



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

21 June 2013

Dear Ladies and Gentlemen,

**Basel Committee on Banking Supervision (the "Committee") - Consultative Document
'External audits of banks' (the "Document")**

We appreciate the opportunity to comment on the Basel Committee on Banking Supervision's consultative document on 'External audits of banks' which sets out supervisory expectations of how:

- external auditors can discharge their responsibilities more effectively;
- audit committees can contribute to audit quality in their oversight of the external audit;
- an effective relationship between the external auditor and the bank supervisor, which allows greater mutual understanding about the respective roles and responsibilities of supervisors and external auditors, can lead to regular communication of mutually useful information; and
- regular and effective dialogue between the banking supervisory authorities and relevant audit oversight bodies can enhance the quality of bank audits.

Following extensive consultation with members of the PwC network of firms, this response summarises the views of member firms who commented on the Document. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In addition to the comments provided in this letter, we also concur with the comments provided to you in the response, dated 21 June 2013, prepared by representatives of the six networks comprising the Global Public Policy Committee, including PwC.

Overall comments

We support the establishment of principles to guide the interactions between external auditors, audit committees, audit oversight bodies and bank supervisors with the objectives of enhancing audit quality, stability of the banking system and fostering the safety and soundness of individual banks. In doing so, we acknowledge the importance of the banking sector to the global economy and the emphasis on improving audit quality. We believe that the implementation of appropriate principles, tailored to reflect the differences in national institutional, legislative and regulatory frameworks can assist in achieving those objectives. In addition, such principles should be designed with sufficient flexibility to respond to the diversity in size, complexity, structure, economic significance and risk profile of different banks.

We support many of the principles outlined in the Document and believe they will provide particularly useful guidance for external auditors and bank supervisors with less experience of auditing or regulating banks respectively, while also reiterating best practices for all jurisdictions. There are,

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however, areas in the Document which we believe could lead to misunderstanding, could result in unnecessary work effort in some circumstances, or that may be impracticable.

We also observe that certain matters addressed in the Document reflect areas that are currently being considered, and may be best addressed, by other global bodies e.g., audit regulatory authorities or the International Auditing and Assurance Standards Board ("IAASB"). Contemporaneous with the release of the Document, the Committee has issued a letter to the IAASB describing suggested enhancements to International Standards on Auditing ("ISAs") where the Committee considered that certain ISAs are not absolutely clear, lack sufficient application guidance, or have gaps in the requirements. We believe that the letter to the IAASB provided helpful clarity around your intent with respect to the guidance in the Document and its interaction with ISAs and fully support your view that it is appropriate for the IAASB, as the body responsible for setting international standards and guidance for external auditors, to consider these suggestions in the context of maintaining ISAs that are broadly applicable to all industries, including the banking sector.

In that context, we believe that, to avoid confusion, the Document needs to be very clear when:

- (i) quoting directly from existing requirements of ISAs and Ethical Standards (collectively "Standards");
- (ii) setting out the Committee's interpretation of how existing requirements of the Standards would typically be discharged by external auditors of a bank;
- (iii) making recommendations, or setting out expectations of the Committee, that go beyond the requirements of the Standards and that the Committee might wish to see introduced; and
- (iv) making recommendations that relate to assurance on regulatory information or other supervisory expectations, including communications with bank supervisors, that are outside the scope of the financial statement audit.

The way that much of the content of the Document is currently presented, in particular the extensive use of the potentially ambiguous word 'should', combines all of the above with no clear distinction. This risks creating misunderstandings between external auditors, audit committees and bank supervisors. We have identified within the appendix to this letter examples of specific paragraphs in the Document that blur the requirements of the Standards with other recommendations of the Committee or that could be interpreted as extending the scope of the financial statement audit. We agree that, in some areas, additional guidance on how the requirements of ISAs are to be addressed in the context of the banking sector would be useful. We consider that such guidance should be addressed by the IAASB ideally through development of a revised International Auditing Practice Note (IAPN) or, if this is not feasible, through a clearer articulation in this Document with endorsement by IAASB.

We set out below other comments areas where we believe useful clarification could be made to the Document.

The designation of all Banks as Public Interest Entities

The Document applies the Public Interest Entity ("PIE") designation to all banks regardless of the size, complexity, structure, economic significance or risk profile of the bank. Footnote 28 to the Document notes that a PIE is defined by the International Ethics Standards Board for Accountants ("IESBA") and that definition allows for a relevant regulator to make such a designation. Many regulatory or legislative bodies do already apply their own definitions of PIE for the purposes of external audits in those jurisdictions. There are several audit implications of designating all banks as PIEs that would result in an unwarranted cost burden in respect of smaller non-complex banks, including complying



with additional engagement quality control, personnel rotation, and other independence requirements in the Standards. Such additional costs would need to be borne by the banks and are likely to be disproportionate to the benefits of applying the PIE designation to all banks. We do acknowledge that, given their importance to the global banking system, it may be relevant for the Committee, given its supranational role, to establish that global systemically important banks, or banks above a relevant asset threshold with cross jurisdictional operations, are designated as PIEs, however we believe that the decision as to whether a bank falling below that threshold or with minimal cross jurisdictional operations should be designated as a PIE is best made by the relevant jurisdictional bank supervisors where decisions can be tailored to the specifics of the industry in that country. We recommend that the Document be amended accordingly.

