

CEAOB Inspections sub-group (ISG)

Terms of reference and work plan 2018-2019

1. Introduction

The Committee of European Auditing Oversight Bodies (CEAOB) rules of procedures state that each sub-group should prepare an annual work plan.

This document supplements the CEAOB rules of procedures, which states that the sub-groups shall operate according to their own terms of reference, which shall be in line with the CEAOB rules of procedure and subject to the CEAOB's approval. It has been approved by the Inspections sub-group members at the meeting in October 2017, prior to adoption by the CEAOB during the plenary meeting of November 2017. It contains the Terms of Reference (section 2), Work Plan (section 3) and detailed confidentiality requirements relating to the Findings Database (Appendix).

2. Terms of reference

2.1 Legal basis

To contribute to Article 29 of the Directive and Article 26 of the Regulation.

2.2 Mandate

The purpose of the sub-group is to further enhance the cooperation and consistency among CEAOB members on the subject of inspection activity and to have effective communications with the audit firms and other third parties, with the aim of supporting the objective of the CEAOB to improve audit quality and confidence in audits.

2.3 Composition

The composition of the sub-group is published on the CEAOB Website, as are details regarding the Chair/Coordinator, the Organising Committee and the task-forces of the sub-group.

Chair/coordinator

The sub-group will be facilitated by the coordinator until such time as a chair is appointed by members of the CEAOB.

Members

All competent authorities that are represented by a CEAOB member are entitled to be a member of the Inspections sub-group, including ESMA. Members may appoint a representative of their organisation to participate in the sub-group according to their level of expertise.

Observers

European and Economic Area (EEA) countries' competent authorities can be observers at the Inspections sub-group meetings (subject to approval of the CEAOB members). Non-EU and non-EEA countries' competent authorities (including Switzerland) are invited, on a case-by-case basis, to participate as observers, subject to the approval of the CEAOB members. The European Banking

Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) will be invited to each Inspections sub-group meeting as observers. Other parties can be invited to specific meetings on a case-by-case basis.

CEAOB Chair and Vice Chair

The CEAOB Chair and Vice-Chair (or any other representative from the European Commission) will be invited to join each meeting and participate elsewhere as appropriate.

2.4 Working arrangements

In light of the above, the members of the sub-group hereby agree to the following terms:

Chair/ coordinator

The Chair/ coordinator will be responsible for:

- Chairing meetings of the sub-group (certain meetings may be chaired or co-chaired by another member of the Organisation Committee in cases where it is their turn to organise the meeting).
- Overseeing the activities of the Organising Committee and chairing the relevant meetings (planning calls and meeting relating to organisation of a sub-group meeting may be chaired by the Chair/co-ordinator or another member of the Organisation Committee).
- Preparing the agenda and minutes of the Organising Committee meetings.
- Reporting to the CEAOB Chair and members on the activities of the Inspections sub-group and outcome of its meetings, either in advance or during the CEAOB plenary meetings.

The Chair/coordinator might delegate certain responsibilities to an appropriate representative.

Organising Committee

The sub-group shall have an Organising Committee composed of up to six sub-group members, who will be responsible for:

- Organising the sub-group meetings, including coordinating with the host CEAOB member and preparing the agenda and minutes of those meetings (each member of the Organising Committee will take this in turn).
- Preparing and submitting a Work Plan to the Chair of the CEAOB (updated annually) and updating the Terms of Reference for the sub-group (updated when needed).
- Managing the activities of the Inspections sub-group, including identifying topics for discussion at the meetings.
- Coordinating the activities within the sub-group (including CAIM and Financial Services and other task-forces), the interaction with other CEAOB sub-groups (in particular the Standards sub-group) and the activities carried out by the Colleges (as referred to below).

