



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Restricted

IAASB Consultative Advisory Group

Update on Basel Committee's work on audit

Patricia Sucher

6 March 2012



Outline

Two main projects:

- Internal audit guidance
- External audit guidance



Internal audit guidance

- Basel Committee issued draft *The internal audit function in banks* on 2 December 2011; consultation ends on 2 March
- Major revamp of existing guidance. Focuses on:
 - Supervisory expectations
 - Relationship between supervisors and IA function
 - Supervisory assessment for the IA function
- Final document expected by summer 2012



External audit guidance

- Initiative to update Committee's *The relationship between banking supervisors and banks' external auditors* of 2002
- Will incorporate elements of the Committee's *External audit quality and banking supervision* of 2008
- Aim at a single Committee document on external audit in future.



External audit guidance

- Preliminary outline suggests possible main sections about:
 - Supervisors' expectation relevant to external audit
 - Supervisors' expectations with regards to banks governance arrangements in relation to financial reporting
 - The relationship of the supervisory authority and the external auditor



External audit guidance

- Topics in focus
 - Audit quality
 - Professional scepticism
 - Specificity of banks / specific expectations
 - i. Complex financial instruments
 - ii. Loan loss provisioning
 - iii. Fair value measurement
 - iv. Off balance sheet items
 - v. Going concern
 - vi. Disclosures
 - Cross border activities and subsidiaries
 - Independence, ethical standards and non-audit services
 - Expectations relevant to the regulatory framework



External audit guidance

- Topics in focus (con't)
 - Audit committee
 - Internal control over financial reporting
 - Objective of the relationship between external auditors and supervisors
 - Information sharing
 - Coordination
 - Audit plan
 - Confidentiality issues
 - Specific arrangements regarding systemically important banks



External audit guidance

- Outreach
 - Outreach is planned with firms, standard setters, audit regulators and possibly the banking industry
- Draft guidance planned to be delivered to Basel Committee by end 2012



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