



# External Audits of Banks; and Guidance on accounting for expected credit losses

**Presentation to IAASB**

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# Basel Committee

- Guidance on External audits of banks
  - Background
  - Topics
    - Audit committees and external audit
    - Auditor-supervisor relationship
    - Expectations of bank audits/Letter to the IAASB
- Guidance on accounting for expected credit losses
  - Background
  - Topics
    - Principles for credit risk practices
    - IFRS appendix on robust implementation of IFRS 9

# Basel Committee: External audits of banks

- Topics

Auditor-supervisor relationship

- Objective of enhancing supervision of the banking sector;  
and

- Also contribute to the quality of external audits

- Covers appropriate communication at level of individual bank and collectively; areas for communication; and duty to report certain topics.

- Safe harbour for statutory auditors in communicating with banking supervisors

# Basel Committee: External audits of banks

- Topics continued/
  - Expectations of bank audits/letter to IAASB e.g.
    - Quality control
    - Auditor scepticism
    - Identifying and assessing risks
    - Significant risks
    - Audit of accounting estimates (fair value estimates, loan loss estimates and disclosures)



# Basel Committee: Guidance on accounting for expected credit losses

## Objectives

- To provide banks and supervisors with guidance on the supervisory requirements for sound credit risk practices affecting the assessment and measurement of allowances;
- To encourage a high quality, robust, and consistent implementation and on-going application of an ECL accounting model for lending exposures (loans, guarantees and commitments). The guidance will not deal with debt securities;
- To emphasize the need for timely and appropriate recognition of credit losses and that credit risk builds in a portfolio/pool and increases earlier than when cash shortfalls are experienced.
- It outlines what is a robust application of accounting standards

# Basel Committee: Guidance on accounting for expected credit losses (ECL)

## IFRS Appendix – supervisory requirements specific to key issues related to the implementation of IFRS 9 ECL model

A1. Measurement of the allowance amount equal to 12-month ECL

A2. Assessment of significant increases in credit risk

A3. Use of practical expedients/simplifications

# Basel Committee: expectations for external audit and IFRS 9

- Implementation of IFRS 9: implications for audits of banks
  - Adequate systems and controls for implementation of IFRS 9
  - Estimates under ECL will be based on more forward looking information
  - Significant risks
  - Range of estimation uncertainty
  - Use of experts - credit risk expertise
  - Role and integration of centralised data analytics
  - Are the numbers/disclosures reasonable overall?