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***Practice
Note***

19(I)

**THE AUDIT OF BANKS IN THE
REPUBLIC OF IRELAND**

Revised

 The Auditing Practices
Board

The Auditing Practices Board (APB), which is part of the Financial Reporting Council, prepares for use within the United Kingdom and Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditor's and reporting accountant's integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

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This Practice Note replaces Practice Note 19(I): 'Banks in the Republic of Ireland' which was issued in 2002.

PRACTICE NOTE 19(I)

THE AUDIT OF BANKS IN THE REPUBLIC OF IRELAND (Revised)

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PREFACE

This Practice Note contains guidance on the application of auditing standards issued by the Auditing Practices Board (the '**APB**') to the audit of the financial statements of banks in the Republic of Ireland. Guidance is also given on:

- direct reports to the Irish Financial Services Regulatory Authority¹ (the '**Financial Regulator**'); and
- the conduct of auditors' periodic meetings with the Financial Regulator.

This Practice Note is supplementary to, and should be read in conjunction with, International Standards on Auditing ('**ISAs**') (UK and Ireland), which apply to all audits undertaken in the United Kingdom ('**UK**') and the Republic of Ireland in respect of accounting periods commencing on or after 15 December 2004. This Practice Note sets out the special considerations relating to the audit of banks which arise from individual ISAs (UK and Ireland) listed in the contents. It is not the intention of this Practice Note to provide step-by-step guidance to the audit of banks, so where no special considerations arise from a particular ISA (UK and Ireland), no material is included in this document.

This Practice Note has been prepared in consultation with the Financial Regulator and is based on the legislation and regulations in effect at 30 April 2008.

Changes currently under active consideration that will impact on the legal and regulatory environment affecting banks, auditors of banks and auditors of companies generally, include:

- the Companies Consolidation Bill whose purpose is to consolidate company law acts and regulations and to implement the recommendations of the Company Law Review Group²;

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- 1 The Central Bank of Ireland, which came into being in 1943, was re-structured and re-named as the Central Bank and Financial Services Authority of Ireland ('**CBFSAI**') on 1 May 2003. This body carries out all of the activities formerly carried out by the Central Bank of Ireland and additional regulatory and consumer protection functions for the financial services sector. The CBFSAI has two component entities:
 - the Central Bank, which has responsibility for monetary policy functions, financial stability, economic analysis, currency and payment systems, investment of foreign and domestic assets and the provision of central services; and
 - the Irish Financial Services Regulatory Authority (Financial Regulator), which is an autonomous entity within the CBFSAI and has responsibility for financial sector regulation and consumer protection.
 - 2 The Company Law Review Group is a statutory advisory expert body charged with advising the Minister for Enterprise, Trade & Employment on the review and development of company law in Ireland. The Review Group was accorded statutory advisory status by Part 7 of the Company Law Enforcement Act 2001.

- a project for the consolidation and modernisation of financial services legislation is ongoing and a Bill is expected to emerge from that project to streamline the existing legal framework for financial services regulation;
- SEPA – Single European Payments Area. A project of the European banks, developed and managed by the banking industry, as represented by the European Payments Council. The intention is to harmonise bank systems throughout the European Union so as to make cross-border payments easier and eventually to facilitate banking from a single account in any one country;
- the Financial Regulator's 'Licensing and Supervision Requirements and Standards for Credit Institutions' (the **Financial Regulator Standards**) are in the process of being updated. A 'consolidated' Administrative Notice to reflect the Capital Requirements Directive³ ("**CRD**") is currently being drafted which will replace earlier Administrative Notices regarding solvency and capital adequacy.

Building societies

This Practice Note does not deal with specific matters requiring consideration in the course of auditing a building society's financial statements or with other aspects of auditors' obligations set out in the Building Societies Acts, 1989 to 2006.

3 The Capital Requirements Directive ('CRD') which is a term used to describe two EU Directives which transpose the Basel II Accord into a legal text for the purpose of its application to banks and investment firms across the European Economic Area (EEA). These directives are:

- Directive 2006/48/EC (recast) relating to the taking up and pursuit of the business of credit institutions; and
 - Directive 2006/49/EC (recast) on the capital adequacy of investment firms and credit institutions.
- Statutory Instruments (S.I.s) 660 and 661 of 2006 (which implement the CRD in Ireland) were signed into Irish law in December 2006 and have a commencement date of 1 January 2007
- The CRD repeals Directive 2000/12/EC relating to the taking up and pursuit of business of credit institutions which had brought together:
- The First Banking Directive, 77/780/EEC;
 - The Second Banking Directive, 89/646/EEC which was implemented in Ireland by S.I. 395 of 1992 – often referred to as the "Passporting Regulations";
 - Own Funds Directive 89/299/EEC and Solvency Ratio Directive 89/647/EEC and amendments to those Directives by Directive 91/633/EEC, Directive 94/7/EC, Directive 95/15/EC, Directive 95/67/EC, Directive 89/299/EEC, Directive 96/10/EC, Directive 2004/69/EC, Directive 98/32/EC and Directive 98/33/EC;
 - Consolidated Supervision Directive 92/30/EEC; and
 - Large Exposures Directive 92/121/EC.

The CRD also repeals the Capital Adequacy Directive 93/6/EC and amending Directives 98/31/EC and 98/33/EC.

Details of specific articles of other Directives also repealed by the CRD can be found at Annex XIII Part A of Directive 2006/48/EC and Annex VIII Part A of Directive 2006/49/EC.

Credit Unions

This Practice Note does not deal with specific matters requiring consideration in the course of auditing a credit union's financial statements. A separate Practice Note entitled "The Audit of Credit Unions in the Republic of Ireland" is being issued by the APB.

INTRODUCTION

1. Throughout this Practice Note, the term 'bank' refers to a credit institution (other than a building society) as defined by the CRD being an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account. Credit Unions and friendly societies are specifically excluded from the definition of a credit institution under the CRD and are not dealt with in this Practice Note.
2. As set out in the Preface above, the audit of building societies is specifically not covered by this Practice Note. However, banks and building societies share a number of common features and the regulatory approach of the Financial Regulator to building societies is broadly equivalent to that for banks. Consequently, the Practice Note's guidance on the statutory duty to report to the Financial Regulator is indicative of the duty to report under building societies' legislation and may be used by building society auditors to assist their judgments in this area, taking into account legislative differences in the detailed specification of matters to be reported to the Financial Regulator under the Building Societies Acts, 1989 to 2006; in particular section 88 of the Building Societies Act, 1989, dealing with the maintenance of satisfactory systems of internal controls, and sections 53 to 59 of the Building Societies Act, 1989, setting out specific audit requirements in relation to loans and transactions with directors.
3. Independent audit plays an important part in safeguarding the integrity of financial reports by directors of companies and other entities to the investing and business communities, both national and international. Additionally, auditors appointed to report on the financial statements of banks in the Republic of Ireland, and other members of the European Union, also contribute to the regulatory process.
4. In the case of overseas institutions which are not subject to the audit provisions of the Companies Act 1963 to 2006 and all Regulations to be construed as one with those Acts ('the Companies Acts'), the terms of engagement are a matter of contract between the auditors and their clients who may, for example, be local or head office management or the bank's home country auditors. Such engagements take many different forms: the auditors may be asked to report on the accounts of the Irish branch or only on particular aspects thereof, and the form of their opinion will also vary from case to case. The auditor undertaking such an assignment does not have to apply ISAs (UK and Ireland) but may find some of the guidance in this Practice Note of some assistance.
5. The Financial Regulator, established on 1 May 2003 pursuant to the Central Bank and Financial Services Authority of Ireland Act, 2003, ('**CBFSAI 2003**') is responsible for regulation of all financial services firms, including credit institutions, in Ireland. It also has an important role in the protection of the consumers of those firms. As the Financial Regulator its main tasks are to:

- help consumers to make informed decisions on their financial affairs in a safe and fair market; and
- foster sound, growing and solvent financial institutions which give consumers confidence that their deposits and investments are secure.

The Financial Regulator is a distinct component of the Central Bank and Financial Services Authority of Ireland (the '**CBFSAI**'), with clearly defined regulatory responsibilities. These cover all Irish financial institutions including those previously regulated by the Central Bank, Department of Enterprise, Trade and Employment, Office of the Director of Consumer Affairs and Registrar of Friendly Societies. The Financial Regulator contributes to the work of the CBFSAI in discharging its responsibility in relation to overall financial stability.

6. The scope of the statutory audit of a bank's financial statements is no different from that of the generality of companies in the Republic of Ireland. However, the Oireachtas has, in addition, placed responsibility on auditors to provide reports to the Financial Regulator if they encounter circumstances that, in their opinion, meet certain criteria set out in statute⁴, with the express purpose of making the regulator aware of matters that might jeopardise the stability of the banking and financial system or interests of depositors and others. ISA (UK and Ireland) 250, Section B, "The Auditor's Right and Duty to Report to Regulators in the Financial Sector" (**ISA (UK and Ireland) 250, Section B**) deals generically with such reports to the Financial Regulator in its capacity as banking supervisor and further guidance is set out in Appendix 2.
7. Auditors of banks in the Republic of Ireland may also be asked to review and report on interim profits for capital adequacy purposes. This Practice Note therefore distinguishes between the two types of assignment relating to banks:
 - the audit of the financial statements in accordance with the Companies Act 1963 to 2006 and all regulations to be construed as one with those Acts (the '**Companies Acts**'), including the auditor's duty to report directly to the Financial Regulator as a consequence of being the statutory auditor; and
 - the auditor's report on interim profits.
8. The Financial Regulator is entitled to hold periodic meetings with banks and their auditors. Such meetings are considered in paragraphs 163 to 170 of this Practice Note.

4 The Central Bank Act, 1989, the Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations, 1996 and the Central Bank Act 1997 as amended by the Central Bank and Financial Services Authority of Ireland Act, 2004.

9. Section 25 of the Central Bank Act 1997⁵ ('CBA 1997'), empowers the Financial Regulator to oblige a bank to provide a compliance statement to the Financial Regulator on request. If the Financial Regulator requests a compliance statement from a bank it may also, under Section 26 of the CBA 1997⁶ request that the bank's auditor prepare a report about the relevant compliance statement. The Financial Regulator has not yet commenced the compliance statement regime. It is envisaged that this provision will be considered as part of the project for the consolidation and modernisation of financial services legislation mentioned in the Preface to this document.

The Relationship between the objectives of the Financial Regulator and the objectives of the auditor

10. In many respects the Financial Regulator, as the banking supervisor, and bank auditors have complementary concerns although the focus of their concerns may be different. In particular:
- the Financial Regulator is primarily concerned with maintaining the stability of the banking system and fostering the safety and soundness of individual banks in order to protect the interests of the depositors. The Financial Regulator monitors the present and future viability of banks and may use their financial statements in assessing their condition and performance. The auditor's primary responsibility is to report to shareholders his opinion as to whether the financial statements present a true and fair view, in the course of which they consider the appropriateness of the use of the going concern concept as a basis for the preparation of the financial statements;
 - the Financial Regulator is concerned that banks maintain a sound system of internal control, including an adequately resourced, independent internal audit function, as a basis for safe and prudent management of a bank's business. The auditor is concerned with the assessment of internal control to determine the degree of reliance to be placed on the system in planning and performing the work necessary to express an opinion on a bank's financial statements; and
 - the Financial Regulator must be satisfied that each bank maintains adequate records prepared in accordance with consistent accounting policies and practices that enable it to appraise the financial condition of the bank. The auditor is concerned with whether adequate and sufficiently reliable records are maintained in order to enable the entity to prepare financial statements that do not contain material misstatements.

5 As inserted by section 26 CBFSAI 2004.

6 As inserted by section 26 CBFSAI 2004.

Communications with bank auditors by the Financial Regulator

11. When making any disclosures of information, the Financial Regulator must ensure that it does so in a manner that accords with the CRD and section 33AK of the Central Bank Act 1942⁷. Under these provisions, information that is confidential and has been obtained by the Financial Regulator as supervisor of banks may be disclosed only in restricted circumstances. However, under the CRD the Financial Regulator is not precluded from disclosing information to the auditor of a bank supervised by the Financial Regulator in relation to that supervision, provided that the Financial Regulator can satisfy itself that the auditor has obligations with regard to professional confidentiality or non-disclosure of information equivalent to the obligations imposed on the Financial Regulator itself.

Legislative and regulatory framework

12. The legal and regulatory framework within which banks operate in the Republic of Ireland is complex and involves:
- Statutes;
 - Regulations implementing EU Directives in the banking sector;
 - Other Regulations;
 - Administrative Provisions and 'Licensing and Supervision Requirements and Standards for Credit Institutions' ('**Financial Regulator Standards**') issued by the Financial Regulator; and
 - Other guidance issued by the Financial Regulator.

A summary of the legal and regulatory framework is set out in Appendix 1.

Financial statements

13. Financial statements of banks incorporated in the Republic of Ireland may be prepared under either of two reporting frameworks depending on the accounting policies adopted as follows:
- International Financial Reporting Standards ('**IFRSs**') as adopted by the European Union ('**EU IFRSs**')⁸;
 - Accounting standards issued by the Accounting Standards Board ('**ASB**') and promulgated by the Institute of Chartered Accountants in Ireland ('Generally Accepted Accounting Practice in Ireland, '**Irish GAAP**'). For entities using Irish GAAP

⁷ As inserted by section 26 CBSFAI 2003. In accordance with this section the Financial Regulator may disclose confidential information to the auditor of a supervised entity in relation to that entity, in accordance with Supervisory Directives, provided such disclosure is not prohibited by the Rome Treaty, the ESCB Statute or the Supervisory Directives.

⁸ Article 4 EC Regulation 1606/2002 – the IAS Regulation.

a further complication arises as, depending on the accounting policies adopted and the nature of the investments held, an entity may fall within the scope of Financial Reporting Standard 25 “Financial Instruments: Disclosure and Presentation” (FRS 25), Financial Reporting Standard 26 “Financial Instruments: Measurement” (FRS 26) and Financial Reporting Standard 29 “Financial Instruments: Disclosures” (FRS 29).

14. Groups listed on an EU regulated market and incorporated in the Republic of Ireland (including relevant listed Irish banking groups) must prepare consolidated financial statements in accordance with EU IFRSs and those parts of the Companies Acts applicable to companies reporting under EU IFRSs. Irish companies or non listed groups, including Irish banks and banking groups, are permitted to voluntarily adopt EU IFRSs for their financial statements. In preparing financial statements for banking institutions reference should be made to Statutory Instrument (S.I.) 116 of 2005, European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 and S.I. 765 of 2004, European Communities (Fair Value Accounting) Regulations, 2004.
15. The form and content of the financial statements prepared under Irish GAAP both including and excluding FRS 25, FRS 26 and FRS 29 is governed by the Companies Acts, Statements of Standard Accounting Practice (**‘SSAPs’**) and Financial Reporting Standards (**‘FRSs’**) issued by the ASB and Abstracts issued by the Urgent Issues Task Forces. Of particular relevance to banks in preparing financial statements is the European Communities (Credit Institutions: Accounts) Regulations, 1992 (the **‘Bank Accounts Regulations, 1992’**)⁹ which includes the mandatory format for the financial statements of such entities. Entities should also refer to S.I. 765 of 2004, European Communities (Fair Value Accounting) Regulations, 2004. FRS 23 “The effects of changes in foreign exchange rates” and FRS 24 “Financial reporting in hyperinflationary economies” also apply if entities fall within the scope of FRS 26. Complex rules are in place to determine the applicability of FRS 26.
16. In addition, the British Bankers’ Association and the Irish Bankers’ Federation have jointly issued a Statement of Recommended Practice (**‘SORP’**) covering segmental reporting by banks to which the auditor reporting under Irish GAAP may refer.¹⁰

Prudential requirements

17. Banks are subject to certain prudential requirements of the Financial Regulator. These include requirements relating to capital adequacy, liquidity, large exposures

⁹ S.I. No. 294 of 1992.

¹⁰ There were previously four additional banking SORPs issue covering the following: securities, advances, contingent liabilities and commitments, and derivatives. These SORPs were all withdrawn by the Accounting Standards Board on 31 December 2006.

(concentration risk), impairment and additional related aspects of systems and controls. Banks are also required to report to the Financial Regulator via regulatory which include:

- capital adequacy – ensuring sufficient capital resources in relation to risk requirements to absorb losses;
- liquidity – ensuring sufficient liquid assets or maturing assets to meet liabilities as they fall due;
- impairment;
- large exposures – avoiding undue credit risk concentrations; and
- sectoral limits.

THE AUDIT OF FINANCIAL STATEMENTS

ISAs (UK and Ireland) apply to the conduct of all audits. This includes audits of the financial statements of banks. The purpose of the following paragraphs is to identify the special considerations arising from the application of certain 'bold letter' requirements to the audit of banks, and to suggest ways in which these can be addressed (extracts from ISAs (UK and Ireland) are indicated by grey-shaded boxes below). This Practice Note does not contain commentary on all of the bold letter requirements included in the ISAs (UK and Ireland) and reading it should not be seen as an alternative to reading the relevant ISAs (UK and Ireland) in their entirety. In addition, where no special considerations arise from a particular ISA (UK and Ireland), no material is included.

ISA (UK AND IRELAND) 200: OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements.

The auditor should plan and perform an audit with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial statements to be materially misstated. (paragraph 6)

18. Auditing standards include a requirement for auditors to comply with relevant ethical requirements relating to audit engagements. In the Republic of Ireland, the auditor should comply with the APB's Ethical Standards for Auditors (ESs) and relevant ethical guidance relating to the work of auditors issued by the auditor's professional body. A fundamental principle is that practitioners should not accept or perform work which they are not competent to undertake. The importance of technical competence is also underlined in the Auditors' Code¹¹, issued by the APB, which states that the necessary degree of professional skill demands an understanding of financial reporting and business. Practitioners should not undertake the audit of banks unless they are satisfied that they have, or can obtain, the necessary level of competence.

Independence

19. Independence issues can be complex for the auditor of a bank because of banking and other relationships that the auditor and/or its partners and staff may have with the bank.

11 This is appended to the APB's Scope and Authority of Pronouncements.

Threats and safeguards are outlined in the APB's Ethical Standard 2 – Financial, business, employment and personal relationships.

20. In addition auditors will be aware that the Financial Regulator (Financial Regulator Standards, paragraph 10.3) does not permit the auditor of a bank to act in any capacity other than that of auditor, consultant or share registrar. Auditors review the services provided by their audit firm to a bank to consider whether there are relationships which may affect this prohibition. Furthermore, paragraph 10.3(iii) of the Financial Regulator Standards states that a bank shall not grant an advance or a credit facility to its auditor.
21. Where the bank has operations in overseas countries, the auditor ensures that any firm of auditors whom work on overseas branches or subsidiaries also considers its banking relationships and maintains appropriate independence from both the local entity and the parent's wider international operations.

ISA (UK AND IRELAND) 210: TERMS OF AUDIT ENGAGEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on agreeing the terms of the engagement with the client.

The auditor and the client should agree on the terms of the engagement. (paragraph 2)

The terms of the engagement should be recorded in writing. (paragraph 2-1)

The auditor should ensure that the engagement letter documents and confirms the auditor's acceptance of the appointment, and includes a summary of the responsibilities of those charged with governance and of the auditor, the scope of the engagement and the form of any reports. (paragraph 5-1)

22. Matters which the auditor may decide to refer to in the engagement letter are as follows:

- the responsibility of directors/senior management to comply with applicable financial services legislation and regulatory requirements;
- the duty of the auditor to report directly to the Financial Regulator, in its role as banking supervisor, under section 47 of the CBA 1989, Regulation 7(c) of the Post-BCCI Regulations, and sections 27B to 27F of the CBA 1997¹² in particular circumstances (see the section on ISA (UK & Ireland) 250 Section B and Appendix 2 of this Practice Note);
- the protection provided by section 47(6) of the CBA 1989, Regulation 9 of the Post-BCCI Regulations and section 27H of the CBA 1997 to auditors in respect of both fulfilling their duty to report and any disclosure of information required to respond to a query from the Financial Regulator on a matter relating to their audit;
- the requirement under companies legislation (specifically sections 193(3), 196 and 197 of the Companies Act, 1990) and listing rules to co-operate with the auditor; and
- that the auditor requests the bank to inform the auditor when it appoints a third party (including another department or office of the same audit firm) to review, investigate or report on any aspects of its business activities that may be relevant to the audit of

12 All references to sections 27B to 27F of the CBA 1997 refer to those sections inserted in the CBA 1997 by section 26 CBFSAI Act 2004.

the financial statements and to provide the auditor with copies of reports by such a third party promptly after their receipt.

