

Governance, Accounting & Audit Policy Division  
Central Bank of Ireland  
PO Box 559  
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22 September 2011

**Consultation Paper 56: Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Service Providers – ‘The Auditor Protocol’**

Dear Sir/Madam

Chartered Accountants Ireland (‘the Institute’) is pleased to respond to the above Consultation Paper (‘the CP’). The draft protocol provides a basis for the conduct of bilateral and trilateral meetings between the Central Bank, auditors of ‘high impact’ institutions, and the institutions themselves. Central Bank and auditors will continue to meet, of course, to discuss institutions that do not fall within the classification of ‘high impact’ institutions. For the avoidance of doubt, we would welcome an insertion in the protocol to the effect that its content is equally applicable to the conduct of such meetings.

The Institute very much supports this initiative by the Central Bank and has previously identified such a proposal as having the potential to make a positive contribution to confidence in statutory audit and the supervisory process in its Discussion Paper ‘Statutory Audit – What the Future Holds’ published in January 2011. The Institute has also responded positively to a similar suggestion contained in the European Commission’s Green Paper ‘Audit Policy: Lessons from the Crisis’ published in October 2010. We have a number of comments and observations on the draft protocol which are detailed below. These are made in the interests of ensuring that maximum benefit is obtained by all parties to the protocol by the sharing of information in as open and frank a manner as possible.

The Institute has continued to study and consider the proposed mechanism for the sharing of information between the Central Bank and the auditor. A concern that has been expressed by a number of members relates to the absence of a legal underpinning to the protocol. This, in turn,

has raised questions about the absence of statutory protection for auditors. Auditors will seek to minimise risks of breaches of confidentiality that may occur through the operation of the protocol. The measure set out in paragraph 7 of the protocol is helpful in this regard. However, in the absence of an unambiguous legal foundation, the risk remains that both the Central Bank and auditors could be exposed to litigation, as well as imposing an undesirable constraint on open dialogue.

Therefore, we believe that the new framework for dialogue should, as soon as possible, be on the basis of a statutory or regulatory requirement. This approach would also appear to have the support of the Nyberg Report which called for such dialogue to take place on a 'compulsory' basis. These concerns could be addressed by amendments to relevant legislation (i) granting a right to auditors to communicate with the Central Bank (similar to that existing in the United Kingdom) and (ii) introducing legal protection when communicating in accordance with the protocol similar to that in section 47(6) of the Central Bank Act, 1989. The recently published Central Bank (Supervision and Enforcement) Bill, 2011 may provide an opportunity for addressing this at an early stage.

To operate effectively, and minimise the possibility of unrealistic expectations emerging, it is important that the language of the protocol provides a level of clarity and explanation that minimises misunderstanding and misinterpretation. In that regard, the draft could usefully include some additional explanation in a number of areas to clarify for respective parties the nature of information to be shared and the timing around this. It may also be helpful for the protocol to refer to the commentary in Practice Note 19(I)(revised)<sup>1</sup> addressing meetings between the Regulator and the auditor.

'Material information' is currently defined as 'information which is deemed would be of immediate interest to the other party' in the context of sharing information at the 'earliest instance'. What might be regarded as 'material information' in this context, to be shared outside of scheduled bilateral meetings, will often be a matter of professional judgement for both parties. While it may be difficult to specify examples of when this might arise, it would be helpful if the protocol was to set out circumstances where immediate reporting would not be envisaged. We have previously identified possible examples of such matters, including,

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<sup>1</sup> The Audit of Banks in the Republic of Ireland, Auditing Practices Board, 2008



- circumstances where an institution has rectified, or is in the process of rectifying, particular issues;
- issues which are already known to the Central Bank, either having been reported by the institution itself, or identified by the Central Bank's own supervisory activities;
- matters that are clearly trivial or immaterial.

Such matters may, of course, be discussed at scheduled bilateral meetings. International Standard on Auditing (UK and Ireland) 250B uses the expression 'material significance' in the context of the auditor of a regulated entity deciding whether to bring certain matters to the attention of the regulator. Practice Note 19(I)(revised) at paragraphs 47 to 55 contains commentary on the application of 'material significance' to bank audits. It might be helpful to consider this when finalising the protocol. In terms of specific 'agenda items' identified in the protocol, we would prefer to have some clarification on what is envisaged by discussions on application of the materiality concept and risk control functions. However, we understand that, in the early stages of implementation at least, there will be a certain learning experience on both sides.

In conclusion, we reiterate our support for this initiative of the Central Bank. We would like to emphasise again, however, our desire to see the protocol given a statutory basis. On the other matters raised above, it may be that these are resolved through experience of operating the protocol and the annual review process and we look forward to participating in this in due course.

We are available to discuss any of the above matters in further detail with you and look forward to the outcome of the consultation process.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Aidan Lambe'.

Aidan Lambe  
Director, Technical Policy

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