- Managing communications with third parties, including inviting the audit firms and any other external parties/ non EU members to meetings, as appropriate, and issuing press notices after each meeting.
- Delivering timely updates to the CEAOB secretariat regarding information of the Inspections sub-group that needs to be updated or added to the CEAOB website.
- Performing administrative matters related to the Wiki Platform, including updating for relevant information.
- Providing input to the CEAOB annual report on the activities of the sub-group.
- Dealing with any other administrative matters.

The Organising Committee will meet at least three times a year and will also participate in regular conference calls.

The Organising Committee will be able to make decisions relating to the organisation and content of the Inspections sub-group meetings.

Any member of the Organising Committee will need to commit to participating in the above tasks on an ongoing basis before becoming or remaining a member of the Organising Committee, having regard to the necessary commitment of resources, including staff time and travel budget.

Inspections sub-group meetings

The Inspection sub-group meetings will be chaired by the coordinator or another member of the Organising Committee.

The sub-group will meet at least twice a year. Meetings will be hosted, on a voluntary basis, by members of the sub-group in their own country in Europe. Members of the Inspections sub-group wishing to host a meeting should notify the Organising Committee of the desire to do so.

One or more representative(s) of each Inspections sub-group member and observer organisations can attend the meetings. Any restrictions on numbers (due to individual venue capacity) will be communicated by the Organising Committee prior to each meeting.

Decisions making arrangements and voting rights

The Chair/Coordinator and Organising Committee shall aim to seek consensus on all topics put forward for approval to the Inspections sub-group members. If matters for approval cannot be decided by consensus, decisions shall be taken by vote during the Inspection sub-group meetings and decisions shall be taken by a simple majority of the sub-group members representing a CEAOB member with voting rights. Each of the members of the Inspections sub-group have one vote each. ESMA, the CEAOB Chair, CEAOB Vice-Chair and the observers do not have voting rights. Decisions may also be made by written procedure (in accordance with Rule 12 of the CEAOB rules of procedure).

Task-forces of the Inspections sub-group

The Inspections sub-group can set up any task-force as necessary to consider any specific projects or areas of specialism which are intended to support the overall mandate of the Inspections sub-group. The current task-forces are as follows:

Common Audit Inspection Methodology (CAIM)

This task-force is responsible for developing CAIM, including the scope of its activities and the detailed work programmes for use by CEAOB members. It is headed by a Steering Group which comprises of up to 8 members. It also includes a Project Group which comprises of up to 12 members. Changes in scope and any new programmes are discussed with the Organising Committee before approval by the Inspection sub-group members.

Financial Services (FS)

This task-force is responsible for coordinating any activities in the Inspections sub-group that relate to sharing of information on inspection of financial services audits and communications to relevant third parties (EIOPA, EBA and ESRB). It comprises of up to 10 members.

Small regulators

This task-force is responsible for sharing ideas between smaller regulators. It is responsible for coordinating with smaller regulator inspector teams in a way that enables the identification of common issues and development of appropriate solutions that would achieve efficiencies and mutual benefits to all ISG members.

IT

The IT task-force is responsible for sharing experience between IT specialists in relation to approaches to the inspection of IT aspects of the audit (including data analytics) and discussion of common findings in this area.

Findings Database

The Inspections sub-group maintains a database of inspection findings (“Findings Database”) from its members to share knowledge and to identify any recurring findings from inspections that should be discussed with individual firms/networks.

Participation in the Findings Database is encouraged. Due to differences in the number of audit firms and audits subject to inspections in each jurisdiction and the frequency of inspections, the substance and frequency of contributions to the Findings Database may vary. Nevertheless, all members of the sub-group are invited and encouraged to participate in the database, subject to the confidentiality and access restrictions noted below.

The Findings Database contains information such as the name of audit firm, the network that the audit firm belongs to, general information about the timing of the inspection, the area inspected (firm-wide procedures, engagement review), general information about the size and activity of the relevant audited entity (in case of findings from an engagement review), relevant standards, general

description of the findings including key words, actions taken by the audit firm and/or the regulator and potential root-causes.

