Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

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Afternoon Session

Key foundations of high-quality reporting: International audit and assurance requirements and good practices in their implementation

Presented by

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BCBS perspective on ISAs and their implementation

Panel on “Key foundations of high quality reporting: International audit and assurance requirements and good practices on their implementation”

32nd session of UNCTAD ISAR

Louise Eggett, BCBS Secretariat

4 November 2015
What is the Basel Committee?

- Basel Committee on Banking Supervision (BCBS)
- Mandate: strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability
  - Primary global standard-setter for prudential regulation of banks
  - Forum for cooperation on banking supervision
- Formed of supervisory agencies from 27 jurisdictions
- Chaired by Mr Stefan Ingves, Governor of Sveriges Riksbank
- Secretariat located at Bank of International Settlements in Basel, Switzerland
Role of ISAs

- BCBS committed to strong accounting and auditing standards at international level
  - Solvency and liquidity frameworks based on accounting frameworks
- Plays full role in standard-setting process and governance
- Highly supportive of ISAs
- Support IAASB’s current strategy and work programme
  - Priority: supporting global financial stability
Efficient and consistent implementation – a focus on banks

- Serious difficulties faced by banks in financial crisis, despite clean audit reports
  - Raised questions about audit expectation and audit quality
- Complexity in banks’ activities and growth in disclosures creates evolving and challenging audit environment
- Complexity in application of current and expected new accounting standards, especially for financial instruments

➢ Need for additional authoritative material to make bank audits more robust
BCBS materials – for banks and supervisors

- Revised BCBS guidelines on *external audits of banks*
  - Focus on audit quality
  - Enhanced supervisory expectations of auditors and audit committees
  - Communication with prudential regulators

- (Draft) BCBS guidelines on *expected credit losses*
  - Supervisory focus, but useful for auditors and audit regulators
  - Independent review of model validation processes
  - High risk areas: internal controls and disclosures
  - Communication with regulators
Improving consistency in bank audits

- **BCBS suggestions:**
  - Enhancing ISAs most relevant to bank audits
    - ISA 540
    - Also, for example, ISQC 1 and ISAs 250, 260, 315, 570, 620
  - Dedicated practice note for audits of banks

- **IAASB work programme:**
  - Special audit considerations relevant to financial institutions
  - Addressing financial statement disclosures
  - Liaison and dialogue with key stakeholders about audit quality
  - Financial Institutions Working Group
Good practices and lessons learned – BCBS accounting and audit dialogue

**Enforcement**
- Consistent methodology
- Emerging issues

**Standard-setting**

**Application**
- **Banks**: translation from standards into systems internal governance, unbiased and consistent reporting
- **Auditors**: pro-active involvement, professional scepticism, consistency within and between firms

**Supervision**

- Consistent methodology
- Supervisor-auditor relationship

Throughout the cycle: outreach and structural dialogue