Communications between the Bank Supervisors and External Auditors

Paragraph 7 of the Document states that 'the focus of this document is on the quality of the audit performed by the external auditor'. The Document provides extensive expectations about communications from the external auditor to the bank supervisor but provides minimal guidance on communications from the bank supervisor to the external auditor. Reciprocal communications from bank supervisors to external auditors have an equally important role to play in contributing to improved audit quality. We acknowledge that current practices regarding communications from bank supervisors to external auditors or other parties vary significantly between jurisdictions; similar to the variation regarding communications from the external auditor to the bank supervisors. However, since the Document aims to outline best practices we recommend that greater focus be provided on principles for communications to the external auditor from the bank supervisor regarding matters that may have relevance to the conduct of the audit. For example Annex 2 which outlines the potential content of meetings between bank supervisors and external auditors could include examples of matters of interest to the external auditor on which the bank supervisor can reasonably be expected to have formed a view.

In addition we are concerned that the Document establishes expectations regarding communications from the external auditor to the bank supervisor but provides limited guidance to enable the external auditor to determine what would be of interest to the bank supervisor. Given the different legal frameworks and practices in this area around the world, there is a strong likelihood of an expectations gap developing between the bank supervisors and the external auditors. To address this we recommend that the Document provide i) greater emphasis on the need for achieving a legal safe harbour for communications between the external auditor and the bank supervisor, and ii) a clear set of principles to guide the external auditor and bank supervisor in evaluating expectations of what should be considered for communication. Such principles should be consistent with the external auditor's responsibilities in conducting an audit of the financial statements in accordance with ISAs. These principles can then be used to establish specific frameworks at a jurisdictional level that are consistent with the local legal frameworks. For example we are aware that the UK has developed such a code of practice framework providing greater clarity around such communications with respect to banks under their jurisdiction.

External Audit firm re-tendering

The complex issues associated with mandatory audit firm rotation or re-tendering of the audit contract are currently being considered by the relevant audit regulators and legislative bodies in Europe, the United States of America and elsewhere. Given the systemically important nature of the banking industry we recommend that the Committee allow these bodies to address this matter in the first instance and evaluate the impact that any changes have before specifying guidance on this topic.



Specifically we are concerned that while the Document recognizes the complexity of this issue in paragraph 113, it establishes, in paragraph 114, a requirement for audit committees to have “a policy that stipulates the frequency with which there should be a tender for the external audit contract.” While this discusses mandatory re-tendering rather than mandatory audit firm rotation, we believe that many of the concerns relating to mandatory audit firm rotation also apply to mandatory re-tendering. Both improperly link the external auditor's tenure to audit quality and we strongly disagree with this inference. In fact there is a striking lack of evidence to support the suggestion that mandatory audit firm rotation, and by the same token a requirement for tendering at a set interval, increases audit quality. We believe it would have the opposite effect.

In our view, the audit committee plays a fundamental role in overseeing the external audit and management's relationship with the external auditor. Any mandatory policy that stipulates when a rotation or re-tendering must occur takes away the audit committee's freedom to decide when it is appropriate to consider a change in external auditor for their specific situation. Such rigidity may also have unintended consequences e.g. requiring changes at an inopportune time and audit committees need to be able to apply discretion about when it is appropriate to consider such action. We note that the Canadian Public Accountability Board's recent initiative on Enhancing Audit Quality concluded that a periodic comprehensive review of the external audit firm by the audit committee effectively addressed the institutional independence threat and related concerns about audit quality. As an alternative to the policy required in paragraph 114 we recommend that the Committee change the focus of the policy to encouraging audit committees to regularly reassess their external auditors' effectiveness, independence and objectivity on an appropriate periodic basis, including the independence of their relationship with management.

Strengthening the Audit Committee

Audit committees play a very valuable role in supporting and promoting audit quality. The introduction by a number of jurisdictions of audit committees comprised of non-executive directors has had a demonstrably positive role in promoting audit quality. Even in those jurisdictions which have robust audit committee/corporate governance in place, however, there is plenty of evidence that the importance and value of their role is underestimated because their activities are frequently not very visible. We believe the Document could reinforce the important role those charged with governance can play in the evaluation of audit quality on behalf of shareholders.

Furthermore, the Document focuses solely on the relationship and interactions between the audit committee and external auditor. We believe it would be beneficial to audit committees if broader guidance were also provided in one companion document on best practices for audit committees of banks.

