



Auditor Protocol  
Central Bank of Ireland

23<sup>rd</sup> September 2011

Dear Auditor Protocol Team

DIMA welcomes the opportunity to respond to the Central Bank of Ireland's consultation paper 56: Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Service Providers – 'The Auditor Protocol'.

We note that the background to the development of the auditor protocol refers to "a range of domestic and international publications which have looked at the perceived weaknesses in the existing audit framework or have proposed policy on how the audit process could be improved." The three publications specifically referenced in the consultation paper focussed on the economic crisis and the banking industry. It is widely recognised that re/insurance activities were not significant contributors to the economic crisis; neither does it appear that re/insurance activities are systemic in nature. Thus we recommend that the application of a protocol such as this to the re/insurance sector take these factors into account, and be exercised accordingly.

The proposals within the protocol will alter the relationship between the regulatory body and auditors, and have a commensurate impact on the relationship between the regulated firms and its auditor. An auditor is an independent third party which is responsible for ensuring that the accounts of the firm are true and fair; an environment such as that promulgated by this proposed protocol adds another dimension to the auditor's responsibilities which does not exist in legislation. This is likely to change the audit approach, and have far-reaching consequences which have not as yet been identified.

In addition, where regulated firms are part of a wider group which operates in jurisdictions in which such requirements do not exist, there could be concerns at group level about these requirements above and beyond the benefit that would be derived from such a system being imposed.

### **Proposed scope and implementation**

We note and welcome the Central Bank's proposed approach "to apply the Protocol, in the first instance, to those firms which are rated High Impact under the Central Bank's new regulatory risk model...". This does, however, imply that firms which are in lower impact categories may become subject to the protocol at some point in the future. We would recommend in particular that those firms designated as "low" or "medium-low" impact be descoped in their entirety from the protocol, since the requirements and resource needed to fulfil them would not result in any commensurate benefit. Currently, the re/insurance sector accounts for 335 entities regulated by the Central Bank of Ireland, the vast majority of which are anticipated to be rated as low or medium-low impact under the Prism system. Should the scope of the protocol be extended to apply to these firms, the immediate result would be a minimum of two bilateral meetings per

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year, which would impose a burden of almost 700 additional meetings for the CBI in relation to its regulated re/insurance entities. In addition, the proposal for trilateral meetings could push the total of meetings required under the protocol to around 1,000 per annum, although this could create its own problems since a significant number of firms are subject to the corporate governance code for captives, which does not require a separate audit committee, nor INEDs. There is an immediate question about the efficiency and effectiveness of such a system, if the firms themselves are deemed by the Central Bank's own metrics to be low or medium-low impact.

## Appendix 1

### Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Services Providers - Draft

#### Introduction

##### 1. The aim of this Protocol...

We propose this paragraph specify that the Protocol applies specifically and solely to high impact firms.

#### The General Framework

##### 4 Meetings between the Central Bank and auditors shall be governed...

By including the word "all" in paragraph (a) and "any" in paragraph (b), the Central Bank has provided an extremely wide scope which does not appear to be subject to proportionality. We propose both words be deleted so that the professional expertise of the Central Bank and auditing firm be applied.

Paragraph (c) appears to explicitly prevent a regulated entity from being informed of the content of meetings and communications between the Central Bank and auditors. We would suggest that this be amended to enable information to be shared with the regulated entity.

##### 5 Material information (i.e. information which is deemed...

We are concerned that the concept of materiality is not sufficiently delineated and that this could result in differences in definitions between auditors and the Central Bank.

##### 6 Barriers to the sharing of information...

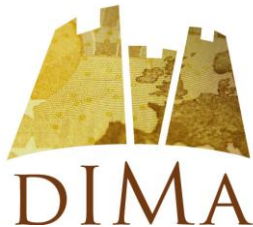
This paragraph may impact on issues of group disclosure, and should be considered in the light of current legislative requirements and other practicalities.

##### 7 Contractual agreements between auditors and firms...

Although not a major point, the Central Bank should be aware that this paragraph may require a reissue of the audit engagement letter.

##### 8 In order for any meetings between the auditor...

This paragraph raises resource issues, in particular relating to time and cost. The protocol nowhere makes it clear about which party will be expected to bear the increased expense which will directly result from the proposed regime. In addition, a Lead Partner in an audit



firm may find themselves overburdened from a time perspective if there is a substantial number of firms encompassed by the protocol.

### **Bilateral meetings**

#### **9 It is expected that there will be at least two formal...**

There should be transparency and disclosure to the management of the regulated entity about which these meetings are to be held to assist in an appropriate and constructive process. Requiring an Audit Partner to attend these meetings will directly involve preparation costs and attendance fees for that individual. The protocol does not address how the increased costs of implementing the protocol will be met.

### **Pre Audit Meeting**

#### **10 It is envisaged that this meeting will be held as part...**

It is unclear whether the proposal for a pre-audit meeting is intended to contribute to audit scorings, to flag potential issues or for some other outcome.

### **Post Audit Meeting**

#### **12 It is envisaged that this meeting will be arranged after...**

The Central Bank specifies that this meeting “may occur before audit sign off if it is deemed more beneficial.” This may be interpreted as an opportunity to influence the audit sign-off, which may be seen as counter to the roles and responsibilities of the auditor.

#### **13 It is expected that this meeting will have an Agenda...**

The proposals within this paragraph, in particular relating to (ii) “discussion on audit findings as originally presented to the firm and the adequacy of the firm’s response to these findings” should provide the firm with the opportunity to make adjustments if necessary.

Discussions relating to (v) the future strategy of the firm and the impact that it may have on audit and regulatory issues are outside the remit of an audit and therefore irrelevant in the context of this protocol.

### **Trilateral Meetings**

#### **14 The Central Bank, through its Corporate Governance requirements...**

DIMA has canvassed the opinions of Independent Non-Executive Directors currently engaged with DIMA member companies, since the under the corporate governance requirements the chairman of the audit committee must be an INED, and within the protocol that the chair of the audit committee, or in the absence of an audit committee, another INED attend trilateral meetings. The vast majority of INEDs who responded to DIMA are clear that the audit committee has an important oversight role within the firm, but there are issues about the level of detailed information which would be required through the proposals around trilateral meetings, particularly since senior management is not included in these meetings under the proposed protocol. INEDs have stated their concerns that the delineation between INEDs and executive directors may be blurred by the proposals.

The proposed protocol would change several dynamics within the INED role including a greater responsibility within the regulated entity, closer relationships with both the Central



Bank and the Audit Partner, and more detailed information and knowledge of the regulated firm. This will translate into greater time commitment required from the chair of the Audit Committee, which inevitably will result in a higher fee being charged to the regulated firm. Such an increase in costs to the regulated entity, at a time when there is a host of increased costs related specifically to regulation, must have a measurable benefit in order to be justified. There are also concerns that the proposals would place excessive responsibilities on the chair of the audit committee compared to other directors, and may inhibit full discussion with auditors in certain circumstances.

DIMA recognises that failures within the banking system in Ireland and further afield have highlighted significant gaps in the regulatory system which must be corrected. We have all felt the harsh impact of the systemic failures and appreciate that these must never be allowed to recur. It is vital, however, that redressing inadequacies in one sector does not unnecessarily overburden another sector; to this end, we urge the Central Bank to limit the scope of this protocol to high impact firms, and, in addition, to undertake an impact assessment based on the resource and cost issues outlined in this submission.

Yours faithfully

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CEO  
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