commission has launched a study on the impact of the 2014 Audit Regulation and Directive, and a revision of the regulatory framework, once this review is finalised, is most likely to occur. The Member States are currently discussing the Digital Operational Resilience Act (DORA), designed by the European Commission, which may scope in auditors and audit firms. In addition, in 2020 at the request of the European Commission, EFRAG Lab launched a task force on Non-Financial Reporting in order to make proposals for improving the extant Non-Financial Reporting Directive. Given the growing interest of investors for non-financial reporting, it is very likely that more quality assurance on this type of information be deemed necessary in the future. Auditors and audit firms may in the future be involved in providing such assurance services. Further, recent events have highlighted that auditors and their supervisors have an important role to play when it comes to alerting management, those charged with governance, or the broader public, in case of fraud or going concern. All these very topical issues have strategic implications for the CEAOB and its members. Therefore, as an expert advisor to the European Commission and to the competent authorities, in 2021 the CEAOB will need to spend significant time and efforts on strategic thinking in addition to its day-to-day activities.

Based on what has been achieved by the CEAOB so far, I am fully confident that we can achieve this. I am also extremely grateful for the considerable work done in 2020, and for the time, energy and expertise of the Chairs of the sub-groups and task forces. Without them the CEAOB would never have been able to achieve the results presented in this annual report.

I therefore thank them, and the European Commission, for their constant and unfailing support to our work.

For all these reasons, it is an honour for me to introduce the 2020 CEAOB annual report.

Patrick Parent

CEAOB Chair

II. CEAOB structure and sub-groups



III. CEAOB 2020 activities

CEAOB's main objectives are to consistently pursue the improvement of audit quality and consequently to keep and increase confidence and trust of investors and the broader public in financial reporting in the European Union. The CEAOB is a framework for practical, consistent and comprehensive cooperation among European¹ national audit supervisors.

In order to achieve this, the 2020 CEAOB activities have been designed to reflect the four objectives defined and included in its work plan: cooperation, communication, interconnectivity and monitoring. The section below contains a description of how they were fulfilled throughout the year.

The year 2020 has been marked by the COVID-19 pandemic which has imposed significant constraints on the CEAOB and its members. As a result of the various measures taken by national authorities to limit the spreading of the virus, almost all meetings scheduled during the year were held via videoconferences. It is important to notice that apart from trainings which have been postponed to 2021, all activities of the CEAOB have been maintained. A significant number of videoconferences and calls were organised by the sub-groups and task forces and this resulted in the extensive output presented in this report.

On 31 January 2020 the United Kingdom ceased to be a member of the European Union. As reported last year, the CEAOB took measures to ensure continuity of operations. The CEAOB also liaised with the European Commission to follow the developments in the negotiation between the EU and the UK in order to identify potential consequences on the way CEAOB members would have to manage the registration of auditors based in the UK once the Brexit was completed. Best practices were shared among members impacted by this third-country auditor registration issue.

1. Cooperation

1.1. Implementation of the Audit Regulation and Directive (ARD)

¹ Supervisors from the European Union (EU) and from the European Economic Area (EEA).

