COMMITTEE OF EUROPEAN AUDITING OVERSIGHT BODIES

CEAOB 2024-037
Plenary of 19 & 20 November 2024
Adopted on 20 November 2024

CEAOB INSPECTION SUB-GROUP

Terms of reference (as of 20/11/2024)

Introduction

This document supplements the CEAOB Rules of Procedure, which state 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. The document has been drafted by the CEAOB Inspection sub-group (hereafter "the sub-group") and adopted by the CEAOB plenary meeting on 20 November 2024.

1.1 Legal basis

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

1.2 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.

1.3 Composition

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

Chair

The Chair of the sub-group is a representative of one of the competent authorities, appointed by the members of the CEAOB for a fixed term of four years with the option of re-appointment of up to another four years. Exceptionally, the Chair may be removed by a decision of the members of the CEAOB.

Organising Committee

The sub-group shall have an Organising Committee composed of up to six sub-group members (including the chair of the sub-group).

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 may be invited, on a case-by-case basis, to participate as observers, subject to the approval of the CEAOB. 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.

1.4 Working arrangements

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

Chair

The Chair will be responsible for:

- Chairing meetings of the sub-group (certain meetings may be chaired or co-chaired by another member of the Organising 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.
- 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).
- 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.
- Providing input to the CEAOB annual report on the activities of the sub-group.
- 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 might delegate certain responsibilities to an appropriate representative.

Organising Committee

The Organising Committee 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).
- 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, Financial Services, Training, IT and other task-forces), the interaction with other CEAOB sub-groups 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, issuing press notices after each meeting, and dealing with communications with audit firms that do not have Colleges (non-Big 4 firms).
- Performing administrative matters related to the Wiki Platform, including updating for relevant information.
- 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 chair 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.

Sub-group meetings typically include meetings with audit networks. Where observers request to attend a meeting between the sub-group and an audit network, approval will be granted by the ISG Chair on a case-by-case basis subject to the following requirements:

- Approval of observer status according to CEAOB policies applicable
- The agreement of the audit network on the attendance of the specific observer at the meeting and the sharing of meeting materials.
- Confirmation that the observer will adhere to all confidentiality requirements set out in both these terms of reference ,CEAOB rules of procedure and the Confidentiality Procedure of the CEAOB.

Decisions making arrangements and voting rights

The Chair and Organising Committee shall aim to seek consensus from the ISG members on all topics put forward for approval. If matters for approval cannot be decided by consensus, decisions shall be taken by vote during 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 operates on a project-by-project basis. Each project is led by a representative of an Inspection sub-group member who will constitute its project team and report to the Organising Committee. Changes in scope and any new programmes are discussed within 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).

Training

This task-force is responsible for identifying training needs for inspectors, establishing an annual training plan and coordinating the organisation of the trainings.

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 strongly encouraged. Due to differences in the number of audit firms and audits subject to inspection 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 actively encouraged to participate in the database, subject to the confidentiality and access restrictions noted below.

Given the importance of the Findings Database to the work of the sub-group, members are required to confirm in their individual membership profiles maintained on the Findings Database, whether they upload results to the Findings Database and the frequency of such uploads. Where results are not uploaded on at least a yearly basis members are required to set out the reasons why they are not uploading inspection results.

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 secure 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 anticipated that the International Auditing 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. Co-operation with the Market Monitoring sub-group will include considering ways for them to utilize the Findings Database information to help meet their objectives, and sharing information with the ISG on the outcome of that sub-groups' surveys, such as on the subject of Audit Committees.

Regarding the communication with the Enforcement sub-group, a dialogue should be established so that the ESG presents the outcome of enforcement cases on the findings identified by the inspectors.

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 communication or document to be published requires approval of the CEAOB membership in compliance with Rule 11. Sub-group communications without any CEAOB or sub-group view or position,

such as press notices (including infographics), can be published by approval of the sub-group. Documents to be published will be sent to the CEAOB Secretariat for inclusion on the CEAOB website.

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) and approved observers 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.

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 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.

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 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.

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

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-authorised 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.