Interaction between the External Auditor and Board Committees

Consistent with the fact that the external auditor is already required by ISAs to communicate various matters to the audit committee of the Board (or others charged with governance oversight of that relationship), the Document provides extensive discussion of how such communications could be enhanced. In addition paragraph 130 of the Document states that “Further, to enhance audit quality, the audit committee should consider, if necessary, assisting the external auditor to gain access to any other committee meetings that the external auditor determines to be relevant for the auditor's work.” We welcome the inclusion of this sentence but are concerned that it may not be worded commensurate with the significant importance of the key Board committees.

These committees which often have oversight over the management of credit, funding or market risks, are a highly important aspect of the overall control environment at the bank, and a robust understanding of their design and operation can enhance the ability of the external auditor to appropriately assess the significant risks of material misstatement of the bank's financial statements. Accordingly we have suggested some alternative wording for paragraph 130 in the appendix to this letter to strengthen the importance of this principle.

Audit engagement team responsibility

The Document introduces a requirement that differences of opinion between the Engagement Quality Control Reviewer (EQCR) and the engagement leader be communicated to the audit committee. While the role of the EQCR is different to that of other team members, external auditors have established rigorous internal processes for resolving differences of opinion between any team member and the engagement leader, which ultimately result in the audit firm forming one collective opinion. Such robust processes are in response to ISAs. ISA 220 requires each audit firm to have a process for resolving differences of opinion and effectively prohibits the issue of an opinion while an unresolved difference between the engagement leader and the EQCR exists. While we believe it is important for the audit committee to be made aware of alternative treatments regarding complex or significant accounting judgements we do not agree that it is necessary to attribute these views between individual members of the engagement team. We recommend that the Document remove all implicit and explicit requirements along these lines.

Training and competence

The terms "training" and "competence" are used in several places within the Document and are not, in our view, being used consistently, which we believe may lead to confusion. We consider that it is difficult to create policies and procedures that address subjective criteria like 'competency' and 'knowledge' rather than objective criteria like specified minimum training that is to be taken by audit personnel when they are involved in banking specific audit work. We also feel it is important to make clear that sufficient and relevant 'knowledge' and 'competence', when these terms are referred to, should be applied in the context of the engagement team taken as a whole and not individuals. In addition, ISAs and the IESBA Code on professional competence and due care already address the knowledge and competence required by an external auditor when performing an audit. If the Document intends to repeat the existing ISA and IESBA requirements then we believe it is confusing and if merely that additional guidance on the need for specialised industry knowledge is proposed, then this needs to be clearer.

Collective Board responsibility

We consider that there is a long established practice regarding the importance of collective responsibility by the Board and that this is necessary to clarify the fiduciary and legal obligations of Board members. We are concerned that in certain parts of the Document the concept of collective Board responsibility is implicitly or explicitly undermined. For example paragraph 106 requires differences of opinion between the members of the audit committee and the rest of the members of the Board regarding the appointment of the external auditor to be publicly disclosed. Such disclosure is inconsistent with the notion of collective responsibility and we do not believe that it will enhance the quality of the process of appointing the external auditor.



Statutory audits

As already stated, paragraph 7 of the Document is clear that the focus is the financial statement audit undertaken by the external auditor. However, the term 'statutory audit' is used extensively throughout the Document, which, as noted in paragraph 14, may include "extended reporting by external auditors on matters such as internal controls and regulatory returns". As expectations of auditors in a 'statutory audit' may vary across jurisdictions we believe it would be helpful to use the term 'financial statement audit' throughout the Document and limit the use of the term 'statutory audit' to those instances where it is specifically related to work beyond the external audit of the financial statements, to avoid potential confusion. While we recognize the importance of additional statutory reporting requirements that apply to any particular jurisdiction these should be clearly separated from the work effort required under a financial statement audit conducted in accordance with ISAs.

Our detailed comments in respect of individual principles and specific paragraphs within the Document are included in the appendix to this letter.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact John Hitchins (+44 (0) 20 7804 2497) or Bob Sullivan (+1 646 471 8388).

Yours faithfully,

PricewaterhouseCoopers International Limited

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Appendix

We encourage the Committee to address the following matters in finalising the Document. Our comments are structured in order of principle, setting out our initial overarching comments on each principle with supporting comments by individual paragraph, where relevant. Suggested edits to paragraph content have been illustrated using strikethrough text for suggested deletions and underlined text for recommended additions.

Principle 1	
We agree with this principle	
Paragraph	Comment
33	We recommend that instead of using the term 'proficient' this paragraph use the phrase 'sufficient relevant', because the level of knowledge necessary for an audit team as a whole to perform a high quality audit is likely to be commensurate to the complexity and risk profile of each bank.
35	<p>This paragraph introduces the concept of 'competency' as opposed to 'knowledge' but it is unclear to us whether this is intended to convey a different meaning and whether this is designed to be consistent with the IESBA Code and ISAs, or additive. In addition we consider that it is difficult to create policies and procedures that address subjective criteria like 'competency' and 'knowledge' rather than objective criteria like specified minimum training that shall be taken by audit personnel when they are involved in banking specific audit work. Finally we note that any training would best reflect the current experience and role of each audit team member. We therefore recommend that paragraph 35 say:</p> <p><i>Audit firms' should have documented policies and procedures that set minimum competency criteria <u>training requirements</u> for members of a bank's audit engagement team <u>which reflect the role and experience of different team members</u>.</i></p>
36	Consider whether the training requirements discussed here could leverage any similar training required to be undertaken by the bank supervisors. We also caution that any suggested training remain suitably flexible so as not to become a barrier to entry for smaller audit firms.

