
Terms of Reference for the Code's external audit process

Monitoring Group of the Code of
Conduct on Clearing and Settlement
(MOG)

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External audits under the Code

- Article 44 of the Code of Conduct:
 - Each organisation having signed the Code will "task their external auditor or another external auditor of the organisation's choice, to verify their compliance with the Code."
- The Commission's premise:
 - The task of the external auditor is to conduct an objective and independent assessment in order to provide an opinion on whether the organisation engaging the auditor complies with the commitments contained in the Code and its affiliated documents (i.e. Access and Interoperability Guideline)

Frame of reference – ISAE3000

- Many organisations, many auditors è need common, consistent and sound base for the assessment.
- International Framework on Assurance Engagements (IFAE) and the International Standard on Assurance Engagements (ISAE) 3000.
- Assurance engagement
 - "an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria".

Agreeing on the terms

- The external auditor is selected by the engaging party.
- The auditor and the engaging party shall agree on the terms of the engagement in an engagement letter.
- The engagement letter shall notably state that the auditor and the engaging party agree on sending the Self-assessment and Assurance reports to its national regulator(s) and the MOG.
- National liability provisions prevail.

Characteristics of the auditor

- The engaging party shall inform its national regulator and the MOG about the identity of its external auditor.
- The auditor should be external to the engaging party, be of good repute and have relevant experience of the financial sector. The auditor should also have appropriate education and professional qualifications.
- The auditor can be the same as the financial statements auditor of the engaging party.

The engagement

- The engagement will be performed with due professional care, independence, integrity, objectivity and confidentiality.
- To address threats to its independence, the auditor should comply with the IFAC Code of Ethics for Professional Accountants.
- The auditor shall obtain **sufficient appropriate evidence** on which to base its conclusion.

Responsibility - infrastructures

- The engaging party
 - Each year prepare a written **Self-assessment Report** where it outlines how it complies with the Code.
 - The Self-assessment Report should be prepared by management on a "comply and explain" basis.
 - The Self-assessment Report should contain a central conclusion, with the engaging party clearly affirming the extent to which it complies with the Code.
 - If the engaging party does not fully comply, the conclusion should detail the areas of non-compliance, explain the reasons and outline the measures undertaken to address the situation.

Responsibility - auditors

- The external auditor
 - The external auditor will provide an opinion on the engaging party's compliance.
 - The external auditor will prepare a written **Assurance Report** assessing the Self-assessment Report.
 - The auditor should base its conclusion on sufficient appropriate evidence so that its opinions in the report can be stated in a negative form (e.g. "Based on our work described in this report, nothing has come to our attention that causes us to believe that...").
 - If qualified, the report should outline the basis for qualifications, detailing the areas of non-compliance.

Timing and distribution

- **Timing**

- Annual reports.
- The reporting period could be either identical with the financial statement year-end or any 12 month reporting period chosen by the organisation.
- Partial audit for 2007 in view of the phased entry into effect of the Code.
- First full external audit assessment in 2008.

- **Distribution**

- The engaging party should send the Self-assessment Report and Assurance Report to its national regulator and the MOG within 90 days from the end of the reporting period.
- When sending the reports to the national regulator, the engaging party should attach the annual non-consolidated accounts (art. 42) and the data on costs and revenues (art. 43) required by the Code's section on service unbundling and accounting separation (Section V).