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| <p>Sharing experience and best practice regarding the transposition and the implementation of the ARD</p> | <p>Sharing experience and best practice with regard to the transposition and the implementation of the ARD is one of the key tasks of the CEAOB. To ensure a successful audit oversight at a common level in all Member States, a consistent usage of the European legal framework is indispensable. 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. The positions taken by the CEAOB are non-binding and are issued for gaining a better understanding of how other members deal with the specific issues raised.</p> <p>To facilitate an easy and efficient way of communication, members are encouraged to use an internal internet online platform where questions can be raised and members can respond to them, making the newly found intelligence available and transparent to all members. This platform is only intended to facilitate the exchange of information about how members interpret specific provisions of the ARD and to offer potential solutions.</p> <p>Moreover, the plenary meetings provide a forum in which members can discuss or exchange information on high policy topics concerning current developments in the auditor oversight field.</p> <p>When addressing complex, important topics, the sub-groups and task forces are also providing their input in areas within their expertise. Task forces specifically are set up when developing non-binding guidelines with a common understanding of the application of the European law. Once these guidelines and opinions are adopted, they are published on CEAOB's website.</p> |
| <p>Providing advice to the EU Commission and members upon request, including via the Wiki</p> | <p>By sharing their experiences with the legal framework as well as by addressing current issues with regard to the application of the ARD, members are constantly cooperating with the Commission in order to develop the best approach. Furthermore, members provide the Commission with their practical experience and knowledge as well as with their advice whenever this is needed.</p> <p>Furthermore, in 2020, the CEAOB prepared insights from an audit regulatory perspective on potential revisions to the Non-Financial Reporting Directive (NFRD), and on the audit of financial statements prepared in the European Single Electronic Format (ESEF).</p> |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Developing guidelines and thought papers for its members | <p>According to the Audit Regulation, the CEAOB may publish opinions or non-binding guidelines meant to provide clarity to its members and the wider public and to ensure a consistent application of the European legal framework. Once adopted, they are published on CEAOB's website. Although these opinions or guidelines are non-binding, the decision making process in the CEAOB is designed to ensure maximum support for their content.</p> <p>In 2020 the CEAOB has worked on potential guidelines on Article 16 of the Regulation.</p> |

1.2. Inspection-related activities

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Sharing, discussing and analysing inspection findings | <p>Due to the COVID-19 situation only one virtual meeting of the Inspection Sub-group (ISG) took place in November 2020 instead of the two initially scheduled. It was divided in six slots:</p> <ol style="list-style-type: none"> 1. General ISG topics (updates from the task forces, approval of Common Audit Inspection Methodology (CAIM) work programmes, update on the improvement to the findings database, discussion about remote joint inspections with the PCAOB - legal issues); 2. Meeting with IAASB and IESBA; 3. Meeting with PwC; 4. Meeting with KPMG; 5. Meeting with Mazars; 6. Debrief session on meetings with the standard setters and the three meetings with the audit firms, presentation of the results of the culture survey and way forward for 2021. |
| Further develop the Common Audit Inspection Methodology | <p>During ISG virtual meeting, two updated work programmes (WP) and one new WP were adopted:</p> <ul style="list-style-type: none"> • CAIM Firmwide WP, update on Ethics and Independence; • CAIM File reviews, update of ISA 540 WP (on the audit of accounting estimates); • CAIM File reviews. Adoption of the new WP on Information Technology (IT) inspection. <p>In 2021, the IT task force (ITTF) will start working on a new WP on information security at firm level and the Organising Committee will launch a survey on the views of CEAOB members about the update of the CAIM Firmwide suite after the publication of the new quality management standards.</p> |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Exploring consequences of means such as data analytics and offshoring on audit quality | <p>The ISG in its work plan has decided to obtain details on the use of data analytics and on the level of off-shoring activity undertaken by the Big-4 audit firms in Europe. These results are reported back to the sub-group meeting every 2-years. The reporting was planned in 2020, but due to the COVID-19 crisis it was postponed to 2021.</p> <p>Data analytics and off-shoring are also recurring subjects that are dealt within the Colleges of Big-4 audit firms.</p> |
| Identify specific issues of inspections of financial services, IT and smaller regulators | <p>The Financial Services (FS) task force:</p> <ul style="list-style-type: none"> • Contributed to the annual meeting (virtual) with the European Systemic Risk Board (ESRB) and globally systematically important financial institutions (G-SiFis) auditors in November 2020; • Undertook a thematic review concerning ISA 540 focused on IFRS 9 – Loan Loss Allowance; • Held a virtual meeting with Financial Stability Board representatives in September 2020; • Prepared all financial services related elective sessions for the IFIAR Inspection Workshop 2020. <p>The IT inspection task force:</p> <ul style="list-style-type: none"> • Finalised the IT inspection WP • Reviewed and discussed common inspection findings related to IT. <p>The Smaller Regulators’ Inspectors (SRI) task force:</p> <ul style="list-style-type: none"> • Discussed interaction with the IFIAR Emerging Regulators’ Group; • Proposed a list of areas of interest to the members of the TF to be covered during ISG meetings/workshop; • Due to the COVID-19 crisis, all activities regarding trainings were postponed. |
| Sharing experiences regarding coordinated quality assurance reviews between members | <p>Sharing experiences regarding coordinated quality assurance reviews between members will be covered in 2021 at plenary level.</p> <p>The list of specialists from CEAOB members has been made available on the Wiki, to allow for expertise sharing amongst CEAOB members</p> <p>A secondment page is also available in the Wiki for members in case of need.</p> |
| Exploring training needs for inspectors and means of increased interaction among members | <p>Following the adoption of the CAIM IT inspection WP, members requested a dedicated training on the application of the WP. The ITTF will develop a training that will be proposed to members by the end of 2021.</p> |