The Findings Database has been developed, hosted and administered by the German Auditor Oversight Body (AOB) (“the Administrator”). All rights in relation to the Findings Database’s software and hardware as well as licenses acquired in connection with the Findings Database remain with the AOB. For the time being, the AOB will bear all costs related to the development, hosting, administration and maintenance of the Findings Database. Unless otherwise agreed by the Members, the use of the Findings Database is free of charge.

All data are stored within the AOB’s IT environment under the authority of the Federal Republic of Germany. The Findings Database will be accessed via Internet via a secured website. The server and access to the Findings Database are secured in accordance with guidelines and principles developed by the German Federal Office for Information Security (BSI).

Confidentiality and access arrangements relating to the Findings Database are set out in the Appendix.

Communications with other CEAOB sub-groups

Certain matters discussed by the sub-group may be of interest to other CEAOB sub-groups. It is, in particular, anticipated that the Standards sub-group will be interested in the analysis of the Findings Database and whether the potential root causes relate to deficiencies in the standards. The Organising Committee will work with the Chair of the Standards Setting sub-group and any other relevant sub-groups in this respect.

Coordination with Colleges

Colleges of competent authorities (hereafter: ‘Colleges’) may be established according to Article 32 of the Regulation. Colleges are not part of the CEAOB and only competent authorities on audit oversight are entitled to participate in meetings of Colleges. Further details of this are set out in a separate Terms of Reference for the Colleges. Colleges have been set up to facilitate cooperation among competent authorities in relation to Deloitte, EY, KPMG and PwC.

The Organising Committee will coordinate with the colleges, to understand their work plans and activities and to help ensure that the activities are being performed on a consistent basis across the Colleges. They will invite College facilitators to attend and report to the sub-group members at least once a year. The Colleges will be allowed access to the Findings Database, in accordance with the confidentiality arrangements set out in the Appendix.

External communications

Any external communications, including press notices, will be drafted by the Organising Committee for approval by the Inspections sub-group members. Press notices will be sent to the CEAOB secretariat for inclusion on the CEAOB website.

The sub-group shall not issue any CEAOB view or position without due approval from the CEAOB membership.

Confidentiality procedures

Article 36 of the Directive requires procedures to protect information exchanged between competent authorities.

The members and observers of the sub-group shall keep confidential all information received or exchanged throughout the sub-group's activities according to their respective national legislation regarding confidentiality and data protection. Information shall be deemed confidential if it is subject to a national obligation of confidentiality in the country of origin.

Whenever activities of the sub-group entail exchange of confidential information relating to an audit firm, network or audit clients, access to such information will be restricted to those EU or EEA members (who are competent authorities) that can keep such information confidential to the extent required by the national obligation on confidentiality in the country of origin. This should be made clear in any communications to sub-group members that include such information.

Information communicated to audit firms by the sub-group or colleges should be done in a way that ensures that the information remains confidential and does not attribute individual findings to individual audited entities or countries (without the permission of the relevant competent authority).

When confidential information is discussed, the sub-group members can decide to restrict that part of the meeting to those members who are competent authorities.

Further confidentiality arrangements relating to the Findings Database are set out in the Appendix.

Note that this is subject to any changes in the confidentiality procedures at a CEAOB level.

3. Work Plan

Having regard to the Inspections sub-group mandate in the Terms of Reference, the following Work Plan sets out the priorities and activities for the period to the end of 2019. This is later than the period of 2018 stated in the CEAOB work programme, because this way a full cycle of meetings with the audit firms can be planned. Any activity of the sub-group beyond the period covered by the 2018 CEAOB Work Programme may be subject to revision after the adoption of the 2019 CEAOB Work Programme. The table below sets out the proposed timings of each activity between 2017 and 2019. Further detail on each activity is provided below the table.