23. In this connection the auditor is aware:

- that the Financial Regulator does not need to approve the appointment of an auditor;
- of the auditor's reporting obligations in certain circumstances arising under section 47 of the CBA 1989, section 27B to 27F of the CBA 1997¹³ and Regulation 7 of the Post-BCCI Regulations; and
- that the auditor of a bank incorporated in the Republic of Ireland must give written notice, under section 47(1)(d-e) of the CBA 1989 and Regulation 7(c) of the Post-BCCI Regulations to the Financial Regulator if he:
 - resigns before expiration of his term of office;
 - does not seek re-appointment; or
 - decides to qualify the audit opinion.

13 As inserted by section 26 CBFSAI 2004.

ISA (UK AND IRELAND) 220: QUALITY CONTROL FOR AUDITS OF HISTORICAL FINANCIAL INFORMATION

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements.

Reference should also be made to ISQC 1 (UK and Ireland) – Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements.

The engagement partner should be satisfied that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report that is appropriate in the circumstances to be issued. (paragraph 19)

24. The nature of banking business is one of rapidly changing and evolving markets. Often banks develop new products and practices which require specialised auditing and accounting responses. It is therefore important that the auditor is familiar with current practice.
25. As well as ensuring that the engagement team has an appropriate level of knowledge of the industry and its corresponding products, the engagement partner also satisfies himself that the members of the engagement team have sufficient knowledge of the regulatory framework within which banks operate commensurate with their roles on the engagement.

ISA (UK AND IRELAND) 230: AUDIT DOCUMENTATION

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on audit documentation.

26. The auditor is aware that under section 27F of the CBA 1997¹⁴ the Financial Regulator may:

“by notice in writing, require an auditor of a regulated financial service provider, or an affiliate of the auditor, to provide the Bank with a copy of any record or information provided or obtained by the auditor or affiliate in connection with an audit of the financial service provider’s accounts that is in the possession of the auditor or affiliate”.

14 As inserted by section 26 CBFSAI 2004.

ISA (UK AND IRELAND) 240: THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility to consider fraud in an audit of financial statements and expand on how the standards and guidance in ISA (UK and Ireland) 315 and ISA (UK and Ireland) 330 are to be applied in relation to the risks of material misstatement due to fraud.

In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud. (paragraph 3)

The auditor should maintain an attitude of professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance. (paragraph 24)

The auditor should make inquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (paragraph 38)

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether the information obtained indicates that one or more fraud risk factors are present. (paragraph 48)

27. As with other entities fraudulent financial reporting (for example the manipulation of profits or the concealment of losses) or misappropriation of assets, can occur through a combination of management fraud, employee fraud or fraud perpetrated by third parties. However banks are particularly vulnerable to the misappropriation of assets by third parties, sometimes with the collusion of employees or vice versa. This arises in part due to the nature of their activities, a fraud risk factor, which ordinarily involves high values and volumes of disbursement of funds for a variety of purposes including:
- drawdown on loans (including credit cards);
 - repayment of customer deposits;
 - settlement of financial transactions; and
 - funds transfer.

28. A further fraud risk factor is that banks also have custody of valuable and fungible assets including money. As a result fraud is an inherent cost of undertaking banking business. Frauds relating to most types of transactions can be facilitated by identity theft and so 'know your customer' procedures are an important component of the procedures taken by banks to mitigate the risk of fraud.
29. Whilst remuneration policies can create excessive performance pressures in many industries, in certain types of banking (e.g. investment banking operations) performance related bonuses can be significant both in absolute terms and in relation to base remuneration. In addition significant bonus related remuneration can often extend beyond senior management, further down the organisation of banks, and can lead to more pervasive pressures that cause increased risks of fraud. Other examples of fraud risk factors include:
- valuation of complex financial instruments in an environment where there is inadequate segregation of duties and/or lack of supervision or independent review and/or understanding of the valuation techniques and associated inputs; and
 - matters that are subject to significant judgment by management – e.g. allowances for impairment (particularly collective assessment of impairment) or customer compensation provisioning.
30. A bank is required by the Financial Regulator Standards to manage its business in accordance with sound administrative and accounting principles and to put in place and maintain internal control and reporting arrangements and procedures to ensure that the business is so managed. This includes the need to have comprehensive risk management systems commensurate with the scope, size and complexity of all the bank's activities including accurate and reliable management information systems and thorough control procedures. This will include appropriate systems to minimise the risk of losses to the bank from irregularities, fraud or error. Whilst the inherent risk of fraud may continue to exist, the establishment of accounting and internal control systems sufficient to meet these requirements frequently reduces the likelihood of fraud giving rise to material misstatements in the financial statements. Guidance on the auditor's consideration of accounting systems and internal controls is provided in the section of this Practice Note relating to ISA (UK and Ireland) 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement. Examples of weaknesses in control that could give rise to fraud risk factors are also set out in paragraph 88.

When obtaining an understanding of the entity and its environment, including its internal control, the auditor should consider whether other information obtained indicates risks of material misstatement due to fraud. (paragraph 55)

31. The auditor considers reports or information obtained from the bank's compliance department, legal department, and money laundering reporting officer together with any reviews undertaken by third parties.

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters as soon as practicable to the appropriate level of management. (paragraph 93)

The auditor should document communications about fraud made to management, those charged with governance, regulators and others. (paragraph 109)

32. The auditor is aware of its statutory duty to report directly to the Financial Regulator in certain circumstances (see the section of this Practice Note relating to ISA (UK and Ireland) 250 Section B and Appendix 2). The auditor is also aware of the auditor's duty to report suspected offences of money laundering or terrorist financing to the Garda Síochána and the Revenue Commissioners in accordance with section 57 of the Criminal Justice Act 1994. In addition section 59 of the Criminal Justice (Theft and Fraud Offences) Act 2001 requires an auditor to report to the Garda Síochána instances of suspected theft or fraud that come to their attention in the course of auditing the financial statements of bodies corporate and other entities. (See the Section of this Practice Note relating to ISA (UK and Ireland) 250 Section A).

ISA (UK AND IRELAND) 250: SECTION A – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility to consider laws and regulations in an audit of financial statements.

When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that non compliance by the entity with laws and regulations may materially affect the financial statements. (paragraph 2)

In accordance with ISA (UK and Ireland) 200, "Objective and General Principles Governing an Audit of Financial Statements" the auditor should plan and perform the audit with an attitude of professional scepticism recognising that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. (paragraph 13)

In order to plan the audit, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (paragraph 15)

33. Laws and regulations which are central to an entity's ability to conduct its business are those where either compliance is a prerequisite of obtaining a licence to operate or non-compliance may reasonably be expected to result in the entity ceasing operations, or call into question the entity's status as a going concern. In the context of banks, these two criteria indicate that laws and regulations are central to a bank's ability to conduct its business if non-compliance could cause the Financial Regulator to revoke or restrict authorisation. The auditor is alert to any indication that a bank is conducting business outside the scope of its authorisation by the Financial Regulator in accordance with the CRD or the bank is failing to meet requirements of the CBAs 1942 to 2004 or the Financial Regulator Standards. Such action may be a serious regulatory breach, which may result in fines, public censure, suspension or loss of authorisation. Banks may also be authorised to conduct investment business under the IIA, 1995 with the Financial Regulator also being the regulator of such entities. In this case, auditors also consider the laws and regulations central to the bank's ability to conduct investment business. The auditor is also aware of the bank's obligations pursuant to the Markets in Financial Instruments Directive 2004/39/EC ('**MiFID**') which was transposed into Irish legislation on 20 February 2007. MiFID replaces the existing Investment Services Directive ('**ISD**') and

domestic regulations replace parts of the IIA, 1995. Appendix 1 of this Practice Note provides more detail on the legal and regulatory environment in which banks operate.

After obtaining the general understanding, the auditor should perform further audit procedures to help identify instances of non compliance with those laws and regulations where non compliance should be considered when preparing financial statements, specifically:

- (a) Inquiring of management as to whether the entity is in compliance with such laws and regulations; and
- (b) Inspecting correspondence with the relevant licensing or regulatory authorities.
- (c) Enquiring of those charged with governance as to whether they are on notice of any such possible instances of non-compliance with law or regulations. (paragraph 18)

The auditor's procedures should be designed to help identify possible or actual instances of non-compliance with those laws and regulations which provide a legal framework within which the entity conducts its business and which are central to the entity's ability to conduct its business and hence to its financial statements. (paragraph 18-1)

34. Specific areas that audit procedures may address include the following:

- obtaining a general understanding of the legal and regulatory framework applicable to the bank and the banking industry, and of the procedures followed to ensure compliance with the framework;
- holding discussions with the bank's compliance officer and other personnel responsible for compliance;
- reviewing compliance reports prepared for the Board, audit committees and other committees;
- reviewing correspondence with the Financial Regulator and other regulators; and
- consideration of work on compliance matters carried out by internal audit.

Money laundering and the financing of terrorism

In the UK and Ireland, when carrying out procedures for the purpose of forming an opinion on the financial statements, the auditor should be alert for those instances of possible or actual non compliance with laws and regulations that might incur

obligations for partners and staff in audit firms to report money laundering offences.
(paragraph 22-1)

35. The law relating to the prevention of money laundering and terrorist financing is integral to the legal and regulatory framework within which banks conduct their business. By the nature of their business, banks are ready targets of those engaged in money laundering activities and the financing of terrorism. Anti-money laundering legislation¹⁵ in the Republic of Ireland makes it a criminal offence to provide assistance to those involved in money laundering or terrorist financing. In addition, section 57 of the Criminal Justice Act, 1994, as amended, (**'CJA 1994'**) requires banks and other bodies designated under that Act to report suspicions of money laundering or terrorist financing to the appropriate authorities, being the Garda Síochána and the Revenue Commissioners. It is also an offence under section 58(2) of the CJA 1994 to make a disclosure which is likely to prejudice any investigation arising from a report made under section 57 of that Act.
36. The anti-money laundering legislation in the Republic of Ireland also requires bodies designated for the purposes of that legislation, including banks, to meet certain requirements in the following areas:
- the establishment and maintenance of policies, procedures and controls to deter and to recognise and report money laundering and terrorist financing activities;
 - taking reasonable measures to establish the identity of customers (often referred to as "know your customer" requirements);
 - retention of customer identification and transaction records for use as evidence in any future investigations into money laundering or terrorist financing; and
 - education and training of staff.

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- 15 Anti-money laundering legislation in the Republic of Ireland includes the following:
- Criminal Justice Act 1994 – as amended;
 - S.I. No. 104 of 1995, Criminal Justice Act 1994 (Section 32(10)(a)) Regulations 1995;
 - Criminal Justice (Theft & Fraud Offences) Act 2001;
 - S.I. No. 216 of 2003, Criminal Justice Act 1994 (Section 32(10)(a)) Regulations 2003;
 - S.I. No. 242 of 2003, Criminal Justice Act 1994 (Section 32) Regulations 2003;
 - S.I. No. 416 of 2003, Criminal Justice Act 1994 (Section 32)(Amendment) Regulations 2003;
 - S.I. No. 3 of 2004, Criminal Justice Act 1994 (Section 32)(Prescribed Activities) Regulations 2004; and
 - Criminal Justice (Terrorist Offences) Act 2005.

37. Detailed guidance on implementation of the requirements of anti-money laundering legislation, entitled “Money Laundering: Guidance Notes for Credit Institutions”, has been issued with the approval of the Money Laundering Steering Committee¹⁶. New Guidance Notes will be published based on the legislation that will implement the 3rd Anti-Money Laundering Directive in Ireland.
38. Laws and regulations relating to money laundering and terrorist financing are therefore central to banks. When auditing the financial statements of a bank, the auditor needs to obtain a general understanding of how the bank ensures compliance with anti-money laundering legislation.
39. The auditor is aware of the auditor’s own designation under the CJA 1994. If the auditor concludes that there is a possible breach of anti-money laundering legislation, or if he uncovers any suspicion that the bank has been involved, either knowingly or otherwise, in money laundering or terrorist financing offences, the auditor considers it, his statutory duty to report to the Garda Síochána and the Revenue Commissioners in accordance with the CJA 1994. In addition the auditor takes steps to assess the effect on the financial statements and the implications for other aspects of the audit. The auditor is aware that a suspicion of an offence of money laundering or terrorist financing may also give rise to a statutory duty to report directly to the Financial Regulator, separately to the Garda Síochána under section 59 of the Criminal Justice (Theft and Fraud Offences) Act, 2001, or to the Office of the Director of Corporate Enforcement in accordance with the Company Law Enforcement Act, 2001. In this regard the auditor needs to be mindful of the offence of prejudicing an investigation under section 58(2) of the CJA 1994.

Taxation

40. In the course of obtaining evidence sufficient to form an opinion on the view given by a bank’s financial statements, auditors undertake procedures in relation to amounts relating to tax included in those statements in order to determine whether they are materially misstated. In addition to accounting for taxation arising on its own activities, a bank may have responsibilities under tax and stamp duty laws to operate various tax deductions and tax collection mechanisms. Whilst an audit of financial statements does not provide specific assurance on compliance by the entity with all provisions of tax law non-compliance can result in the risk of imposition of liabilities. Auditors of banks therefore:
 - (a) make enquiries of the bank’s directors, compliance officer and other personnel responsible for compliance with tax law and regulations as to how such duties are

16 The Money Laundering Steering Committee is a committee chaired by the Department of Finance and comprises representatives of government departments, regulators and those bodies designated under the anti-money laundering legislation.

discharged and whether they are on notice of any possible instances of non-compliance;

- (b) review correspondence with the Revenue Commissioners; and
 - (c) carry out procedures to obtain sufficient appropriate evidence that, in the context of the financial statements as a whole, tax charges, liabilities, assets and related disclosures are free from material mis-statement.
41. If auditors become aware of non-compliance with tax legislation, auditors consider the implications in the context of their 'whistle blowing' responsibilities under section 1079 of the Taxes Consolidation Act 1997.

ISA (UK AND IRELAND) 250: SECTION B – THE AUDITORS' RIGHT AND DUTY TO REPORT TO REGULATORS IN THE FINANCIAL SECTOR

The auditor of a regulated entity should bring information of which the auditor has become aware in the ordinary course of performing work undertaken to fulfil the auditor's audit responsibilities to the attention of the appropriate regulator without delay when:

- (a) The auditor concludes that it is relevant to the regulator's functions having regard to such matters as may be specified in statute or any related regulations; and
- (b) In the auditor's opinion there is reasonable cause to believe it is or may be of material significance to the regulator. (paragraph 2)

Where an apparent breach of statutory or regulatory requirements comes to the auditor's attention, the auditor should:

- (a) Obtain such evidence as is available to assess its implications for the auditor's reporting responsibilities;
- (b) Determine whether, in the auditor's opinion, there is reasonable cause to believe that the breach is of material significance to the regulator; and
- (c) Consider whether the apparent breach is criminal conduct that gives rise to criminal property and, as such, should be reported to the specified authorities. (paragraph 39)

Auditor's duty to report to the Financial Regulator

42. Section 47 of the CBA 1989 and Regulation 7 of the Post BCCI Regulations place a duty on auditors to report to the Financial Regulator without undue delay, where the auditor has reason to believe that:

- the continuous functioning of the bank may be affected; in particular, that there exist circumstances which are likely to affect materially its obligations to depositors or where there are issues relating to its ability to meet its financial obligations; or
- there are material defects in the financial systems and controls or accounting records of the bank; or
- there are material inaccuracies in, or omissions from, any financial returns made by the bank to the Financial Regulator; or
- there is a material breach of the laws, regulations or administrative provisions which lay down the conditions under which the bank has been authorised or of any laws,

- regulations or administrative provisions which govern its activities or of any condition or requirement imposed by the Financial Regulator; or
- there are circumstances such as preclude them from stating in their audit report that the annual financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts and all Regulations to be construed as one with those Acts; or
 - where they have decided to resign or not seek re-election as auditor.
43. Under sections 27B to 27D of the CBA 1997¹⁷, the auditor is required to provide to the Financial Regulator:
- an annual confirmation as to whether there are matters to report in addition to and including any reports already submitted under 'prescribed enactments' (section 27B);
 - copies of any reports provided to the bank or those concerned with its management on matters that have come to the auditor's notice while auditing the financial statements of the bank or carrying out any work for the bank of any kind specified by the Financial Regulator (section 27C); and
 - copies of any reports issued to the Office of the Director of Corporate Enforcement (section 27D).
44. Further details of the auditor's duties noted in the two preceding paragraphs are set out in Appendix 2.
45. Information and opinions to be communicated are those meeting the specified criteria which relate to matters of which the auditor of the bank has become aware:
- in his capacity as auditor of the bank (this limitation does not apply in the respect of reports required under section 27C as outlined above); and
 - if he is also the auditor of an entity who has close links¹⁸ with the bank, in his capacity as auditor of that entity.

17 All references made to sections 27B to 27D of the CBA are to those sections inserted by the CBFSAI 2004.

18 Close links between two or more entities, as defined by Regulation 2 of the Post-BCCI Regulations, arise as a result of factors indicating either (a) participation: the ownership, direct or by way of control, or 20 per cent or more of the voting rights or capital of an undertaking; (b) control: the relationship between a parent undertaking and a subsidiary undertaking (including sub-subsidiaries). Additionally, close links exist if there is an arrangement whereby two or more persons are permanently linked to one and the same person by a control relationship.

46. The duty to report opinions, as well as information, allows for circumstances where adequate information on a matter may not readily be forthcoming from the regulated entity, and where judgments need to be made. Where the auditor reports based on making a judgement rather on a matter of fact, a legal advice should be sought.

Material significance

47. The statutory reporting requirements referred to above do not require the auditor to perform any additional audit work nor is the auditor required specifically to seek out breaches of the requirements applicable to a particular regulated entity. However, in circumstances where the auditor identifies that a reportable matter may exist, the auditor carries out such extra work, as he considers necessary, to determine whether the facts and circumstances cause them 'reasonably to believe' that the matter does in fact exist. It should be noted that the auditor's work does not need to prove that the reportable matter exists.
48. ISA (UK and Ireland) 250 Section B requires that, where an apparent breach of statutory or regulatory requirements comes to the auditor's attention, he should obtain such evidence as is available to assess the implications for the auditor's reporting responsibilities and determine whether, in his opinion, there is reasonable cause to believe that the breach has occurred and that it relates to a matter that is of material significance to the regulator.
49. The reporting requirements under the CBA 1989 and the Post-BCCI Regulations refer to matters which are likely to be "material", with this word not being defined in law. In interpreting the matters giving rise to the duty to report, the definition of material significance from ISA (UK and Ireland) 250 Section B is applied.

'Material significance' is defined by ISA (UK and Ireland) 250 Section B as follows:

"A matter or group of matters is normally of material significance to a regulator's functions when, due either to its nature or its potential financial impact, it is likely of itself to require investigation by the regulator."

50. 'Material significance' does not have the same meaning as materiality in the context of the audit of financial statements. Whilst a particular event may be trivial in terms of its possible effect on the financial statements of an entity, it may be of a nature or type that is likely to change the perception of the regulator.
51. The determination of whether a matter is, or is likely to be, of material significance to the Financial Regulator inevitably requires the auditor to exercise his judgment. In forming such judgments, the auditor needs to consider not simply the facts of the matter but also their implications. In addition, it is possible that a matter, which is not materially significant in isolation, may become so when other possible breaches are considered.

52. The auditor of a regulated entity bases his judgment of 'material significance' to the Financial Regulator solely on his understanding of the facts of which the auditor is aware without making any assumptions about the information available to the Financial Regulator in connection with any particular regulated entity.
53. Minor breaches of the Financial Regulator's rules that, for example, are unlikely to jeopardise the entity's assets or amount to misconduct or mismanagement would not normally be of 'material significance'. ISA (UK and Ireland) 250 Section B however requires the auditor of the bank when reporting on the bank's financial statements, to review information obtained in the course of the audit and to assess whether the cumulative effect is of 'material significance' such as to give rise to a duty to report to the regulator. In circumstances where the auditor is uncertain whether or not he is required to make a report, he may consider taking legal advice.
54. On completion of his investigations, the auditor ensures that the facts and circumstances, and the basis for his conclusion as to whether these are, or are likely to be, of 'material significance' to the Financial Regulator, are adequately documented such that the reasons for his decision to report or not, as the case may be, may be clearly demonstrated should the need to do so arise in future.
55. Whilst confidentiality is an implied term of the auditor's contract with a bank, section 47(6) of the CBA 1989, Regulation 9 of the Post-BCCI Regulations and section 27H of the CBA 1997¹⁹ outline that an auditor does not contravene that duty of confidentiality in fulfilling his duty to report to the Financial Regulator. The protection afforded is given in respect of information obtained in his capacity as auditor.