Principle 2
Subject to our comments in our covering letter on public interest entities and appropriate size/complexity thresholds we agree with this principle.

Paragraph	Comment
40	We support the concept this paragraph is addressing but believe reference to “conflicts of interest” may lead to confusion. The IESBA code (paragraph 120.1) refers to “bias, conflicts of interest or the undue influence of others” as threats to objectivity. It is not clear why conflicts of interest have been singled out here. We therefore suggest that the second sentence be deleted.
41	This paragraph attempts to paraphrase the IESBA definition, retaining the full definition as a footnote. As a result half the definition is missing (the part dealing with Independence of mind) and some words are changed which could lead to confusion. We believe the exact IESBA words should be used to avoid this.
43	This goes further than the IESBA Code in the context of non-listed banks, in particular with respect to entities upstream of the audit entity. We recommend that the independence requirement be extended only to related entities over which the entity has direct or indirect control so as to be consistent with the IESBA Code.
45	The relationship to paragraph 42 is not sufficiently clear. If the case where a bank has an overseas parent this implies that the overseas territory requirements apply to the subsidiary bank audit. This should depend on whether the subsidiary is material and whether the parent is a client of the network firm. This would be going further than the IESBA Code and US Securities and Exchange Commission. We therefore recommend that the overseas regulatory rules only apply to the subsidiary where the IESBA code or the parent jurisdictional regulation would require this to be the case.

Principle 3	
We agree with this principle.	
Paragraph	Comment
50	<p>We recommend that it would be useful to remove or amend references to regulatory outcomes of complex transactions. The external auditor is not required to assess such outcomes as part of the financial statement audit (this is the role of the bank supervisor). Therefore, the inclusion here could be considered misleading.</p> <p>Furthermore, we feel the reference to solvency and liquidity could be misunderstood to suggest an assessment on a broader scale rather than only in the context of going concern requirements, and suggest the sentence be modified as appropriate.</p>

51	<p>We note that this guidance explicitly indicates that a bank that is consistently at one end of a reasonable range of estimated values is applying management bias, however management bias may be driven by many factors and an estimate that fluctuates within the reasonable range may still be driven by such bias. In addition we are concerned that the guidance here is limited only to valuation estimates and recommend that it should apply in respect of all significant estimates. Accordingly we recommend that the paragraph be changed as follows:</p> <p><i>Where a bank <u>applies the use of significant estimates consistently utilises valuations that are at the high or low end of a range of acceptable valuations or when there are other indications of possible management bias</u>, the external auditor should considers <u>this the risk of management bias in the overall risk assessment of whether the financial statements are prepared in accordance with the applicable financial reporting framework, which includes consideration of the qualitative aspects of the entity's accounting practices. In discussing the qualitative aspects of the bank's accounting practices in accordance with ISA 260, the external auditor the Bank and should</u>informs those charged with governance, where appropriate, <u>of any concerns regarding such bias</u>.</i></p>
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Principle 4	
Subject to our comments on public interest entities and appropriate size/complexity thresholds we agree with this principle.	
Paragraph	Comment
53	We understand this to be stating that the more stringent of either jurisdictional or international quality control standards are to be applied. If this is the case, we believe the paragraph could be worded more clearly and also clarify that local requirements that are more restrictive than international quality control standards (ISQC1) do not apply outside the territory to which they relate.
54	Subject to our overall comments in our covering letter on the designation of banks as PIE, we note that an EQCR will only be required where the bank meets the definition of a public interest entity, and recommend making this clearer within this paragraph since not all jurisdictions will apply the public interest entity designation to all banks.
56	We feel the wording of this paragraph clouds the intended message - referring to 'processes that comply with this document' is confusing. We suggest referring to processes that comply with the firm's network policies (which will ordinarily achieve compliance with the guidance in paragraph 53).
57	With respect to the second sentence and related footnote – the resolution of different perspectives between the engagement team and the EQCR will follow a firm's internal processes for such resolution and may not be documented in the