1.3. Enforcement-related activities

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Conduct surveys regarding specific issues, including administrative measures and sanctions as well as the administrative and disciplinary regimes in the Member States | The CEAOB Enforcement sub-group (ENF) sent its 4th Enforcement survey questionnaire to EU National Competent Authorities (NCA) and EEA authorities in June 2020. The survey questionnaire was conducted in a compact scope focusing only on collecting statistics on sanctions and administrative measures (Audit Directive chapter VII) in European countries taken during the year 2019. |
| Prepare the issuing of aggregated information regarding administrative measures and sanctions | The 4th CEAOB Enforcement Report on Sanctions and Administrative measures imposed by NCAs and EEA authorities and delegated bodies in EU Member States was adopted and published by the CEAOB in November 2020. |

1.4. Standard-related activities

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Discuss standards-related issues regarding the application of the EU framework on auditing matters | <p>The International Auditing Standards sub-group (ISA SG) facilitated further exchanges on the involvement of auditors on the financial statements prepared in European Single Electronic Format (ESEF), introduced by the EU Transparency Directive, to facilitate a consistent application within the Union, after adoption of the guidelines on 28 November 2019 and published on CEAOB's website. In response to a paper published by Accountancy Europe, the Sub-group developed a further internal Q&A document which was shared within the CEAOB in March 2020 to facilitate a common approach</p> <p>Sharing of information on anti-money laundering provisions applicable to auditors was also organized in November 2020.</p> <p>The CEAOB also discussed the potential implications for auditors of potential Non Financial Reporting Directive revisions and prepared a CEAOB response to the EC public consultation. The response was published on 10 June 2020.</p> |
| Discuss the impact of differences identified between ISAs and EU auditing standards | The ISA SG pursued an analysis of the main differences between national auditing standards applicable in EU countries and ISAs, with a view to provide a comprehensive summary of those differences to the CEAOB members. The work is in progress and the full summary is scheduled for submission to the membership in 2021. |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| <p>Discuss developments in current IAASB projects and determine actions for the CEAOB</p> | <p>The ISA SG monitored the developments and revisions of the ISAs (International Standards on Auditing) and projects of the IESBA.</p> <p>In particular, the decision was taken that the CEAOB should react and highlight the provisions of the EU regulation, which would need to be taken into account in the project for revision of the IESBA ethics code issued in 2020 on:</p> <ul style="list-style-type: none"> • Fee related provisions (5 May 2020); • Provisions regarding non audit services (5 May 2020). <p>The developments of projects of the IAASB were also examined and discussed by the ISA SG, before issuance of final proposals by the IAASB, including e.g. on the audit of less complex entities, and audit evidence.</p> |
| <p>Analyse the CEAOB database inspection findings pointing to deficiencies in auditing standards used</p> | <p>Once a year, the ISA SG analyses the information from the CEAOB findings database to monitor the topics which are recurring and frequent. This information is useful in targeting the auditing or ethical standards which would deserve revision, based on the inspection experience of the CEAOB members. The summary of the 2020 analysis was shared with the IAASB and IESBA leadership at a meeting in November 2020.</p> <p>The ISA SG further initiated a process approved in 2020 to get further insights from inspections findings, that was used to provide insight to the IAASB for the revision of the standard on group audit (ISA 600).</p> |
| <p>Examine the Monitoring Group's proposal on the reform of the standard setting process</p> | <p>The status of implementation of the Monitoring Group proposals to strengthen the international audit and ethics standard setting system issued in July 2020 were discussed with the Public Interest Oversight Board (PIOB) leadership during a meeting held in November 2020.</p> |

