BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY

CONSULTATION PAPER CP8/15 - ENGAGEMENT BETWEEN EXTERNAL AUDITORS AND SUPERVISORS AND COMMENCING THE PRA’s DISCIPLINARY POWERS OVER EXTERNAL AUDITORS AND ACTUARIES

RESPONSE FROM ICAS TO THE PRUDENTIAL REGULATION AUTHORITY (PRA)

27 May 2015
Background

ICAS welcomes the opportunity to comment on the Bank of England Prudential Regulation Authority’s Consultation Paper CP8/15: Engagement between external auditors and supervisors and commencing the PRA’s disciplinary powers over external auditors and actuaries.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK’s and the world’s great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Comments

Introduction
We welcome that the Prudential Regulatory Authority (PRA) notes that there have been improvements in the last few years in how external auditors and the PRA engage with each other, framed by documents such as the PRA Code of Practice and by closer and more frequent engagement between supervisors and external auditors. We also believe this is an evolutionary process and that the PRA is right at this stage to review the processes that have been introduced to ensure that they are focused on issues that pose the most significant risks to advancement of the PRA’s objectives.

Constructive and Effective Dialogue
ICAS is supportive of the PRA’s vision that external auditors should contribute to its supervision of firms by directly engaging with the PRA in a pro-active and constructive way. We agree that an effective auditor-supervisor relationship supports judgement-based supervision and helps promote the safety and soundness of PRA-authorised firms. We also share the PRA’s belief that the benefits delivered by effective auditor-supervisor relationships are enhanced by the insights gained from auditors that carry out thorough audits. We very much believe in a dialogue led relationship that minimises the need for additional written reporting. We also believe that there is a need to establish trust in such relationships to ensure that the maximum benefits can be experienced by all involved. We note that the comments from both the auditors and supervisors to the PRA’s survey suggest that there remains plenty of scope for more effective dialogue between both parties.

Whilst we believe that ensuring there is effective communication between both the auditor and the regulator is absolutely key, we remain to be convinced that the PRA’s proposed new requirement in its current form, i.e. requiring the external auditors of the largest UK-headquartered deposit-taking institutions that are not subsidiaries of non-UK firms to provide written reports to the PRA as part of the statutory audit cycle, is the best way forward. Enhanced dialogue between the respective parties may in fact diminish the need for written reports of this nature. In particular, the auditor should benefit from dialogue at an early stage with the regulator as this may help to better inform the auditor’s risk assessment of the client concerned. We note that the PRA already receives copies of the auditor’s written report to the audit committee and believe that such reports already provide the PRA with valuable insights.
**Additional Written Reporting Requirements**

However, if the PRA settles on the additional auditor reporting requirement, we would prefer the introduction of a more bespoke system that is tailored towards individual entities over one requiring responses to a series of generic questions which apply to all such entities. We would recommend that any additional work required of the auditor, which the auditor views to be outside of the work that they would have otherwise have intended to perform, should form part of a separate engagement. The auditor’s primary responsibility is to issue an opinion on the truth and fairness of the financial statements to shareholders and we do have concerns that the PRA’s proposals would potentially lead to unduly regulatory influenced audit engagements.

We would also suggest that, in certain instances, the regulator should, at least in the first instance, direct certain of its inquiries to the management of the financial institution, e.g. the responsibility for ensuring that an entity has proper corporate governance and internal controls rests with management.

We do however welcome that:

- the intention is to limit the scope of written auditor reporting to the PRA to the largest UK banks and building societies in the first instance; and
- that the 2015 year ends would be used as a dry run before fully implementing the proposals in the following financial year.

**Independent Academic Research**

ICAS will publish, in early June, an independent academic research report which, amongst other recommendations, supports the proposal by the PRA for increased dialogue between auditors and supervisors. We believe that this report will be useful to the PRA in its deliberations on engagement between external auditors and supervisors and a copy will be submitted to the PRA as soon as it is published. The report will also be freely available to download at icas.com. The report is entitled ‘Audit, supervision and risk in financial services’, by Ian Dewing and Peter Russell, from the University of East Anglia.