

CEAOB International Auditing Standards Sub-group

Terms of Reference and Work Plan 2016/2017

1. Introduction

According to rule 13(4) of the Committee of European Auditing Oversight Bodies (CEAOB) rules of procedure, each CEOB sub-group should prepare an annual work plan.

This document supplements the CEOB 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 CEOB rules of procedure and subject to the CEOB's approval. The document has been drafted by the CEOB International Auditing Standards sub-group (hereafter "the sub-group") and adopted by the CEOB plenary meeting on 25 November 2016. It contains the Terms of reference (section 2) the Work plan (section 3) and detailed confidentiality requirements relating to the Findings Database (appendix).

2. Terms of reference

2.1 Legal basis

To carry out the tasks referred to in point (a) and point (d) of Article 30(7) of the Regulation 537/2014.

2.2 Mandate

The purpose of the sub-group is to further enhance cooperation and consistency in audit oversight in the European Union regarding the adoption and use of standards on professional ethics, internal quality control of audit firms and auditing¹ and to contribute to technical examination of international auditing standards², including the processes for their elaboration, with a view to their adoption.

2.3 Composition

The composition of the sub-group is published on the CEOB website.

Chair

The Chair of the sub-group is a representative of one of the competent authorities, appointed by the members of the CEOB for a fixed term of four years. Exceptionally, the Chair may be removed by a decision of the members of the CEOB.

Members

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

¹ ref. art 32.4-b Directive 2006/43/EC

² ref. art 26.2 Directive 2006/43/EC

Observers

EBA and EIOPA are invited to participate in the sub-group meetings as observers. European Economic Area (EEA) authorities' representatives may be invited to participate as observers, subject to the approval of the CEAOB members.

CEAOB Chair and Vice Chair

The CEAOB Chair and Vice-Chair (or appropriate Vice-Chair representative from the European Commission) will be invited to join each meeting and to contribute to the work of the sub-group.

2.4 Working arrangements

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

Coordination and organisation

The Chair will organise the meetings, chair the meetings, prepare agenda and minutes, coordinate the work and prepare an annual work plan.

Members of the sub-group may suggest topics for the agenda, for the Chair to consider their inclusion where possible.

Standards sub-group meetings

Meetings will be organised by conference calls on a regular basis. Depending on the needs, one call every two months or more will be organised. At least one annual in-person meeting of the sub-group will be organised, connected, if practicable, to an Inspection sub-group meeting, hosted voluntarily by a member of the CEAOB.

Confidentiality

The confidentiality rules applicable within the CEAOB are also applicable within this sub-group (including those referred to in Rule 16 of the CEAOB's rules of procedure).

Use of database information

The sub-group will use the information of the Inspection findings database for the fulfilment of its mandate. In rare circumstances where individual- or country- or firm-specific findings need to be discussed, only participants appointed by the members of the sub-group that are also members of the Inspection sub-group will be entitled to participate in the discussion.

The confidentiality rules applicable to the Inspection sub-group and to the findings database are also applicable to members of the Standards sub-group when the Standards sub-group uses the database information. Those rules are copied in the appendix.

Decision making arrangements

The Chair shall aim to seek consensus on all topics put forward for approval to the members of the sub-group. If matters for approval cannot be decided by consensus, decisions shall be taken by vote during sub-group meetings, by a simple majority of the sub-group members with voting rights in the

CEAOB. Each of those members of the sub-group has one vote. ESMA, the CEOB Chair, the CEOB Vice-Chair and the observers do not have voting rights.

Decisions may also be taken by written procedure. Rule 12 of the CEOB's rules of procedure shall apply *mutatis mutandis*.

Reporting to CEOB

The Chair will report on the sub-group's activities on a regular basis.

Communications with other CEOB sub-groups

Certain matters discussed by the sub-group may be of interest to other CEOB sub-groups. It is in particular anticipated that the Inspection sub-group will be interested in contributing to the analysis of the findings database and whether the potential root causes relate to deficiencies in the standards. The Chair of the Standards sub-group will work with the Chair of the Inspection sub-group and any other relevant sub-groups in this respect.

External communications

Any external communications including press notices will be drafted by the Chair for approval by the Standards sub-group. Press notices will be sent to the CEOB secretariat for inclusion on the CEOB website.

