



Auditor Oversight Body AOB
at the Federal Office for
Economic Affairs and Export Control



Audit Regulation from European and National Perspectives

10th Anniversary of the Establishment of the Public Audit Oversight Board (Czech Republic)

CEAOB

Cooperation. Communication. Interconnectivity. Monitoring.

AOB

Independent. Preventive. Proactive.
In the Public Interest.

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Chair Committee of European Auditing Oversight Bodies (CEAOB)
Chief Executive Director Auditor Oversight Body (AOB), Germany

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Disclaimer

The views expressed are those of the speaker only and do not necessarily represent the views or positions of the Auditor Oversight Body Germany or the CEAOB and its staff or members respectively.



Agenda

- CEAOB Organisation
- CEAOB – A More Strategic View
- CEAOB Stakeholder Outreach
- EU Regulation – A Common CEAOB-View
- Other Accomplishments at CEAOB-Level
- CEAOB Inspections Sub-group
- Colleges of Regulators
- How is Germany Applying the ARD? - Interaction of Key Players
- German Auditor Oversight System: Statistics
- Auditor Oversight Body AOB



CEAOB Organisation - Legal Basis

- Regulation (EU) No. 537/2014 on specific requirements regarding statutory audit of public-interest entities (PIEs), applied from 17 June 2016
 - CHAPTER III - Cooperation between competent authorities and relations with the European supervisory authorities
 - Article 29 - Obligation to cooperate
 - Article 30 - Establishment of the CEAOB
- Work of the CEAOB is governed by its Rules of Procedure (RoP) which were adopted in its first meeting on 12 July 2016
- Sub-groups operate under their Terms of Reference (ToR) which were also adopted by the Plenary



CEAOB Organisation - Composition and Operating

Composition

- Members: Representatives of national competent authorities of each EU Member State + ESMA
- Observers: EBA and EIOPA
- Chair
 - appointed by election of the CEAOB members, term 4 years
 - First term: Chair Ralf Bose (DE)
- Vice-Chair:
 - appointed by EC
 - Hugo Bassi (EC- Director of Directorate C, represented by Alain Deckers, Head of Unit C1)

Operating

- Plenary Meetings at least three times a year
- One vote for each Member State
- ESMA, Chair and Vice-Chair without voting rights
- Decision-making process: simple majority



CEAOB Organisation - Organisational Structure





CEAOB – A More Strategic View

Objective and Tasks

Overall Strategic Objective

Consistently support audit quality and consequently keep and increase confidence and trust of investors and the broader public in financial reporting in the European Union.

Main Tasks

- Promoting common understanding of inspections methodologies, international standards framework and enforcement processes
- Providing framework for cooperation among national competent authorities (NCAs)
- Facilitating the exchange of information, expertise and best practices for the consistent application of ARD*
- Intensification of dialogue with stakeholders about audit quality
- Enhancing dialogue with audit networks



CEAOB – A More Strategic View

Four Mission-Based Objectives – New Work Programme 2019

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



CEAOB – A More Strategic View

Areas of Consideration of Audit Regulators – Driving Audit Quality

- Independence, Independence, Independence
- Growth and profitability in advisory vs audit
- General audit market developments (concentration, incidents, perception)
- Culture, values, tone at the top
- Power and strength of global/European networks
- Root Cause Analysis - circle of QC improvement
- Measuring/monitoring audit quality
- Data analytics, digital analytical, audit and audit management tools
- Standard setting and standard setting processes

→ *Changing views, quality and approaches of auditor oversight authorities*

Important workstreams:

→ Dialogue with investors and other stakeholders

→ Common views, approaches, processes within the CEOB/amongst audit regulators



Stakeholder Outreach

General

High priority:

- Interaction with investors/stakeholders to understand their expectations regarding audit quality matters and the CEAOB work
- Very early on, a paper on stakeholder engagement was adopted
- Based on this paper, representatives of the stakeholder and investor community are regularly invited to CEAOB meetings
- Needs to have strong connections with stakeholders, investors, regulators and other third parties with an interest in audit quality and sound capital markets

Examples of Stakeholder/Investor Community representatives the CEAOB is or has been having a dialogue with since establishment:

- ecoDA-European Confederation of Directors Associations, single AC-Chairs, other organisations representing AC, investors
- Academia
- BCBS-Basel Committee on Banking Supervision
- FSB-Financial Stability Board, ESRB
- ESMA, EBA, EIOPA (different occasions; not only as Observer in the CEAOB)
- Other organisations, audit regulators (IFIAR, bilateral)
- Profession: EGIAN, Forum of Firms, ECG, Accountancy Europe, QAN, Common Content Project