	October 2017 (Dublin)	June 2018	Oct/Nov 2018	May/June 2019	Oct/Nov 2019
Development of co-operation and consistency among the members					
Update work plan					
Sharing and discussing inspection findings through analysis of the Findings Database					
Consistency of inspection methodology : CAIM file review programme development					
Update from Financial services task-force: sharing inspection findings and practices relating to audits of Financial Services entities					
Update on interactions with PCAOB and third countries					
Coordinated quality assurance reviews and joint inspections between members					
Data analytics and off-shoring update					
Update from smaller regulator task-force					
Update from IT task-force					
Discussion of audit quality Initiatives by the firms, including root cause analysis					
Sharing of inspection approaches					
Consideration of training needs of ISG members					
Communication with audit firms					
Dialogue with Big-4 firms	EY	KPMG	PwC	Deloitte	EY
Dialogue with the other firms		Mazars		BDO	
Interaction with other sub-groups					
Dialogue with standards sub-group					
Joint meeting with IAASB/ IESBA					
Co-ordination with Colleges					
Update from Colleges					
Other matters					
Input into annual CEAOB report					
Other matters from ISG members survey					

Development of cooperation and consistency among the members

Sharing and discussing inspection findings through analysis of the Findings Database

The Findings Database is an important aspect of the facility to exchange information between sub-group members and enables the identification of inspection findings by firm, for use by the sub-group and Colleges and discussion with the firms. It also enables review of potential root causes of the findings, which can assist in the discussions with the Standard Setters. Subjects to be considered for analysis and discussion include areas of common inspection findings and, for this year, sampling. Access to the database is subject to maintaining confidentiality requirements, which are considered in the Appendix. Consideration will be given as to whether any themes or trends arising from the analysis of the Findings Database could merit communication to the market monitoring sub-group, a separate discussion at the CEAOB plenary and/or or could be published by the CEAOB.

Consistency of inspection methodology (CAIM)

The Common Audit Inspection Methodology (CAIM) initiative has the aim of further improving the consistency of inspection practices. It is coordinated by the CAIM task-force, as set out in the Terms of Reference. Priorities will include updating the existing programmes, development of a guidance for the selection of audit files and audit areas for inspection and drafting of further sections of the file review programme. A more detailed work programme will be developed by the CAIM task-force.

Sharing inspection findings and practices relating to audits of Financial Services entities

The sub-group has a group of experts for the inspections of bank and other financial institution audits (“FS task force”), as set out in the Terms of Reference. The task-force facilitates the exchange of practices and findings amongst European audit regulators in relation to the audits of financial institutions and will provide a platform to engage with the European banking and insurance regulators (EBA, EIOPA and ESMA in Financial Services matters).

Consideration will continue to be given as to the involvement of the FS task force in meetings with the European Systemic Risk Board (ESRB) on the subject of globally systemically important financial institution (GSIFIs) (in accordance with article 12 of the Regulation).

Update on interactions with the PCAOB and other third countries

The meetings will include regular sharing of information of joint inspections with the PCAOB, given the benefits of understanding the different approaches adopted and will be extended to include consideration of joint inspections with other third countries.

Consideration of coordination of quality assurance reviews and joint inspections between members

Under the Regulation and Directive, the sub-group activities should involve coordinating quality assurance reviews following a request from the competent authorities of the Member States. The sub-group will need to consider the approach to this. The meetings will include sharing experience of joint inspections and considering whether more co-ordinated reviews can be carried out between inspection teams of ISG members.

Data analytics and offshoring update

The ISG will include conduct an annual survey of the use of data analytics and the level of off-shoring activity undertaken by the Big-4 audit firms in Europe. The results of the survey will be reported back to the sub-group meetings once a year.

Updates from smaller regulator and IT task-forces

Representatives from these task-forces will co-ordinate their activities, as set out in the Terms of Reference, and will update the members on them in the year,

Discussion of audit quality Initiatives by the firms

The members of the sub-group will discuss emerging initiatives by the firms that are important in enhancing audit quality, such as developments in root cause analysis, as well as the culture of the firms to support those initiatives.

