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Pat Sucher
Technical Specialist in External Audit and Assurance, Accounting and Audit Policy Team
Prudential Policy Directorate
Bank of England
Threadneedle Street
London
EC2R 8AH

Via email: cp8_15@bankofengland.co.uk

Engagement between external auditors and supervisors and commencing the PRA's disciplinary powers over external auditors and actuaries (CP8/15)

Dear Ms. Sucher,

The International Federation of Accountants® (IFAC®) values the opportunity to comment on the Prudential Regulation Authority's (PRA) abovementioned consultation paper (the Paper). IFAC welcomes the PRA's efforts toward enhancing the auditor-supervisor relationship and commends the PRA on its approach of consulting widely on these important matters.

Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education. As such, it aims to provide the perspective of the global accountancy profession.

IFAC concurs with the Paper's emphasis on the importance and relevance of the auditor-supervisor relationship in supporting judgement-based supervision and helping promote the safety and soundness of PRA-authorized firms. Additionally, we note the critical importance of interactions among the wider financial reporting supply chain toward these same objectives, including boards, management, financial statement preparers, and other regulators.

The auditors' core role and written reporting to supervisors

IFAC notes that the primary objective of audited financial statements is to provide decision-useful information for investors, and potential investors, in capital markets; while the PRA's stated aims through its supervision are to develop a rounded, robust, and comprehensive view of supervised firms, to judge whether they are being run in a safe and sound manner, and to assess whether insurers are protecting policyholders appropriately.



This distinction is important, recognizing that the financial information reported by these firms in financial statements is not purporting to meet all overarching supervisory ideals, notwithstanding that it has an important role to play.

IFAC agrees it is important to consider carefully what role the PRA would envisage for auditors from a supervisory perspective, noting that auditors' core role is forming an opinion on the financial statements. Recognizing that the PRA has to a large extent considered the implications of its proposals in this context in the Paper, we would emphasize the following critical matters to consider regarding any change or addition to auditors' responsibilities:

- The specific scope of reporting and additional work required from auditors;
- The arrangements surrounding any additionally required engagement terms and related considerations, such as any required consent from the auditee and auditor independence; and
- The interaction of the above with mandatory standards under which auditors carry out their central remit, such as UK Auditing Standards and Ethical Standards for Auditors.

The interaction and possibility of duplication with requirements for extended auditor's reports recently introduced in the United Kingdom (and similar requirements recently issued in revised International Auditing Standards) augment the importance of these matters.

We would recommend that in order to achieve the aims of the PRA's proposal for written reports from auditors to the PRA, it will be crucial to establish a regular dialogue between the auditing profession, Financial Reporting Council (FRC), and PRA to exchange views on the proposed reporting and its implications in terms of the above matters. This would, for example, enable early identification of specific practical issues in regard to the questions being contemplated by the PRA for any given year. Some jurisdictions with similar written reporting requirements have established a biannual forum for dialogue between supervisors, other relevant regulators, standard setters, and the auditing profession.

Audit and financial reporting quality

IFAC concurs with the PRA's emphasis on the importance of audit quality, which is a key aspect in promoting high-quality financial reporting. The PRA's commentary goes toward the wider context and value of auditor interactions with regulators in setting an environment conducive to audit quality. IFAC draws attention to the International Auditing and Assurance Standards Board's® (IAASB®) recent publication, [*A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*](#), The IAASB framework extends analysis along a similar course to a broader set of key elements of audit quality, encouraging key stakeholders to challenge themselves to do more to increase audit quality in their particular environments, and facilitate greater dialogue between key stakeholders on the topic.



Collaboration and effective regulation

IFAC commends the PRA's approach to consultation on these important matters and the ongoing monitoring of the effectiveness of auditor-supervisor engagement, including the recent survey of supervisors and feedback from auditors outlined in the Paper. Effective collaboration among different regulators, particularly where there is an intersection of objectives and responsibilities and of regulators with professionals, is a general and vital tenet of good regulation. We support the PRA's continued efforts toward making this as effective as possible as it addresses matters raised in the survey and feedback, and implements disciplinary powers over auditors and actuaries.

IFAC thanks the PRA for the opportunity to provide comments on this important initiative, and would be glad to participate and provide further input as it develops further.

Please do not hesitate to contact us should you wish to discuss any of the matters raised in this letter.

Regards,

A handwritten signature in black ink, appearing to read 'Fayez Choudhury', is written over a light blue rectangular background.

Fayez Choudhury
Chief Executive Officer