Conduct of the audit

56. ISA (UK and Ireland) 250, Section B requires the auditor to ensure that all staff involved in the audit of a regulated entity 'have an understanding of
- (a) the provisions of applicable legislation,
 - (b) the regulator's rules and any guidance issued by the regulator, and
 - (c) any specific requirements which apply to the particular regulated entity,
- appropriate to their role in the audit and sufficient (in the context of that role) to enable them to identify situations they encounter in the course of the audit which may give reasonable cause to believe that a matter should be reported to the regulator.'
57. Understanding, commensurate with the individual's role and responsibilities in the audit process, is required of :

19 As inserted by section 26 of the CBFSAI 2004.

- the statutory provisions concerning the auditor's duty to report to the Financial Regulator;
 - the Standards and guidance in ISA (UK and Ireland) 250, Section B, and in this section of this Practice Note; and
 - relevant sections of the administrative provisions issued by the Financial Regulator, in particular, the Financial Regulator Standards.
58. The auditor includes procedures within his planning process to ensure that members of the audit team have such understanding (in the context of their role) as to enable them to recognise potentially reportable matters, and that such matters are reported to the audit engagement partner without delay so that a decision may be made as to whether a duty to report arises.
59. An audit firm appointed as auditor of a bank needs to have in place appropriate procedures to ensure that the audit engagement partner is made aware of any other relationship which exists between any department of the audit firm and the regulated entity when that relationship could affect the audit firm's work as the auditor. (This matter is covered in more detail in Appendix 2 of ISA (UK and Ireland) 250, Section B). The auditor also requests the regulated entity to advise him when it appoints a third party (including another department or office of the same audit firm) to review, investigate or report on any aspects of its business activities that may be relevant to the audit of the financial statements and to provide the auditor with copies of reports by such a third party promptly after their receipt. This matter may usefully be referred to in the engagement letter.

Closely linked entities

60. Where the auditor of a bank is also the auditor of a closely linked entity²⁰ a duty to report arises directly in relation to information relevant to the bank of which the auditor becomes aware in the course of his work as the auditor of the closely linked entity.
61. The auditor establishes during audit planning whether the bank has one or more closely linked entities of which the audit firm is also the auditor. If there are such entities the auditor considers the significance of the closely linked entities and the nature of the issues that might arise which may be of material significance to the regulator of the bank. Such circumstances may involve:
- activities or uncertainties within the closely linked entity which might significantly impair the financial position of the bank;
 - money laundering and if the closely linked entity is itself a bank or otherwise regulated; and/or

²⁰ See footnote 18.

- matters that the auditor of the closely linked entity is intending to report to the Financial Regulator or another regulator.
62. Following the risk assessment above, the auditor of the bank identifies the closely linked entities for which the procedures in this paragraph are necessary. The engagement team of the bank communicates to the engagement team of the selected closely linked entities the audit firm's responsibilities to report to the Financial Regulator under the CBA 1989 and the Post-BCCI Regulations and notifies the engagement team of the circumstances that have been identified which, if found to exist, might be of material significance to the Financial Regulator as regulator of the bank. Prior to completion the auditor of the bank obtains details from the auditor of the closely linked entity of such circumstances or confirmation, usually in writing, that such circumstances do not exist. Where the closely linked entities are part of the inter-auditor group reporting process these steps can be built into that process.
63. Whilst confidentiality is an implied term of an auditor's contract with a bank, CBA 1989 and the Post-BCCI Regulations specify that an auditor of an entity closely linked to a bank who is also the auditor of that bank does not contravene that duty if he reports to the Financial Regulator information or his opinion, if he is acting in good faith and he reasonably believes that the information or opinion is relevant to any function of the Financial Regulator. The protection afforded is given in respect of information obtained in his capacity as auditor.
64. No duty to report is imposed on the auditor of an entity closely linked to a bank who is not also the auditor of the bank.
65. In circumstances where he is not also the auditor of the closely linked entity, the auditor of the bank decides whether there are any matters to be reported to the Financial Regulator relating to the affairs of the bank in the light of the information that they receive about a closely linked entity for the purpose of auditing the financial statements of the bank. If the auditor becomes aware of possible matters that may fall due to be reported, he may wish to obtain further information from the management or the auditor of the closely linked entity to ascertain whether the matter should be reported. To facilitate such possible discussions, at the planning stage of the audit, the auditor of the bank will have considered whether arrangements need to be put in place to allow them to communicate with the management and the auditor of the closely linked entity. If the auditor of the bank is unable to communicate with the management and the auditor of the closely linked entity to obtain further information concerning the matters he has identified he reports the matters, and that he has been unable to obtain further information, directly to the Financial Regulator.

Information received in a capacity other than as auditor

66. There may be circumstances where it is not clear whether information about a bank coming to the attention of the auditor is received in the capacity of the auditor or in some

other capacity, for example as a general adviser to the entity. Appendix 2 to ISA (UK and Ireland) 250 Section B provides guidance as to how information obtained in non-audit work may be relevant to the auditor in the planning and conduct of the audit and the steps that need to be taken to ensure the communication of information that is relevant to the audit.

Discussing matters of material significance with the directors

67. The directors²¹ are the persons principally responsible for the management of the bank. The auditor will therefore normally bring a matter of material significance to the attention of the directors. ISA (UK and Ireland) 250 Section B emphasises that where the auditor concludes that a duty to report arises, he should bring the matter to the attention of the regulator without undue delay. The directors may also wish to report the matters identified to the Financial Regulator themselves and detail the actions taken or to be taken. While such a report from the directors may provide valuable information, it does not relieve the auditor of the statutory duty to report directly to the Financial Regulator. The auditor is aware that where the matter relates to a suspicion of an offence of money laundering or terrorist financing he is mindful of the offence of prejudicing an investigation under section 58(2) of the CJA 1994.
68. Section 47(4) of the CBA 1989 requires an auditor making a report to the Financial Regulator under section 47(1) or section 47(2) of that Act to provide a copy of the report to the bank concerned. However the auditor is aware that ISA (UK and Ireland) 250, Section B paragraph 54 states that:

“When the matter giving rise to a statutory duty to make a report direct to a regulator casts doubt on the integrity of those charged with governance or their competence to conduct the business of the regulated entity, the auditor should, subject to compliance with legislation relating to ‘tipping off’, make the report to the regulator without delay and without informing those charged with governance in advance”

On a first reading section 47(4) of the CBA 1989 and ISA (UK and Ireland) 250 appear to conflict. However, section 47(4) of the CBA 1989 states that the *“auditor of a holder of a licence shall send to the holder a copy of any report made by him to the Bank under subsection (1) or (2).”*

It is clear that section 47(4) of the CBA 1989 will be complied with if the report is sent to the bank (*“the holder of the licence”*) at the same time or immediately after a copy has been submitted to the Financial Regulator.

21 This term would include the senior management of branches of foreign companies in the Republic of Ireland.

The auditor may consider seeking legal advice where the subject of a report required by the Financial Regulator relates to a suspicion of an offence of money laundering or terrorist financing and the auditor is therefore aware of the potential offence of 'prejudicing an investigation' under section 58(2) of the CJA 1994.

Timing of a report

69. The duty to report arises once the auditor has concluded that he reasonably believes that the matter is or is likely to be of material significance to the Financial Regulator's regulatory function. In reaching his conclusion the auditor may wish to take appropriate legal or other advice and consult with colleagues.
70. Section 47(1) of the CBA 1989 requires that the report should be made without undue delay once a conclusion has been reached. Unless the matter casts doubt on the integrity of the directors this should not preclude discussion of the matter with the directors and seeking such further advice as is necessary, so that a decision can be made on whether or not a duty to report exists. Such consultations and discussions are however undertaken on a timely basis to enable the auditor to conclude on the matter without undue delay.

Voluntary Reports to the Financial Regulator

71. Where there is a statutory duty to make a report under the CBA 1989, the CBA 1997 or the Post –BCCI Regulations, protection is afforded to the auditor by Section 47(6) of the CBA 1989, section 27(H) of the CBA 1997 and Regulation 9 of the Post-BCCI Regulations respectively.
72. There may be circumstances where the auditor concludes that a matter does not give rise to a statutory duty to report but nevertheless feels that in the public interest it should be brought to the attention of the Financial Regulator. Before making any such 'voluntary' report the auditor needs to consider whether any duty of confidentiality or other duty will be breached by making such a report. The common law may provide protection for disclosing certain matters to a proper authority in the public interest. This is discussed further at paragraphs 63 to 69 of Appendix 2 below.
73. Before making any such voluntary report the auditor may wish to take legal advice before deciding whether, and in what form, to make a report to the Financial Regulator, when not statutorily required to do so.

ISA (UK AND IRELAND) 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the considerations and activities applicable to planning an audit of financial statements. This ISA (UK and Ireland) is framed in the context of recurring audits. In addition, matters the auditor considers in initial audit engagements are included in paragraphs 28 and 29.

The auditor should plan the audit so that the engagement will be performed in an effective manner. (paragraph 2)

The auditor should establish the overall audit strategy for the audit. (paragraph 8)

The auditor should develop an audit plan for the audit in order to reduce audit risk to an acceptably low level. (paragraph 13)

74. Matters the auditor of a bank considers as part of the planning process for the audit of the financial statements include:
- the nature and scope of the bank's business;
 - the extent of head office control over networks of branches;
 - the bank's relationships with the Financial Regulator and any other regulators;
 - changes in applicable laws, regulations and accounting requirements;
 - the need to involve specialists in the audit;
 - the extent to which controls and procedures are outsourced to a third-party provider; and
 - issues relating to the auditor's statutory duty to report.
75. Guidance on the first four of these matters is set out in the section on ISA (UK and Ireland) 315 'Obtaining an Understanding of the Entity and its Environment and Assessing the Risks of Material Misstatement' below. Considerations in relation to the other matters in planning the audit are:

- the nature and complexity of banking increases the likelihood that the auditor may consider it necessary to involve specialists in the audit process. For example, the auditor may wish to utilise the work of an expert in the valuation of derivative and other financial instruments not traded in an active market. The auditor considers the need to involve such specialists at an early stage in planning the audit work. Where such specialists are to be used, they may be involved in the development of the audit plan and may take part in discussions with the management and staff, in order to assist in the development of knowledge and understanding relating to the business;
- the auditor considers the implications of the outsourcing of functions by the bank, and the sources of evidence available to the auditor for transactions undertaken by service organisations in planning the audit work. This may include the outsourcing of certain functions, such as the IT functions. Further guidance is contained in the section of the Practice Note dealing with ISA (UK and Ireland) 402 'Audit Considerations Relating to Entities Using Service Organisations'; and
- issues relating to the auditor's statutory duty to report include the adequacy of the audit team's understanding of the law and the identification of closely linked entities.

ISA (UK AND IRELAND) 315: OBTAINING AN UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and to provide guidance on obtaining an understanding of the entity and its environment, including its internal control, and on assessing the risks of material misstatement in a financial statement audit.

76. Banking can be complex and the auditor seeks to understand the business and the regulatory regime in which the bank operates. Generally, there is a close relationship between planning and obtaining an understanding of the business and the control environment, which is covered more fully below.

The auditor should obtain an understanding of relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (paragraph 22)

The auditor should obtain an understanding of the nature of the entity. (paragraph 25)

77. When performing procedures to obtain an understanding of the bank's business, the auditor considers:
- the relative importance to the bank of each of its business activities. This includes an understanding of the type and extent of specialised activities, for example:
 - derivatives and other complex trading activities (where documentation, accounting and valuation aspects can be difficult);
 - trade finance, invoice discounting and factoring (where the documentation used can be complex and highly specialised); and
 - leasing (where there are particular accounting issues, especially relating to income recognition).
 - the introduction of new categories of customers, or products or marketing and distribution channels;
 - the relevant aspects of the bank's risk management procedures;
 - the complexity of the bank's information systems;
 - the legal and operational structure of the bank;

- a change in the market environment (for example, a marked increase in competition);
 - the complexity of products;
 - the consistency of products, methods and operations in different departments or locations; and
 - the respective roles and responsibilities attributed to the finance, risk control, compliance and internal audit functions.
78. Many banks and banking groups are managed globally on product/business lines rather than focused around legal structure. Such 'matrix management' structures typically involve local reporting (often on a legal entity basis) on operational and compliance matters; and business/product based reporting (often globally) of activities undertaken. In addition, global trading activities may mean that transactions are entered into in one location but are recorded in another; it may even be the case that they are controlled and settled in a third location. Furthermore, parts of banks' operations may be undertaken through special purpose entities which may have structures and features that can mean they are excluded from financial statement consolidation. Given these factors, the auditor gains an understanding of how and where transactions are undertaken, recorded and controlled, in order to plan the audit.
79. Many banks operate a network of branches. In such instances, the auditor determines the degree of head office control over the business and accounting functions at branch level and the scope and effectiveness of the bank's inspection and/or internal audit visits. The extent and impact of visits from regulators is also relevant. Where branches maintain separate accounting records, the extent of audit visits and work on each branch is also dependent on the materiality of, and risks associated with, the operations of each branch and the extent to which controls over branches are exercised centrally. In the case of smaller branches, the degree to which exceptions to a bank's normal control procedures may be caused by minimal staffing levels (for example, the greater difficulty of ensuring adequate segregation of duties) and the consequent need for an increased level of control from outside the branch are relevant to assessing audit risk.
80. In obtaining an understanding of the regulatory factors the auditor considers:
- any formal communications between the Financial Regulator in its capacity as the regulator and the bank, including any new or interim risk assessments issued by the Financial Regulator, the results of any other supervisory visits conducted by Financial Regulator;
 - the contents of any recent reports prepared by persons other than the auditor or by an inspector appointed to report on any aspect of the bank under financial services legislation;
 - any formal communications between the bank and other regulators; and

- discussions with the bank's compliance officer together with others responsible for monitoring regulatory compliance.

The auditor should obtain an understanding of the entity's selection and application of accounting policies and consider whether they are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (paragraph 28)

81. Accounting policies of particular relevance may include allowances for impairment, hedge accounting, classification of assets and liabilities (and thereby their measurement), embedded derivatives, revenue / expense recognition (including effective interest rates), offsetting and derecognition. The auditor undertakes procedures to consider whether the policies adopted are in compliance with applicable accounting standards and gains an understanding of the procedures, systems and controls applied to maintain compliance with them.

The auditor should obtain an understanding of the entity's objectives and strategies, and the related business risks that may result in material misstatement of the financial statements. (paragraph 30)

82. It is important for the auditor to understand the multi-dimensional nature and extent of the financial and business risks which are integral to the environment, and how the bank's systems record and address these risks. Although they may apply to varying degrees, the risks include (but are not limited to):

- credit risk: at its simplest, this is the risk that a borrower or other counterparty will be unable to meet its obligations. However, where credit risk is traded (in the form of secondary market loan trading or credit derivatives, for example), credit risk is often regarded as having two distinct elements:
 - spread risk: the risk arising from day to day changes in the price of a credit instrument because of changes in market perceptions about the credit standing of the debtor; and
 - default risk: the risk that a debtor will default on its obligations.

Another form of credit risk is settlement risk which is the risk that a counterparty will be unable to settle its obligations under a transaction (in a securities settlement or payment system, for example) on the due date;

- liquidity risk: the risk that arises from the possibility that a bank has insufficient liquid funds to meet the demands of depositors or other counterparties;

- interest rate risk: the risk that arises where there is a mismatch between the interest reset dates or bases for assets and liabilities;
- currency risk: the risk that arises from the mismatching of assets, liabilities and commitments denominated in different currencies;
- market risk²²: the risk that changes in the value of assets, liabilities and commitments will occur as a result of movements in relative prices (for example, as a result of changes in the market price of tradable assets). Market risk is a generic term which, in addition to interest rate and currency risk and, in some environments, spread risk, also includes equity risk and commodity price risk;
- operational risk is the risk of loss, arising from inadequate or failed internal processes, people and systems or from external events; and
- regulatory risk is the risk of public censure, fines (together with related compensation payments) and restriction or withdrawal of authorisation to conduct some or all of the bank's activities. In the Republic of Ireland this may arise from enforcement activity by the Financial Regulator.

Failure to manage the risks outlined above can also cause serious damage to a bank's reputation, potentially leading to loss of confidence in the bank, withdrawal of deposits or problems in maintaining liquidity (this is sometimes referred to as reputational risk or franchise risk).

The auditor should obtain an understanding of the measurement and review of the entity's financial performance. (paragraph 35)

83. The auditor obtains an understanding of the measures used by management to review the bank's performance. Further guidance in respect of key performance indicators is given in the section on ISA (UK and Ireland) 520.

The auditor should obtain an understanding of the internal control relevant to the audit. (paragraph 41)

The auditor should obtain an understanding of the control environment. (paragraph 67)

22 Some forms of market risk are 'non-linear' i.e. there is not a constant relationship between the profit and loss and the movement in the underlying price. For example, the relationship between an option's price and the price of its underlying instrument is 'non-linear'; the 'delta' measures the change in the price of an option for the unit change in the price of the underlying instrument whilst the 'gamma' indicates the extent of the 'non-linearity' (the change in 'delta' for a unit change in the price of the underlying instrument).

84. The quality of the overall control environment is dependent upon management's attitude towards the operation of controls. A positive attitude may be evidenced by an organisational framework which enables proper segregation of duties and delegation of control functions and which encourages failings to be reported and corrected. Thus, where a lapse in the operation of a control is treated as a matter of concern, the control environment will be stronger and will contribute to effective control systems; whereas a weak control environment will undermine detailed controls, however well designed.
85. Senior management is responsible for establishing and maintaining such systems and controls as are appropriate to the operations of the bank. The CRD together with the Financial Regulator Standards require that every person who has, or is to have, a qualifying holding (defined in Appendix 3), director, or senior manager of a bank is a fit and proper person in the context of the particular position which he holds or is to hold. In November 2006 the Financial Regulator published its "Fit and Proper Requirements" which applies a common framework for assessing the 'fitness and probity' of directors and senior managers across all the industry sectors, including the banking sector, subject to regulation by the Financial Regulator. Further information on this framework is available in Appendix 4.
86. The Financial Regulator requires banks to maintain systems and controls appropriate for its business. These include (but are not limited to):
- clear and appropriate reporting lines which are communicated within the bank;
 - appropriate controls to ensure compliance with laws and regulations (this may mean a separate compliance function);
 - appropriate risk assessment process;
 - appropriate management information;
 - controls to ensure suitability of staff;
 - controls to manage tensions arising out of remuneration policies;
 - documented and tested business continuity plans;
 - documented business plans or strategies;
 - an internal audit function (where appropriate);
 - an audit committee (where appropriate); and
 - appropriate record keeping arrangements.
87. For large banks, the volume of transactions can be so great that it may be extremely difficult for the auditor to express an opinion without obtaining considerable assurance from adequate systems of control. Systems of internal control in a bank are important in ensuring orderly and prudent operations of the bank and in assisting the directors to

prepare financial statements which give a true and fair view. The following features of the business of banks may be relevant to the auditor's assessment of such internal controls:

- the substantial scale of transactions, both in terms of volume and relative value, makes it important that control systems are in place to ensure that transactions are recorded promptly, accurately and completely and are checked and approved, and that records are reconciled at appropriate intervals in order to identify and investigate differences promptly. Processing and accounting for complex transactions or high volumes of less complex transactions will almost inevitably involve the use of sophisticated technology. For example, transactions subject to 'straight through processing' involve little or no manual intervention after they have been initiated;
- a bank deals in money or near money instruments. In the case of most commercial organisations, most movements of funds are the result of a related movement of goods and some audit assurance may therefore be obtained by reference to this relationship. This is not available, however, in the case of banks and similar financial organisations. Management must therefore establish robust systems of control. As the centralised funds transfer departments which exist in larger banks will often process very high volumes and a high value of transactions each day, the need for strong and effective controls over this area is particularly important;
- the fact that banks deal in money and near money instruments makes proper segregation of duties between and amongst those entering into transactions, those recording the transactions, those settling them and where relevant, those responsible for their physical security particularly important;
- the geographical or organisational dispersal of some banks' operations means that, in order to maintain control over its activities, banks need to ensure not only that there are sufficient controls at each location, but also that there are effective communication and control procedures between the various locations and the centre. It is important that there should be clear, comprehensive reporting and responsibility lines, particularly where the business is managed using a 'matrix' structure;
- the activities of banks can typically result in the creation or use of derivatives and other complex transactions. The fact that the resultant cash flows may not take place for a considerable time creates the risk that wrongly recorded or unrecorded positions may exist and that these may not be detected for some time, thereby exposing the bank to risk of misstatement. The valuation of these instruments also poses risks of misstatement. Consequently, banks will normally have developed important operational controls to mitigate such risks;
- the provisions of the Irish tax legislation require banks to operate various tax deduction and collection arrangements, such as those relating to paying and collecting agents and tax deducted from interest paid to individuals. In addition, the VAT position of a bank can be particularly complex. These may give rise to significant

liabilities if not properly dealt with. Accordingly, an effective control system is essential to ensure that the record-keeping requirements of the Irish tax legislation are satisfied, and that tax is accounted for promptly and accurately. Similar measures may be needed to address similar provisions arising in any other jurisdictions where the bank operates; and

- the Irish regulatory framework is both complex and evolving for banks. This may give rise to significant liabilities for compensation to clients if not properly dealt with. Accordingly, an effective control system is essential to ensure that the requirements of the Financial Regulator are satisfied. Measures may also be needed to address regulators in other jurisdictions.

The auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (paragraph 90)

88. There is a wide variation between different banks in terms of size, activity and organisation, so that there can be no standard approach to internal controls and risk. The auditor assesses the adequacy of controls in relation to the circumstances of each entity. Examples of weaknesses that may be relevant to the auditor's assessment of the risk of material misstatement are as follows:

- complex products or processes inadequately understood by management; this includes undue concentration of expertise concerning matters requiring the exercise of significant judgment or capable of manipulation such as valuations of financial instruments or allowances for impairment;
- weaknesses in back office procedures contributing to completeness and accuracy of accounting records such as:
 - backlogs in key reconciliations, particularly those over correspondent bank accounts, settlement accounts and the custody of assets such as securities (either those held on own account or as collateral);
 - inadequate maintenance of suspense or clearing accounts; and
 - backlogs in confirmation processes relating to financial instrument transactions.
- weaknesses in new product approval procedures;
- lack of segregation of duties such as between critical dealing, operational, control, settlement and accounting functions; and
- weakness over payments systems, such as inadequate controls over access to payment systems and data.

89. Controls relating to outsourcing activities are considered in the ISA (UK and Ireland) 402 section.

The auditor should obtain an understanding of how the entity has responded to risks arising from IT. (paragraph 93)

90. As a result of the type and complexity of transactions undertaken and records held by banks and the need for swift and accurate information processing and retrieval, many banking functions are highly automated, including: funds transfer systems, the accounting function, the processing and recording of customer transactions, trading activity, regulatory reporting and the supply of management information.
91. The auditor assesses the extent, nature and impact of automation within the bank and plans and performs work accordingly. In particular the auditor considers:
- the required level of IT knowledge and skills may be extensive and may require the auditor to obtain advice and assistance from staff with specialist skills;
 - the extent of the application of audit software and related audit techniques;
 - general controls relating to the environment within which IT based systems are developed, maintained and operated; and
 - external interfaces susceptible to breaches of security.

A single computer system rarely covers all of the bank's requirements. It is common for banks to employ a number of different systems and, in many cases, use PC-based applications (sometimes involving the use of complex spreadsheets) to generate important accounting and/or internal control information. The auditor identifies and understands the communication between computer systems in order to assess whether appropriate controls are established and maintained to cover all critical systems and the links between them and to identify the most effective audit approach.

The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures. (paragraph 100)

As part of the risk assessment, the auditor should determine which of the risks identified are, in the auditor's judgment, risks that require special audit consideration (such risks are defined as "significant risks"). (paragraph 108)

For significant risks, to the extent the auditor has not already done so, the auditor should evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. (paragraph 113)

92. Significant risks are likely to arise in those areas that are subject to significant subjective judgment by management or are complex and properly understood by comparatively few people within the bank.
93. Examples of significant risks that may arise include the following:
 - allowances for impairment (particularly collective assessments of impairment) (see paragraphs 127 to 129) or customer compensation provisioning; and
 - valuation of certain derivatives and other financial instruments (see paragraphs 132 and 133).
94. Weaknesses in the control environment and in controls such as those described in paragraph 88 could increase the risk of fraud.
95. The application of complex accounting standards such as IAS32, IAS39 and IFRS 7 (for banks using EU IFRS) and FRS 25, 26 and 29 (for banks using Irish GAAP) may also give rise to significant risk with respect to hedge accounting, classification of assets/liabilities, revenue/expense recognition (effective interest rates) and over the adequacy of financial statement disclosure.

ISA (UK AND IRELAND) 320: AUDIT MATERIALITY**Background note**

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the concept of materiality and its relationship with audit risk.

The auditor should consider materiality and its relationship with audit risk when conducting an audit. (paragraph 2)

Materiality should be considered by the auditor when:

- (a) Determining the nature, timing and extent of audit procedures; and
- (b) Evaluating the effect of misstatements. (paragraph 8)

96. The principles of assessing materiality in the audit are the same as those applying to the audit of any other entity. In particular the auditor's consideration of materiality is a matter of professional judgement, and is affected by the auditor's perception of the common information needs of users as a group²³.
97. Most banks are profit orientated and a profit based measure, such as a percentage of profit before tax is likely to be used. However, in applying materiality to the audit and assessment of transactions and balances which do not have a direct impact on profit, consideration is given to the extent any misstatement of these items would influence the economic decisions of users taken on the basis of the financial statements. For example, it is not uncommon for banks to encounter balance sheet misclassifications that do not affect profit, such as the offset of trading balances.

23 The International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' indicates that, for a profit orientated entity, as investors are providers of risk capital to the enterprise, the provision of financial statements that meets their needs will also meet most of the needs of other users that financial statements can satisfy.

ISA (UK AND IRELAND) 330: THE AUDITOR'S PROCEDURES IN RESPONSE TO ASSESSED RISKS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement at the financial statement and assertion levels in a financial statement audit.

When, in accordance with paragraph 115 of ISA (UK and Ireland) 315, the auditor has determined that it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures, the auditor should perform tests of relevant controls to obtain audit evidence about their operating effectiveness. (paragraph 25)

98. In practice the nature and volume of transactions relating to the operations of banks often means that performing tests of relevant controls is the most efficient means of reducing audit risk to an acceptably low level.
99. Whilst some aspects of a bank's income statement and balance sheet lend themselves to the application of analytical procedures, income and expense resulting from trading activities is unlikely to be susceptible to these methods because of its inherent unpredictability.

When in accordance with paragraph 108 of ISA (UK and Ireland) 315, the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk. (paragraph 51)

100. Examples of significant risks include the valuation of derivative and other financial instruments which are not traded in an active market and for which valuation techniques are required – see the section on ISAs (UK and Ireland) 545, and the section on ISA (UK and Ireland) 540 for estimates of allowances for impairment or customer compensation provisioning.

The auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework. (paragraph 65)

101. Specific financial reporting standards can require extensive narrative disclosures in the financial statements of banks; for example, in relation to the nature and extent of risks arising from financial instruments. In designing and performing procedures to evaluate these disclosures the auditor obtains audit evidence regarding the assertions about presentation and disclosure described in paragraph 17 of ISA (UK and Ireland) 500: Audit Evidence.

Disclosure of Market Risk Information under IFRS 7 and FRS 29

102. IFRS 7/FRS 29 Financial instruments: Disclosures may give rise to particular issues for the auditor, particularly in relation to market risk sensitivity analysis.

Understanding the risk measurement method adopted by the management

103. A bank applying IFRS 7/FRS 29, where appropriate, discloses a sensitivity analysis for each type of market risk to which the entity is exposed. Where a bank uses sensitivity analysis, such as value at risk ('**VAR**') that reflects interdependencies between risk variables and this is the method used to manage the financial risks of the business, disclosures based on these measures may be used instead of the standard method prescribed by IFRS 7/FRS 29 paragraph 40.
104. The auditor obtains an understanding of the method adopted by the management to develop the market price risk information to be disclosed. This may be done in conjunction with obtaining an understanding of the bank's accounting and internal control systems. For example, the auditor considers the independence of the bank's risk management function from the front office in the context of their understanding of the control environment.

Considering the skills needed by the audit team

105. The audit team is assembled on the basis of the skills needed. The auditor's approach to the market price risk disclosures is normally based on reviewing and testing the process used by the management to develop the information to be disclosed, rather than on re-performing the calculations (or making or obtaining an independent assessment). However, obtaining an understanding of that process and assumptions used may require technical knowledge of risk measurement methodologies; these can be complex, especially where a VAR model is adopted. Accordingly, when planning the audit, the auditor considers the skills needed in order to obtain and evaluate audit evidence in this part of the engagement.

106. The nature and extent of any technical knowledge of risk measurement methodologies that are required depends on the circumstances. The auditor takes into account such factors as the complexity of the models used and whether the models have received regulatory recognition. Where appropriate, the auditor may involve an expert in elements of this work (see the section of this Practice Note which relates to ISA (UK and Ireland) 620).

Considering the application of the risk measurement method

107. The auditor considers whether the risk measurement method adopted has been applied reasonably by, for example:

- reviewing, and where necessary testing, the internal controls relating to the operation of the bank's risk management system, in order to obtain evidence that the data used in developing the market price risk information are reliable. This may be done in conjunction with the auditor obtaining an understanding of control procedures including those over the data fed into the risk management system, pricing, and independent review of the algorithms. If the bank has applied for regulatory recognition of the method used, the auditor reviews correspondence with the regulator regarding such matters;
- reviewing, and where necessary testing, the internal controls relating to changes in the bank's risk management system (for example, controls over changes to algorithms and assumptions);
- if a VAR model is used, performing analytical review of the model's predictions during the year against actual outcomes (a process commonly referred to as 'backtesting'). The auditor normally reviews any comparisons made by the bank as part of its own backtesting procedures (for a bank to receive regulatory recognition of the model used it is required to undertake backtesting procedures); and
- agreeing the amount disclosed to the output of the risk management system.

108. If an approach based upon internal controls and backtesting proves to be unsatisfactory, the auditor may wish to consider testing the accuracy of the calculations used to develop the required information. However, this situation may indicate that it would be more appropriate for the bank to make disclosures on the simpler basis described in IFRS 7/FRS 29 paragraph 40.

Considering the adequacy of disclosures

109. Market price risk information is subject to a number of significant limitations which are inherent in the risk measurement methods used. For example:

- there are different VAR models and methods of presenting sensitivity analyses. It is to be expected that, in any particular case, the management of a bank will make an informed choice of the method that it considers to be most suitable. Normally, for the

purpose of developing the market price risk information to be disclosed, the management will use the risk measurement method that is used in the bank's risk management system. It would, for example, be reasonable to expect the appropriateness of this method in the past to be supported by the bank's own backtesting procedures, where such procedures are performed. However, in the absence of recognised industry standards on VAR, there is no objective benchmark against which to assess the future appropriateness of management's choice;

- both VAR models and sensitivity analyses involve the management making a number of important assumptions in order to develop the disclosures. These are, by their nature, hypothetical and based on management's judgement (for example, when using a VAR model, assumptions are made concerning the appropriate holding period, confidence level and data set);
- both VAR models and, to a limited extent, sensitivity analyses are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns; and
- each of the methods permitted for developing market price risk information may lead to a bank reporting significantly different information, depending on the choice made by the management. IFRS 7/FRS 29 paragraph 41 requires the market price risk information disclosed to be supplemented by other disclosures, including explanations of:
 - the method used in preparing such sensitivity analysis and of the main parameters and assumptions underlying the data provided in the disclosures; and
 - the objective of the method used and the limitations that may result in the information not fully reflecting the fair values of assets and liabilities involved.

110. The auditor considers the overall adequacy of the disclosures made by the bank in response to the requirements of IFRS 7/FRS 29 and whether the market risk information is presented fairly so that its limitations can be understood. In particular, the auditor considers whether it is sufficiently clear that:

- the market price risk information is a relative estimate of risk rather than a precise and accurate number;
- the market price risk information represents a hypothetical outcome and is not intended to be predictive (in the case of probability-based methods, such as VAR, profits and losses are almost certain to exceed the reported amount with a frequency depending on the confidence interval chosen); and
- future market conditions could vary significantly from those experienced in the past.

111. In many banks and related groups, market price risk is primarily managed at the level of individual business units rather than on a legal entity or group-wide basis. Therefore, the auditor considers the appropriateness of the basis on which the market risk information to be disclosed in the financial statements is to be compiled. It may well be inappropriate simply to aggregate the operating unit information to arrive at the information to be disclosed for the bank or group as a whole.

Considering the consistency of the risk measurement method adopted

112. The main purpose of the disclosure of market price risk information is to provide users of a bank's financial statements with a better understanding of the relationship between the bank's profitability and its exposure to risk. For example, an increase in profitability may be achieved by taking on increased risk. IFRS 7/FRS 29 paragraph 40(c) requires disclosure of any changes in the methods and assumptions used and the reasons for the changes. Therefore, the auditor considers the consistency of the method, the main assumptions and parameters with those used in previous years.

113. If the method used for developing the market risk information is also used in the bank's risk management system, modifications will be made to the method as the need arises. If the bank performs its own backtesting procedures, this may lead to modification of, for example, the algorithm used, the assumptions and parameters specified or the parts of the trading book covered. Where modifications have been made, the auditor considers their effect on the market risk measures and whether appropriate disclosures about the changes have been made.

114. In some cases, re-statement may not be possible if the relevant data for the previous year cannot be constructed and in this case the auditor considers whether the disclosures provide sufficient information about the nature and extent of any change in the entity's risk profile. For example, as well as providing the current year figure on the 'new' basis, it may be relevant to show both the current year and the previous year figure on the 'old' basis. In all such cases, the auditor considers whether the disclosures contain sufficient narrative explanation of the change.

ISA (UK AND IRELAND) 402: AUDIT CONSIDERATIONS RELATING TO ENTITIES USING SERVICE ORGANISATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance to an auditor where the entity uses a service organisation.

In obtaining an understanding of the entity and its environment, the auditor should determine the significance of service organization activities to the entity and the relevance to the audit. (paragraph 5)

Based on the auditor's understanding of the aspects of the entity's accounting system and control environment relating to relevant activities, the auditor should:

- (a) Assess whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the entity; and if not,
- (b) Determine effective procedures to obtain evidence necessary for the audit, either by direct access to records kept by service organisations or through information obtained from the service organisations or their auditor. (paragraph 9-18)

If an auditor concludes that evidence from records held by a service organization is necessary in order to form an opinion on the client's financial statements and the auditor is unable to obtain such evidence, the auditor should include a description of the factors leading to the lack of evidence in the basis of opinion section of their report and qualify their opinion or issue a disclaimer of opinion on the financial statements. (paragraph 18-1)

115. In common with other industries the outsourcing of functions to third parties is becoming increasingly prevalent with banks. Some of the more common areas, such as customer call centres, may have no direct impact on the audit, while others such as IT functions may have a direct relevance. The auditor therefore gains an understanding of the extent of outsourced functions and their relevance to the financial statements. The bank is obliged to ensure that the auditor has appropriate access to records, information and explanations from material outsourced operations.
116. Whilst a bank may outsource functions to third parties the responsibility of these functions remains that of the bank. The bank should have appropriate controls in place over these arrangements including:

- risk assessment prior to contracting with the service provider, which includes a proper due diligence and periodic review of the appropriateness of the arrangement;
- appropriate contractual agreements or service level agreements;
- contingency plans should the provider fail in delivery of services;
- appropriate management information and reporting from the outsourced provider;
- appropriate controls over customer information; and
- right of access of the bank's internal audit to test the internal controls of the service provider.

117. If the auditor is unable to obtain sufficient audit evidence concerning outsourced operations the auditor considers whether it is necessary to report the matter directly to the Financial Regulator – see the section of this Practice Note relating to ISA (UK and Ireland) 250 Section B.

ISA (UK AND IRELAND) 505: EXTERNAL CONFIRMATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's use of external confirmations as a means of obtaining audit evidence.

The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate evidence at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level. (paragraph 2)

118. In general, external confirmation procedures may be useful as part of the audit of account balances and classes of transactions such as loans and deposits (including other receivables and payables such as settlement balances and nostro/vostro balances), securities held by third party custodians and derivative transactions. However, external confirmations may not always provide useful audit evidence in relation to:
- retail loans and deposits; and
 - certain counterparties of wholesale market balances and transactions such as nostro/vostro balances, interbank loans and deposits and derivative transactions.
119. Retail loans and deposits typically comprise high volumes of comparatively low value amounts. Such third parties do not usually maintain independent records of their balances, largely depending on information already provided to them by the bank. Accordingly the auditor may consider the inherent reliability of such responses is comparatively low.
120. Wholesale counterparties incorporated in some jurisdictions outside the Republic of Ireland have countrywide policies of not responding to confirmation requests by auditors at all. Some counterparties will respond to requests to confirm specified balances and transactions but not to open requests for unspecified information.
121. If external confirmations are not used, the auditor seeks sufficient appropriate evidence from tests of control and other substantive procedures. For example, in relation to wholesale market balances and transactions most banks also have well developed transaction confirmation controls within their trading activities. The auditor may consider it more effective to test these controls rather than carry out their own confirmation procedures.

ISA (UK AND IRELAND) 520: ANALYTICAL PROCEDURES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the application of analytical procedures during an audit.

The auditor should apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit. (paragraph 2)

122. Aspects of banking where there are high volumes of similar transactions or balances, such as interest receivable/payable or interest margins, may lend themselves to analytical procedures to highlight anomalies.
123. The auditor of a bank may wish to consider applying analytical procedures to the following, if the procedures are expected to yield useful audit evidence or where they are considered more efficient or effective than alternative procedures:
- asset quality – e.g. ratio of non-performing loans to total loans and provisions for loan impairment to non-performing loans (overall and by portfolio type);
 - earnings/profitability – e.g. cost/income ratio, the ratio of interest income or expense to average interest bearing assets or liabilities and the ratio of net interest income to average interest bearing assets;
 - the exposure to and degree of mismatching arising from the market risks below and the comparison of the related risk positions to risk limits set by management. The auditor may find it helpful to consider risk information to be disclosed under IFRS 7/FRS 29:
 - liquidity;
 - interest rates;
 - foreign exchange; and
 - other market risks, such as equity and commodity prices;
 - the structure of the loan portfolio/credit exposure by industrial, geographic or other category, or by loan impairment provision;
 - regulatory compliance – e.g. complaints handling or reporting of suspicious transactions under the Money Laundering Regulations; and

- operational risk measures – e.g. failed trade rates, volumes of unreconciled items.
124. Whilst some aspects of a bank's income statement and balance sheet lend themselves easily to analytical procedures, income and expense resulting from trading activities is unlikely to be susceptible to these methods because of its inherent unpredictability. Analytical procedures on income and expense items such as interest will be most effective if returns are calculated on the basis of average daily (or at least monthly) balance information.
125. When performing their review of the financial statements as a whole for consistency with their knowledge of the entity's business and the results of other audit procedures, the auditor considers transactions occurring either side of the year end, including:
- material short-term deposits which are re-lent on broadly similar terms; loan repayments which are received shortly before the year end then re-advanced shortly afterwards; material sale and repurchase transactions or other financing or linked transactions. Experience and judgement are required to identify and assess the implications, if any, of these transactions; they may, for example, be indicative of 'window dressing' of the balance sheet over the year end date;
 - other transactions around the year end, apparently at rates which are significantly off market including those that appear or give rise to significant profits or losses;
 - the value and nature of transactions between related parties/associated undertakings around the year end; and
 - the reclassification of balances and transactions to achieve advantageous income recognition and balance sheet treatment/presentation.
126. Where non financial information or reports produced from systems or processes outside the financial statements accounting system are used in analytical procedures, the auditor considers the reliability of that information or those reports.

ISA (UK AND IRELAND) 540: AUDIT OF ACCOUNTING ESTIMATES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the audit of accounting estimates contained in financial statements.

The auditor should obtain sufficient appropriate audit evidence regarding accounting estimates. (paragraph 2)

The auditor should adopt one or a combination of the following approaches in the audit of an accounting estimate:

- (a) Review and test the process used by management to develop the estimate;
- (b) Use an independent estimate for comparison with that prepared by management;
or
- (c) Review of subsequent events which provide audit evidence of the reasonableness of the estimate made. (paragraph 10)

The auditor should make a final assessment of the reasonableness of the entity's accounting estimates based on the auditor's understanding of the entity and its environment and whether the estimates are consistent with other audit evidence obtained during the audit. (paragraph 24)

127. Accounting estimates are used for valuation purposes in a number of areas: the most common examples are allowances for loan losses, and the fair value measurement of financial instruments not traded on an active market. Estimates of allowances for impairment or customer compensation provisioning may represent significant risks.
128. In reviewing the adequacy of loan impairment provisions the auditor assesses whether the assumptions made by management in arriving at their estimate of likely cashflows to be received from the impaired loans have been made after due consideration and whether they are supported by relevant evidence, including evidence derived from backtesting. In the case of individual loan impairment calculations such evidence will be specific to the borrower but where impairment is estimated for a portfolio of similar loans the auditor considers observable data across the group of assets as a whole such as arrears statistics or economic conditions. IAS 39 (and its Irish GAAP equivalent FRS 26) gives guidance on the types of evidence to be considered. Banks will also refer to the

Financial Regulator's "Credit Institutions Regulatory Document, Impairment Provisions for Credit Exposures" published in October 2005 for guidance in this area.