Sharing of inspection approaches

The sub-group will also focus more on inspection approaches in different jurisdictions, with presentations by different sub-group members. This could include the use of case studies on individual inspection findings, details of areas of inspection focus, whether findings are publically reported and communications with Audit Committees by different sub-group members.

Consideration of training needs of ISG members

Consideration will be given to the training needs of ISG members and whether training sessions should be set up on a co-ordinated basis and how best to achieve this. This will include consideration as to whether a one day workshop for the sub-group could be held immediately before or after the annual IFIAR inspection workshop (when it is in Europe).

Communications with audit firms

The sub-group will have on-going dialogue with the audit profession, with a particular focus on the largest European networks of audit firms. Discussion topics will include the networks' initiatives in improving audit quality. The sub-group will also share findings and observations from inspections in relation to the networks using the Findings Database, in conjunction with the Colleges, subject to maintaining confidentiality of that information. The firms will be requested to follow up certain matters after each meeting attended in order to address any concerns the sub-group or relevant College has in relation to its progress in improving audit quality.

Discussions will focus on the four largest European networks of audit firms, with each of the Big-4 firms invited to attend a meeting every two years. The Colleges will be involved in the organisation of the meetings and be responsible for the presentations to the firms.

Meetings will take place with the other Big-6 firms (BDO and GT) every three years. The sub-group also intends to meet with the other European networks that audit a significant number of PIEs in several member jurisdictions (i.e. Mazars) every three years.

Interaction with Standards sub-group

The Inspections sub-group will liaise with the Standards sub-group to discuss the Findings Database. A joint meeting with the Standards sub-group and Inspections sub-group will be held once a year to share and discuss inspection findings relevant for consideration by the Standards Setters and to meet with the IAASB and IESBA.

Coordination with Colleges

Colleges have been formed for the four largest European networks of audit firms. The Colleges are responsible for preparing and facilitating the on-going dialogue with their respective firm. In addition to attendance at the sub-group meetings with the relevant firms by representatives of the sub-group, there will also be additional meetings between the College members and with the firms. Detailed work plans will be prepared for each College and the College facilitators will be asked to update the sub-group members on their activities and work plans once a year.

Input into CEAOB annual report

The activities of the sub-group will be summarised for input into the CEAOB annual report.

Other matters from ISG members' survey

ISG members completed a survey in the Summer of 2017 on their views of what should be covered in the ISG meetings. The results of this has been considered in this work plan.

Appendix

Additional confidentiality arrangements relating to the Findings Database

Confidentiality arrangements

The Database will not contain any names of audited entities or individuals. The Database will therefore not contain any personal data as defined in Article 2 a) of the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data¹.

The Database will contain case sensitive, confidential information about the performance and audit quality of individual audit firms and networks in the participating jurisdictions. All data are therefore information privileged and therefore have to be kept confidential.

Competent authorities who are members of the sub-group have the right to use database entries only for the purposes of fulfilling the objectives of the competent authority or those of the CEAOB or its sub-groups. Unless explicitly permitted by the Originator on request, a member shall not name the countries or organisations that relate to the findings in any communication with third parties, not even in relation to a local member of the same network of audit firms.

Access to database

If a competent authority which is a CEAOB member agrees to participate in the Findings Database the expectation is that it actively provides input to the widest extent possible in the interest of reciprocity in cooperation as well as in the interest of consistency and integrity of the database and its value to the sub-group. By participating a member agrees also that other members may use their input into the database for regulatory purposes.

Whenever activities of the sub-group entail exchange of confidential information, access to such information may be restricted to members that can keep such information confidential to the extent required by the national obligation on confidentiality in the country of origin.

Only members that are able to keep the information in the Database fully confidential in accordance with these Term of Reference will have full access to the Database, i.e. they are able to see all entries and fields in the database ("Full Access").

