

TERMS OF REFERENCE OF THE EUROPEAN AUDIT INSPECTION GROUP (EAIG)

STATUS, PURPOSE, COMPOSITION, FORMAT AND CONTENT OF THE GROUP'S MEETINGS

Having regard to the work carried out by the EGAOB Inspection Subgroup since its creation in 7 July 2009; the proposal at the EGAOB meeting of 24 January 2011 that the EGAOB Inspection Subgroup continues to meet outside the remit of the EGAOB; pending a decision by the European Commission on the future status of the EGAOB in light of feedback received from the Green Paper consultation and as an interim solution, the representatives of European audit regulators have decided to continue in their cooperation, as an independent group, with no formal direct link with the European Commission or the EGAOB.

Purpose of the EAIG

The primary purpose of the EAIG is to create awareness of important issues and promote cooperation and consistency amongst European audit regulators on inspections. For this, it is necessary for the Group to undertake activities through sharing practices amongst its members and have discussions with third parties in relation to the topic of inspections.

The cross-border nature of audits and the increased integration of global audit networks clearly prove the need for such discussions. Further, the discussions are instrumental in fostering increased cooperation between European audit regulators as well as promoting greater consistency in supervision and enforcement amongst European audit regulators.

Content of EAIG meetings

The Group's meetings are designed to facilitate discussions of important issues identified by the EAIG members through their external inspections. In order to ensure and facilitate the Group's discussions, a Steering Group will help plan and lead the Group's discussions.

Activities of the EAIG

In determining the Group's activities, the members have considered the following:

- the cross-border nature of audits and the increased integration of global audit networks, and the necessity for European regulators to get together on a regular basis to discuss issues arising from on-going audit firm inspections;

- the importance and benefits of sharing information with competent authorities under Article 36 of Directive 2006/43/EC of 17 May 2006; and
- that close co-operation and information exchange between regulatory authorities are essential for the successful oversight of European and national audit markets.

The internal activities of the Group shall cover:

1. Exchanging findings for the purposes of discussions of current issues/findings in relation to inspections, including the development of a database of inspection findings
2. Identifying root causes of audit deficiencies – standards, policies, procedures; and
3. Discussions of inspection approaches, procedures, reporting and challenges/barriers to inspections.

The external activities of the Group shall cover:

1. Exchange of information on the Group's activities with the EGAOB;
2. Exchanges on specific points of interest with external bodies such as: other audit regulators, the European supervisory authorities (ESMA, EBA, EIOPA), professional organizations (e.g. ECG, EFAA, EGIAN, FEE), standard setting bodies (e.g. IAASB, IESBA) or other appropriate groups (e.g. IAASB CAG, IESBA CAG); and
3. Exchanges with audit firms on specific points of interest/issues arising at European level.

In light of the above, the members of the Group hereby agree, in principle and in practice, to the following terms:

ARTICLE 1 - MEMBERS OF THE GROUP

- 1.1 Each participant attending the Group meeting is a representative of the designated competent authority from the countries of the European Union ("EU") and the European Economic Area ("EEA") in the field of audit supervision.
- 1.2 Participation in the Group discussions may be extended by invitation, on a case-by-case basis, to include competent authorities from non-EU/EEA countries¹ ("non-EU/EEA member"), subject to the approval of the Group members. The participation of the non-EU/EEA member may be subject to a limited time period².

¹ Participation by any non-EU/EEA countries is limited to competent authorities from Europe - for example, the Federal Audit Oversight Authority (FAOA) from Switzerland.

² i.e. For as long as the EAIG maintains its status as an independent group.

ARTICLE 2 – RESPONSIBILITIES FOR GROUP MEETINGS

- 2.1 The Group meetings will be chaired, in a personal capacity, by one of the Steering Group members on a rotating basis.
- 2.2 The Chair and his/her staff will be responsible for preparing the Group meetings and for the development of the minutes of the meetings, in coordination with the other members of the Steering Group.
- 2.3 In advance of the relevant meeting, the draft agenda for each meeting, which includes items requested at the end of the previous meeting as well as themes identified in the findings survey, will be submitted to the Steering Group for approval before circulation to Group members.