129. Loan impairment provisions are often calculated using extensive and sometimes complex spreadsheet models and the auditor assesses the control over the inputs to the models and the controls that ensure the consistency and integrity of the model.
130. Based on the audit evidence obtained, the auditor may conclude that the evidence points to an estimate that differs from management's estimate, and that the difference between the auditor's estimate or range and management's estimate constitutes a financial statement misstatement. In such cases, where the auditor has developed a range, a misstatement exists when management's estimate lies outside the auditor's range. The misstatement is measured as the difference between management's estimate and the nearest point of the auditor's range.
131. Management bias, whether unintentional or intentional, can be difficult to detect in a particular estimate. It may only be identified when there has been a change in the method for calculating estimates from the prior period based on a subjective assessment without evidence that there has been a change in circumstances, when considered in the aggregate of groups of estimates or all estimates, or when observed over a number of accounting periods. Although some form of management bias is inherent in subjective decisions, management may have no intention of misleading the users of financial statements. If, however, there is intention to mislead through, for example, the intentional use of unreasonable estimates, management bias is fraudulent in nature. ISA (UK and Ireland) 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements," provides standards and guidance on the auditor's responsibility to consider fraud in an audit of financial statements.

ISA (UK AND IRELAND) 545: AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on auditing fair value measurements and disclosures contained in financial statements.

The auditor should obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the entity's applicable financial reporting framework. (paragraph 3)

As part of the understanding of the entity and its environment, including its internal control, the auditor should obtain an understanding of the entity's process for determining fair value measurements and disclosures and of the relevant control activities sufficient to identify and assess the risks of material misstatement at the assertion level and to design and perform further audit procedures. (paragraph 10)

The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in accordance with the entity's applicable financial reporting framework. (paragraph 17)

132. The valuation of derivative and other financial instruments which are not traded in an active market and so for which valuation techniques are required is an activity that can give rise to significant audit risk. Such financial instruments are priced using valuation techniques such as discounted cashflow models, options pricing models or by reference to another instrument that is substantially the same as the financial instrument subject to valuation. The auditor reviews the controls, procedures and testing of the valuation techniques used by the bank. Controls and substantive testing could include focussing on:

- valuation technique approval and testing procedures used by the bank;
- the independence of review, sourcing and reasonableness of observable market data and other parameters used in the valuation techniques;
- calibration procedures used by the bank to test the validity of valuation techniques applied by comparing outputs to observable market transactions;
- completeness and appropriate inclusion of all relevant observable market data;
- the observability in practice of data classified by the bank as observable market data;

- the appropriateness and validity of classification of instruments designated as being traded in a non active and in an active market;
- the appropriateness and validity of the particular valuation technique applied to particular financial instruments;
- the appropriateness and validity of the parameters used by the bank to designate an instrument as substantially the same as the financial instrument being valued;
- mathematical integrity of the valuation model; and
- access controls over valuation models.

133. In the more subjective areas of valuation the auditor obtains an understanding of the assumptions used and undertakes a review of the estimates involved for reasonableness, consistency and conformity with generally accepted practices. In some cases, the auditor may use his own valuation techniques to assess the bank's valuations. See paragraphs 102 – 114 in this Practice Note concerning disclosure of market risk information. Given the complexities involved and the subjective nature of the judgments inherent the auditor may involve an expert in elements of this work (see ISA (UK and Ireland) 620 section of this Practice Note).

ISA (UK AND IRELAND) 550: RELATED PARTIES

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties regardless of whether International Accounting Standard (IAS) 24, "Related Party Disclosures," or similar requirement, is part of the applicable financial reporting framework.

When planning the audit the auditor should assess the risk that material undisclosed related party transactions, or undisclosed outstanding balances between an entity and its related parties may exist. (paragraph 106-3)

134. Related party transactions are defined in FRS 8/IAS 24 'Related party disclosures'. Paragraph 16 of FRS 8 states that the 'disclosure provisions do not apply where to comply with them conflicts with the reporting entity's duties of confidentiality arising by operation of law'. IAS 24 contains no explicit corresponding exemption. However the potentially overriding impact of law concerning confidentiality in respect of disclosures under IAS 24 still needs to be considered. This is particularly relevant in a banking context: banks are usually under a strict duty of confidentiality (by operation of statute, contract or common law) regarding the affairs of their clients and, in respect of transactions entered into in certain overseas jurisdictions, this may even preclude a foreign entity from disclosing information to its parent, another group company or their auditor. A provider of finance (in the course of a business in that regard) and its customer are not 'related' simply because of that relationship.
135. Both when applying EU IFRS or Irish GAAP, under ISA (UK and Ireland) 550, the auditor is required to assess the risk that material undisclosed related party transactions may exist. It is in the nature of banking that transaction volumes are high but this factor will not, of itself, necessarily lead the auditor to conclude that the inherent risk of material undisclosed related party transactions is high.
136. Banks are required to report to the Financial Regulator changes in control in accordance with the 'acquiring transactions' provisions in the CBA 1989 (in some instances with prior Financial Regulator approval), changes in circumstances of existing controlling parties and changes in entities who are closely linked to the bank. As a result, it will therefore normally be the case that there are controls in place to ensure that this information is properly collated. However, the definition of 'controller and closely linked' for regulatory purposes is not congruent with the 'related party' definition in FRS 8/IAS 24 and the

auditor therefore considers what controls have been in place by management to capture information on those parties which fall within the accounting definition only.

137. In reviewing related party information for completeness, the auditor may compare the proposed disclosures in the financial statements to information prepared for regulatory reporting purposes (bearing in mind that the population may be different, as noted in the preceding paragraph).
138. Whilst related party transactions can arise in respect of banks generally they frequently arise in respect of deposits held by directors and/or persons connected with them and in respect of loans and other transactions with directors and/or persons connected with them. They may also arise in respect of the sale or arrangement of insurance products and in respect of the provision of professional and other services. The auditor is aware of Companies Acts provisions relating to transactions by companies with directors.

ISA (UK AND IRELAND) 560: SUBSEQUENT EVENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events.

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified. (paragraph 4)

139. Matters specific to banks which auditors may consider in their review of subsequent events include:

- an evaluation of material loans and other receivables identified as being in default or potential default at the period end to provide additional evidence concerning period end loan impairment provisions;
- an assessment of material loans and other receivables identified as (potential) defaults since the period end to consider whether any adjustment to the period end carrying value is required;
- a review of movements in market prices and exchange rates, particularly in illiquid markets or where the bank has very large positions, to consider whether prices or rates used in period end valuations were realistic in relation to the size of positions held;
- a review of correspondence with regulators and enquiries of management to determine whether any significant breaches of regulations or other significant regulatory concerns have come to light since the period end; and
- a consideration of post year end liquidity reports for indications of funding difficulties.

ISA (UK AND IRELAND) 570: THE GOING CONCERN BASIS IN FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the auditor's responsibility on the audit of financial statements with respect to the going concern assumption used in the preparation of the financial statements, including management's assessment of the entity's ability to continue as a going concern.

When planning and performing audit procedures and in evaluating the results thereof, the auditor should consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements. (paragraph 2)

The auditor should consider any relevant disclosures in the financial statements. (paragraph 2-1)

140. In reviewing going concern issues, the auditor may consider the following areas in addition to those set out in ISA (UK and Ireland) 570:
- capital adequacy ratios – review of management's analysis and rationale for ensuring that the bank is capable of maintaining adequate financial resources in excess of the minimum ;
 - operations/profitability indicators – e.g. review of the performance of loans in troubled industry sectors in which the bank has a high concentration of exposure;
 - liquidity indicators – e.g. review of the banks liquidity management process (e.g. maturity mismatch ladders) for signs of undue deterioration; and
 - reputational and other indicators – e.g. review of the financial press and other sources of market intelligence for evidence of deteriorating reputation; review of correspondence with regulators.

Further details of possible factors that may indicate going concern issues in these areas are set out in Appendix 7 to this Practice Note.

141. The auditor also considers any undertakings which may have been provided to the Financial Regulator by the bank's parent or major shareholder. The Financial Regulator requires that parents or major shareholders provide an undertaking to the effect that the banking subsidiary incorporated and regulated in the State be in a position to meet its

liabilities as they fall due for so long as the parent/shareholder continues to hold the majority of the equity of the subsidiary (the Financial Regulator Standards, paragraph 1.11).

142. If the auditor has any doubts as to the ability of a bank to continue as a going concern, the auditor considers whether he ought to make a report direct to the Financial Regulator.
143. Where the auditor intends to include an explanatory paragraph in an unqualified audit report, referring to a going concern issue, this would not, of itself, necessitate a report to the Financial Regulator under section 47 of the CBA, 1989 and Regulation 7(c) of the Post-BCCI Regulations (as it is not a qualification of the audit opinion). But in these circumstances the auditor considers whether the matter giving rise to the explanatory paragraph requires a report to the Financial Regulator under the statutory duty so to do.

ISA (UK AND IRELAND) 580: MANAGEMENT REPRESENTATIONS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the use of management representations as audit evidence, the procedures to be applied in evaluating and documenting management representations and the action to be taken if management refuses to provide appropriate representations.

Written confirmation of appropriate representations from management should be obtained before the audit report is issued. (paragraph 2-1)

The auditor should obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. (paragraph 4)

144. ISAs (UK and Ireland) 250, Section A and 550 require an auditor to obtain written confirmation in respect of completeness of disclosure to the auditor of:
- all known actual or possible non-compliance with laws and regulations (including breaches of the CBAs, the Financial Regulator Standards, anti-money laundering legislation, other regulatory requirements or any other circumstance that could jeopardise the authorisation of the bank) whose effects should be considered when preparing financial statements together with the actual or contingent consequences which may arise therefrom; and
 - the completeness of information provided regarding the identification of related parties and the adequacy of related party disclosures in the financial statements.
145. In addition to the examples of other representations given in ISA (UK and Ireland) 580, the auditor also considers obtaining confirmation:
- as to the adequacy of provisions for loan impairment (including provisions relating to individual loans if material) and the appropriateness of other accounting estimates (such as derivatives valuations or adequate provisions for compensation concerning upheld complaints by customers);
 - that all contingent transactions or commitments have been adequately disclosed and/or included in the balance sheet as appropriate; and
 - that all correspondence with regulators has been made available to the auditor.

ISA (UK AND IRELAND) 600: USING THE WORK OF ANOTHER AUDITOR

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance when an auditor, reporting on the financial statements of an entity, uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity. This ISA (UK and Ireland) does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor. Further, when the principal auditor concludes that the financial statements of a component are immaterial, the standards in this ISA (UK and Ireland) do not apply. When, however, several components, immaterial in themselves, are together material, the procedures outlined in this ISA (UK and Ireland) would need to be considered.

When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit. (paragraph 2)

In the UK and Ireland, when planning to use the work of another auditor, the principal auditor's consideration of the professional competence of the other auditor should include consideration of the professional qualifications, experience and resources of the other auditor in the context of the specific assignment. (paragraph 7.1)

146. The principal auditor considers in particular the competence and capability of the other auditor having regard to the laws, regulation and industry practice relevant to the component to be reported on by the other auditor and whether the other auditor has access to relevant expertise, for example in the valuation of financial instruments, appropriate to the component's business.
147. Further procedures may be necessary for the auditor of an Irish bank where audit work in support of the audit opinion is undertaken by an audit firm that is not subject to the Irish audit regulatory regime. Where an overseas firm of the auditor (or an audit firm independent of the auditor) is undertaking audit procedures on a branch, or division or shared service centre of the bank, the auditor must have due regard to the requirements in the Audit Regulations²⁴ to ensure all relevant members of the engagement team are and continue to be fit and proper, are and continue to be competent, and are aware of

24 Audit Regulations and Guidelines – December 2005 issued by the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in Ireland.

and follow these Audit Regulations and any related procedures and requirements established by the audit firm. This includes the auditor's duty to report directly to the Financial Regulator in certain circumstances. More detailed consideration of the auditor's duty to report to the Financial Regulator is set out in the section of this Practice Note dealing with ISA (UK and Ireland) 250.

ISA (UK AND IRELAND) 610: CONSIDERING THE WORK OF INTERNAL AUDIT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance to external auditors in considering the work of internal auditing. This ISA (UK and Ireland) does not deal with instances when personnel from internal audit assist the external auditor in carrying out external audit procedures. The audit procedures noted in this ISA (UK and Ireland) need only be applied to internal auditing activities which are relevant to the audit of the financial statements.

The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedures. (paragraph 2)

148. The CRD requires that every bank shall manage its business in accordance with sound administrative and accounting principles and shall put in place and maintain internal control and reporting arrangements and procedures to ensure that the business is so managed.
149. The Financial Regulator must be satisfied that:
- directors and senior management exercise adequate control over the bank;
 - comprehensive risk management systems commensurate with the scope, size and complexity of all banking activities, including derivatives and associated risks, are in place, incorporating continuous measuring, monitoring, and controlling of risk, accurate and reliable management information systems, timely management reporting and thorough audit and control procedures; and
 - where the size or nature of the operations of the bank warrant it, a properly staffed internal audit function exists which has direct access to the board of directors or an appropriate sub-committee of the board.
150. Internal audit services can be provided by an internal function, by the parent company or other group company, or by a third party.
151. Bank auditors understand the arrangements in place for internal audit and may develop, where appropriate, close liaisons with internal audit to ensure that the careful planning and execution of work avoids duplication and effects best use of resources.

ISA (UK AND IRELAND) 620: USING THE WORK OF AN EXPERT

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on using the work of an expert as audit evidence.

When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. (paragraph 2)

152. Given the complexity, subjectivity and specialist nature of the valuation of derivatives and other financial instruments not traded in an active market, together with VAR (or similarly complex) market risk disclosures, the auditor may involve an expert in elements of the audit of these areas.
153. Where the auditor uses an expert as part of the audit, the auditor remains solely responsible for the audit of the bank's financial statements and will not refer to the work of the expert within the auditor's report.

ISA (UK AND IRELAND) 700: THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Background note

The purpose of this ISA (UK and Ireland) is to establish standards and provide guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. Much of the guidance provided can be adapted to auditor reports on financial information other than financial statements.

In the UK and Ireland:

- (a) The auditor should distinguish between the auditor's responsibilities and the responsibilities of those charged with governance by including in the auditor's report a reference to a description of the relevant responsibilities of those charged with governance when that description is set out elsewhere in the financial statements or accompanying information; or
- (b) Where the financial statements or accompanying information do not include an adequate description of the relevant responsibilities of those charged with governance, the auditor's report should include a description of those responsibilities. (paragraph 9-1)

154. The auditor may report on the financial statements of a branch of a bank incorporated outside the Republic of Ireland. ISA (UK and Ireland) 700 (or aspects thereof) may remain applicable in these circumstances. However, in agreeing the form of the opinion for a branch audit, the auditor takes into account matters such as the nature and content of the financial statements to which the report relates, the extent to which transactions recorded in the branch may have been initiated in other locations (and, similarly, whether transactions initiated by the branch may have been recorded elsewhere), the specific terms of the engagement as agreed with the party which has commissioned the work (which may be local and/or head office management or the head office auditor, for example) and whether the report will be public or private.

AUDITOR'S REVIEW REPORTS ON INTERIM NET PROFITS

155. Banks are permitted to include interim profits in the capital base required to meet prudential supervision criteria only if such profits have been reported on by the bank's external auditors.
156. In undertaking the review the auditor normally performs the following procedures:
- satisfies himself that the figures forming the basis of the interim net profits have been properly extracted from the underlying accounting records;
 - reviews the accounting policies used in calculating the interim net profits for the period under review so as to obtain comfort that they are consistent with those normally adopted by the bank in drawing up its annual financial statements and are in accordance with Irish GAAP applicable to banks or EU IFRS as appropriate;
 - performs analytical procedures on the results to date which form the basis of calculating interim net profits, including comparisons of actual performance to date with budget and with the results of the prior period(s);
 - performs analytical procedures on the results to date which form the basis of calculating interim net profits, including comparisons of actual performance to date with budget and with the results of prior period(s);
 - discusses with management the overall performance and financial position of the deposit taker;
 - obtains adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities, allowances for loan losses and other impairment provisions have been properly taken into account in arriving at interim net profits; and
 - follows up significant matters of which the auditor is already aware in the course of auditing the bank's most recent financial statements.

The auditor may also consider obtaining appropriate representations from management.

157. As such reviews are undertaken specifically for regulatory purposes they do not fall within the scope of the APB's International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410 (UK and Ireland))²⁵. ISRE 2410 (UK and Ireland) provides guidance to auditors in reviewing and reporting on financial information in interim reports,

25 ISRE 2410 (UK and Ireland) is effective for reviews of interim financial information for periods ending on or after 20 September 2007 and supersedes Bulletin 1999/4 'Review of Interim Financial Information'. Early adoption is permitted.

produced by listed companies incorporated in the United Kingdom and the Republic of Ireland.

158. Where the scope of the work carried out by the auditor differs materially from that set out in paragraph 156, the Financial Regulator expects the auditor to provide details in the report.
159. In particular circumstances, the auditor may consider it appropriate to undertake further procedures before giving his report. For example:
- if the control environment surrounding the preparation of the interim profits as reported to the Financial Regulator is determined by the auditor to be weak;
 - if the results of the initial procedures undertaken are not fully consistent with the interim profits as reported; or
 - if there has been a significant change in the accounting systems.
160. It is often the case that the companies which are included in the consolidation or solo consolidation for Financial Regulator reporting purposes are not the same as those included for statutory accounts purposes. For example:
- 'non-financial' companies may be excluded from the consolidation for regulatory purposes; and/or
 - 'financial' associates may be subject to full consolidation for regulatory purposes.
161. If the auditor is satisfied that the basis of consolidation of interim profits, although different from that used in the statutory accounts, reflects properly the Financial Regulator's requirements, this need not be referred to in the report. In other cases, the auditor considers including a paragraph in the report explaining the consolidation basis on which the interim profits have been prepared. A subsidiary's interim profits will be reported in the group quarterly regulatory returns of the parent if institutions have prior approval from the Financial Regulator to include them in Tier 1 capital.
162. Illustrative wording for such reports is set out in Appendix 6.

MEETINGS WITH THE FINANCIAL REGULATOR

163. Under section 47(5) of the CBA 1989, the Financial Regulator has power to request information from the auditor of a bank on matters relating to the audit of its financial statements. The Financial Regulator uses its power under that section to meet with the auditors of banks to engage in dialogue in relation to the audit.
164. These meetings may take the form of both:
- *trilateral meetings*: periodic meetings called by the Financial Regulator, between the Financial Regulator, each bank and its auditor on a case by case basis. Such trilateral meetings are held in order to discuss audit related matters, particularly matters such as the bank's control environment, corporate governance procedures, internal audit procedures and risk profile; and
 - *bilateral meetings*: the Financial Regulator may also initiate formal meetings with the auditor alone. Such meetings are used by the Financial Regulator for more detailed discussion of matters raised in the course of a trilateral meeting and to seek views of the auditor on matters of concern to the Financial Regulator or to the auditor, to the extent permitted under legislation. Section 33AK of the CBA 1942²⁶, provides a gateway for the Financial Regulator to disclose confidential information to an auditor of a bank. When participating in a bilateral meeting, the auditor does not, however, make supervisory judgments: such matters are for the decision of the Financial Regulator, having regard to all information at its disposal in relation to the bank concerned, not solely that provided by its auditor.
165. Following notification of a bilateral meeting, the auditor may wish to seek advance information from the Financial Regulator as to the matters it intends to discuss. Under current legislation, auditors of banks do not have a statutory right to disclose information to the Financial Regulator (other than information giving rise to a duty to report to Financial Regulator), but may be provided with protection from legal action arising from disclosure of information on a matter related to the audit, when responding to an enquiry by the Financial Regulator²⁷. The common law may provide protection for disclosure of certain matters to an appropriate authority in the public interest. This is discussed further at paragraphs 63 to 69 of Appendix 2 below. However, it is unlikely that auditors in possession of information justifying disclosure in the public interest would be in the position of disclosing that information for the first time in the course of a bilateral meeting. Provision of information to the Financial Regulator is therefore made primarily under section 47(6) of the CBA 1989. In discussing issues in the course of a bilateral meeting, the auditor considers carefully the nature and extent of information to be provided to the Financial Regulator, taking into account:

26 As inserted by section 26 CBSFAI 2003.

27 Section 47(6) CBA, 1989.

- the auditor's duty of confidentiality to the bank concerned and the fact that the bank itself has primary responsibility for the provision of information required by the Financial Regulator;
- whether the matters concerned fall within the protection available to them in responding to questions from the Financial Regulator; and
- the desirability and benefits of a free exchange of views between the Financial Regulator and the auditor.

