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21 June 2013

By email: baselcommittee@bis.org

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

Consultation on External Audits of Banks

We refer to the consultative document on the “External Audits of Banks” published by the Basel Committee on Banking Supervision (BCBS) in March 2013.

On behalf of our members, we write to provide our views on the proposals in the consultative document as set out in the Appendix.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact our Assistant Manager, Mr. Timothy Tam, at (852) 2526 6080.

Yours faithfully

Boey Wong
Secretary

Enc.

cc. Ms. Karen Kemp, Executive Director (Banking Policy), Hong Kong
Monetary Authority

Chairman Standard Chartered Bank (Hong Kong) Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Secretary Boey Wong

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Appendix: Comments on BCBS Consultation on External Audits of Banks

SN	Principle	Paragraph & Page no.	Clarification and comments
1	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.	Para 48 (page 11)	<p>We suggest replacing the word “<i>preferable</i>” with “<i>more appropriate</i>” to the following sentence in paragraph 48.</p> <p>“Professional skepticism should manifest itself not only through the auditor obtaining corroborating evidence for management’s assertions, but also challenging management’s assertions, actively considering whether there are alternative accounting treatments that are <i>preferable more appropriate</i> to those selected by management, and documenting the approach, the evidence obtained, the rationale applied and the conclusions reached.”</p>
2	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.	Para 60 (page 13)	<p>We suggest replacing the word “<i>extensive</i>” with “<i>appropriate</i>” to the following sentence in paragraph 60.</p> <p>“As a result, the external auditor of a bank should perform <i>extensive appropriate</i> tests of controls over financial reporting to assess whether, and to what extent, the auditor can rely on them.”</p>
3	Principle 6 The external auditor of a bank should respond appropriately to the significant risks of material misstatement in the bank’s financial statements	Para 79(e) (page 17)	<p>We appreciate the importance of external auditors being alert to any likelihood that the treatment of certain items in the financial statements could be influenced by management bias towards a desired regulatory outcome and that this should be taken into account in the external auditors’ risk assessment of the bank.</p> <p>However, the sentence in paragraph 79(e) of the consultation paper: “Large differences between provisions for accounting purposes and for regulatory purposes may indicate a risk of material misstatement of the accounting provision.” is potentially misleading as the bases for accounting and regulatory provisions can be fundamentally different. We therefore suggest that this sentence is deleted.</p>
4	Principle 7	Para 103-139	We generally support the principles proposed in the consultative document regarding the audit committee’s responsibilities in relation to the oversight of, and its relationship with, the external

<p>The audit committee should have a robust process for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor.</p> <p>Principle 8</p> <p>The audit committee should monitor and assess the independence of the external auditor.</p> <p>Principle 9</p> <p>The audit committee should monitor and assess the effectiveness of the external audit.</p> <p>Principle 10</p> <p>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.</p> <p>Principle 11</p> <p>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.</p>	<p>(pages 22-27)</p>	<p>auditor.</p> <p>However, it is common for wholly owned subsidiaries of banking groups to appoint the same external auditor as their parent company. We therefore suggest that, to the extent that the responsibilities as proposed in Principles 7 to 9 are properly discharged at the holding company or group's audit committee, wholly owned subsidiaries can, to a large extent, rely on their overall group's process of selection, monitoring and assessment of the external auditor as long as there are consistent group wide policies on using external auditors and the group process for selection, monitoring and assessment of the external auditor includes appropriate feedback from the subsidiaries.</p>
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