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## **External Audits of Banks**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the Consultation External Audits of Banks and would like to submit the following position:

### **Principles 12 and 14:**

Effective relationship of external auditor and supervisor; there should be open, timely and regular communication between the banking supervisory authority, the audit firm and the accounting profession as a whole on key risks and systemic issues as well as continuous exchange of views on appropriate accounting techniques and auditing issues.

We support the initiative to discuss and formulate the scope and modalities of the cooperation between supervisory authorities and the external auditor on a holistic basis. However, we would like to point out, that the involvement of auditors within the supervisory system must not be in contradiction to rules developed by the IFAAC as well as European standard setters; In particular the basic principles of independence, professional secrecy and professional responsibility must be respected and not undermined.

Therefore, the cooperation between auditors and supervisors shall be predominantly based on ongoing and regular exchange of information and important findings on ad-hoc reporting. Yet, any kind of continuing and comprehensive reporting and cooperation shall be avoided and a clear segregation of duties between the parties involved respected.

With respect to the rather far reaching "guidance" within Annex 2, which includes inter alia a very close cooperation between supervisors and auditors at the planning stage and pre-closing issues, we are concerned about the given long term effects and implications this might have. It must be avoided, that external auditors could be seen as mere extension of the supervisor, thus leaving aside the above mention professional principles.

### **Principles 4, 7 and 8: quality control, appointment and independence of external auditor**

The Basle document shall respect the proven system of other audit systems for decentralized audit for savings banks and cooperatives as they are implemented within and respected by the EU and its Member States. There shall be no additional requirements or rules which could

interfere with those audit systems. This should also be in line with the proportionality principle as outlined in the consultation paper under paragraph 11.

Unfortunately, the committee's recommendations lack clearness how regulatory bodies should address the scalability of these principles with respect to the different types of banks and differences in national regulatory frameworks for accounting, auditing and governance structures. Just classifying all banks by their nature as systematically important does not reflect the variety of the banking sector.

#### Specific remarks:

Para 11: the proportionality principle must be kept in mind so that rules for listed companies are not applicable for non-listed companies on the same basis.

Para 14: "performance audit" is a key element of audit within the cooperative system. We wonder whether the definition of "financial statement audit" and "statutory audit" includes performance audit.

Para 21: we appreciate the cooperation between supervisors and audit oversight body. Yet, a clear segregation of duties must be kept in mind.

Para 25: ISA Standards should be developed on and adapted for a European level before transposing them into national applicable law.

Para 36: we reject the proposed ability of supervisors to influence the competence requirements for external auditors. This should be subject to the regulator only and not transferred to supervisors.

Para 44: we would like to point out, that the rotation of members has been a highly disputed issue due to its negative implications for the early intervention role of external auditors within the discussions on a European level. The provisional solution as defined by the legislator should be respected.

Para 47: this provision is unclear as it leaves room for interpretation. Providing advice to the management should still be possible within the given legal framework.

Para 53: this provision is in contradiction to para 11, see above.

Para 56: what is meant by the term "network"? As this is unclear, the provision to introduce specific quality control processes might be problematic. The term "network" must not differ from the network term on a European level as different definitions lead to legal uncertainty.

Para 57: giving the supervisor access to the auditor's working paper blurs the responsibilities between supervisors and audit oversight bodies. This should be avoided and a clear separation of responsibilities ensured.

Para 103ff: we would like to stress that this principle is in contradiction to some audit systems established in some Member States (see above). National specificities should be therefore taken into account.

Para 112ff: the proposed principle does not sufficiently consider the statutory characteristics of the audit organizations of cooperatives and savings banks arising on from the membership-based legal status of the auditing associations (non-profit registered association). These special features of auditing associations resulting from their legal nature and the lack of self-interest are recognized in the EU-Directive 2006/43/EC (recital 11) and should therefore be taken into consideration.

Para 146: We support the wording that each party - external auditor and supervisor - should not use the work of the other as a substitute and that clearly defined responsibilities are established. We would like to emphasize that any further reaching cooperation may come with the risk that the auditor may appear as mere extension of the supervisor (see above principles 12 and 14)

Kindly give our remarks due consideration.

Yours sincerely,

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