



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

Electronic submission

Mr James Gunn
Technical Director
International Auditing and Assurance
Standards Board
545 Fifth Avenue, 14th floor
New York, New York 10017
United States

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Proposed Strategy and Work Program for 2012-2014 consultation paper

Dear Mr Gunn

The Basel Committee on Banking Supervision welcomes the opportunity to comment on the consultation paper *IAASB Proposed Strategy and Work Program for 2012-2014*. The Committee has a strong interest in high quality and independent audits of banks and supports the IAASB's efforts to gain insight on its proposed strategic plan.

Generally, we agree with the broad strategic initiatives that the Board has identified for the proposed plan. We suggest, however, that IAASB conduct a critical review of the key assumptions on which the future work programme is based in addition to the three areas of strategic focus noted in the paragraphs 7-11. Indeed, key assumptions, like volunteer Board members meeting for approximately 20 days per year, may be difficult to reconcile with the IAASB projects outlined in the programme. That would be particularly true for developing and monitoring standards and responding to concerns about their implementation.

We would also like to inform the Board that the Committee's Accounting Task Force has asked its Audit Subgroup to collaborate with the IAASB on an update of the International Audit Practice Statement 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*. This document is, as you are aware, a joint document of the IAASB and the Committee. We are currently planning the work and will invite the IAASB to participate in this process.

In order to avoid diverging practices in the implementation of accounting standards, and to raise awareness on issues being encountered by practitioners, we encourage the IAASB to develop guidance, for example like IAPs, in relation with recent changes in accounting for financial instruments in particular loan loss provisioning and hedging.

Finally, while International Standard on Quality Control (ISQC) 1 extensively describes the monitoring process of a firm's system of quality control, it is rather weak on the organisation of the monitoring function itself. We have a concern that

that standard is insufficient to robustly embed the monitoring function in the governance model of firms.

Our responses to the specific questions in paragraph 15 of the consultative document are set out in the Annex to this letter.

These comments have been prepared by the Committee's Accounting Task Force, chaired by Sylvie Mathérat, Deputy Director General at the Banque of France. If you have any questions regarding our comments, please feel free to contact Mrs Mathérat (+33 1 4292 6579), Marc Pickeur at the National Bank of Belgium (+32 2 221 3999), or Xavier-Yves Zanota at the Basel Committee Secretariat (+41 61 280 8613).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Nout Wellink', with a large initial 'N' and a long, flowing horizontal stroke.

Nout Wellink

Annex

Answers to specific questions

(a) Whether the IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate;

We agree that the three areas of strategic focus noted in paragraph 7-11 are appropriate for the IAASB to work on.

We would suggest that in addition, the IAASB includes a fourth element, which would be *long term strategic considerations* about both the functioning of the IAASB and the developments outside of the IAASB. Paragraph 12 of the consultative document alludes to this point by mentioning that it may be necessary to consider the appropriateness of the IAASB's current operational structure. The same document also specifies that the current consultation is limited by a set of key assumptions listed on page 18. We believe these assumptions should be challenged, in particular in light of the Monitoring Group's review of IFAC.

For example, questions could be raised in relation to the:

- (a) Functioning of the Board (working continuously as opposed to a limited number of weeks during the year);
- (b) Due process (applying the same due process to International Auditing Practice Statements as to International Standards on Auditing),
- (c) Technical support to the Board (more or less reliance on permanent technical staff).

(b) Whether the list of anticipated projects likely to commence in 2012–2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:

- (i) **Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;**
- (ii) **Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and**
- (iii) **How these anticipated projects should be prioritized in light of the current projects (Column A).**

We would first of all like to stress that, from our perspective, the projects referred to as A2 to A6 are important ones and should be finalised.

A critical element to ensure standards serve their purpose is their implementation. Therefore, among anticipated projects, we would support projects B1 and B4 which both relate to implementation and further recommend these projects be combined. Furthermore, we believe that it is within the direct remit of the IAASB to undertake the identification of standards implementation challenges on an ongoing basis. Hence, we recommend that project B4 (Implementation monitoring) would be seen as an integral part of the IAASB operations rather than as a separate project.

Finally, though they appear to be of less significance to us, we could support projects B2 (Revision of ISRS 4400) and B5 (Service organisations).

(c) With respect to the additional projects (Column C):

- (i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012–2014 (Column B); and**
- (ii) Whether any particular project(s) in Column C would not be supported;**

Because project C1 (Review of IAPS 1004 and IAPS 1006) is of direct relevance to us, we believe it deserves to be prioritized. As indicated in bilateral discussions with the Chairman of the IAASB, the Basel Committee's Audit Subgroup will start the update of IAPS 1004. We would like to invite the IAASB to participate in this process.

A number of issues raised during the financial crisis indicate that the topics to be addressed in projects C5 (Assurance on corporate governance) and C6 (Assurance on Internal control) deserve to be conducted with priority and with utmost consideration.

(d) Whether there are additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C.

The recent financial crisis highlighted a number of shortcomings, some of which were immediately identified and were or are still being dealt with. We would recommend to IAASB to assess, if and to what extent, audit standards could be strengthened directly in light of the recent experience. This review could be based on empirical evidence with a focus on audit practices.