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

3. Work plan

The recurring activities of the sub-group will include:

- Exchanging information and experience on standard related issues, including on questions regarding the application or implementation of Regulation 537/2014 and Directive 2006/43/CE
- Discussing and sharing views on standard setting projects of relevance to the members, prepare views/comment letters for approval at CEAOB level
- Technical examination of ISAs, including the processes for their elaboration
- Dialogue with international standard setters (IAASB and IESBA) and the PIOB (Public Interest Oversight Board)
- Exchanges with other CEAOB sub-groups where appropriate
- Contribute to CEAOB report

The table below sets out the proposed timings for specific CEAOB Standards sub-group projects in 2017. Further detail on each project is provided below the table.

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Set up					
Finalise terms of reference and work plan for presentation to CEAOB					
Topics for 2017					
Prepare a panorama of the current use of ISAs in EU Member States					
Discuss relevant standards related issues regarding the application or implementation of Regulation 537/2014 and Directive 2006/43/CE					
Exchange information and experiences on ISAs dealing with audit reporting, to start a technical assessment of those ISAs with regards to EU directive/regulation and prepare a process for technical assessment					
Discuss developments in current IAASB projects and determine whether the CEAOB should engage on selected issues					
Analyse the database inspection findings pointing to deficiencies in ISAs					
Examination of processes for elaboration of ISAs					
Dialogue with standards setters					
Meeting with IAASB and IESBA leadership on an annual basis					
Meeting with PIOB leadership					
Interaction with other sub-groups					
Dialogue with CEAOB Inspection sub-group					
Other matters					
Input into annual CEAOB report					

Panorama of the current use of ISAs in EU Member States

The sub-group will prepare a survey on the use of the main IAASB pronouncements in the EU member states. A questionnaire will first be developed by the sub-group. Members of the CEAOB will be asked to respond to the survey regarding the auditing standards applicable in their respective countries, including any national "add-ons", "carve-out" to ISAs or specific national provisions applicable to auditors. A compilation of the responses will be prepared by the sub-group and presented to the CEAOB.

Discuss relevant standards related issues regarding the application or implementation of Regulation 537/2014 and Directive 2006/43/CE

The sub-group might be asked for input or advice on questions regarding the implementation of audit reform in Europe which are specifically related to standards. Depending on the topics, exchanges of views will be organised with a perspective to enhance awareness and consistency in responses envisaged by CEAOB members, or to draft responses to relevant questions, where appropriate.

Exchange information and experiences on ISAs dealing with audit reporting, to start a technical assessment of those ISAs with regards to EU directive/regulation and prepare a process for technical assessment

Following the changes in EU regulation and directive requirements regarding the statutory auditor's report on annual financial statements, the sub-group will prepare an assessment of ISAs dealing with audit reporting with regards to the new European provisions of the Regulation and Directive. The sub-group will prepare a process for performing a technical assessment of these ISAs in light of the criteria of the Audit Regulation and Directive. The conclusions of the assessment will be reported to the CEAOB. Next steps and topics will be envisaged after this assessment experience.

Discuss developments in current IAASB projects and determine whether the CEAOB should engage on selected issues

Other projects are currently lead by the IAASB on important standards related matters, including on ISA 540, ISQC1, ISA 220, ISA600, ISA315, professional scepticism, and data analytics. The sub-group will evaluate whether and how to monitor the current IAASB projects, and whether the CEAOB should engage on some of the topics during the development of the proposals by the IAASB.

Analyse database inspection findings pointing to deficiencies in ISAs

The CEAOB Inspection sub-group maintains a database on findings related to audit firms inspected in the EU. The participants who populate the data are requested to identify those findings which causes stem from deficiencies in the audit standards. The Standards sub-group will analyse those inspection findings with a perspective to discuss the causal factors with the standards setters. The input from the CEAOB Inspection sub-group and from the Colleges of regulators will be of particular value on this work stream.

Examination of processes for elaboration of ISAs

Adoption of ISAs at European level is subject to several conditions set by the Audit Directive (2006/43/EC). One of the conditions for adoption is related to the appropriateness of the process for elaboration of ISAs. The CEAOB might request the sub-group to provide advice on this matter in particular if the Commission proposes to adopt ISAs.

Dialogue with standard setters and with PIOB leadership

IAASB and IESBA leadership will be invited on an annual basis to discuss improvements of the standards and responsiveness to audit regulators expectations. Dialogue with the PIOB leadership will also be organised.

Interaction with other sub-groups

The Standards sub-group will liaise with Inspections 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, if appropriate, to share and discuss inspection findings relevant for consideration by the standard setters and to meet with the IAASB and IESBA.

Appendix - Additional confidentiality arrangements relating to the Findings Database

(extract – Inspection Sub-group Terms of Reference)

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 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 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 Terms 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 (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.