Stakeholder Outreach

Audit Committee Questionnaire - Overview

- ACs play an important role in terms of being very close to the auditors and the quality of the audit
- AC's role in that respect has been strengthened even more by the EU regulation
- Competent authorities in the CEAOB support the role of audit committees by assessing and analysing their work in its entirety (Art. 27 EU-R)
- Market Monitoring Sub-group developed comprehensive questionnaire for audit committees of public-interest entities (approved by CEAOB)
- Purpose
 - Compliance with provisions of the ARD
 - Receiving honest information on issues the ACs have to deal with in practice
 - Starting/continuing dialogue with AC on our common objectives (keep and increase a high level of audit quality)



Stakeholder Outreach

Audit Committee Questionnaire - Process

- **On CEAOB/EC-level:**
 - Development of the questionnaire by the Market Monitoring Sub-group
 - Survey based on samples (not to be sent to all AC Chairs)
 - Sample size: at the discretion of CEAOB member but large enough to ensure specific, consistent and useful feedback
 - Consolidation of members' results (started mid-year 2019)
- **On member level:**
 - Translation into national language (if required)
 - Ask additional questions of specific (national) interest
 - Collecting and evaluating the return
 - Member specific national results will become a part of the member state specific report on developments in the market for providing statutory audit services and will be submitted to the CEAOB, ESMA, EBA, EIOPA and the EU Commission



EU Regulation – A Common CEAOB-View

Non-Binding Guideline: Monitoring the fee cap of non-audit services

- First guideline on technical aspects regarding the application of certain provisions of the EU-R
- Topic was pre-chosen and approved by our membership
 - Many questions and issues by our membership and the profession
 - Work of audit committees is also concerned
 - Certain wording which is unclear, inconsistent or needs interpretation
- Task Force of 5 members led by colleagues of CSSF Luxembourg
- Format: Q&A
- Publicly available
- Discussion of issues regarding
 - Definition of a statutory audit and the respective audit fee
 - What are non-audit services required by national law
 - Scope of the cap calculation (audit firm or network, separate or consolidated audit client)
 - Time and period of calculation and recognition of received (audit) fees
 - Source of fees for cap calculation (audit firm or client, fiscal or calendar year)



Other Accomplishments on CEAOB-Level

- *Strategic based new work programme 2019
- *Comment Letters for ISA 315 revised, ISA 540 revised
- *Comment Letter on International Auditing Standard setting process (Monitoring Group public consultation)
- *Comment letter on IAASB's strategy 2020-2023 and workplan 2020-2021
- *Comment letter on Quality Management Standards (ISQM1+2/ISA 220)
- *Survey on enforcement regimes in the EU (second survey recently adopted)
- *Paper on Fee Cap Monitoring (led by Luxemburg)
- Reporting process for temporary prohibitions against auditors (and other sanctions/reporting obligations) followed by regular reporting
- Panorama over the use of ISAs in Europe and their deviations to EU provisions and national auditing standards
- Another non-binding guideline under development (led by Spain)
- Discussions/work on
 - BREXIT, ESEF (Task Force under CEAOB IAS Sub-Group)
- Outlook: Publication of summaries of Analyses of Inspection Findings Database („Infographics“)

* Publicly available



CEAOB – Inspections Sub-group Current Workstreams and Achievements

- **Inspection Findings Database**
 - Further development of Findings Database
 - Sharing and discussing inspection findings through analysis of the Database with the audit firms (cooperation with colleges) and dialogue with standard setters (IAASB, IESBA) and (prudential) regulators/bodies/organisations, for example on:
 - Disclosures
 - Inventories
 - ISA 240 (fraud)
 - ISA 600 (group audits)
- **Common Audit Inspection Methodology (CAIM Task Force)**
 - Continuation of developing CAIM, including widening the scope of its activities and the detailed inspection programmes for use by CEAOB Members, for example (new or adjusted)
 - Revenues
 - ISA 600 (group audits)
 - ISA 540 (accounting estimates)
 - Improving the consistency of inspection practices



CEAOB – Inspections Sub-group (cont.) Current Workstreams and Achievements

Communicating with and about audit networks (Colleges/Joint Meetings)

- Ongoing dialogue with the audit profession, in 2018/2019 particularly on QC systems, networks' root cause analysis, engagement quality review, KAM, Data Analytics and culture etc.
- Focus not only on the largest European audit networks (colleges if applicable)
 - KPMG, PWC and Deloitte in the last 3 meetings, , EY in next meeting
 - Mazars (June 2018) and BDO (June 2019)

Other Stakeholders: dialogue with IAASB/IESBA (each year), ESMA (on enforcement priorities)