1.5. Other

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| <p>Provide a framework for discussion of wider, cross-cutting issues between sub-groups and facilitate their cooperation</p> | <p>CEAOB's three annual plenary meetings are prepared in close consultation with the members of the CEAOB's Consultative Group which met regularly. Their work, as in the years before, was indispensable to ensure that the CEAOB covered topics of the highest interest for its members in line with the annual work programme.</p> <p>The Inspections Subgroup (ISG) contributes to the thematic review that was launched at CEAOB Plenary level on Materiality in Audits.</p> <p>The Audit Regulation provides an option for Member States to delegate the setting of continuous education requirements to professional bodies. As a result in this field the responsibilities of CEAOB members differ. In 2020, the CEAOB organised a dialogue with the competent authorities for education requirements in order to reach a better understanding of the various systems for setting educational qualifications chosen in the Member States.</p> |
| <p>Identify and analyse trends, risks and vulnerabilities relevant to auditor oversight</p> | <p>The COVID-19 pandemic had a very significant impact in 2020 on auditing and on audit oversight. The first lockdown measures occurred in March 2020, prompting the CEAOB to publish a statement on the 24th of that month to highlight important aspects of the 2019 annual financial statements audits which were potentially impacted by these measures and required particular attention from the auditors and from their supervisors. During the rest of the year, the CEAOB and its members maintained a close monitoring of the impacts of the pandemic on auditing.</p> <p>Information was shared between members, within the ISG and ENF SG, on the consequences of the pandemic in order to identify potential risks to auditing, and to share best practice on ways to adapt audit oversight to the crisis.</p> <p>The ISG workplan for 2021 includes a special focus on the increased risks as a result of the pandemic situation, and in particular on the going concern and fraud aspects. Analysis and discussion on the actions the firms have taken were organised to respond to these risks at firm and engagement levels.</p> <p>Members also discussed high profile cases that may include audit failures with a view to identify policy implications.</p> |

