



Tel: +1 212 885 8000  
Fax: +1 212 697 5076  
@: bdo@bdointernational.com  
www.bdointernational.com

BDO International Limited  
Contact:  
100 Park Avenue  
New York, NY 10017-5001  
United States of America

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Secretariat of the Basel Committee on Banking Supervision  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

## **BIS Consultative Document - External Audits of Banks ("the document")**

Dear Sirs

BDO welcomes the opportunity to comment on the proposed guidance set out in the document. We fully support the establishment of principles which can assist supervisors, audit committees and external auditors discharge their responsibilities to contribute to financial stability and enhanced audit quality.

We support the majority of the principles outlined in the document and in particular the focus on enhancing audit quality and the role that audit committees and supervisors as well as external auditors can play.

We set out below our general comment on the structure of the document followed by our detailed comments.

### **Structure of the document**

The document rightly focuses on audit quality and refers to selected requirements in both the International Standards on Auditing (ISAs) and the Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA Code). We strongly support the intention behind the focus on the importance of audit quality but believe that the structure of the document could be improved by clearly setting out what is already established in ISAs and the IESBA Code and what is additional to the existing requirements. This will provide clarity for supervisors, auditors and banks as to what is a specific requirement of the ISAs, what constitutes guidance and what constitutes additional supervisor expectations in the context of auditing a bank.

### **Detailed Comments**

*Principle 1: The external auditor of a bank should have banking industry knowledge and competence sufficient to respond appropriately to the risks of material misstatement in the bank's financial statements and to properly meet any additional regulatory requirements that may be part of the statutory audit.*

We support this principle.

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*Principle 2: The external auditor of a bank should be objective and independent in fact and appearance with respect to the bank, consistent with the more stringent requirements applicable to public interest entities in internationally accepted ethical standards.*

We agree that objectivity and independence is fundamental to an effective audit. To reflect the fact that internationally banks will vary in nature according to their size, complexity and idiosyncratic risks we believe that a more practical approach would be to establish a rebuttable presumption that all banks are public interest entities. In the event that the presumption is rebutted the audit firm should consult with the supervisor. This will allow for the proportionality concept to be applied to very small banks and also encourage effective communication between supervisors and auditors.

*Principle 3: The external auditor should exercise professional scepticism when planning and performing the audit of a bank, having due regard to the specific challenges in auditing a bank.*

We support this principle.

*Principle 4: Audit firms undertaking bank audits should comply with the more stringent requirements on quality control applicable to listed entities in internationally accepted quality control standards, having due regard to the complexity of a bank audit.*

We support the sentiment underpinning this principle but note that it goes beyond the requirements of ISAs. We refer to our response under Principle 2 that the establishment of a rebuttable presumption for the application of listed entity quality control requirements for bank audits.

*Principle 5: The external auditor of a bank should identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the complexities of banking activities and the need for banks to have a strong control environment.*

We agree with this principle. As a drafting point we would suggest that in paragraph 60 the word extensive be replaced by sufficient. We accept that tests of control would ordinarily be carried out on a bank but whether they are extensive will be dependent on the size, complexity and operations of the entity.

*Principle 6: The external auditor of a bank should respond appropriately to the significant risks of material misstatement in the bank's financial statements.*

We support this principle.

*Principles 7, 8, 10 and 11*

*7: The audit committee should have a robust process for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor.*

*8: The audit committee should monitor and assess the independence of the external auditor.*

*10: The audit committee should have effective communication with the external auditor to enable the audit committee to carry out its oversight responsibilities and to enhance the quality of the audit.*

*11: The audit committee should require the external auditor to report to it on all relevant matters to enable the audit committee to carry out its oversight responsibilities.*

We support these principles and the clarification of the role and responsibility of the audit committee in the external audit process.

*Principle 9: The audit committee should monitor and assess the effectiveness of the external audit.*

The document introduces the concept of sharing with the audit committee “circumstances where the audit engagement partner’s conclusions differed from those of the engagement quality control reviewer”. We do not support this proposal. ISA 220 requires audit firms to have processes and protocols in place to resolve differences of opinion between the engagement partner and the EQCR such that an audit opinion cannot be issued with any unresolved differences. We believe that attributing opinions to individuals on the engagement team is not something that would enhance audit quality and indeed may inhibit the robustness of the EQCR review. We do believe it is important for the audit firm to discuss with the audit committee alternative views and approaches that have been considered in arriving at a collective opinion.

*Principles 12 and 13: The supervisor and the external auditor should have an effective relationship that includes appropriate communication channels for the exchange of information relevant to carrying out their respective statutory responsibilities.*

*The external auditor should report to the supervisor matters that are likely to be of material significance to the functions of the supervisor.*

We are very supportive of establishing effective communication channels for the exchange of information between the supervisor and external auditor. We believe that the principles should focus as well on the two way nature of the relationship and that there is a requirement for the supervisor to provide information to the external auditor if it is relevant to their audit. Effective two way sharing of information will contribute to enhanced audit quality.

*Principle 14: 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 a continuous exchange of views on appropriate accounting techniques and auditing issues.*

We fully support the open sharing of risk and systemic issues between supervisors and the accounting profession. We have engaged in this communication in a number of jurisdictions and will continue to do so.

*Principles 15 and 16: There should be regular and effective dialogue between the banking supervisory authority and the relevant audit oversight body. The banking supervisory authority and the audit oversight body should observe appropriate confidentiality requirements when sharing information.*

We agree with these principles but believe for this to be effective for the system as a whole appropriate mechanisms and protocols for the sharing of information are established. We also believe that engagement with external auditors at an appropriate point is important to ensure that there is a full understanding of the key issues arising.

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We appreciate the opportunity to comment on the document and hope that our comments and suggestions will be helpful in your deliberations. Please contact me should you wish to discuss any of these comments.

Yours faithfully,

BDO International Limited

Wayne Kolins  
Global Head of Audit and Accounting