	audit working papers, while alternative views considered by the team as a whole will be documented, i.e. attribution of the views of the EQCR do not have to be separately identified (see also our related comment on paragraph 123).
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Principle 5	
<p>We agree with this principle but believe the construct is not fully accurate. We suggest the following is more appropriate:</p> <p><i>“The external auditor of a bank should <u>identify</u> and <u>assesses</u> the risks of material misstatement in the bank’s financial statements in accordance with ISA 315, taking into consideration the complexities of banking activities and the need for banks to have a strong control environment <u>in place at the bank</u>.”</i></p>	
Paragraph	Comment
60	<p>Firstly, we believe this paragraph is more relevant to the external auditor’s response to identified risks and as such would be more appropriately located under principle 6.</p> <p>Secondly, an external auditor is not required to test all controls to determine whether they can rely upon them. The ISAs require that the external auditor designs and performs tests of controls if the auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively. Having made the determination of which controls to test, the external auditor then evaluates the evidence obtained as to their operating effectiveness to decide whether they can be relied upon. The paragraph therefore needs to be modified to align with the ISA requirements.</p> <p>Lastly, the paragraph requires the external auditor of a bank to perform “extensive” tests of controls over financial reporting. “Extensive” is not defined, and we would recommend that the ISA requirement and guidance is likely sufficient, for example ISA 330.9. If the sentence is to be retained, we feel “extensive” will require a definition, and be placed in the context of what areas of the financial statements controls testing would ordinarily be expected. Broadly, we feel that the ISA framework allows for appropriate judgement, and that tests of controls for audit purposes are unlikely to align completely with tests of controls for supervisory purposes.</p>
63	We recommend that this paragraph refer to the ISA requirements to accumulate identified misstatements and to assess the impact of uncorrected misstatements (ISA 450).
64	As written this paragraph could inappropriately imply that the external auditor has audited the specific line item rather than audited the financial statements as a whole. We suggest that this important point be emphasized and it be made clearer that even if the external auditor decides to apply a lower materiality threshold to one or more line items it does not mean that those items have been

	audited individually for a separate purpose.
66	<p>With respect to the second bullet, ISAs do not require external auditors to assess whether the control environment extends to all operations in all locations. This paragraph should reflect ISA 600 - that external auditors determine what components of the group it is necessary to perform work over. Some components may be out of scope of the audit due to their size and nature (risk). For clarity we suggest the following edit:</p> <p><i>“determine whether those charged with governance extend the control environment to all types of operation.....”</i></p>
68	<p>We are concerned that the introduction to this paragraph could be misconstrued. ISA 315 requires the external auditor to obtain an understanding of internal control relevant to the audit, which includes control activities as quoted in this paragraph. However, further to our comment on paragraph 60 above, the ISAs do not require the external auditor to evaluate and test the operating effectiveness of controls unless they have an expectation that they are operating effectively and are an appropriate response to an identified risk of material misstatement. We therefore suggest removing reference to “assessment” in the introductory paragraph and making clear that the external auditor’s consideration of the factors listed are “when relevant” to the planned audit strategy.</p> <p>With respect to the fourth bullet, client asset rules are not typically part of a financial statement audit - in most jurisdictions this constitutes a separate regulatory audit. We suggest this bullet be deleted to avoid confusion.</p>
69	Consistent with ISA 260 paragraph A25, the last two sentences should be qualified to make it clear that this only refers to matters that the external auditor has become aware of during the course of conducting the audit (i.e., that there is no obligation to perform additional procedures beyond those for the audit to search for these matters).
71	Consider referencing the recent changes to ISA 315 (Revised) with respect to the interactions of external and internal auditors, since those changes largely address the matters raised in this paragraph.

Principle 6	
We agree with this principle	
Paragraph	Comment
73	We disagree that the possible significant risks of material misstatement that are specifically outlined in paragraphs 78-98 are 'often' significant risks at each

	individual bank and suggest amending the language here and in paragraph 77 to remove reference to "where there is often a significant risk of material misstatement".
74	We disagree with the last sentence in this paragraph. The external auditor's responsibility is to opine on the financial statements as a whole and it is in that context that any audit differences should be evaluated. The audit is not required to identify differences in regulatory capital ratios (although the sensitivity of these ratios to error is a factor to consider in setting materiality as discussed in paragraph 64).
79	<p>We suggest the following change to the introductory sentence:</p> <p><i>"The factors that the external audit needs to <u>may</u> consider, <u>where relevant</u>, in identifying and assessing....."</i></p> <p>Part (f) of this paragraph moves into discussing what the preparers of the bank's financial statements need to consider with respect to their disclosures, but many preparers may not know how their methodologies compare with others across the banking sector - especially smaller banks. Furthermore, disclosures need to be viewed in the context of the financial statements taken as a whole. Therefore we suggest considering removal of the point, or changing this to consider the adequacy of the disclosures in the context of the financial statements taken as a whole.</p>
85	We suggest that this communication between external auditors and bank supervisors be made reciprocal.
90	<p>We believe that there may be good reason why disclosures in financial statements are not consistent with the bank's prudential information, for example due to different underlying measurement bases. Therefore we suggest this paragraph requires revision to reflect this.</p> <p>In addition we note that this section on disclosures should recognise that disclosures are evaluated in the context of the financial statements taken as a whole and not in isolation, and suggest making this clearer in paragraphs 86-90.</p>
93	We suggest that it may be useful to refer in this paragraph to the importance of public and market confidence and how quickly this can be lost. We also believe that bank supervisors may usefully be able to contribute to the external auditor's consideration of management's assessment that the bank remains a going concern and that this could be reflected here.
94	We are concerned that it is difficult to place exactly 'equal' emphasis on liquidity and solvency when undertaking a going concern assessment. In addition subparagraphs (a) and (b) are prescriptive. We recommend that the paragraph be re-written to remove the reference to 'equal' emphasis and to be clear that the various factors listed in the subparagraphs are considerations and not requirements.