Specific issues of small regulators inspectors (SRI TF)

- Setup of a specialist database
- Enable inbound and outbound secondments between inspection teams
- Training:
 - Organisation of common trainings on specific topics (see FS TF as an example)
 - Coaching Calls on specific topics (i.e. in cooperation with FS TF)

Establishment and first full year of existence of the IT TF



CEAOB – Inspections Sub-group (cont.) Current Workstreams and Achievements

Financial Services Task Force

- Analysis of banking and insurance related findings in CEAOB's Inspection Findings Database (not only for G-SIFIs exclusively)
- Analysis for improving audit quality and monitoring trends in findings, sharing experiences, and
 - Preparation of IFIAR inspection workshop February 2019,
 - Stakeholder dialogue (standard setters, supervisory authorities, audit firms and other organisations)
- Liaison with CEAOB International Auditing Standards Sub-group regarding FS specific input to comment letters for new audit standards
- Liaison with CAIM TF regarding input for new inspection programmes (i.e. ISA 540, Revenues)



CEAOB – Inspections Sub-group (cont.)

Current Workstreams and Achievements

Financial Services Task Force

- Training session for Smaller Regulators Inspectors Task Force in FS related topics (banking, insurance, inspection findings, IFRS 9)
- Planning and coordination of the annual meeting with the ESRB (Art. 12 EU-Regulation)
- Coordinating activities regarding inspection of financial services audits (cross-border)
- Determination and performance of thematic reviews
 - Thematic review on Key Audit Matters
 - Thematic review on loan loss provision



Colleges of Regulators

- Establishment of Colleges of Regulators (Art. 32 EU Regulation) for the four largest networks in Europe
- Up to twelve members in every College
- Facilitated by Cyprus, France, Germany and The Netherlands
- Standard objectives for all Colleges
 - Influence the firms to improve audit quality and challenge the “tone at the top”
 - Share inspection findings, best practices and experiences
 - Assess the consistency of firm wide procedures
 - Understand the culture of the network and member firms and whether that creates a challenge for improving audit quality
 - Increase consistent supervision of firms, including consistent inspection procedures (CAIM)