166. If uncertainty exists as to whether particular information may be disclosed to the Financial Regulator, the auditor may defer discussion of the relevant matter raised in order to consider whether the protection afforded by 47(6) of the CBA 1989, or other legal provisions apply, and may, if considered appropriate, take legal advice. In general terms, however, auditors who provide information to the Financial Regulator in response to questions from the Financial Regulator have effective protection from breach of confidentiality provided that they:

- report information in relation to the Financial Regulator's query in a balanced manner without selectivity or bias;
- indicate that information is provided under section 47(6) of the CBA 1989; and
- express any opinions in a neutral and responsible manner, making clear that they are opinions, not facts, and explaining the basis for them.

167. A contemporaneous record of the matters discussed at a tri- or bi-lateral meeting may be made and agreed subsequently with the representatives of the auditor and of the Financial Regulator who attended the meeting.

168. The auditor may not disclose information communicated to them by the Financial Regulator, including that received in bilateral discussions, except with the Financial Regulator's express agreement and, in some cases, that of other parties to which the information relates. The Financial Regulator will inform the auditor which parts of the bilateral discussion it permits them to communicate to the bank: if this information is not volunteered at the end of the bilateral meeting, the auditor asks the Financial Regulator to do so. Some information communicated to the auditor will relate only to the bank but many matters discussed may relate also to other parties, such as customers or employees. In addition, other information may have been received by the Financial Regulator from other regulators or in a capacity other than as banking supervisor, in which case there may be other restrictions on disclosure. Therefore, before communicating to the bank any information received during the bilateral meeting, the auditor considers carefully:

- whether the Financial Regulator's express permission has been received to communicate a particular item of information;

- whether the information relates to parties other than the bank, whose agreement is required prior to communication; and
 - whether the information was received by the Financial Regulator in a capacity other than as banking supervisor or from another regulator, in which case permission may be required from the other party concerned.
169. The auditor can, however, disclose to the bank information which they have communicated to the Financial Regulator during the bilateral meeting (except where to do so would have the effect of disclosing information communicated by the Financial Regulator). If the auditor is in doubt as to whether particular information can be communicated consideration may be given to the procedures set out in the paragraph above and, in particular circumstances, to the need to take legal advice.
170. Matters communicated by the Financial Regulator during a bilateral meeting may be conveyed by representatives of an audit firm who attended the meeting to other partners and staff who need to know the information in connection with the firm's performance of its duties as auditor without the Financial Regulator's permission.

APPENDIX 1

AUTHORISATION AND SUPERVISION OF BANKS BY THE FINANCIAL REGULATOR: LEGISLATIVE AND REGULATORY BACKGROUND

Authorisation of banks

1. In general terms, banking supervision is based on a system of licensing under which the supervisor is responsible for authorising entry into the banking system. Qualification for, and retention of, a banking licence is dependent on compliance with prudential and other requirements.
2. Under the CBA 1971 no entity may carry on the activity of taking deposits from the public without authorisation by the Financial Regulator. Before granting a banking licence, the Financial Regulator must be satisfied that the applicant meets the relevant criteria for authorisation and the applicant must undertake, once a licence is granted, that it will comply with the 'Financial Regulator Standards' on a continuous basis.
3. Many of the requirements applicable to Irish banks derive from European Directives. The most significant of these Directives is the Capital Requirements Directive ('**CRD**'). CRD is a term used to describe two EU Directives which transpose the Basel II Accord into a legal text for the purpose of its application to banks and investment firms across the European Economic Area ('**EEA**'). These Directives are Directive 2006/48/EC (recast) relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC (recast) on the capital adequacy of investment firms and credit institutions. Statutory Instruments ('**S.I.s**') 660 and 661 of 2006 were signed into Irish law to implement the CRD in Ireland in December 2006 and became effective from 1 January 2007.
4. The CRD repeals Directive 2000/12/EC relating to the taking up and pursuit of business of credit institutions which had brought together:
 - The First Banking Directive, 77/780/EEC, on the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions;
 - The Second Banking Directive, 89/646/EEC which was implemented in Ireland by S.I. 395 of 1992 – often referred to as the "Passporting Regulations";
 - The Own Funds Directive 89/299/EEC and Solvency Ratio Directive 89/647/EEC and amendments to those Directives by Directive 91/633/EEC, Directive 94/7/EC, Directive 95/15/EC, Directive 95/67/EC, Directive 96/10/EC, Directive 2004/69/EC, Directive 98/32/EC and Directive 98/33/EC;
 - The Consolidated Supervision Directive 92/30/EEC; and
 - The Large Exposures Directive 92/121/EC

The CRD also repeals the Capital Adequacy Directive 93/6/EC and amending Directives 98/31/EC and 98/33/EC. Details of specific articles of other Directives also repealed by the CRD can be found at Annex XIII Part A of Directive 2006/48/EC and Annex VIII Part A of Directive 2006/49/EC.

5. The requirements for authorisation of credit institutions are contained in the CRD. The main provisions are as follows;
 - a. Article 6 provides that Member States shall require Credit Institutions to obtain authorisation before commencing their activities and that they shall lay down requirements for such authorisations and notify them to the Commission.
 - b. Article 7 provides that applications for authorisation must be accompanied by a programme of operations setting out, inter alia, the types of business envisaged and the structural organisation of the credit institutions.
 - c. In accordance with Article 9 authorisation will not be granted when the credit institution does not possess separate own funds or in cases where initial capital is less than €5m.
 - d. Article 23 provides that once a bank becomes authorised in a Member State (its 'Home State') it can establish a branch or do business/provide services by carrying on its activities within the industry, in any other Member State ('**Host State**') without having to obtain an official authorisation from the banking regulator in the Host State.
 - e. Articles 25-27 address the requirements to enable a credit institution to exercise its right of establishment in another Member State.
 - f. Articles 28-37 address the information requirements and powers of the host Member State with regard to the provision of services by an institution from another member state.

6. Section 9(1) of CBA 1971²⁸ provides that the Financial Regulator may, at its discretion, grant or refuse a person's application for a banking licence. Section 10 of CBA 1971²⁹ provides that a licence is subject to such condition as the Financial Regulator may impose on the bank from time to time, being conditions which in the opinion of the Financial Regulator are calculated to promote the orderly and proper regulation of banking. The Financial Regulator's administrative provisions contained in its 'Financial Regulator Standards' set out the guidance for banks applying for authorisation by the Financial Regulator. "The Requirements for the Management of Liquidity Risk and Impairment Provisions for Credit Exposures" have been imposed as conditions on the licenses of credit institutions. Authorisation criteria are discussed in more detail in Appendix 2 in the context of an auditor's duty to report, in accordance with Regulation

28 As amended by section 32 CBA 1989.

29 As amended by section 532(2) and 33 CBA 1989.

7(a) of the Post-BCCI Regulations, breaches of laws, regulations or administrative provisions which set out the criteria under which the bank was authorised.

7. Under the CRD banks authorised by a regulator in another Member State of the European Union (European banks) do not require authorisation under Irish law and regulations in order to accept deposits in the Republic of Ireland. A European Economic Area bank may conduct without further authorisation in the Republic of Ireland any activity which it is authorised to conduct in its home state, either as a branch or on a cross-border basis, provided that it has complied with the provisions of the CRD which include:
 - that the bank has given to the relevant supervisory authority in its home state a notice of its intention to conduct business in the Republic of Ireland (the contents of which are prescribed);
 - that the Financial Regulator has received from that authority a prescribed notice; and
 - that either:
 - (i) the Financial Regulator has informed the bank that it may establish the branch or provide services on a cross border basis; or
 - (ii) a specified period has elapsed since the Financial Regulator received the notice from the home authority.
8. The Financial Regulator's regulatory responsibilities extend to overseas branches of Irish authorised banks although, in discharging those responsibilities, it may seek to rely to some extent on the supervisory activities of other regulators.
9. The CRD requires the Financial Regulator to supervise banking groups on a consolidated basis. This includes consideration of the potential impact of other group companies on the institution itself.

The Post BCCI Regulations

10. The Post BCCI Regulations³⁰ implemented an EU Directive³¹ issued after the failure of the Bank of Credit and Commerce International ('BCCI'). These Regulations require the Financial Regulator to consider, prior to the granting of authorisation to banks, its ability to exercise effectively its supervisory functions, taking into account:
 - the existence of close links (see paragraph 11 below) between the bank and others; and

30 Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations, 1996, S.I. No. 267 of 1996, ('the Post BCCI Regulations').

31 EU Directive 95/26/EEC of 19 July 1995, OJ L168 amended by EU Directives 2002/83/EC and 2000/12/EC.

- the laws, regulations or administrative provisions of a non-EU Member State governing one or more persons with which that bank has close links, or difficulties involved in their enforcement.
11. The Post BCCI Regulations also introduced a number of additional matters giving rise to a duty on auditors to report to the Financial Regulator. In particular, if the auditor of a bank is also appointed as auditor of entities which are 'closely linked' with the bank, the Regulations extended the duty to report to include matters coming to their attention in the course of their work as auditor of those entities.

Close links

12. Close links between two or more entities, as defined by Regulation 2 of the Post BCCI Regulations, arise as a result of factors indicating either —
- participation: the ownership, direct or by way of control, of 20 per cent or more of the voting rights or capital of an undertaking, or
 - control: the relationship between a parent undertaking and a subsidiary undertaking (including sub-subsidiaries).

Additionally, close links exist if there is an arrangement whereby two or more persons are permanently linked to one and the same person by a control relationship.

The responsibility of directors and management of banks

13. The primary responsibility for the conduct of the business of a bank is vested in the board of directors and the management appointed by it. This responsibility includes:
- establishing adequate procedures and systems to ensure compliance with law applicable to banks, the 'Financial Regulator Standards' and other administrative provisions issued by the Financial Regulator, including Codes of Practice and other relevant law and regulations (including taxation law);
 - the preparation of financial statements and compliance with other aspects of company law; and
 - providing information to the Financial Regulator.
14. The CRD together with the Financial Regulator's 'Fit and Proper Requirements' published in November 2006 require that every person who has, or is to have, a qualifying holding (defined in Appendix 3), director, or senior manager of a bank is a fit and proper person in the context of the particular position which he holds or is to hold. For further details on the 'Fit and Proper Requirements' refer to Appendix 4.

Investment Business

15. The holding of a banking licence is generally sufficient authorisation in itself for a bank to conduct investment business (although the Financial Regulator may impose a requirement, limit, or condition restricting the business that a bank may conduct.) Alternatively, a bank may conduct investment business through a separate subsidiary which must be authorised under the Investment Intermediaries Act 1995. Title 1 Article 1(2) of Directive 2004/39/EC – (MiFID) lists the provisions that apply to credit institutions authorised under Directive 2000/12/EC³² when providing one or more investment services and/or performing investment activities.

The legal and regulatory framework

The legal and regulatory framework within which banks operate in the Republic of Ireland is complex and involves;

- Statutes;
- Regulations implementing EU Directives in the banking sector;
- Other Regulations;
- Administrative Provisions and Financial Regulator Standards; and
- Other guidance issued by the Financial Regulator.

Statutes

Central Bank Act, 1942;

Central Bank Act, 1971;

Central Bank Act, 1989;

Central Bank Act, 1997;

Central Bank Act, 1998;

Central Bank and Financial Services Authority of Ireland Act, 2003;

Central Bank and Financial Services Authority of Ireland Act, 2004;

Consumer Credit Act, 1995;

Dormant Accounts Act, 2001; and

Dormant Accounts (Amendment) Act, 2005

The main provisions of the CBAs deal with:

- the functions of the Financial Regulator and its Board of Directors;
- restrictions on the acceptance of deposits and on invitations to make deposits;
- the process of, and specific criteria for, authorisation of banks, including the requirement that the business should be conducted in a 'prudent manner';

³² Repealed by CRD.

- notification and other requirements relating to directors and persons who have a 'qualifying holding';
- the powers of the Financial Regulator to require information, to instigate investigation procedures, to refuse, restrict or revoke authorisation and to give directions to, or impose conditions on, a bank during and after the revocation process;
- the auditor's duties to report to the Financial Regulator in certain circumstances;
- the operation of the Irish deposit protection scheme;
- restrictions on the use of banking names and descriptions;
- the requirements relating to overseas institutions with, or wishing to set up, representative offices in the Republic of Ireland; and
- restrictions on disclosure of information by the Financial Regulator

EU Directives and implementing Irish regulations as at 30 April 2008

Directive	Implemented in ROI
Annual Accounts Directive 86/635/EEC	European Communities (Credit Institutions Accounts) Regulations 1992, S.I. 294 of 1992
Branch Accounts Directive 89/117/EEC	Regulation 14 of S.I. 294 of 1992
Deposit Guarantee Scheme Directive 94/19/EC	European Communities (Deposit Guarantee Schemes) Regulations 1995, S.I. 168 of 1995 CBA 1997 and S.I. 468 of 1999
Directive Reinforcing Prudential Supervision Directive 95/26/EC (known as the Post-BCCI Directive)	Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations, 1996, S.I. 267 of 1996
Distance Marketing Directive Directive 2002/65/EC concerning the distance marketing of consumer financial services	European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004, S.I. 853 of 2004 European Communities (Distance Marketing of Consumer Financial Services) (Amendment) Regulations, 2005, S.I. No. 63 of 2005

<p>Capital Requirements Directive Directive 2006/48/EC (recast) relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC (recast) on the capital adequacy of investment firms and credit institutions</p>	<p>European Communities (Capital Adequacy of Investment Firms) Regulations 2006, S.I. 660 of 2006</p> <p>European Communities (Capital Adequacy of Credit Institutions) Regulations 2006, S.I. 661 of 2006</p>
<p>Markets in Financial Instruments Directive (“MiFID”) Main Directive 2004/39/EC Supplementary Directive 2004/73/EC</p>	<p>S.I. 60 of 2007 European Communities (Markets in Financial Instruments) Regulations 2007; and</p> <p>Markets in Financial Instruments and Miscellaneous Provisions Act 2007</p>
<p>Money Laundering Directives 91/308/EEC 001/97/EEC 2005/60/EC</p>	<p>Implemented by the Criminal Justice Act 1994 and amended by the Criminal Justice (Miscellaneous Provisions) Act 1997</p> <p>Implemented by the Criminal Justice (Theft and Fraud Offences) Act 2001 and S.I. 242 of 2003, Criminal Justice Act 1994 (Section 32) Regulations, 2003 as amended by S.I. 416 of 2003, Criminal Justice Act 1994 (Section 32)(Amendment) Regulations</p> <p>Draft Scheme, Criminal Justice (Money Laundering) Bill, 2008 currently in issue for consultation. The Bill when passed will implement this Directive.</p>

Other Regulations

Central Bank Act 1942 (Financial Services Ombudsman Council) Regulations 2005

Administrative provisions issued by the Financial Regulator

Licensing and Supervision Requirements and Standards for Credit Institutions	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Form for approval of directors	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Code of Practice on Transfer of Mortgages	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Asset Securitisation Notice	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Commercial Paper Notice BSD CP 1/98	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Assessment of Minimal Trading Book Activity	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Notice on Supervision of Bureaux de Change	First issued in Winter Bulletin 1995 and later amended on 22 April 1998
Code of Conduct for the Investment Business Services of Credit Exposures	Issued in June 2001 (Updated November 2001)
Regulatory Document on Impairment Provisions for Credit Institutions	Issued in October 2005
Requirements for Management of Liquidity Risk	Issued in June 2006
Minimum Competency Requirements	Issued in July 2006
Consumer Protection Code	Issued in August 2006
Fit and Proper Requirements	Issued in November 2006
Individual Questionnaire	Issued in November 2006

Other guidance issued by the Financial Regulator

In addition to the legislative and other publications listed above the Financial Regulator communicates directly with banks from time to time as and when issues arise which are of potential concern. These communications do not fall into the category of 'administrative provisions' and hence do not, of themselves, provide criteria for determining whether a duty to report to the Financial Regulator exists. However, their contents may be of assistance to auditors in forming an opinion as to whether that duty arises.

Note: This appendix sets out certain key provisions of law, regulation, and guidance. It is not an exhaustive list of legislation applicable to banks and is not a substitute for reference to the full text of relevant requirements. The Financial Regulator's website (www.financialregulator.ie) contains details of relevant legislation, regulations administrative provisions, and guidance.

APPENDIX 2

THE AUDITOR'S DUTY TO REPORT TO THE FINANCIAL REGULATOR IN ITS CAPACITY AS BANKING SUPERVISOR

1. The Central Bank Act 1989 ('**CBA, 1989**') and the Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations 1996 (the '**Post BCCI Regulations**') and the Central Bank Act, 1997 (**CBA 1997**)³³ place a duty on auditors of banks to report directly to the Financial Regulator in certain circumstances.
2. The key factors for determining the scope of the statutory duty to report information are the capacity in which the accountant comes across the information and the nature of the information. It is only information that comes to the attention of the accountant as auditor that is of relevance for the duty to report. Relevant issues which apply to determining whether information is obtained in the capacity of auditor are whether the person who obtained the information also undertook the audit work and if so, whether it was obtained in the course of or as a result of undertaking the audit work.
3. The purpose of this Appendix is to provide some detail in relation to the specific obligations of an auditor to report directly to the Financial Regulator.

MATTERS REQUIRING A REPORT BY AUDITORS TO THE FINANCIAL REGULATOR

4. Section 47 of the CBA 1989 and Regulation 7 of the Post BCCI Regulations place a duty on auditors to report to the Financial Regulator where the auditor has reason to believe that:
 - (a) the continuous functioning of the bank may be affected; in particular, that there exist circumstances which are likely to affect materially its obligations to depositors or where there are issues relating to its ability to meet its financial obligations; or
 - (b) there are material defects in the financial systems and controls or accounting records of the bank; or
 - (c) there are material inaccuracies in, or omissions from, any financial returns made by the bank to the Financial Regulator; or
 - (d) there are circumstances such as preclude them from stating in their audit report that the annual financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts and all Regulations to be construed as one with those Acts; or
 - (e) where they have decided to resign or not seek re-election as auditor; or

³³ As amended by the CBFSAI 2004.

- (f) there is a material breach of the laws, regulations or administrative provisions which lay down the conditions under which the bank has been authorised; or
 - (g) there is a material breach of any laws, regulations or administrative provisions which govern the bank's activities or of any condition or requirement imposed by the Financial Regulator.
5. Under sections 27B – 27D of the CBA 1997³⁴ the auditor is required to provide to the Financial Regulator:-
- (a) An annual confirmation as to whether there are matters to report in addition to and including any reports already submitted under 'prescribed enactments' (section 27B);
 - (b) Copies of any reports provided to the bank or those concerned with its management on matters that have come to the auditor's notice while auditing the financial statements of the bank or carrying out any work for the bank of any kind specified by the Financial Regulator (section 27C); and
 - (c) Copies of any reports issued to the Office of the Director of Corporate Enforcement (section 27D).

a) Continuous functioning may be affected: Specifically, circumstances exist that are likely to affect obligations to depositors or issues relating to meeting financial obligations under the CBAs. *(Section 47(1) (a) of the CBA 1989 and Regulation 7(b) of the Post-BCCI Regulations)*

6. The auditor of a bank is required to report to the Financial Regulator where he has reasonable cause to believe that the continuous functioning of the institution may be affected. The duty specifically includes circumstances that are likely to affect the bank's ability to fulfil its obligations to depositors or to meet any of its financial obligations under the Central Bank Acts and Regulations. The procedures to be followed by the auditor in determining his concern (if any) about an entity's ability to continue as a going concern are set out in ISA (UK and Ireland) 570 and additional guidance on banks is provided in the commentary on ISA (UK and Ireland) 570 Section of this Practice Note.

b) Material defects in the financial systems and controls or accounting records *(Section 47(1)(b) of the CBA 1989)*

7. The CRD requires that every bank shall manage its business in accordance with sound administrative and accounting principles and shall put in place and maintain internal control and reporting management arrangements and procedures to ensure that the business is so managed.

34 As inserted by section 26 CBFSAI 2004.

8. It is the management of a bank that is responsible for ensuring the appropriate financial systems and controls are put in place and accounting records are maintained. Weaknesses in systems, controls and records may be identified by management themselves, internal audit or by the auditor during the course of audit work. Where the auditor identifies weaknesses which have not previously been recognised by management, he considers whether there has been a failure in the bank's procedures for ensuring the effective operation of the systems and controls: this of itself may require a report to the Financial Regulator.
9. The Financial Regulator's 'Licensing and Supervision Requirements and Standards for Credit Institutions' (the '**Financial Regulator Standards**') state that the Financial Regulator seeks to satisfy itself that:
 - directors and senior management exercise adequate control over the bank;
 - comprehensive risk management systems commensurate with the scope, size and complexity of all the bank's activities, including derivatives and associated risks, are in place, incorporating continuous measuring, monitoring and controlling of risk, accurate and reliable management information systems, timely management reporting and thorough audit and control procedures; and
 - where the size or nature of the operations of the bank warrant it, a properly staffed internal audit function exists which has direct access to the board of directors or an appropriate sub-committee of the board.
10. The determination of those matters which require reporting is a matter of judgement for the auditor of each bank. There will be some weaknesses which will be reportable in the context of one bank but not for others. The decision to report a matter takes into account, for example:
 - the nature and volume of transactions occurring in the area where the weakness has arisen;
 - the seriousness of the risks to which the bank is exposed as a result of the weakness identified;
 - whether there are compensating systems and controls;
 - whether the weakness occurred for only a short period of time and has been rectified (although rectification does not of itself mean that the matter should not be reported); and
 - whether a weakness which has been identified, though not significant in itself, becomes so when considered in conjunction with other weaknesses.
11. If corrective action cannot be taken promptly, the weakness is more likely to be reportable because of its continuing nature. If the resulting exposure cannot be

quantified and controlled in a relatively short time frame, the risk of loss to the bank is increased.