95	<p>We suggest the following edits to be clearer that these are suggested areas of focus rather than requirements:</p> <p><i>"In responding to the significant risks in this area of the audit, and assessing management's assertion that a bank is a going concern, factors which are necessary to <u>may be considered</u> are:"</i></p>
96	<p>The following amendments are suggested to align with the ISA addressing going concern:</p> <p><i>"Given the above risks and the possible systemic implications, if there are any significant doubts which may cause material uncertainty <u>material uncertainties related to events or conditions that may cast significant doubt over the bank's ability to continue as a going concern, and if the external auditor considers referring to the going concern issue in the audit report, the external auditor should promptly communicate this fact to the supervisors.</u>"</i></p>
98(b)	<p>We believe it would be appropriate to include a recommendation that the bank supervisor notify the external auditor of situations where the bank has been compelled to hold additional capital, since the external auditor may not be aware of this fact when considering management's going concern assessment.</p>
98(c)	<p>It is unclear how this point is relevant to a stand-alone bank financial statement audit and we consider that it would be better discussed in the section on macro-risks.</p>

Principle 7	
We agree with this principle.	
Paragraph	Comment
104	<p>This paragraph introduces a new requirement for an audit committee to assess the risk of an external auditor no longer being able to carry on as an auditor. This appears focused on business continuity of the external auditor's relationship, but we feel it would be very difficult for an audit committee to assess the likelihood of auditor 'withdrawal'. The greater challenge for a bank is how any incoming external auditor would achieve independence if either the incumbent auditor or bank decided to terminate the audit appointment. We believe this paragraph would be much more usefully focussed on the considerations the audit committee has to make in assessing the independence of an incoming external auditor.</p>
105	<p>We suggest that this paragraph acknowledge that the section to be contributed by the audit committee may not always be in the annual report, but could be in proxy materials, depending on local jurisdictional requirements.</p>

106	As we note in our covering letter, we strongly object to the inference that there is not a principle of collective Board responsibility – the audit committee is a committee of the Board. It is therefore inappropriate to recommend that disagreements between the audit committee and the Board be disclosed.
108	It is unclear what is meant by the phrase 'current nature of the audit environment'. We suggest this be clarified or placed into context. We also suggest referring to 'significant overseas jurisdictions' to be consistent with the point raised in respect of paragraph 66 regarding group scoping.
109	We believe the following amendments to the wording would be appropriate: <i>“The audit committee should also satisfy itself that the level of the audit fees is commensurate with the scope of work undertaken. Where fee reductions are offered and accepted, the audit committee should seek assurance that these reductions do not imply an inappropriate increase in the materiality level to be applied by the external auditor, or <u>an inappropriate</u> narrowing of the external auditor’s proposed scope of the audit, or <u>an inappropriate</u> reduction in the attention which will be given to each business component and the significant audit risks <u>of material misstatement of the financial statements identified.</u>”</i>
110	Practical situations may arise where the engagement needs to commence before the engagement letter is agreed to. We therefore suggest that the following words be deleted from the first sentence: <i>“The audit committee should discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement.”</i>

Principle 8	
We agree with this principle, subject to the comments in our covering letter.	
Paragraph	Comment
114	Consistent with the discussion in our covering letter we recommend that paragraph 114 be deleted or amended since we strongly disagree with the inference that an external auditor's tenure has a negative impact on audit quality, and believe that there may be significant unintended consequences to mandating a change in external auditors. If amended then we suggest the following language: <i>Audit committees should have a policy in place that stipulates the frequency with which there should be a tender for the external audit contract. The policy should also call for the audit committee to consider periodically whether there should be a limit to the length of an external auditor’s tenure as the bank’s external auditor given the potential impact of audit firm rotation on independence and audit quality to regularly reassess their external auditor's effectiveness, independence and objectivity. This assessment may be made</i>