2. Communication

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| <p>Communication with external stakeholders</p> | <p>The stakeholder outreach activities take place based on a stakeholder communication paper adopted by the CEAOB 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.</p> <p>The CEAOB’s stakeholder outreach is important to its members to benefit from others’ expertise and to raise consciousness of CEAOB’s work and tasks with the public. For the March and November 2020 plenary meetings, the CEAOB issued invitations to different stakeholder groups’ representatives. This ensures that the CEAOB is in contact with those who benefit from its efforts to enhance audit quality or who share similar goals. At the same time, it helps the CEAOB be more transparent and communicative about its own work and any ongoing and future projects.</p> <p>The following external parties participated in the CEAOB plenary meetings in 2020:</p> <ul style="list-style-type: none"> • March: A representative of the European Auditing Research Network (EARNet) provided members with a presentation on research findings and practitioners’ perspective on auditor reporting for going-concern uncertainty. Of particular interest to the members were links between regulatory oversight and the issuance of going-concern opinions. <p>European Audit Committee Leadership Network (EACLN) representatives shared and discussed their views on different topics related to audit committees’ work and audit quality. Specific topics discussed were measurements of audit quality, benefits and challenges of technology in audits as well as other important insights from the work of audit committees of large European companies. The importance of an interaction between audit regulators and audit committees to reach a common understanding on what constitutes and furthers audit quality was stressed by both parties.</p> <ul style="list-style-type: none"> • November: The European Contact Group (ECG) representatives provided an update on the impact of COVID-19 on auditing. They also pointed at issues resulting from the UK exiting the EU, and discussed various topics linked to projects with potential consequences on the regulatory environment in the EU (implementation of ESEF, IAASB projects on fraud and going concern, potential changes to the Non-Financial Reporting Directive, the Digital Operational Resilience Act, and the planned study by the Commission of the Audit Regulation and Directive impact in the European audit market). |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| | <p>EBA presented challenges coming from the COVID-19 environment on the application of IFRS 9's requirements regarding Expected Credit Losses assessment.</p> <p>In September 2020, at the invitation of Accountancy Europe, a specific communication was provided to the audit profession and preparers with regard to the new provisions on ESEF and the auditors' involvement in this regard.</p> <p>In addition to the above mentioned interactions with external stakeholders, the CEAOB was represented by the Chair and/or other members during outreach initiatives with the following stakeholders' organisations and events respectively: Financial Stability Board (FSB), European Systemic Risk Board (ESRB), European Group of International Accounting Networks and Associations (EGIAN).</p> |
| <p>Publication of guidelines and thought papers</p> | <p>A task force was set up to clarify issues related to the appointment of statutory auditors (Art. 16 of the Audit Regulation). The issues considered include:</p> <ul style="list-style-type: none"> • Circumstances requiring a formal selection procedure; • Characteristics of an adequate and fair timeline for carrying out a selection process; • Specificities of the selection process where multi-PIE groups are concerned. <p>A second project was started to address the concept of materiality as applied by audit firms (Art. 11 of the Audit Regulation). The work is aimed at comparing the audit networks' methodologies with the results observed by national competent authorities during their inspections. The project also aims at obtaining a better understanding about interactions between audit committees and auditors on how materiality is determined by the auditor.</p> <p>These two workstreams, which are different in nature, are still ongoing, and are expected to be completed in 2021.</p> |
| <p>Issue comment letters regarding the conclusion drawn from its work</p> | <p>CEAOB comments letter were approved and issued to provide the EU audit regulators' views on the following topics:</p> <ul style="list-style-type: none"> • Non-assurance services - revision of the IESBA code of ethics provisions on (5 May 2020); • Fee related provisions revision of the IESBA code of ethics provisions on (5 May 2020); • EC consultation on the revision of the Non-Financial Information Directive (10 June 2020); • Group audit - revision of ISA 600 (1 October 2020). |
| <p>Liaising with standard setters</p> | <p>Online meetings were organised by the International Auditing Standards Sub-group to discuss recent developments and</p> |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| | <p>topics of relevance to the CEAOB with respectively the Chairs of the IAASB, the IESBA and the PIOB.</p> <p>A joint meeting (via videoconference) was held between the International Auditing Standards Sub-group and the Inspections Sub-group (November 2020), where members of both sub-groups discussed with representatives from the IAASB and the IESBA. This included a presentation of common inspection findings on several areas, as informed from the ISG and the inspections findings database. During those joint meetings, the standards setters also provided feedback to the CEAOB on how comments from the Committee had been taken into account by their organisations.</p> |
| <p>Hold joint meeting with ESRB and Auditors of G-SiFIs (globally systematically important financial institutions)</p> | <p>On 3 and 4 November 2020, the fourth annual ESRB-CEAOB meeting took place by means of videoconference. This meeting provided an opportunity for the CEAOB to explain and share its workstreams (analysing findings in the CEAOB’s Inspection Findings Database related to the banking and insurance sectors, developing case studies for trainings, liaising with the CAIM Task Force to provide input for new inspection programmes, etc.) and to describe findings within the banking and insurance sectors. The CEAOB was represented by the Chair and Vice-Chair, by German representatives of the ISG Financial Services task force, and by representatives of members from countries with globally systematically important financial institutions (G-SiFis). The ESRB was represented by the ESRB Secretariat, by European authorities (EBA, ESMA, ECB) and by national central banks. The meeting was co-chaired by the CEAOB Chair and by the Chair of the ESRB Exploratory Group on Accounting. Deloitte, EY, KPMG, Mazars and PwC participated on behalf of the audit networks.</p> <p>Besides providing information on current ESRB and CEAOB activities, including inspection findings in the context of G-SiFIs, the representatives of the ISG Financial Services task force presented a thematic review on ISA 540 “Auditing Accounting Estimates and Related Disclosures” focused on loan loss allowance as per IFRS 9.</p> <p>The agenda also included discussions on:</p> <ul style="list-style-type: none"> • Fraud in accounting, and its potential implications for systemic risk, • The impact of COVID-19 on banks, insurance companies, and auditing, • The “New normal” (threats coming from climate changes, pandemics, cyber risks, or changes in customer behaviour). |