12. If the situation can be rectified in a relatively short time frame and the auditor determines that on those grounds a report is not required at that time, he monitors the situation and confirms with the bank that appropriate action has been taken. If this proves not to be the case, then the auditor may need to re-consider the decision not to report. Failure of management to ensure that appropriate and effective action has been taken may also cause the auditor to consider whether there may have been a breach of the fit and proper criteria.

c) Material omissions from or inaccuracies in returns of a financial nature (*Section 47(1)(c) of the CBA 1989*)

13. The examination by the auditor of returns made by a bank to the Financial Regulator is outside the scope of an audit of a bank's financial statements. However, where the auditor discovers a minor inaccuracy in financial information provided to the Financial Regulator, this would not normally give rise to a statutory duty to report unless it is indicative of a general and recurring lack of compliance with the Financial Regulator's requirements or otherwise casts doubt on the bank's compliance with the Financial Regulator's requirements. If the correction of an omission or inaccuracy in returns of a financial nature to the Financial Regulator would mean that the bank is then in breach of certain ratios or limits set by the Financial Regulator, this would be an indication that the matter is one of material significance to the Financial Regulator.
14. Where the auditor so requests, the Financial Regulator shall provide to him in writing details of such returns of a financial nature previously sent by the bank to the Financial Regulator for the purpose of enabling the auditor to comply with this duty³⁵.

d) Audit reports (*Section 47(1)(d) of the CBA 1989 and Regulation 7(c) of the Post-BCCI Regulations*)

15. The auditor of a bank is required to make a report to the Financial Regulator if he has reasonable cause to believe that the auditor will be precluded from stating in the auditor's report that the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and all Regulations to be construed as one with those Acts. This requirement is dealt with in the commentary on ISA (UK and Ireland) 700, "The Auditor's Report on Financial Statements" in this Practice Note.

e) Decision to resign or not seek re-election as auditor (*Section 47(1)(e) of CBA 1989*)

16. Where a firm has made the decision to resign as auditor of a bank before the expiration of its term of office or intends not to seek reappointment it must report the matter to the

³⁵ Section 47(3) CBA, 1989.

Financial Regulator in writing without delay. All such instances require a report as they are presumed to be matters of material significance to the Financial Regulator. The Financial Regulator has requested that the auditor also sends to it a copy of the letter that is currently required to be sent to the Companies Registration Office in accordance with section 185(3) of the Companies Act, 1990.

f) Breaches of laws, regulations or administrative provisions which lay down the conditions under which the bank was authorised (*Regulation 7(a) of the Post-BCCI Regulations*)

17. The Financial Regulator Standards provide guidance relating to the Financial Regulator's authorisation criteria. This Practice Note and Appendices, although including explanatory material drawn from that publication, is not a substitute for it and should be read in conjunction therewith.
18. It is possible that a matter which is not materially significant to one of the criteria in isolation may become so when other criteria are considered. Therefore, auditors who become aware of a situation relating to one of the authorisation criteria consider its relevance to the others before determining whether it is of material significance and therefore reportable.
19. The following key authorisation criteria are considered below:
 - matters for consideration of a new applicant;
 - fit and proper persons;
 - business to be conducted by at least two individuals;
 - composition of the board of directors and management structures;
 - business to be conducted in a prudent manner; and
 - other criteria including:
 - acquisitions by banks;
 - general prudent conduct;
 - integrity and skill; and
 - minimum net assets.

Paragraphs 21 to 44 below consider each of the authorisation criteria in turn (some of these matters form part of the ongoing supervision of banks) and provide guidance on auditor's normal procedures which are likely to provide evidence of compliance or non-compliance. Examples of matters which might be considered materially significant are also given. It is important to consider these paragraphs in light of the guidance given in

this Practice Note in relation to ISA (UK and Ireland) 250 Section A which sets out the level of work auditors are expected to carry out in the normal course of their audits.

20. A number of the Financial Regulator's initial authorisation requirements are unlikely to be considered or revisited by an auditor as part of his normal audit work. Therefore the duty to report is only likely to arise if a change in circumstances comes to the auditor's attention which, if in existence at the date of the initial application, would have caused the Financial Regulator to refuse that application.

Matters for consideration of a new applicant

21. Pursuant to Section 9 of the CBA Act 1971³⁶ an application for a licence shall be in such form and contain such particulars as the Financial Regulator may from time to time determine. Guidelines³⁷ on completing and submitting Banking Licence Applications have been issued by the Financial Regulator which outlines the steps that a potential applicant should take approaching the Financial Regulator to make an application for a banking licence. The key headings under which an applicant will be assessed are set out in this document, in addition to outlining how an application should be made and will be processed. The principal areas considered by the Financial Regulator in evaluating banking licence applications include:

- Overview of the parent/Group to which the applicant belongs;
- Consolidated Supervision of Parent/Group entities;
- Ownership Structure;
- Applicant's Objectives and Proposed Operations;
- Legal Structure;
- Organisation of the Applicant (including corporate governance arrangements, fitness and probity of key personnel etc.);
- Risk Oversight (e.g. audit, compliance, risk management, credit, liquidity, financial control, internal controls etc.);
- Capital, Funding and Solvency Projections;
- Financial Information and Projections; and
- Business Continuity.

³⁶ As amended by section 32 CBA 1989.

³⁷ These Guidelines are available to download from the Financial Regulator's website – www.financialregulator.ie.

The Financial Regulator's requirements, in relation to each of these headings, are detailed in the instructions paper entitled 'Checklist for completing and submitting Bank Licence Applications' (Checklist).

22. The Financial Regulator Standards detail issues that the Financial Regulator takes into account when considering a new applicant. The applicant must satisfy the Financial Regulator that:
- it has an acceptable legal form;
 - the corporate structure of the group of which the applicant is part, or its relationship with other undertakings under common control, is clear and transparent and is not such as may result in the Financial Regulator being unable to exercise its supervisory responsibilities;
 - it has clearly defined and adequately researched objectives and proposed operations which are consistent with the principles enshrined in banking legislation and in the Financial Regulator's licensing and supervision requirements and standards;
 - it is independent of dominant persons;
 - there will be cohesion, continuity and consistency in the manner in which the business of the bank is directed by its owners;
 - the beneficial ownership of the bank is such as will ensure a capacity to provide such new capital for the bank as may be required in the future; and
 - there is a willingness and capacity on the part of the bank to comply with the Financial Regulator's requirements.
23. The Financial Regulator's preference is that ownership be vested in one or more banks or other financial institutions of standing or, alternatively, that there be a wide spread of ownership. The Financial Regulator would not be receptive to a proposal from a general insurance entity to acquire a controlling shareholding in a bank.
24. In considering a proposal where ownership of a bank would vest in an industrial or commercial group, a range of additional considerations will apply, the more important of which may be summarised as follows:
- the Financial Regulator's assessment of the proposal will have regard to any additional risks arising from the ownership structure and, in particular, from relationships with non-bank elements of the group;
 - the Financial Regulator will attach high importance to the degree of autonomy accorded to the applicant and to the degree of decision making to be located in the Republic of Ireland;

- only groups of the highest integrity and financial soundness (as evidenced by their trading record and international credit rating) will be considered;
 - unless there are exceptional factors that warrant special attention, the Financial Regulator will require as a condition of granting a licence that there already exists, for some time, within the group, a separate financial entity, with its own management and financing structures and with skills and experience appropriate to banking;
 - the minimum solvency ratio requirement for the bank (own funds as a percentage of risk assets) is likely to be set in excess of the minimum which applies to international banks;
 - in general, funding for the bank should not include small retail deposits; if there is to be any dependence on group funding sources, due regard will need to be had to the continuity of those sources;
 - in general, the bank would not be permitted to provide credit to or acquire assets from affiliated companies; and
 - the principles of consolidated supervision will be applied by the Financial Regulator to the applicant group in the appropriate manner.
25. An application for authorisation from a branch or subsidiary of an international bank or international banking or financial group will be considered only where the supervisory authority in the country of origin of that bank or group exercises effectively its supervisory responsibilities on a consolidated basis.
26. The Financial Regulator will require from the parent or major shareholder of a bank subsidiary incorporated in the Republic of Ireland an undertaking that the subsidiary will be in a position to meet its liabilities as they fall due for as long as the parent/shareholder continues to hold the majority of the equity of the subsidiary. The stability of the shareholder will be considered by the auditor in addressing matters relating to the ability of the bank to continue as a going concern in accordance with ISA (UK and Ireland) 570.

Fit and Proper Persons

27. The CRD together with the Financial Regulator Standards and the Financial Regulator's 'Fit and Proper Requirements' published in November 2006 require that every person who has, or is to have, a qualifying holding (defined in Appendix 3), director, or senior manager of a bank is a fit and proper person in the context of the particular position which he holds or is to hold. The provisions are widely drawn and extend to shareholder controllers and indirect controllers of a bank as well as directors and senior executives. Further information on the 'Fit and Proper Requirements' is set out in Appendix 4.
28. Auditors cannot necessarily be expected to make judgements on matters of fitness and probity. In particular the auditor is not required to 'second guess' management decisions. However, there may be situations where there is clear evidence which calls

into question the appropriateness of significant actions or decisions taken; such situations are normally reportable. For example, the auditor may question an individual's competence where he is of the opinion that, based on information which was, or should have been, available to that individual, there are no circumstances under which the decision taken could have been appropriate. An instance could be where counsel's opinion has been sought on a particular matter and, without valid reasons so to do, the advice has been overridden.

29. In determining whether an individual is fit and proper for his or her position, the Financial Regulator has regard to the evidence arising over time. It may determine that a person is not fit and proper on the basis of several instances of behaviour each of which, if taken separately, might not have led to this conclusion. Thus, in determining whether a matter should be reported to the Financial Regulator, the auditor judges each instance on its own merits and in the light of previous evidence. Where the auditor of a bank has not been informed by the Financial Regulator of any matter, he cannot assume that there are no matters known to the Financial Regulator which could affect their judgment as to whether information is of material significance. In the absence of disclosure by the Financial Regulator, the auditor can only form their judgment in the light of evidence to which they have access.

Business to be directed by at least two individuals

30. Article 11(1) of the CRD states that authorisation shall only be granted to a bank where there are at least two persons who effectively direct its business activities. This requirement is expanded upon in the Financial Regulator Standards which state that the operations of the bank must be conducted from within the Republic of Ireland by at least two persons who are resident in the jurisdiction.
31. Where there is a single individual who is dominant in a bank, compliance with this criterion will be in doubt. There may, however, be other factors, such as any monitoring role, which may be fulfilled by a strong independent board of directors that includes non executive directors, audit committees or shareholders, which may act as a compensating mechanism.
32. A basic element of any audit is that the auditor obtains an understanding of the general control environment. Inter alia, this involves a consideration of the way in which the business is controlled and managed and the effects of changes in personnel or evolving structures or relationships. These procedures relating to the control environment are likely to provide evidence relating to this criterion.
33. If the auditor becomes aware of an area of the business where a particular individual is able to act alone, he addresses the question of whether the individual can act alone in respect of matters relating to strategy or significant operational decisions.

34. Where the auditor has reasonable cause to believe that this criterion is not being met this is likely to be of material significance to the Financial Regulator by virtue of its fundamental nature.

Composition of the board of directors and management structures

35. The Financial Regulator Standards' state that the Financial Regulator 'must be satisfied with the structure of the board and senior management of a bank and that internal control systems and reporting arrangements are such as to provide for the effective, prudent and efficient administration of its assets and liabilities. In this respect, it is necessary for all banks to have in place such committees of directors and management and other management structures as are necessary to ensure that the business of the bank is being managed, conducted and controlled in a prudent manner and in accordance with sound administrative and accounting principles'.
36. The Financial Regulator has indicated that it is of the view that the appointment of non-executive directors to the board of directors and also the establishment of an internal audit function are matters of best practice which it takes into account in reviewing new applications.
37. Under normal circumstances, the auditor may assume that the Financial Regulator is aware of the composition of the board of directors of the bank. Therefore, the necessity to report under this criterion will arise only where the auditor becomes aware that a change in the membership of the board has not been notified to the Financial Regulator.

Business to be conducted in a prudent manner

38. The Financial Regulator requires that a bank conducts its business in a prudent manner. The Financial Regulator Standards include certain minimum standards which are stated to be prerequisite to this requirement. However, these are not exhaustive and are without prejudice to the general prudent conduct requirement. They cover the following areas:
- capital adequacy;
 - liquidity;
 - funding;
 - lending and the adequacy of provisions;
 - financial systems, internal controls and accounting records; and
 - asset securitisations.

Acquisitions by banks

39. The legislative provisions relating to holdings by banks in other entities are set out in Part II, Chapter VI CBA 1989 and European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 (S.I. 395 of 1992). Notwithstanding these provisions, a

bank should not acquire, directly or indirectly, more than ten per cent of the shares or other interests in another company without the prior approval of the Financial Regulator. The Financial Regulator would not be receptive to a proposal from a bank to acquire a qualifying holding in a general insurance company.

General prudent conduct

40. The matters discussed above are not exhaustive. Other issues which the Financial Regulator considers relevant in relation to general prudent conduct include the bank's:

- management arrangements;
- general strategy and objectives;
- planning arrangements;
- policies on accounting, lending and other exposures, and bad debt and tax provisions;
- policies and practices on the taking and valuation of security, on the monitoring of arrears, on following up debtors in arrears, and interest rate matching;
- recruitment, training and remuneration arrangements to ensure that the bank has an adequate number of experienced and skilled staff, appropriately incentivised and disciplined, to carry out its various activities in a prudent manner; and
- approach to meeting the requirement of anti-money laundering legislation.

41. Other areas for consideration might be a bank's:

- internal audit function; and
- compliance arrangements.

Integrity and skill

42. The business of a bank should be carried on with integrity and the professional skills appropriate to the nature and scale of its business. This requirement, like that relating to prudent conduct, is concerned with the manner in which the business of the bank is carried on and is distinct from the fitness and propriety of the individuals controlling and managing that business. However, where the auditor of a bank has reason to believe that there is a material breach of the criterion relating to integrity and skill, it is expected that there will also be a breach of the fit and proper criterion. However, it may not be possible or practicable to establish to which individual within the bank this relates.

43. Criminal offences, breaches of statute, or the failure to comply with recognised ethical standards and codes of conduct by a bank will obviously call into question the bank's integrity. Of particular relevance are contraventions of any provision designed to protect against financial loss due to dishonesty, incompetence or malpractice. In considering

whether a duty to report arises, auditors have regard to the seriousness of the breach, its resulting implications, and whether it was:

- deliberate or unintentional;
 - frequent or isolated; or
 - systematic.
44. The skills requirement is concerned with whether a bank has available the range and depth of professional skills which are appropriate, given the size and nature of the business being conducted. In particular, evidence that there is insufficient experience within the board or at an appropriate level of senior management to understand fully the transactions being undertaken and the associated risks would be reportable.

Minimum net assets

45. The CRD contains a criterion relating to minimum net assets at the time of authorisation. This is not relevant for the purposes of considering initiating a report to the Financial Regulator. The continuing obligation on minimum net assets is dealt with under capital adequacy above.

g) Contravention of the provisions of laws and regulations (Regulation 7 of Post-BCCI Regulations)

46. The auditor of a bank also has a statutory duty to report to the Financial Regulator if he becomes aware of the possibility of breaches of laws, regulations or administrative provisions which specifically govern the activities of a bank or non-compliance with any condition or requirement imposed by the Financial Regulator on the bank which is likely to be of material significance to the Financial Regulator in the exercise of its function as banking supervisor.
47. The following list is not exhaustive but provides an indication of the type of matters which could become the subject of a report, and which are not covered by other, more specific requirements:
- failure to comply with a condition of authorisation issued under section 10 of CBA 1971;³⁸
 - failure to comply with a direction issued under section 38 of CBA 1989;
 - failure to comply with the notification requirements relating to directors, qualifying holdings, acquisitions etc under the CBAs, the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. 277 of 2007), the Companies Act, 1990 and the Financial Regulator Standards;

³⁸ As amended by sections 32(2) and 33 CBA 1989.

- breach of the rules relating to advertising and invitations to make deposits set out in the Advertising Requirements applicable to Credit Institutions issued in accordance with section 117 of CBA 1989 and section 27 of CBA 1971³⁹ (as amended); and
 - where circumstances exist that could lead the Financial Regulator to revoke a bank's authorisation under section 11 of the CBA 1971⁴⁰ (as amended) and Regulation 4 of the Post-BCCI Regulations.
48. The duty to report does not specifically address situations where the CBAs and the regulations may give rise to a revocation of a licence.
49. Section 11(1)(b)(iv) of CBA 1971 as inserted by section 34 of the CBA 1989 allows the Financial Regulator to revoke authorisation if a bank or a person acting on its behalf has obtained the license through false statements or any other irregular means. There is no materiality test in connection with the criterion. In practice the Financial Regulator is not likely to exercise its powers just because of a minor inaccuracy. There would generally have to be a wider prudential concern, of which the inaccuracy may be a symptom. Therefore, the discovery by an auditor of a minor inaccuracy in information provided to the Financial Regulator would not normally give rise to a statutory duty to report unless it was indicative of a general lack of compliance with the Financial Regulator's requirements or otherwise cast doubt on the bank's compliance with the Financial Regulator's authorisation requirements.

Reporting under Section 27 of the CBA 1997

h) The annual statutory duty confirmation to the Financial Regulator (*section 27B of the CBA 1997*)

50. Section 27B of the CBA 1997⁴¹ places a duty on auditors to make a written report to the Financial Regulator, within one month after the date of the auditor's report on the bank's financial statements or within such extended period as Financial Regulator allows, stating whether or not circumstances have arisen that require the auditor to report a matter to the Financial Regulator under a prescribed enactment and if such circumstances have arisen specify those circumstances (the "**Statutory Duty Confirmation**"). Prescribed enactments relating to banks are listed in Appendix 5A.
51. The Statutory Duty Confirmation is sent directly to the Financial Regulator and is a statement to the Financial Regulator that there is no matter, not already reported in writing to the Financial Regulator by the auditor, that has come to the attention of the

39 As amended by section 43 CBA 1989, Regulation 39(c) EC Licensing and Supervision of Credit Institutions 1992, section 70(e) CBA 1997 and Schedule 3 Part 4 CBFSAI 2004.

40 As amended by Regulation 5 of EC Licensing Supervision of Bank Requirements 1979, section 34 CBA 1989 and section 71 CBA 1997.

41 As inserted by section 26 CBFSAI 2004.

auditor during the ordinary course of the audit that gives rise to a duty to report to the Financial Regulator. Where matters have already been reported to the Financial Regulator these are referred to in the Statutory Duty Confirmation. The Statutory Duty Confirmation does not in any way replace the auditor's obligations to report under other legislation and regulations as and when circumstances giving rise to the duty are identified in the course of audit work.

52. Although the Statutory Duty Confirmation is sent directly to the Financial Regulator, the auditor may send a copy of it to the bank. There may, however, be cases (for example where a direct report has been made to the Financial Regulator without the bank's knowledge,) where this is inappropriate. The auditor should be aware of the potential conflict between section 47(4) of the CBA 1989 and ISA (UK and Ireland) 250 in this regard as outlined in paragraphs 67 and 68 of this Practice Note.
53. An example proforma Statutory Duty Confirmation is included in Appendix 5 of this Practice Note.
54. The Statutory Duty Confirmation should be submitted within one month of the date of the report of the auditor on the bank's financial statements. The latest date of submission of audited financial statements to the Head of Banking Supervision at the Financial Regulator is three months post year end. The period covered by the Statutory Duty Confirmation commences from the date of issue of the previous Statutory Duty Confirmation. It covers all matters that require the auditor to report to the Financial Regulator in respect of that period.

i) Other Reports to management (*section 27C of the CBA 1997*)

55. Section 27C of the CBA 1997⁴² requires that if the auditor of a bank makes a report to the bank, or those concerned with its management, on any matter that has come to the auditor's notice during the course of the financial statement audit (or while carrying out any work of a kind specified by the Financial Regulator⁴³), the auditor must provide the Financial Regulator with a copy of that report.
56. The copy must be provided at the same time as, or as soon as practicable after, the original is provided to the bank or those concerned in its management. Where no such report is to be sent to the bank section 27C (3) of the CBA 1997 requires the auditor to inform the Financial Regulator that such is the case i.e. a 'nil return'.
57. There is no definition contained in the legislation as to what constitutes 'a report' for the purpose of section 27C of the CBA 1997⁴⁴ or the meaning of the term 'those concerned

42 As inserted by section 26 CBFSAI 2004.

43 No work has yet been specified by the Financial Regulator for this purpose, hence the duty relates to reports on matters arising from the audit.