	<i>based upon a consideration of the particular facts and circumstances, including the external auditor's industry expertise, its depth of understanding of the bank and their activities and systems, the auditor's relationship with management, where relevant the auditor's global network, and other factors which the audit committee believes are important considerations with respect to audit quality.</i>
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Principle 9	
We agree with this principle.	
Paragraph	Comment
121	<p>We do not agree with the implication here that there is no difference between work performed by members of the audit firm's network and other firms. The content as it is written is appropriate where firms from a different network are involved, but where member firms of the same network are involved, there are network quality control processes that can be relied upon. We suggest that guidance under this principle could refer to network's engagement quality control review processes. We also suggest amending the final sentence of this paragraph to:</p> <p><i>"The audit committee should consider whether the proposed resources to execute the audit plan are reasonable given the scope of the audit engagement, the nature and complexity of the bank's operations, and its structure and activities. The audit committee should understand the nature and extent of audit work that the external auditor intends to <u>engage audit firms from a different network to perform</u> rely upon where the audit work is performed by network firm personnel or other audit firms."</i></p>
123	<p>As we note in our covering letter, we object strongly to the suggestion that differences of opinion between the audit engagement partner and the engagement quality control reviewer, should be shared with the audit committee. We recommend this be removed from the Document or alternatively that this is modified to:</p> <p><i>"obtain an understanding of the rationale behind the final conclusions drawn by the audit engagement partner on significant accounting and auditing matters, <u>including an understanding of alternative treatments considered particularly in those circumstances where the audit engagement partner's conclusions differed from those of the engagement quality control reviewer.</u>"</i></p>
124	<p>As written, this paragraph may imply that all representations have to be shared i.e. the final draft representation letter. While we consider this a reasonable proposal, we would simply note that it may not always be realistic to share the final draft representation letter, for reasons of timing, with the audit committee and this isn't required under the ISAs. It should be possible for a draft of the representation letter to be shared at an appropriate completion stage in the audit</p>

	and we suggest amending the wording to reflect this.
126	As noted in paragraph 109, the term 'audit risks' as used in this context should more appropriately be 'risks of material misstatement of the financial statements', and we therefore suggest replacing this wording.
127	<p>The ability of an external auditor to share findings from regulatory inspections of individual audit engagements may be restricted in some jurisdictions. Conversely, we are aware that in some jurisdictions audit oversight bodies provide inspection findings directly to the audit committee of the entity.</p> <p>We believe it is appropriate for the audit committee to seek directly from the external auditor information about that firm's quality control systems.</p> <p>We would recommend that paragraph 127 therefore be amended as follows:</p> <p><i>"The audit committee should seek to obtain information from the external auditor on the <u>audit firm's quality control systems and processes, and where relevant, the main findings of audit quality reviews of the bank's audit-and the audit firm's by audit oversight bodies, where the regulatory inspection regime permits such information to be disclosed by auditors.</u>"</i></p>

Principle 10	
We agree with this principle.	
Paragraph	Comment
130	<p>As noted in our covering letter, we suggest that it may prove beneficial for the recommendations in this paragraph to be given greater authority. For example, rather than stating that the audit committee "should consider" the two actions described in the paragraph, we believe that the Document could provide useful clarification that these would ordinarily be expected actions on the part of the audit committee, and may also provide useful support for audit committees in attempting to assist external auditors in gaining access to other relevant Board committees that the auditor deems relevant to the audit. We suggest the following changes:</p> <p><i>"Further, to enhance audit quality, the audit committee should assisting the external auditor to gain access to any other <u>Board</u> committee meetings that the external auditor determines to be relevant for the auditor's work."</i></p>

Principle 11	
We agree with this principle.	
Paragraph	Comment
137	We note that the ISAs do not require all communications to the audit committee to be in writing. We therefore suggest that this paragraph make clear that such communications need only be in writing where required by the ISAs.
138	<p>Since this paragraph deals with items beyond those required by an audit of financial statements conducted in accordance with ISAs we suggest that this paragraph be amended to say:</p> <p><i>"...standards, the audit committee should <u>may</u> request that"</i></p>

Principle 12
<p>We agree with the principle, subject to any jurisdictional constraints.</p> <p>As we explain in our covering letter, the Document provides limited guidance to enable the external auditor to determine what would be of interest to the bank supervisor. Given the different current practices in this area around the world, there is a strong likelihood of an expectations gap developing between the bank supervisors and the external auditors. To address this we recommend that the Document provide i) greater emphasis on the need for achieving a legal safe harbour for communications between the external auditor and the bank supervisor, and ii) a clear set of principles to guide the external auditor and bank supervisor in evaluating expectations of what might be communicated. Such principles should be consistent with the external auditor's responsibilities in conducting an audit of the financial statements in accordance with ISAs. These principles can then be used to establish specific frameworks at a jurisdictional level that are consistent with the local legal frameworks.</p> <p>In addition we believe there is merit in bank regulators and supervisors being given additional powers and responsibilities to assess:</p> <p>a) <i>Audit committee oversight</i> - consistent assessment of the processes adopted by audit committees in their oversight of audit quality, including audit appointment processes.</p> <p>b) <i>Individual bank-specific risks</i> - knowledge sharing and collaboration between external auditors and bank supervisors relating to individual banks risks.</p> <p>c) <i>Systemic, macro industry risks</i> - increased dialogue with audit firms at the national and supra-national level regarding specific accounting and auditing issues and emerging macro industry risks impacting financial stability of the banking system.</p>

