

Special Audit Considerations Relevant to Financial Institutions

Rich Sharko, Working Group Chair
Marc Pickeur, Co-Chair

IAASB Meeting
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Financial Institutions Working Group (FIWG)

- Rich Sharko (Chair)
- Marc Pickeur (Co-Chair)
- Ron Salole (IAASB member)
- Abhijit Bandyopadhyay (NSS, India)
- Emilio Pera (Practitioner, South Africa)
- Pat Sucher (Regulator, UK)
- *Member with an insurance background - TBA*

Objective Agenda Item

- To receive a briefing on audit issues relevant to banks via a panel session and an update on the FIWG activities to date
- To provide input on issues identified thus far and areas for further exploration

Areas that FIWG Intends to Cover

- Relationship between auditors and Financial Institution (FI) supervisors
- Specific audit issues relevant to FI
- Consideration whether identified issues (e.g. on ISA 540) are also applicable to audits of other entities.

Outreach to Date

- Financial Stability Board
- Accounting Experts Group of the Basel Committee on Banking Supervision (BCBS)
- International Association of Insurance Supervisors (IAIS)

Outreach – Key Points

- Adoption of IFRS 9, finalization of the IASB's insurance contracts project may require specific focus from the IAASB
- The role and use of experts in the audit of financial institutions needs to be a focus area
- The importance of the IAASB engaging with other stakeholders such as the IFIAR and the PCAOB
- The importance of an auditor-regulator dialogue

Panel Session

Panelists:

- Kumar Dasgupta, Technical Director, IASB
- Pat Sucher, Technical Specialist-External Audit and Assurance Bank of England, Member of the Basel Audit Sub-Group
- Jean-François Dandé, Partner, KPMG

Jean-François Dandé

Partner

KPMG

Features of the Banking Industry that Impact the Audit

- A standardized internal control framework governed by the Banking Supervisor
- A risk culture
- IT is critical from FO to accounting
- Complex transactions and activities
- Valuation / estimates: significant areas
- Regulatory constraints that impact the financial statements

Current/new challenges for the auditor

- Accounting standards that add complexity to complexity
- New fair value developments
- Interference between accounting and regulatory
- IFRS 9 developments
- Expectations from clients/market in the audit of prudential data

Questions? Comments?

Three Phase Approach

- Phase 1: Identifying all relevant issues and topics that warrant further exploration
- Phase 2: Development of guidance to address issues specific to FI audits
 - IAPN on the External Auditor/FI Supervisory Relationship
 - IAPN on Special Audit Considerations Specific to FI
- Phase 3: Possible amendments to ISAs (e.g. ISA 540)

Phase 1: Issues Identification

- WG is informed by BCBS's letter, which highlighted
 - Stronger quality control requirements for banks
 - Going Concern issues for banks
 - Strengthening the use of professional skepticism
 - Understanding the entity and its environment
 - Communications with TCWG
 - Disclosures issues of specific importance to banks
 - Issues specific to ISA 540, e.g. loan loss provisioning

Phase 1: Issues Identification

- Dialogue started with IAIS for insurance related issues
- Collecting and reviewing national/regional publications and laws to assist in identifying issues that may warrant further investigation at the global level
- Further stakeholder input via individual meetings, forums, roundtables, or discussion papers

Matter for IAASB Consideration

- 1) The IAASB is asked to share its views on the process for identifying issues outlined above. The IAASB is also asked to comment on what additional avenues could be used to reach out to stakeholders

Phase 2: Possible Guidance on Issues Specific to Financial Institution Audits

- Two IAPNs are proposed:
 - The relationship between the external auditor and the supervisory authority
 - Special audit considerations specific to financial institutions
 - Issues to be covered include loan loss provisions under an expected credit loss model and the use of the work of experts, particularly actuaries

Matters for IAASB Consideration

- 2) What views do members have on the FIWG's proposal to pursue IAPNs in the first instance, including on:
 - The proposed IAPN on the external auditor/financial institution supervisory relationship
 - The proposed IAPN on special audit considerations specific to financial institutions
- 3) Are there other aspects of the audit of financial institutions that should be considered for guidance?

Phase 3: Amendments to ISAs

- Consideration of issues identified from Phases 1 and 2 and whether there is a need for an authoritative response:
 - Are the issues identified unique to financial institutions or do they have broader implications for other entities
 - How to maintain proportionality of the ISAs while strengthening the audits of FIs
- Additional issues, including professional scepticism, acc. estimates not identified as significant risks, fraud, and third party pricing sources

Phase 3: Amendments to ISAs

- How to ensure that all issues are captured?
 - Discussion Paper to stimulate debate and reactions from key stakeholders
 - Further outreach as needed including GPPC, Forum of Firms?

Matter for IAASB Consideration

- 4) How best can the IAASB inform itself about the issues that should be considered in this phase of the project? In particular, does the IAASB support the notion of a Discussion Paper to stimulate debate?
- 5) Are there other issues that should be considered for an authoritative response?

Timeline 2015

- September IAASB and CAG
 - Discussion on IAPN on relationship between the auditor and FI supervisors
 - Project Proposal on the revision of ISA 540
 - Further consultation on issues that should be addressed
- December IAASB meeting
 - Discussion/approval on IAPN on the relationship between the auditor and FI supervisors
 - IAASB discussion on IAPN on the audit of banks and insurers
 - IAASB discussion on issues in ISA 540
 - Preliminary input on draft Discussion Paper

Next Steps

- WG's initial discussions to focus on:
 - What is a FI?
 - Does it include, for example, pension funds? Other market participants subject to lighter-touch prudential oversight?
 - Who are the IAPNs aimed at?
 - Auditors of the largest FIs (SIFIs)?
 - All auditors of FIs?
 - Auditors of smaller FIs?

Comments? Questions?



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