44 As inserted by section 26 CBFSAI 2004.

in its management'. However the Financial Regulator has indicated that it would expect to receive under this section, copies of post audit reports prepared in accordance with International Standards on Auditing ('ISA') (UK & Ireland) 260, Communication with Those Charged with Governance, and that particular areas of interest include any concerns relating to solvency/capital adequacy or the bank's conduct of business with its clients.

58. In many cases, the post audit report required by ISA (UK & Ireland) 260 may constitute the only report made on matters arising from the audit. However, auditors will need to consider the nature of other communications and correspondence with the bank concerned and consider if they contain matters of a substantive nature, arising from the audit, such that they may be regarded as a report for the purposes of section 27C of the CBA 1997. In cases of uncertainty as to whether a particular communication to a financial institution constitutes a 'report' for the purposes of this section, auditors may wish to take legal advice.
59. The auditor may consider it prudent to include in any report to directors or management, as a matter of course, a statement that:
- the report has been prepared for the sole use of the bank;
 - it must not be disclosed to another third party, other than the Financial Regulator;
 - no responsibility is assumed by the auditor to any other person; and
 - it does not purport to be a comprehensive record of all matters arising, all risks or all internal control weaknesses in the entity.

j) Reports to the Office of the Director of Corporate Enforcement (ODCE) (*Section 27D of the CBA 1997*)

60. Section 27D of the CBA 1997⁴⁵ requires that auditors of regulated entities submit to the Financial Regulator copies of any reports sent to ODCE. Copies must be submitted at the same time or as soon as practicable after the report is made to ODCE.

Other reports to the Financial Regulator

61. In addition to the reports considered in this guidance, the Financial Regulator has the power to request specifically the auditors of a bank to provide reports listed in section 27E of the CBA 1997⁴⁶.
62. The auditor is also aware that under section 27F of the CBA 1997⁴⁷ the Financial Regulator may:

45 As amended by section 26 CBFSAI 2004.

46 As amended by section 26 CBFSAI 2004.

47 As inserted by section 26 CBFSAI 2004.

“by notice in writing, require an auditor of a regulated financial service provider, or an affiliate of the auditor, to provide the Bank with a copy of any record or information provided or obtained by the auditor or affiliate in connection with an audit of the financial service provider’s accounts that is in the possession of the auditor or affiliate”.

PROTECTION FOR DISCLOSURE UNDER COMMON LAW

63. In cases of doubt, common law provides protection for disclosing certain matters to a proper authority in the public interest.
64. Common law precedent in the UK⁴⁸ indicates that a degree of protection exists for disclosures of certain matters to an appropriate authority in the public interest. This UK case law which is only of persuasive authority in the Republic of Ireland, indicates that accounting firms are protected from the risk of liability from breach of confidence or defamation under general law even when carrying out work which is not clearly undertaken in the capacity of auditor provided that:
- in the case of breach of confidence:
 - (a) disclosure is made in the public interest; and
 - (b) such disclosure is made to an appropriate body or person; and
 - (c) there is no malice motivating the disclosure; and
 - in the case of defamation
 - (a) the information disclosed was obtained in a proper capacity; and
 - (b) there is no malice motivating the disclosure.

This principle of common law has received limited consideration in the courts in the Republic of Ireland.⁴⁹

65. The same protection is given even if there is only a reasonable suspicion that non-compliance with law or regulations has occurred. Provided that it can be demonstrated that an accounting firm, in disclosing a matter in the public interest, has acted reasonably and in good faith, it would not be held by the court to be in breach of duty to the institution even if, an investigation or prosecution having occurred, it were found that there had been no breach of law or regulation.

48 Initial Services and Putterill [1967] 3 All ER 145, Garthside –v- Outram [1856] 26 LJ Ch 113, British Steel Corp –v- Granada Television Ltd [1981] 1 All ER 417, Lion Laboratories Limited –v- Evans [1985] QB 526, AG –v- Guardian Newspapers Limited (No 2) [1988] 3 All ER 545, PriceWaterhouse (a firm) –v- BCCI Holdings (Luxembourg) S.A & Others [1992] BCLC 579.

49 *National Irish Bank v RTE* [1998] 2 IR 465. See also *Glackin – v- TSB and McInerney* [1993] 3 IR 55 where consideration was given to the position of a statutory obligation to provide information where there was no explicit statutory protection against breach of duty.

66. When reporting to proper authorities in the public interest, it is important that, in order to retain the protection of qualified privilege, auditors report only to one who has a proper interest to receive the information. The Financial Regulator is the proper authority in the case of a bank.
67. 'Public interest' is a concept which is not capable of general definition. Each situation must be considered individually. In general circumstances, matters to be taken into account when considering whether disclosure is justified in the public interest may include:
- the extent to which the suspected non-compliance with law or regulations is likely to affect members of the public;
 - whether the directors (or equivalent) have rectified the matter or are taking, or are likely to take, effective corrective action
 - the extent to which non-disclosure is likely to enable the suspected non-compliance with law or regulations to recur with impunity;
 - the gravity of the matter;
 - whether there is a general management ethos within the entity of disregarding law or regulations; and
 - the weight of evidence and the degree of the auditor's suspicion that there has been an instance of non-compliance with laws or regulations.
68. Determination of where the balance of public interest lies requires careful consideration. Auditors and reporting accountants need to weigh the public interest in maintaining confidential client relationships against the public interest in disclosure to a proper authority and to use their professional judgment to determine whether their misgivings justify them in carrying the matter further or are too insubstantial to deserve report.
69. In cases where it is uncertain whether the statutory duty requires an accounting firm to communicate a matter to the Financial Regulator in its capacity as supervisor of banks, it is possible that the firm may be able to rely on the defence of disclosure in the public interest if it communicates a matter to the Financial Regulator which could properly be regarded as having material significance in conformity with the guidance in ISA (UK and Ireland) 250 Section B and this Practice Note, although firms may wish to seek legal advice in such circumstances.

APPENDIX 3

PERSONS WHO HAVE QUALIFYING HOLDINGS IN A CREDIT INSTITUTION

1. The definition of a 'qualifying holding' in an applicant set out in the CRD is:

'a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the undertaking.'

2. The Financial Regulator applies the same considerations of probity, competence, soundness of judgement and diligence to persons who have a qualifying holding that it applies when considering the fitness and propriety of directors and managers (see Appendix 4). However, the standards required of persons who have a qualifying holding will vary depending on:

- (a) the degree of influence which is, or could be, exercised by them; and
- (b) whether the bank is likely to be damaged by association with them.

3. A shareholder who has a qualifying holding and exercises a close control over the bank would be expected to possess the same range of skills and qualities as are expected of the executive directors. Similarly, the Financial Regulator expects a person who indirectly has a qualifying holding to satisfy standards which are at least as high as those expected of the person which he controls. When forming a judgement on whether a matter relating to a person who has a qualifying holding is likely to be of material significance, the auditor therefore applies the same considerations as those relating directly to those persons over whom control is, or could be, exercised.

APPENDIX 4

FIT AND PROPER DIRECTORS AND SENIOR EXECUTIVES

1. The Financial Regulator operates a 'fit and proper' test for all directors and senior managers of banks and other financial services firms. The framework applied by the Financial Regulator in this regard is set out in its "Fit and Proper Requirements" published in November 2006 and is supported by the "Individual Questionnaire" which must be completed by every applicant seeking appointment as a director or senior manager in a bank and returned to the Financial Regulator. Both the "Fit and Proper Requirements" and the "Individual Questionnaire" are available to download from www.financialregulator.ie, the Financial Regulator's website.
2. Consideration is given to criteria under three categories when assessing the fitness and probity of an individual;
 - Competence and capability;
 - Honesty, integrity, fairness and ethical behaviour; and
 - Financial Soundness

Competence and capability

3. Some of the relevant factors that have a bearing on competence and capability include:
 - the activities and size of the bank;
 - the responsibilities of the position;
 - whether the person has shown the capacity successfully to undertake the responsibilities of the position, taking into account the nature of those responsibilities, including the establishment of an effective control regime;
 - whether the person has shown the capacity to fulfil his or her duties having regard to his or her other commitments where the position is not a full-time one;
 - whether the person has a sound knowledge of the business and responsibilities he or she will be called upon to shoulder; and
 - whether the appointee meets the standards set out in the "Minimum Competency Requirements" of June 2006.

Honesty, integrity, fairness and ethical behaviour

4. Honesty, integrity, fairness and ethical behaviour are the attributes used to describe "probity". Criminal offences, breaches of statute, censure or discipline by a professional or regulatory body will obviously call into question the probity of an individual, as will business practices which appear to be deceitful, oppressive or otherwise improper. Of

particular relevance are contraventions of any provision designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice. The auditor who becomes aware of any matters of this nature, other than in the case of trivial occurrences, will consider whether a report is required to the Financial Regulator in accordance with Regulation 7(a) of the Post-BCCI Regulations.

5. In contrast to the other elements of the fitness and propriety criterion, the probity requirement will tend to be much the same whatever position the individual holds. The Financial Regulator's "Individual Questionnaire" for approval of directors and senior executives sets out in some detail the types of matters it takes into account in determining if an individual is of good reputation and character.

Financial soundness

6. The Financial Regulator will enquire into issues relating to the financial soundness of an applicant for the position of director or senior manager of a bank. Such issues would include personal bankruptcy or similar and association with the bankruptcy or similar of a company. The existence of these issues in an applicant's past may raise questions in relation to his or her competence, honesty or integrity and therefore are important factors in the Financial Regulator's assessment of fitness and probity.

The "Individual Questionnaire"

7. The "Individual Questionnaire" which must be completed by every applicant for appointment as director or senior manager in a bank, consists of a number of sections. These are; Personal details; Qualifications and experience; Good reputation and character; Other business interests; Shareholdings in proposing firm; References; Appendix 1 – declarations to be signed by the applicant; Appendix 2 – declaration to be signed by the applicant firm (bank).

APPENDIX 5

ILLUSTRATIVE WORDING OF A STATUTORY DUTY CONFIRMATION TO THE FINANCIAL REGULATOR

Name

Title: Head of Function (Banking Supervision Department)

The Financial Services Regulatory Authority

P.O. Box 9138

College Green

Dublin 2

Dear [Sir/Madam]:

Statutory Duty Confirmation: Statement by the auditor for [name of BANK] to the Financial Regulator

The letter and attached schedule constitute a report as required by section 27B of the Central Bank Act 1997⁵⁰ in relation to our statutory duty to report certain matters to the Financial Regulator, as specified in [*insert appropriate reference from list from footnote*⁵¹]. The schedule to this letter lists the reporting periods in which we acted as auditors of [*insert name of financial institution and related entities if appropriate*] and are therefore subject to the statutory duty from [*date of signing last statutory duty confirmation or date of appointment if later*] to [*date of signing current confirmation*].⁵²

Respective responsibilities of directors and auditors

It is the responsibility of the directors of [*name of financial institution*]

- to take appropriate steps to provide reasonable assurance that the regulated entity complies with applicable legislation and the requirements of the Financial Regulator set out in Guidance Notes, Notices, Handbooks, Codes and other authoritative pronouncements (the Supervisory Requirements);

50 As inserted by section 26 CBFSAI 2004.

51 As discussed throughout this Practice Note, auditors of banks have a statutory duty to report specified matters to the Financial Regulator under the following provisions

- section 47 of the Central Bank Act 1989; or
- regulations 7, 8 and 9 of the Supervision of Credit Institutions, Stock Exchange Members Firms and Investment Business Firms Regulations 1996 (the Post-BCCI Regulations).

52 Where the entity has no subsidiaries or close links with other entities the following sentence may be used:

"we acted as auditor of X in the financial year ended [date] and we are therefore subject to the statutory duty from [date of signing last statutory duty confirmation or date of appointment if later] to [date of signing current confirmation]."

- to establish arrangements designed to detect non-compliance with the Guidance Notes, Notices, Handbooks, Codes and other authoritative pronouncements (the Supervisory Requirements and to report any breaches to you;
- to report to the Financial Regulator any information which they know or have reasonable cause to believe is of material significance for the Financial Regulator's supervisory functions.

Our responsibilities are to report to you matters which come to our attention in the course of our work as auditors and are of regulatory concern to you, in accordance with *[insert appropriate reference from list in footnote 51]* and to report on an annual basis to you in relation to whether circumstances indicating such matters have been identified in the course of our work.

Basis of statement

In discharging our statutory duties to report to you we have had regard to matters identified in *[insert appropriate reference from footnote 52]* In doing so we are required to consider matters of which we have become aware in the capacities as auditors listed in the attached schedule to this letter.

Statement

[Except as already notified to you on ⁵³], no circumstances have come to our attention, in our capacities described in the schedule attached to this letter, that have given rise to a statutory duty on us to report to you under *[insert appropriate reference from footnote 51]* .

Our report is prepared solely for the confidential use of the Financial Regulator as required by section 27B of the Central Bank Act 1997⁵⁴. It may not be relied upon by [name of regulated entity] or the Financial Regulator for any other purpose whatsoever. [Name of audit firm] neither owes nor accepts any duty to any other party and shall not be liable for any loss, damage, or expense of whatsoever nature which is caused by reliance on our report.

Yours faithfully

Dated ⁵⁵

53 Insert list of reports issued and dates of such reports or delete as appropriate.

54 As inserted by section 26 CBFSAI 2004.

55 Where this confirmation letter is being provided for the first time the period covered is from the date of the previous audit report.

Schedule to Statutory Duty Confirmation: financial institutions to which the firm has acted as appointed auditor.

Capacity	Reporting period	Reference to basis of work
Auditor of [name of financial institution – XYZ Ltd]	Financial year ended	Audit report dated
Auditor of [name of financial institution – ABC Ltd]	Financial year ended	Audit report dated
Auditors of the following bodies closely linked by control to [name of financial institution (s) – XYZ Ltd and ABC Ltd Subsidiary 1 Ltd Subsidiary 2 Ltd	Financial year ended	Audit report dated
Auditor of the consolidated financial statements of [name of group - XYZ group]	Financial year ended	Audit report dated

APPENDIX 6**PRO-FORMA REPORT ON INTERIM PROFITS**

The Financial Regulator has, in paragraph 2.1(iv) of the Central Bank Notice S 1/00, specified that an Irish incorporated bank may include interim profits in capital base for prudential supervision purposes only if such profits have been reported on by the bank's external auditors. The standard opinion is as follows:

Independent Review Report to the Directors of XXXXXX

We have been instructed by the [Name of Bank] to review the interim profit and loss account and balance sheet for the [Name of Bank] and its subsidiaries for the six months ended [Insert Date]. A copy of the interim profit and loss account and balance sheet are attached, initialled by us for identification purposes.

Directors' responsibilities

The interim profit and loss account and balance sheet are the responsibility of, and have been approved by, the directors. The Financial Regulator requires that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the latest statutory accounts for the year ended [Insert Date] except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Practice Note 19(l) - Banks in the Republic of Ireland issued by the Auditing Practices Board.

A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim profit and loss account and balance sheet.

Review conclusion

On the basis of the results of our review, nothing came to our attention to indicate that:

- (a) the interim profits as reported on the attached pages have not been calculated on the basis of the accounting policies adopted by the Bank in preparing its latest statutory accounts for the year ended [Insert Date];
- (b) those accounting policies differ in any material respects from those required by Irish Generally Accepted Accounting Practices/International Financial Reporting Standards adopted by the European Commission in accordance with EC Regulation No 1606/2002*; and
- (c) the interim profits amounting to € xxxx, as so reported, are not reasonably stated.

Registered Auditor

DATE:

*delete as appropriate

APPENDIX 7

POSSIBLE FACTORS THAT MAY INDICATE GOING CONCERN ISSUES

Capital adequacy ratios

- the bank operating at or near the limit of its minimum solvency ratio under the Financial Regulator's capital requirements, either on a group or solo basis;
- unjustified attempts to reduce the size of the buffer over and above the minimum solvency ratio that management has agreed to operate at;

Operations/profitability indicators

- marked decline in new lending/dealing volumes during the year or subsequently;
- marked decline in new business margins;
- severe overcapacity in markets leading to low pricing as well as low volumes;
- significant increase in loan defaults or seizure of collateral (e.g. house repossessions);
- excessive exposures to troubled industry sectors;
- unusually aggressive dealing positions and/or regular breaches of dealing or lending limits;
- redundancies, layoffs or failure to replace natural wastage of personnel;

Liquidity indicators

- unusually large maturity mismatch in the short term (say up to 3 months), either in total or across currencies;
- maturity mismatch ladders prepared on a basis which fail to recognise/use:
 - expected (as opposed to contractual) cash flows;
 - narrow gaps for near maturities;
 - anticipated defaults on loan repayments;
 - a cushion for market value of volatile investments; or
 - off balance sheet commitments;
- failure to put in place or renew sufficient committed standby facilities. (Bear in mind, however, that grounds for withdrawal of even 'committed' facilities can often be found when a bank suffers a major loss of confidence);
- dependence on a few large depositors (which may or may not be connected parties);
- withdrawal of (or reduction in) lines of credit by wholesale counterparties;

- regularly overdrawn nostro accounts;
- difficulty in meeting liquidity standards set on an individual basis by the Financial Regulator;
- uncompetitively low rates of interest offered to depositors (causing outflow of funds);
- very high rates of interest offered to depositors (to prevent outflow of funds, regardless of financial loss).

Reputational and other indicators

- adverse publicity which could lead to loss of confidence or reputation, including fines or public censure by the Financial Regulator;
- lowering of ratings by independent credit agencies;
- urgent attempts to remove assets from the balance sheet, apparently involving material loss of profits or at significant expense;
- deferral of investment plans or capitalisation of expenditure.

APPENDIX 8**DEFINITIONS**

Terms and abbreviations used in practice note

Abbreviation Used	Description
APB	Auditing Practices Board
ASB	Accounting Standards Board
Administrative provisions	Notices or other forms of guidance issued by the Financial Regulator (or prior to May 2003 by the Central Bank) under its statutory powers, as set out in Appendix 1
Bank	A credit institution (other than a building society) as defined by the CRD being an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.
Bank Accounts Regulations 1992	European Communities (Credit Institutions Accounts) Regulations 1992, S.I. 294 of 1992
CBA	Central Bank Act
CBAs	Central Bank Acts
CBFSAI	Central Bank and Financial Services Authority of Ireland
CJA	Criminal Justice Act 1994, as amended
Companies Acts	Companies Acts 1963 – 2006 and all regulations to be construed as one with those Acts
CRD	Capital Requirements Directive being the term applied to the EU Directives which transpose the Basel II Accord into a legal text for the purpose of its application to banks and investment firms across the European Economic Area (EEA). These directives are Directive 2006/48/EC (recast) relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC (recast) on the capital adequacy of investment firms and credit institutions.
EEA	European Economic Area

EU IFRSs	International Financial Reporting Standards as adopted by the European Union
FATF	Financial Action Task Force
Financial Regulator	The Irish Financial Services Regulatory Authority, an autonomous entity within the Central Bank and Financial Services Authority of Ireland having responsibility for financial sector regulation and consumer protection. Established 1 May 2003
Financial Regulator Standards	Licensing and Supervision Requirements and Standards for Credit Institutions issued by the Financial Regulator
FRS	Financial Reporting Standards issued by the ASB
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board
IIA 1995	Investment Intermediaries Act 1995
Irish GAAP	Generally accepted accounting practices in Ireland – accounting standards issued by the ASB and promulgated by the Institute of Chartered Accountants in Ireland
ISA(UK and Ireland)	International Standards on Auditing (UK and Ireland) issued by the APB
Material Significance	A matter or group of matters is normally of material significance to a regulator's function when, due either to its nature or its potential impact, it is likely of itself to require investigation by the regulator
MiFID	Markets in Financial Instruments Directive, 2004/39/EC
Post-BCCI Regulations	Supervision of Credit Institutions, Stock Exchange Member Firms and Investment Business Firms Regulations, 1996 S.I. 267 of 1996
SORPs	Statements of Recommended Practice issued jointly by the British Bankers Association and the Irish Banking Federation
VAR	Value at Risk

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