



## **Draft Guidelines on communication between competent authorities supervising credit institutions and statutory auditor(s) and audit firm(s) carrying out the statutory audits of credit institutions**

ICAEW welcomes the opportunity to comment on the *Draft Guidelines on communication between competent authorities supervising credit institutions and statutory auditor(s) and audit firm(s) carrying out the statutory audits of credit institutions* published by EBA on 21 October 2015, a copy of which is available from this [link](#).

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## MAJOR POINTS

1. ICAEW fully supports the objective of improving the communication between statutory auditors and competent authorities supervising credit institutions and believes that this can deepen and enrich both auditors' and supervisors' risk assessments. We agree that there is the opportunity for regulators to derive more benefit from the knowledge and experience auditors have about the financial institutions they audit. We welcome the continuing consultation on how this can be best achieved through sharing information.
2. The importance of good communications and a good relationship between auditors and supervisors has long been promoted as it helps both parties achieve their overlapping but distinct objectives. To that extent it is a 'public good' as it serves the interests of wider society if these two key agents, auditor and supervisor, are able to share information pertinent to their respective roles.
3. The 2014 Basel standards set an international standard for the auditor-supervisor relationships. Of the nine Basel principles, numbers six to eight are most pertinent to the auditor-supervisor dialogue. We feel that the EBA providing guidelines on communication between competent authorities and external auditors is appropriately emphasised.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Is the scope of application of the guidelines appropriate and sufficiently clear?**

4. Yes.

**Q2: As currently foreseen, the application date will be in the last quarter of 2016. Is the date of application of the guidelines appropriate?**

5. Yes.

**Q3: Is the general framework of the communication between competent authorities and auditors appropriate and sufficiently clear? Please indicate any additional elements to be included.**

6. Yes. We agree that the responsibility should lie with both the competent authority and the auditor(s) for establishing effective communication which should be open and adaptable.

**Q4: Please provide any comments you may have on the appropriateness of the proposed proportionality approach.**

7. We agree that the elements of communication should be proportionate with the credit institutions' size, internal organisation and nature, scope and complexity of their activities. However we feel the need to emphasise that this needs regular monitoring and the elements of communications need to be adaptable enough to allow for unplanned events. We feel that the principles as put forth are sensible, and of suitably high level to allow proportionate implementation based on the level of risk associated with the bank or banking group.

**Q5: Are the guidelines on the scope of information to be shared during the communication appropriate and sufficiently clear? Are the issues on which information may be shared in Annex I appropriate and sufficiently clear? Please indicate any additional issues to be included.**

8. Yes. In the UK ICAEW worked with the Bank of England, Financial Services Authority and audit firms to develop a code of practice for the relationship between external auditors and supervisors, which was issued by the FSA in 2011. This was adopted by the Prudential Regulation Authority and the Financial Conduct Authority when they assumed their responsibilities. The code of practice describes expectations on the nature of the relationship and calls for monitoring of the quality of this relationship as well. It also sets out a standard agenda for bilateral meetings which makes clear to supervisors where they are expected and permitted to exchange views; it will contribute to the quality of external audits as well.
9. Similar recommended procedures would also help the EBA to enable European supervisors and auditors to enhance the quality of their dialogue. Supervisory practices vary across member states and a guidance issued by the EBA could impede a level playing field between credit institutions. The scope and terms of this relationship can be determined in individual jurisdictions and should be clear to both the supervisor and the external auditor – for example, through guidance issued by the banking supervisory authority.

**Q6: Are the guidelines on the form of communication appropriate and sufficiently clear? Please indicate whether any particular form of communication should be used and under which circumstances it should be used.**

10. Yes. We believe that constructive, two-way communication between auditors and supervisors can help each party, by enriching their knowledge and risk assessment processes and sharing any concerns and encourage our profession and the regulators to regularly engage in sufficiently frequent and constructive dialogue, both in terms of formal meetings, and more informally should this be considered an effective way of communicating more general ideas about the current environment and concerns.
11. When performing a financial statement audit in accordance with internationally accepted auditing standards, the external auditor should communicate with management and/or those charged with governance about significant matters relating to financial reporting or supplementary matters, and these communications may be accessed by the supervisor. In the same manner, in certain jurisdictions, the external auditor may also have access to the supervisor's communications to the bank. Given the benefits that may ensue, when communicating with management and/or those charged with governance of the bank, both the supervisor and the external auditor should consider communicating with the bank in writing about matters that may also be of interest to each other. These written communications would then form part of the bank's records to which the other party should have access.

**Q7: Are the guidelines on the participants in the communication between competent authorities and auditors appropriate and sufficiently clear? Are there any other participants that should be considered participating? Under which circumstances should other participants be considered?**

12. Yes. It is important that the participants in the communications are informed of issues discussed without undue delay. In our experience bilateral meetings between external auditors and competent authorities are the most helpful way of information sharing and they tend to be more open and constructive than trilateral ones. We also agree with the importance of safeguarding succession of the communication to ensure that discussions can be continued seamlessly regardless of turnover of staff on both sides.

**Q8: Are the guidelines on the frequency and timing of communication appropriate and sufficiently clear? Please provide information on any additional circumstances which may necessitate a different frequency and timing of communication.**

13. Yes. We agree that the establishment of the appropriate frequency and timing of communications (including consideration of the use of bail-in tools and recovery and resolution situations) is the responsibility of both competent authorities and auditors and it requires regular monitoring to allow for sufficient adaptability.

**Q9: Are the guidelines on the communication between competent authorities and auditors collectively appropriate and sufficiently clear? Please indicate any additional element which should be included in the guidelines regarding the communication of competent authorities and the auditors collectively.**

14. Yes. ICAEW is highly supportive of effective auditor supervisor dialogue, and played a large role in developing the model used in the UK. We would encourage the EBA to emphasise the importance of the two-way dialogue within the guidelines. We feel that the ability and onus on both sides to share information about both entities and the industry (for example IFRS 9 issues) will facilitate a greater and freer flow of information. This will allow both auditors and supervisors to make more informed risk assessments, which would have a positive impact on the quality of both audit and regulation.

**Q10: Do you agree with the impact assessment and its conclusions, having regard to the baseline scenario used for this impact assessment? Please provide any additional information regarding the costs and benefits from the application of these guidelines.**

15. Yes. Considering the baseline scenario and the options described in the impact assessment we agree that proportional application of all the requirements with additional obligations achieves the objectives of the guidelines. Competent authorities and auditors should determine together the appropriate frequency of communication, but it should allow at least one annual bilateral meeting. At least one annual meeting between supervisors and auditors collectively would provide an appropriate balance of costs and benefits.
16. In the UK the PRA has been consulting on a different form of communication between auditors and supervisors. This is suggested to be a written report provided by the auditor based on questions set by the regulator in advance. There has been no final outcome from the consultation process; however we would like to note that in the opinion of the banking profession considering the benefits of the recommended procedures the costs would not be justified given the large amount of written material that is already available.

**Q11: Please provide any additional comments on the draft guidelines.**

17. We have no further comments of these draft guidelines.