



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2011

Feedback to Consultation Process on CP 56 “The Auditor Protocol”

No.	CP 56 Ref.	Obligation per CP 56	Comments Received	Summary of Key Comments	Nature of Change
Legal Basis					
1	4(c) & 7	<p>4 (c). All communications between the Central Bank and auditors shall be deemed confidential under Section 33AK of the Central Bank Act, 1942 (as amended).</p> <p>7. Contractual agreements between auditors and firms should not hinder information sharing. Specifically, the terms of the audit engagement shall include a provision that acknowledges that the Central Bank and the firm's auditors can discuss any issue that is of relevance to their oversight of the firm and that this communication will not be</p>	6	The Central Bank received a number of comments on how the Auditor Protocol would be enforced, the legal basis of the Auditor Protocol and the protections that would be provided to the auditor should the auditor disclose information to the Central Bank that is not covered under Section 47 of the Central Bank Act, 1989 and/or Regulation 7 of the Post BCCI Regulations.	The Central Bank is conscious of the concerns raised by stakeholders regarding the legal basis for supporting the Auditor Protocol. The Central Bank is however confident that regulated entities and auditors can include a paragraph in their engagement letters that would adequately address the auditors' concerns.

		determined to be a breach of duty by either party.			
Communication with Firms and External Parties					
2			4	<p>The Central Bank received a number of requests for executive management to attend the pre/post audit meeting and/or that the minutes of these meetings would be made available to the firm.</p> <p>We also received comments on whether the information gathered from the Auditor Protocol would be shared with other Regulators and/or group auditors.</p>	<p>The Central Bank believes that these meetings should be conducted in an open and frank manner and be free from any perception of bias. The Central Bank and/or the auditors reserve the right to approve the list of attendees at meetings and/or the circulation of minutes.</p> <p>The Auditor Protocol will become part of the Supervisory "tool kit" and the Central Bank's obligations in relation to information sharing with other regulators and/or group auditors remain unchanged.</p>

Role of INEDs, Audit Committee and Chairman					
3			3	The Central Bank received a number of comments that the Auditor Protocol was increasing the requirements on non-executive directors.	The Central Bank believes that Audit Committees and INEDs have a very important role in the corporate governance of firms. People who occupy these roles should be willing to take an active part in facilitating the Central Bank and the external auditors complete their regulatory and statutory duties.
Cost					
4			4	The Central Bank received a number of comments regarding the cost of implementing the Auditor Protocol and asking who would bear this cost.	The Central Bank believes that the Auditor Protocol will become part of the external audit process and the related costs will be captured as part of the overall audit fees.
Delineation of Duties and Scope of the Audit					
5			8	The Central Bank received a number of comments concerning whether the Auditor Protocol goes beyond the duties of the auditor, the Central Bank and the Audit	Paragraph 2 of the Auditor Protocol specifically states that, the Auditor Protocol is in addition to the statutory requirements on the auditors of firms to report to the Central Bank and that it also does not extend in any

				<p>Committee/INEDs. Comments received also sought clarification on whether the Auditor Protocol would replace more traditional communication particularly between the Central Bank and the Firm.</p>	<p>way the nature and purpose of the statutory audit as required under legislation. By its very nature and design, the Auditor Protocol facilitates communication between the three stakeholders (Central Bank, auditors and the Audit Committee/INEDs) and therefore the Central Bank expects that discussions will go beyond the statement of facts and will include the expression of opinions by the stakeholders (thereby going beyond specified duties). However, while these meetings may add to the knowledge and understanding of the stakeholders they should not prejudice the stakeholder or prevent him/her from obtaining sufficient evidence to support his/her own opinions.</p>
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Scope of the Protocol

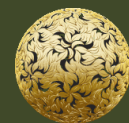
6	<p>The Central Bank is minded to apply the Protocol, in the first instance, to those firms which are rated High Impact under the Central Bank's new regulatory risk model, PRISM which will be rolled out over the course of 2011 and 2012. The categorisation of firms as High Impact reflects their relative size and potential to harm the economy, consumers or the wider financial system. Categorisation will be based on metrics such as balance sheet size, turnover, client base and so forth.</p>	<p>The Central Bank has received responses arguing that the scope should be extended to lower risk firms with others holding the contrary position.</p>	<p>The Central Bank will roll out the Auditor Protocol to High Impact firms as defined by the Central Bank's new risk based supervision framework (PRISM) in the first instance. However, the scope will remain under continuous review.</p>
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Definitions and Clarifications					
7				The Central Bank has received a number of requests to define or clarify a number of terms used in the Consultation Paper including:	
		Material information (i.e. information which is deemed would be of immediate interest to the other party) shall be shared between both parties at the earliest instance even if a meeting between both parties is not planned.	5	Material Information.	The term "Material Information" is closely linked to "Material Significance" as outlined in ISA 250 (UK and Ireland) Section B –'The auditor's right and duty to report to regulators in the financial sector.'
			6	Timings of meetings and the issues that will be discussed.	The timing of the pre and post audit meetings will be scheduled within the timeframe set for the audit plan and will be agreed by all parties, prior to the audit commencing. The agenda for the meetings provides the basis for discussion and indicates the nature of information to be shared. The Central Bank is of the view that if a more prescriptive list is provided this may unnecessarily restrict the scope of discussions at the meetings. However, as the Auditor Protocol will be

					<p>subject to continuous review further guidance and clarification could be provided in the future if appropriate.</p> <p>Based on responses received, the Central Bank believes that it is appropriate to add the following items to the Post Audit Meeting Agenda:</p> <ul style="list-style-type: none"> • The going concern concept; • Confirmation that the auditors followed their intended audit plan and did not make changes based on their findings during the audit.
		<p>Firms shall advise the Central Bank of the contact details of the audit partner responsible for the audit.</p> <p>Firms shall advise its auditor of the contact details of its senior examiner in the Central Bank.</p>	1	<p>The timeframe available to firms to notify the other party of a change in contact details.</p>	<p>The Central Bank believes a timeframe of 5 days is appropriate for a firm to advise its auditor/senior examiner of a change in the contact details of its senior examiner/auditor.</p>
		<p>Discussion on areas where management of the firm applied significant judgement and its impact on the auditor's view of the</p>	1	<p>Clarification of "Significant Judgement" and the application of "Auditor Scepticism".</p>	<p>The term "Significant Judgement" is one understood by auditors and applied by them as part of different aspects of an audit. The Central Bank has amended the wording regarding "Auditor Scepticism" from "This</p>

		financial statements and on the risk profile of the firm. This discussion would include the level of professional scepticism applied by the auditor.			discussion would include the level of professional scepticism applied by the auditor" to "This discussion would include how the level of professional scepticism was applied by the auditor".
		The Central Bank, through its Corporate Governance requirements, places a significant onus on the Audit Committee to monitor the effectiveness and adequacy of the firm's internal control, internal audit and IT systems.	1	The Central Bank has received a request for clarification on the level of knowledge of IT systems INEDs are required to have.	In order to address this query, the Central Bank has amended the sentence from: "... effectiveness and adequacy of the firm's internal control, internal audit and IT systems" to "... firm's internal control (including around IT systems) and internal audit".

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