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

32nd SESSION

4 - 6 November 2015

Room XVIII, Palais des Nations, Geneva

Thursday, 5 November 2015

Morning Session

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

Presented by

Richard Thorpe
Adviser Accounting and Auditing
Financial Stability Board

*This material has been reproduced in the language and form as it was provided.
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*

FSB

FINANCIAL
STABILITY
BOARD

The Financial Stability Board's agenda on audit quality

Richard Thorpe, FSB Adviser on Accounting and
Auditing

ISAR 32 5 November 2015

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

- 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

Immediate concerns

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

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

?