QATAR FINANCIAL CENTRE
REGULATORY AUTHORITY

LACPA 19th INTERNATIONAL CONGRESS:

Banking Regulation – The Role of the Auditor

Expectations, considerations and potential pitfalls

26 November 2014

Ewald Müller – Director, Financial Analysis
Qatar Financial Centre Regulatory Authority

PRESENTATION OBJECTIVES

This presentation will highlight the requirements in The Basel Core Principles for Effective Banking Supervision ("BCPs") and accompanying challenges for the regulator, auditor and reporting bank

CONTEXT

External audit quality and banking supervision - Basel Committee on Banking Supervision (December 2008)

- Bankers' and supervisors' reliance on external auditors' expertise and judgments has increased
- High-quality audits enhance market confidence, particularly in times of severe market stress
- Most of the world's banking assets are audited, and supervisors are increasingly reliant on high-quality bank audits to complement supervisory processes
- Major external audit firms have globalised and, as a result, their structures are complex and governance within the firms lacks transparency

SPECIFIC REQUIREMENTS – BCP 27

Audit of annual financial statements in accordance with internationally accepted auditing practices and standards
Verification and validation of the framework, structure and processes for fair value estimation and that banks report any significant differences between the valuations used for financial reporting purposes and for regulatory purposes
The supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit
Audits must cover areas such as the loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitisations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting **(NB: stress tests)**

SPECIFIC REQUIREMENTS – BCP 27

The supervisor has the power to reject and rescind the appointment of an external auditor that is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards
Rotation of external auditors (either the firm or individuals within the firm)
The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations
The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters which they believe are likely to be of material significance to the functions of the supervisor
The supervisor has the power to access external auditors' working papers, where necessary

KEY CHALLENGES

- Numerous reporting frameworks (for an international financial centre)
- No specific auditing standards for regulatory assurance:
  - ISA 800; ISAE 3000; ISRE 2400; Agreed-upon procedures?
- IFRS 9 still a work-in-progress in relation to macro-hedging
- Inconsistency between IFRS 7 et al and Basel Pillar 3 disclosures (audited? – no specific Basel requirement)

CONCLUSION

- Close dialogue and cooperation between regulator, auditor and audit committee is required
- The requirements/procedures and scope of assurance need to be agreed
- The wording of audit reports to be furnished to the to the regulator must be consistent across firms
- The auditor is pivotal in restoring/maintaining market confidence in conjunction with the regulator …
- BUT, those charged with governance at banks bear ultimate responsibility and accountability

THANK YOU