Paragraph	Comment
144	We recommend that the paragraph be made more explicit that information exchange is limited to those matters that can be legally shared in the relevant jurisdiction. We also suggest that there be clearer linkage between this paragraph and paragraph 147.
147	We consider it important that such guidance should be issued by the relevant banking supervisory authority and/or the relevant professional auditing body. Wherever possible the resulting guidance should be issued jointly.
154	We believe it may be more appropriate to reorient this paragraph to focus on what the external auditor might realistically be expected to consider as being of importance and which may be of interest to bank supervisors rather than basing this on an 'expectation' of bank supervisors.
155	We feel that the scope of the external auditor's 'duty to report/alert' is not sufficiently clear, and therefore suggest expansion to include reference to Principle 13: <i>"...The external auditor should remain alert to the fact that these issues may also fall within the scope of the external auditor's duty to report/alert <u>as discussed in Principle 13.</u>"</i>
156	Communication of the matters outlined here should be to the audit committee in the first instance and then similarly shared with the bank supervisor. Certain parts of this section of the report read as though our obligation to the audit committee does not already exist. Furthermore, while the first three bullets of this paragraph are commonly discussed with audit committees, the fourth is not typically discussed, unless of a magnitude that impacts the financial statements, and the fifth is not the responsibility of the external auditor. In particular, we are concerned that, in the absence of an appropriate framework to guide external auditors on jurisdictional interpretations of the terms "breach", "significant breach" and "materially significant breach", the auditor may not know how to comply. We recommend amending the paragraph appropriately to remove the fifth bullet and modify or remove the fourth.
161	We recommend that guidance be provided on appropriate actions in the event that a bank withholds consent.
163	Paragraph 162 considers three factors: confidentiality, whether the information may assist the bank supervisor in its work and whether the information may benefit audit quality. The third of these factors is omitted from paragraph 163 and we suggest it should be added.

Principle 13

We are concerned that, as worded, this principle may be difficult for external auditors to adhere to, in particular in jurisdictions outside of the European Union. This is because a) the external auditor may not know what is likely to be of material significance to the bank supervisor and b) there may currently be no safe harbour to legally allow such communication. As we note in our overall comments in the covering letter and in response to principle 12, appropriate frameworks that clearly set out expectations of matters that would ordinarily be communicated will be required. The detailed supporting comments within this principle acknowledge these concerns by being limited to those where the external auditor has a specific duty to report.

Accordingly, we recommend that this principle be modified to say:

"The external auditor ~~should~~ reports to the supervisor those matters that ~~are likely to be of material significance to the functions of the supervisor~~ they identify during the performance of their audit that they are required to report under the relevant regulatory or legal framework or by a formal agreement or protocol."

Paragraph	Comment
165	<p>Footnote 82, referenced in the last sentence of this paragraph, is clear that the external auditor may, legally, be required to report relevant matters through the bank's management. Accordingly we recommend amending the paragraph more clearly articulate the external auditor's responsibilities:</p> <p><i>"On many occasions, the external auditor will have already identified and discussed these matters with the bank's management and/or those charged with governance as appropriate. However, it is not sufficient for the external auditor to rely on the bank to notify the supervisor when there is a duty on the part of the external auditor to report to/alert the supervisor directly on such matters <u>and there is no legal impediment to such communication, it is not sufficient for the external auditor to rely on the bank to notify the supervisor.</u>"</i></p>
166	<p>The last bullet of the paragraph states:</p> <p><i>"a refusal to certify the financial statements or the expression of reservations in the audit report (other than a clean opinion) by the external auditor."</i></p> <p>However, under ISAs the external auditor does not '[refuse] to certify' the financial statements but rather either 'disclaims' an opinion or issues a 'qualified' or 'adverse' the opinion. Further, rather than 'express[ing] reservations' the external auditor may include an 'emphasis of matter' paragraph. Accordingly we recommend that the bullet be amended to say:</p> <p><i>"the need to express a disclaimer of opinion, or to modify the opinion on the financial statements or to include an emphasis of matter paragraph."</i></p>

Principle 14	
We agree with this principle.	
Paragraph	Comment
170-173	<p>As a practical matter it will be hard for all audit firms to be engaged in the discussions outlined in these paragraphs especially in jurisdictions with significant variation in the size and complexity of the banks where a large number of audit firms may be involved in audits of banks. We recommend that therefore the focus in these paragraphs be on the interaction between the banking supervisory authority and the relevant professional body representing the external auditors in that jurisdiction, rather than the individual firms.</p> <p>Since the discussions outlined in paragraphs 170 and 171 are likely to be productive even without the banking industry associations being represented, we also recommend changing paragraph 173 to say:</p> <p><i>"It is advisable may be beneficial for banking industry associations to be involved in discussions on these topics."</i></p>

Principle 15	
We agree with this principle.	
Paragraph	Comment
184	<p>Currently this paragraph moves directly from discussions at an individual bank level to a cross sector thematic review. We recommend that an intermediate action be considered encouraging discussion between the supervisory body and the professional body representing the external auditors. For example it could say:</p> <p><i>"raising issues identified by the audit oversight body with the professional body representing the external auditors and encouraging remediation of these issues where appropriate; and"</i></p>

Principle 16	
We agree with this principle.	