POSITION PAPER

WSBI-ESBG Response to the Basel Committee's Consultation Paper on the External Audit of Banks

WSBI-ESBG (World Institute of Savings Banks - European Savings Banks Group)
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Dear Sir/Madam,

WSBI/ESBG welcomes the opportunity to comment on your consultation "External Audit of Banks". We believe that the document is well-structured and a good depiction of the current situation for banks, auditors and the relationship between the two.

We would like to take the opportunity to highlight a few comments we have. Please find our response to your consultation document below.

We appreciate the specific role BCBS addresses to auditors of banks, nevertheless emphasising the increased responsibility of management and audit committees within the entire governance framework especially of systematically important banks.

Unfortunately, the committee's recommendations lack clearness regarding 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.

Principle 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 fully 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.

The cooperation between auditors and supervisors shall therefore be predominantly based on ongoing and regular exchange of information and important findings on ad-hoc reporting. 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 seriously 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.

Principle 4: Quality control standards

BCBS recommends that in general each audit firm undertaking bank audits should comply with quality control standards applicable to listed entities (i.e. ISQC 1), thereby "having due regard to the complexity of a bank audit". In general we agree that the audit approach and following that the quality control requirements for audit firms should be as far as possible scaled to the complexity and the risks of the audited entity. But in our view a general application of the 'one size fits all' approach does not address this principle properly and is not in line with the EU regulation as well as the ISQC 1, which allow to differentiate between more and less complex entities even in bank audit.

Principles 7 and 8: appointment and independence of external auditor

The Basel document shall respect the proven system of other audit systems for decentralised audit for savings banks and cooperatives as they are implemented within and respected by the EU and its Member States.

We would additionally like to obtain more information from the Basel Committee regarding principle 8 in relation to the procedures and measures that the audit committee should have to assess the independence of the external auditor at least annually.

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 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 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: Once again, 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 organisations of cooperatives and savings banks arising 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 recognised 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 point out that any further cooperation may result in the perception of the auditor as a mere extension of the supervisor (see above principle 12 and 14).

About WSBI-ESBG (European Savings Banks Group)

WSBI-ESBG – The European Voice of Savings and Retail Banking

WSBI-ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,631 billion, non-bank deposits of €3,500 billion and non-bank loans of €4,200 billion (31 December 2011). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI-ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI-ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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