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| <p>Communication with audit firms and discussion of their audit quality initiatives</p> | <p>During the November virtual meeting, the following firms met with the ISG members:</p> <ul style="list-style-type: none"> • PwC • KPMG • Mazars <p>At these meetings, there were presentations and discussions with the firms on the subject of inspection findings (internal and external), root cause analysis and other audit quality initiatives.</p> <p>Some important work is also done outside ISG's work. Through the Colleges, the CEAOB Member States carry out an ongoing dialogue with the four largest international audit networks (Deloitte, EY, KPMG and PwC) with the objective of improving audit quality throughout Europe. Therefore, the Colleges coordinated this year's sessions and discussions on innovations in audit oversight, impact of new technology and key audit matters. Furthermore, the Colleges' members also exchanged information on e.g. the networks' governance arrangements and internal quality monitoring programmes.</p> <p>Moreover, the CEAOB members have a continuous dialogue with other important audit networks operating in the European audit market.</p> <p>As part of the stakeholder outreach, the CEAOB liaised with representatives of the audit profession, especially the European Contact Group and the European Group of International Accounting Networks and Associations (EGIAN).</p> |
| <p>Interacting with Colleges of competent authorities (Art. 32 of the Audit Regulation)</p> | <p>In addition, the Colleges (for the Big 4) met with the firms at separate virtual 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 ISG members at the virtual meeting in November 2020.</p> |
| <p>Issue aggregated information regarding administrative measures and sanctions pursuant to Art. 30f (1) of the Audit Directive</p> | <p>The 4th CEAOB Enforcement Report on Sanctions and Administrative measures imposed by NCAs and EEA authorities and delegated bodies in EU Member States was adopted and published by the CEAOB in November 2020.</p> |
| <p>Analysis of audit committee data to understand challenges audit committees face</p> | <p>In December 2020 the CEAOB published an analysis prepared by the Market Monitoring Sub-group on audit committees and their level of adherence to the Audit Regulation and Directive. This also provided insight on areas where audit committees face potential challenges such as auditor tendering.</p> |

3. Interconnectivity

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Technical assessments of third countries to determine adequacy and equivalence | Assessing the legal framework in the UK is performed under the leadership of the European Commission. The International Equivalence and Adequacy SG (IEA SG) has started contributing via equivalence and adequacy questionnaires. Work is expected to continue in 2021. |
| Explore possible guidance for members in their bilateral interactions with third countries | A Data Protection Task Force was set up to assess the impact of the GDPR and address possible issues on the data protection agreements with third country audit regulators. The Data Protection TF closely worked with the European Data Protection Board (EDPB) to develop a common EU understanding of the characteristics of a Data Protection Agreement meeting the requirements of the GDPR. |
| Look at developments and consequences of “Brexit” and potential consequences for national competent authorities and the CEAOB | The IEA SG closely followed up the developments of the Brexit negotiations, assessing the evolving environment and raising awareness among CEAOB members about possible preparedness actions. In particular, the IEA SG analysed tools which should be put in place to allow for UK auditors and audit firms to register after the transitional period, since after this period they ceased to be EU statutory auditors. |
| Coordinate on interactions with third country regulators | <p>The ISG members had extensive discussions on the US PCAOB request to perform remote joint inspections on European audit firms in the context of the COVID-19 pandemic which suddenly prevented audit oversight bodies from performing on-site joint inspections.</p> <p>The IEA SG, together with the Data Protection Task Force, coordinated an efficient interaction with the US PCAOB to discuss and develop a common understanding of the GDPR requirements with regard to future Data Protection Agreements.</p> |
| Revision of the third-country equivalence assessment in view of the new EU audit framework | The IEA SG focused on the preparatory work and how to rationalize the work for the equivalence and adequacy assessments of those third countries under the transitional regime. The IEA SG assessed and prioritized the revision of the equivalence decisions for other third countries. |