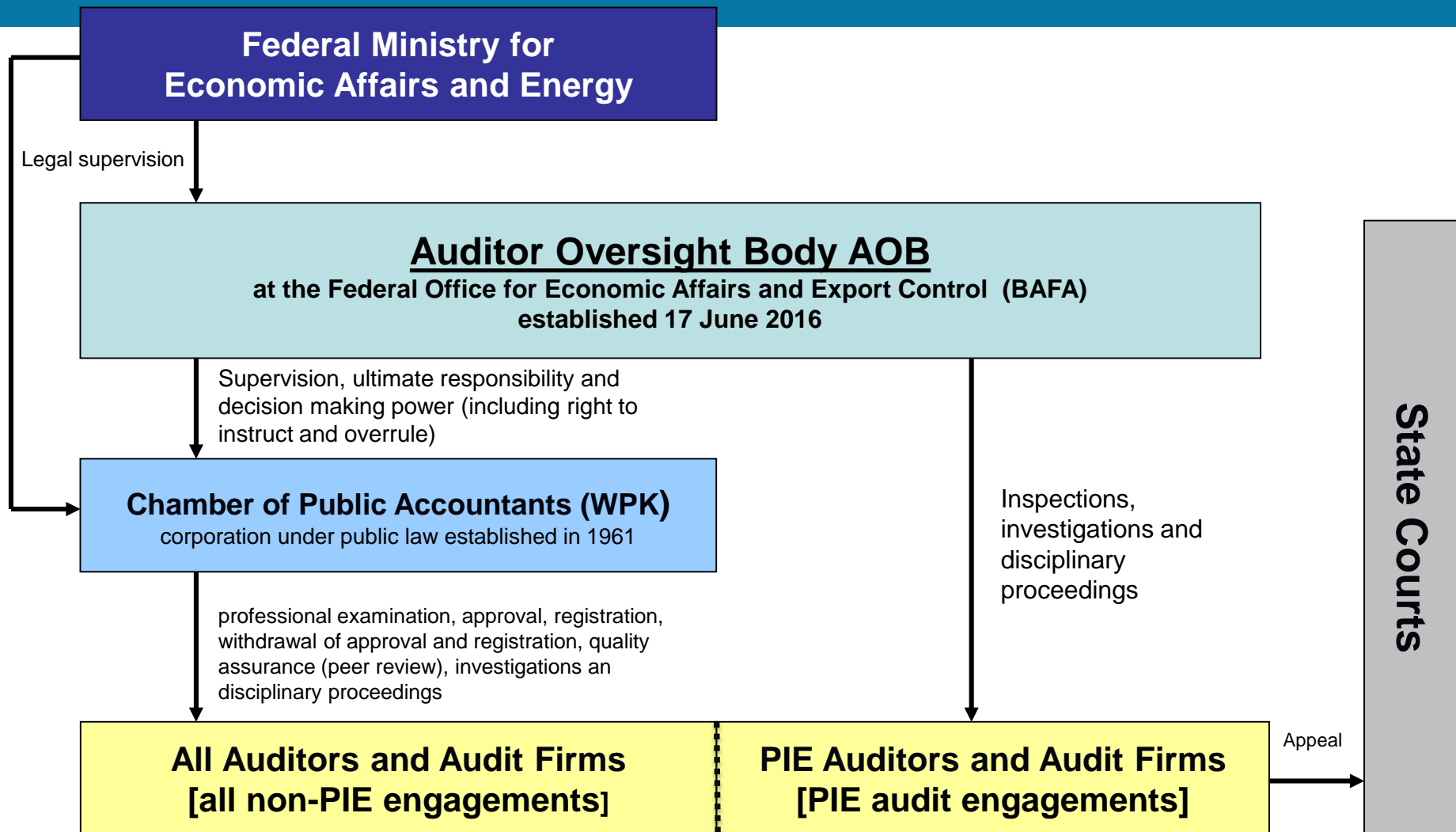


Colleges of Regulators (cont.)

- College Work Plans – current activities
 - Analyse database inputs
 - Analyse network activities regarding:
 - Root Cause Analysis
 - Data Analytics
 - Engagement Quality Control
 - Understand the approach regarding Key Audit Matters/Most Significant Assessed Risks of Material Misstatement
 - Understand the firm's approach to the implementation of the new Regulation in respect of independence requirements
 - Challenge: EU-View if managed on a larger or global level



How is Germany Applying the ARD? - Interaction of Key Players





German Auditor Oversight System: Statistics

Statistical information regarding the German audit market and the AOB (as of 31.12.18/year 2018):

- No. of licensed auditors: approx. 14.000
- No. of registered statutory audit firms: 3.230
- No. of PIE auditors: 74
- No. of inspections performed: 25
- No. of PIE: 1.080 (approx 50% banking and insurance industries)
- No. of audit engagements reviewed: 78
- Total number of staff on: 46 (including 16 inspectors incl. 2 IT specialists)



Auditor Oversight Body AOB

Directorate Inspections and Quality Assurance

Directorate Enforcement and Policy Matters

Division

Legal Issues
and
preventive
Oversight

Division

Inspections
(Financial
Services)

Division

Inspections
(Corporates)

Division

Technical
Oversight
WPK (Quality
Assurance)

Division

Policy Matters

Division

EU and
International
Affairs

Division

Enforcement

Division

Technical
Oversight
WPK
(Enforcement)
Market
Monitoring



Auditor Oversight Body AOB

- **Structure of the AOB within the overarching authority (BAFA):**
 - AOB is independent, but organisationally integrated into BAFA
 - Decisions in individual cases are taken by panels within the AOB
 - No board system anymore
- **Decision making process:**
 - Decisions taken by two Panels
 - Each panel consists of 5 knowledgeable members of staff of the AOB
 - Chaired by one member of the leadership team
 - At least two members must be lawyers
 - Decisions taken by simple majority
 - Rules of Procedure have been determined and adopted by the Federal Ministry for Economic Affairs and Energy
 - State courts are responsible for appeals only (appeal stages up to Federal Court of Justice)



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Also Interesting to know

- Investigations and sanctions against audit firms were introduced (was only possible against individuals)
- Enhanced transparency of supervisory decisions/sanctions
- Inspection reports remain confidential, i.e. no publication by AOB, but audit firm can provide full report on request by audit committees
- Potential to recruit knowledgeable and experienced staff (competitive contribution possible)
- Right to request information from audit committees about their performance and their relation with the auditor (if not publicly available) → Audit Committee Questionnaire
 - but: no oversight or enforcement of audit committees



Auditor Oversight Body AOB

Contribution in international cooperation:

- **CEAOB**
 - Chair and support to secretariat
 - All Sub-Groups plus
 - CAIM workstreams
 - Chair of Financial Services Task Force
 - Contribution to IT Task Force
 - All four colleges, PWC college as facilitator
- **IFIAR**
 - Nominated board member plus HRG Committee, Lead Task Force on IFIAR Core Principles
 - Global Audit Quality Working Group
 - Inspection Workshop Working Group
 - Enforcement WG
 - Standards Coordination WG



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Thank you for your attention!

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