Members that will not be able to keep the information in the Database confidential to a level acceptable to the other members, e.g. because of national laws, will have limited access to the Database ("Limited Access"). Limited access means that the relevant user will not be able to enter/see the names of audit firms nor the network that they belong to in relation to any entry in the Database.

A competent authority which has designated a CEAOB member with voting rights and which is a member of the Inspection sub-group will be entitled to have access to the database. Any access by a

¹ Directive 95/46/EC will be replaced by Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC. The new regulation applies the same definition for personal data.

sub-group or College would need to be via those members. Once an EEA member has adopted the Regulation (EU) No. 537/2014, they will also be able to sign the database confidentiality provisions and then join the database. Non sub-group members, non EEA observers, the European Commission or any third parties will not have access to the database (other than Switzerland, which will have level 3 access, as shown in the table below).

For internal documentation purposes all members/ EEA observers (referred to as “Member(s)” below) will be asked to provide a statement in order to determine their individual level of access.

The different levels of access can be summarized as follows:

Level	Scope of Access	Condition
1	Full access to all entries and fields in the Database	Full guarantee of confidentiality by the Member
2	Limited access to entries and fields in the Database; names of audit firms and their networks are not shown	No full guarantee of confidentiality by the Member
3	Access to CAIM work programmes and key contact information only	Limited access for specific countries that do not have access to the Database otherwise (i.e. Switzerland)

User access

Access to the Database will be based on individual user credentials (e.g. User-ID and password). Each Member will submit to the Administrator a list of individuals (name and email address) that should have access to the Database (“users”). The list of users shall be confirmed annually by the Member. Each user will receive individual user credentials. Users will be prompted to change their passwords on a regular basis. Depending on the assigned access level/role the Member’s users will have either full access or limited access to the Database as determined for the Member in accordance with these Terms of reference. Members shall guarantee that no individual employed by or otherwise associated with an audit firm or a professional body have access to the Database. The Members shall guarantee that the individual user credentials are stored securely by all users in their sphere of responsibility. Members shall immediately inform the Administrator if they are aware of (a) any resignation of individuals that had access to the Database or (b) any leakage or non-authorized access.

Responsibilities for input and review of database information

Each Member is responsible for the completeness, consistency, clarity and correctness of its entries into the Database. Members can save entries with a draft status, i.e. the entry can be further edited and is not visible to other Members or the Administrator. Once an entry is finalised by the Member it will be saved with a preliminary status, i.e. the entry can be further edited, is not visible to other Members, but visible to the Administrator and subject to review for approval by a representative from the college of regulators for that firm (who is also a Member of the sub-group) or from the AOB if no college of regulators exists for the firm (“approver”).]

The approver will review all preliminary entries (first entries and future editing) for completeness, consistency and clarity and will consult a Member if it concludes that further clarification is necessary. The approver may either ask the Member to modify the entry or modify the entry as agreed with the Member. Once the review is finalised the Administrator will change the status of an entry to “approved”, i.e. the entry will be visible to all Members according to their respective level of access. If a Member wants to edit or delete an approved entry, the Administrator has to be informed of the respective entry number and will change the status to “draft”.

All rights in relation to entries remain with the respective Member (Originator), which includes the right to edit or delete an entry at any time. Notwithstanding the rights of the Originator, entries will be deleted on a regular basis after a certain period related to the date of the respective inspection; that period should usually not exceed 7 years.

Termination arrangements

At any time, a Member may decide to terminate its participation in the database. In addition, any failure to protect the confidentiality of information contained in the Database by a Member may lead to the immediate suspension of the Members access. The other Members will decide if and under what conditions the Member may receive access again. In case of a termination of participation or a permanent suspension of access all entries of the respective Member will be deleted with effect of the termination or permanent suspension.

At any time, the Members may decide to terminate the Findings Database. All entries in the Database will be deleted with effect of the termination of the project.