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

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The Financial Stability Board’s agenda on audit quality

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What is the FSB?

• International body established to address financial system vulnerabilities and to coordinate the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability
• FSF initiated in 1999 by G7 following Asian crisis
• FSB re-launched by G20 in April 2009 as a successor to the FSF with expanded membership, broader mandate and enhanced operating structure
• Chaired by Mark Carney (Governor, Bank of England) with Secretariat in Basel hosted by BIS
Priorities

- Building resilient financial institutions
- Ending Too-Big-To-Fail
- Creating continuous OTC derivatives markets
- Strengthening shadow banking
- Achieving timely and consistent implementation
Interest in auditing

FSB Press release 15 March 2012

Enhancing the contribution of external to financial stability

Focus on

- Improving role of external audits in providing information to prudential supervisors
- Reinforcing effectiveness of regulation of external audits, particularly of financial institutions
- Greater consistency and continuing high quality
Current audit issues

Audit quality an issue as

- Prudential regulators need relevant and reliable audited information
- G-SIFIs are a priority for financial stability, and we need the best quality audits for those entities
- Market discipline is an important element of regulation. Markets need high quality relevant and reliable financial information
Related issues

Other work streams where audit quality is relevant

• Promoting consistent and comparable application of new standards for financial instruments
• Promoting high quality relevant and reliable risk disclosures by G-SIFIs.

Both depend on challenging professionally sceptical auditors to press for presentations and disclosures that promote a True and Fair view
IFIAR consistently identifies issues for G-SIFI audits on

- Internal controls
- Loan impairments
- Mark to model valuations
- Underlying lack of challenge and scepticism

These are real concerns for the FSB. They are made more acute by the moves to expected loss provisioning in IASB and FASB standards.
Challenges for standard setters

Developments that could improve quality

• Improved audit reports (already underway)
• More guidance for audit committees
• Greater focus on scepticism, in the light of expected loss provisioning
• IAASB planned work on ISA540
Next steps

- Will focus on steps auditors have taken to address issues raised in last survey. Has there been an improvement?
- Considering work on audit committees, as the prime link between company and auditor, particularly with greater auditor retendering
- Engaging with GPPC as source of information about macroprudential regulation and financial stability
- Continue to see IFIAR and audit regulators as a key stakeholder in continuing to enhance audit quality
What do we want?

• Better dialogue between regulators and auditors, on individual firm and industry-wide basis
• Greater confidence in the quality of audited information, manifested in greater auditor professional scepticism and better, more relevant disclosures in annual reports
• Better understanding of the key risks and uncertainties in the accounts and the audit
• Better engagement between knowledgeable and experienced auditors and audit committees
• Overall, better market discipline and greater transparency in the financial services sector
Questions
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