4. Monitoring

| PLANNED OUTPUT | 2020 ACTIVITIES |
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| Monitor audit market and audit quality | One of the core functions of the Market Monitoring Sub-group is to collect audit market data. This is collated and forms the basis of the Commission's market monitoring report. In order to ensure that data is of high quality and can be aggregated the MMSG has an ongoing process of refinement of the data indicators. This ensures that all Member States report information that is comparable which in turn provides better insights of the EU audit market. |
| Support cooperation regarding monitoring of developments in the national audit markets | In October 2020 a data gathering questionnaire was sent out to members to get a better understanding of the types of data collected amongst Member States and to also inform members on data gathering practices across Member States. |
| Review exercise for market monitoring indicators to assess quality of data received, clarity of indicators and removal/retention/creation of additional indicators | <p>Work continued throughout the year on identifying what indicators had to be updated, added or removed to get a better understanding of current market trends. Particular attention was given to indicators where the data captured did not provide meaningful information on the market and how these could be modified to provide better data.</p> <p>Findings from the data gathering questionnaire were also incorporated into this exercise.</p> |
| Share and discuss shortcomings and adverse developments in the audit market | The Commission's second market monitoring report provides insights into the current state of the audit market including an assessment of audit quality and market concentration. |
| Liaise with the EU Commission on the production of the second market monitoring report | The market monitoring data (national reports) collected in 2019 were discussed with the Commission to assist in understanding any data quality issues and where data gaps occurred in 2019 national reports. Support was also provided to the Commission in interpreting the data and arriving at conclusions based on an analysis of the collected data. |

IV. Main activities of the 2021 work plan

The CEAOB work plan approved by the plenary in November 2020 defines the same four objectives for 2021 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.

In addition to these ongoing activities, in 2021 the CEAOB will coordinate the work of its members in order to:

- Provide expert advice to the European Commission on the future evaluation of the effects of the ARD since its implementation; and
- Discuss proposals made by the ad-hoc task force set up in September 2020, which aim at clarifying the CEAOB's mission and ambition, and at improving the tools used in the fields of collaboration, cooperation, and communication.

Annex I: CEAOB publications in 2020

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

Reports, guidelines, opinions and other information:

- [2020 CEAOB audit committee analysis](#)
- [Report on the 2020 CEAOB enforcement questionnaire](#)
- [Report on the 2019 CEAOB enforcement questionnaire](#)
- [CEAOB annual report 2019](#)
- [Comment letter relating to the IAASB's Exposure Draft - ISA 600](#)
- [CEAOB response to the public consultation on the revision of the non-financial reporting directive](#)
- [Comment letter relating to the IESBA Exposure Draft on Non-Assurance Services](#)
- [Comment letter relating to the IESBA Exposure Draft on Fee-related Provisions](#)
- [CEAOB statement in view of COVID-19 impact on audits of financial statements](#)
- [Press release of the 8th meeting of the Inspections sub-group](#)

Summaries from the plenary meetings:

- [Meeting of 3 March 2020](#)
- [Meeting of 24 June 2020](#)
- [Meeting of 24-25 November 2020](#)

Work programmes:

- [CEAOB work programme 2021](#)
- [CEAOB Equivalence and adequacy sub-group: work plan 2021](#)
- [CEAOB International auditing standards sub-group: work plan 2021](#)
- [CEAOB Enforcement sub-group: work plan 2021](#)
- [CEAOB Inspections sub-group: work plan 2021](#)
- [CEAOB Market monitoring sub-group: work plan 2021](#)

Committee of European Auditing Oversight Bodies

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