



**European Bank**  
for Reconstruction and Development

# **Corporate Governance of Banks in Eurasia**

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## **Views of an external auditor (disclosure of information)**

**London, United Kingdom**

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*The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD  
or its Member countries or the European Bank for Reconstruction and Development*

# Elements of Audit Quality

## What should banks expect?

Audit opinion

Communication to those charged with governance

Independent

Supported by evidence

Supported by objective judgement

Complete and appropriate

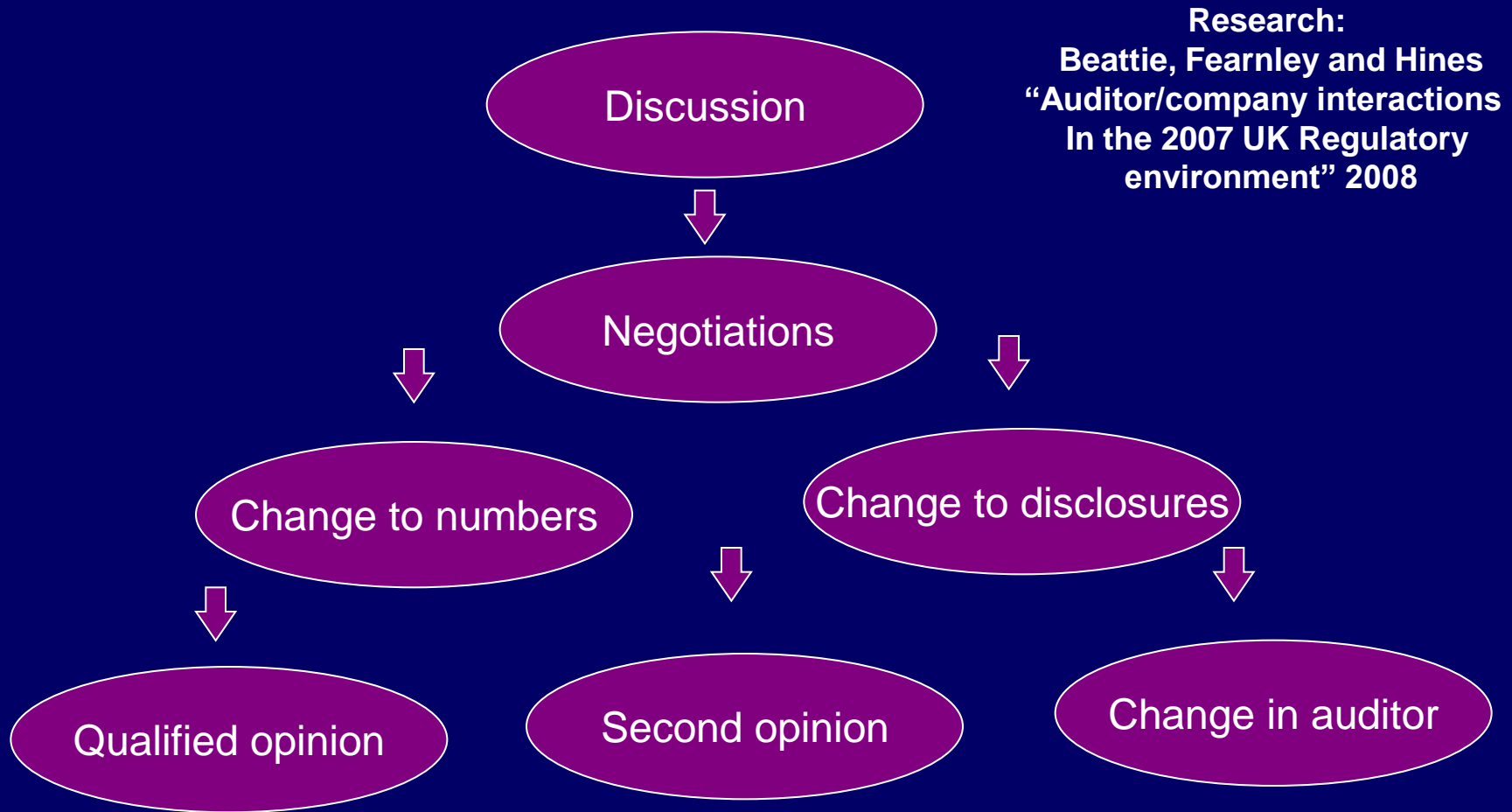
# External audit

## An integral part of the control environment



# External audit

## Communication - is it more than a written report?



# Communication

## Issues resulting in changes to disclosure

**Research:  
Beattie, Fearnley and Hines  
“Auditor/company interactions  
In the 2007 UK Regulatory  
environment” 2008**

**Table 4: Top 10 Issues resulting in change to the disclosures**

Issue	% indicating change took place (n=)			Rank		
	CFO (149)	ACC (130)	AP (219)	CFO	ACC	AP
Presentation of the primary financial statements	17.4	9.2	31.5	1	2=	1
Segmental reporting	16.8	9.2	21.0	2	2=	4
Business review	15.4	9.2	24.2	3	2=	2
Issues in subsidiary undertakings	12.1	6.9	23.7	4	9=	3
Exceptional Items	11.4	10.0	16.9	5	1	6
Intangible assets/goodwill	9.4	8.5	16.4	6	5=	7=
Financial Instruments	8.1	7.7	15.5	7	7=	10
Deferred tax assets/liabilities	7.4	3.8	16.4	8=	[16=]	7=
Directors' remuneration report	7.4	5.4	16.0	8=	[11]	9
Liabilities/provisions	6.7	4.6	11.0	10=	[12=]	[14]
Retirement or other employee benefits (eg, pension schemes)	6.7	4.6	13.2	10=	[12=]	[12]
Issues in associates or joint ventures	6.0	7.7	5.0	[12=]	7=	[19=]
Fair value on acquisition	4.7	8.5	18.7	[14=]	5=	5