ARTICLE 3 – FREQUENCY OF MEETINGS

- 3.1 The Group will meet on a regular (e.g. quarterly) basis. Additional meetings may be convened if and when appropriate.

ARTICLE 4 – EAIG DATABASE ON INSPECTION FINDINGS

- 4.1 The Group shall maintain a database on inspection findings from its members to share knowledge and to identify any recurring issues from inspections that should be discussed with individual firms.
- 4.2 To facilitate the processing and analysis of inspection findings in the database,, the following working procedures shall be applied for the production of meeting documents for discussion purposes:
 - Step 1: A Discussion Paper shall be developed and presented for initial discussions amongst the Group members. The document shall provide an initial summary and analysis of the survey results in relation to each auditing standard;
 - Step 2: The Discussion Paper shall be amended following initial discussions, with proposals for next steps, and presented for the approval of the Group;
 - Step 3: A summary presentation of the Group's analysis will be prepared for the purposes of communication to external bodies.
- 4.3 The database is confidential and restricted to members of the Group. The modalities with regard to members' access to database information on inspection findings shall be subject to conditions as set out in an Addendum.

ARTICLE 5 - CONFIDENTIALITY³

- 5.1 The members of the Group shall undertake to keep confidential all information received or exchanged throughout the 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.
- 5.2 Whenever activities of the Group entail exchange of confidential information concerning a supervised individual auditor or audit firm or their respective audit client, 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.

ARTICLE 6 – STEERING GROUP

- 6.1 The Group shall have a Steering Group composed of up to five European audit regulators who will be responsible for:
- Organizing and conducting Group meetings, which includes:
 - Managing the administrative and secretarial duties for the Group, including logistical arrangements for Group meetings;
 - In consultation with its Members, setting out the agenda for these meetings;
 - Coordinating the work carried out by the Group, including identifying common issues for discussions through assessments of collective inspection findings submitted by Group members;
 - Managing communications and relationships, including communications with Group members and external bodies.
- 6.2 The purpose of the Steering Group is to provide thought leadership on common issues to Group members, and is not a decision-making body that seeks to represent the views of individual members.

ARTICLE 7 - OPERATIONAL LINKS WITH THE EUROPEAN COMMISSION AND THE EGAOB

- 7.1 The European Commission shall be invited to attend the Group meetings as Observer, except when the Group discusses confidential matters relating to individuals and firms in the context of improving cooperation among European audit regulators.
- 7.2 Depending on the nature of the information, the Group will provide feedback to the European Commission and the EGAOB on its work and activities on a regular basis.

³ The term “confidentiality” shall include, amongst other, the notions of business confidentiality and professional secrecy.

- 7.3 The Group may request for specific agenda items to be included at EGAOB meetings, and where necessary, present documents to the EGAOB for the purposes of discussions. Any information exchanged or received from a third country member shall remain confidential within the Group and excluded from any feedback to the EGAOB.
- 7.4 Information deemed confidential under this Terms of Reference shall not be exchanged with the European Commission and the EGAOB.

ARTICLE 8 – COMMUNICATIONS WITH EXTERNAL BODIES AND AUDIT FIRMS

- 8.1 The Group may communicate with external bodies⁴ and audit firms on specific points of interest/working issues carried out by the Group. Any oral or written views communicated to external bodies shall indicate if the views are expressed on an individual or collective basis and presented without specifically identifying/naming the individual audit firms.

⁴ The Group may decide to exchange with external bodies such as: other audit regulators, the European supervisory authorities (ESMA, EBA, EIOPA), professional organizations (e.g. ECG, EFAA, EGIAN, FEE), standard setting bodies (e.g. IAASB, IESBA) or other appropriate groups (e.g. IAASB CAG, IESBA CAG).