# Communication

## Issues resulting in changes to disclosure

Key issues for banks are generally around management judgments

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# Independence

## How is it assessed?

### Threats

Self-interest

Self-review

Management

Advocacy

Familiarity

Intimidation

### Example Safeguards

Rotation of partners and staff

Restriction on Non-audit services

Resignation

Separate teams

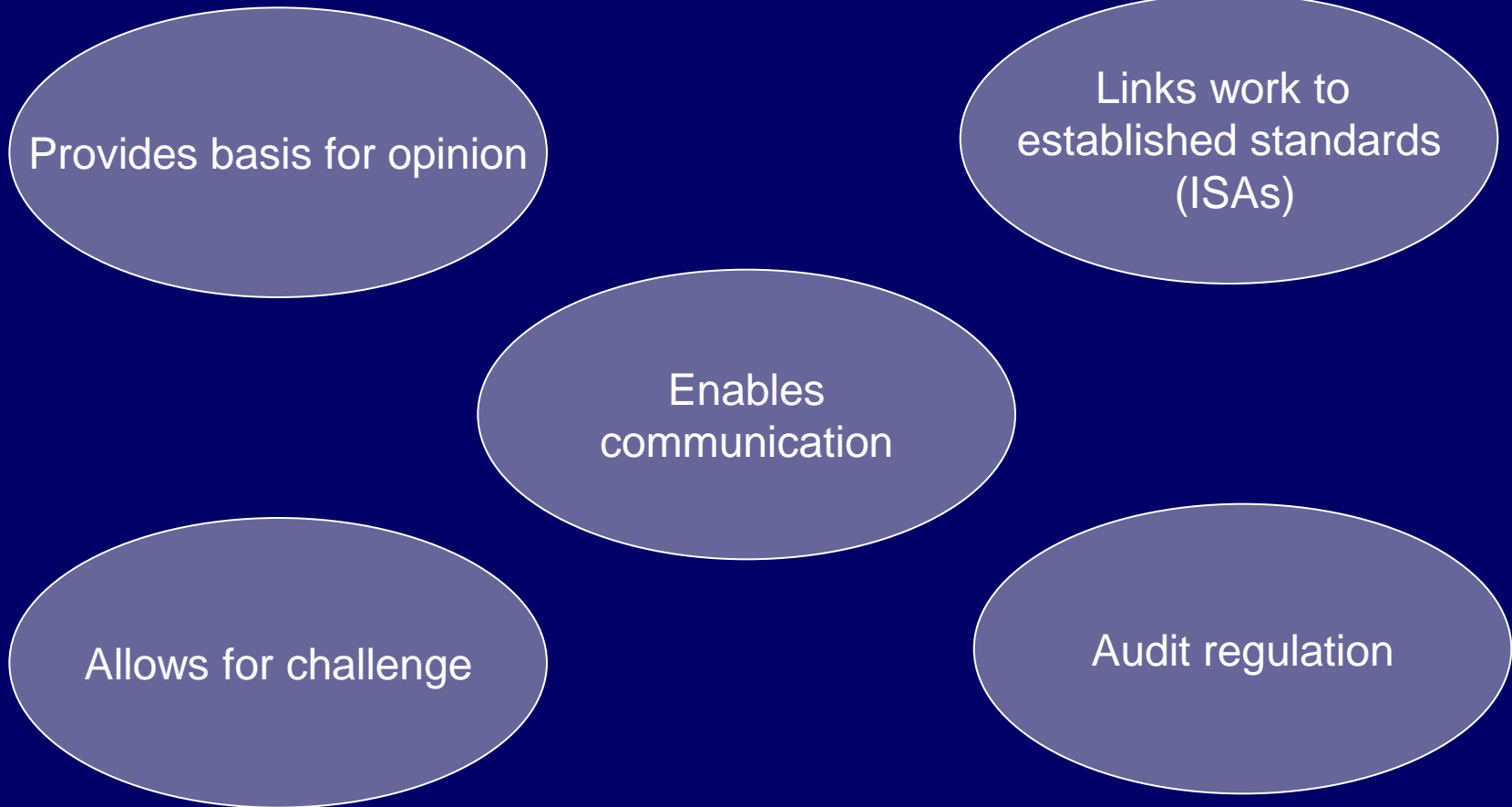
Independent review

Other suitable

IFAC Code of Ethics

# Evidence and objective judgement

## Why is it important?





# External audit

## What about internal control?

Gain an overall understanding (including control environment)

Look specifically at design and implementation of controls relevant to indentified audit risks

Consider testing controls to gain assurance

Report weaknesses to management and those charged with governance

Attestation is possible but benefit comes from rethinking what you do

# External auditors

## Any other benefits?

Reputation

Promote and spread  
best practices

Ask the difficult  
questions

Development  
of talent

Develop  
Guidance  
(e.g. credit crunch)

Promote  
discussion of risks

Deter  
fraud

Empower  
governance  
structures

Moderate  
regulator  
Interactions?

# External auditors

## How do banks secure the benefits?

Planning the financial reporting and closing process

Taking responsibility for every aspect of the financial statements

Open communication throughout the year

Taking Corporate Governance seriously

Develop a culture of continuous improvement

External auditors

Any questions ?

Thank you

# Deloitte.