

Deloitte.

External Audit – Why?

Conference on Corporate Governance of Banks in Eurasia

30 April 2008

Robert Stenhouse

Audit . Tax . Consulting . Corporate Finance .

Elements of Audit Quality

What should banks expect?

Audit opinion

Communication to
those charged with
governance

Independent

Supported by evidence

Supported by objective
judgement

Complete and appropriate

External audit

An integral part of the control environment

Revisions
Commissions ?

Audit
Committee?

Risk
Committee ?

Credit
Committee ?

Corporate
Governance
is scaleable

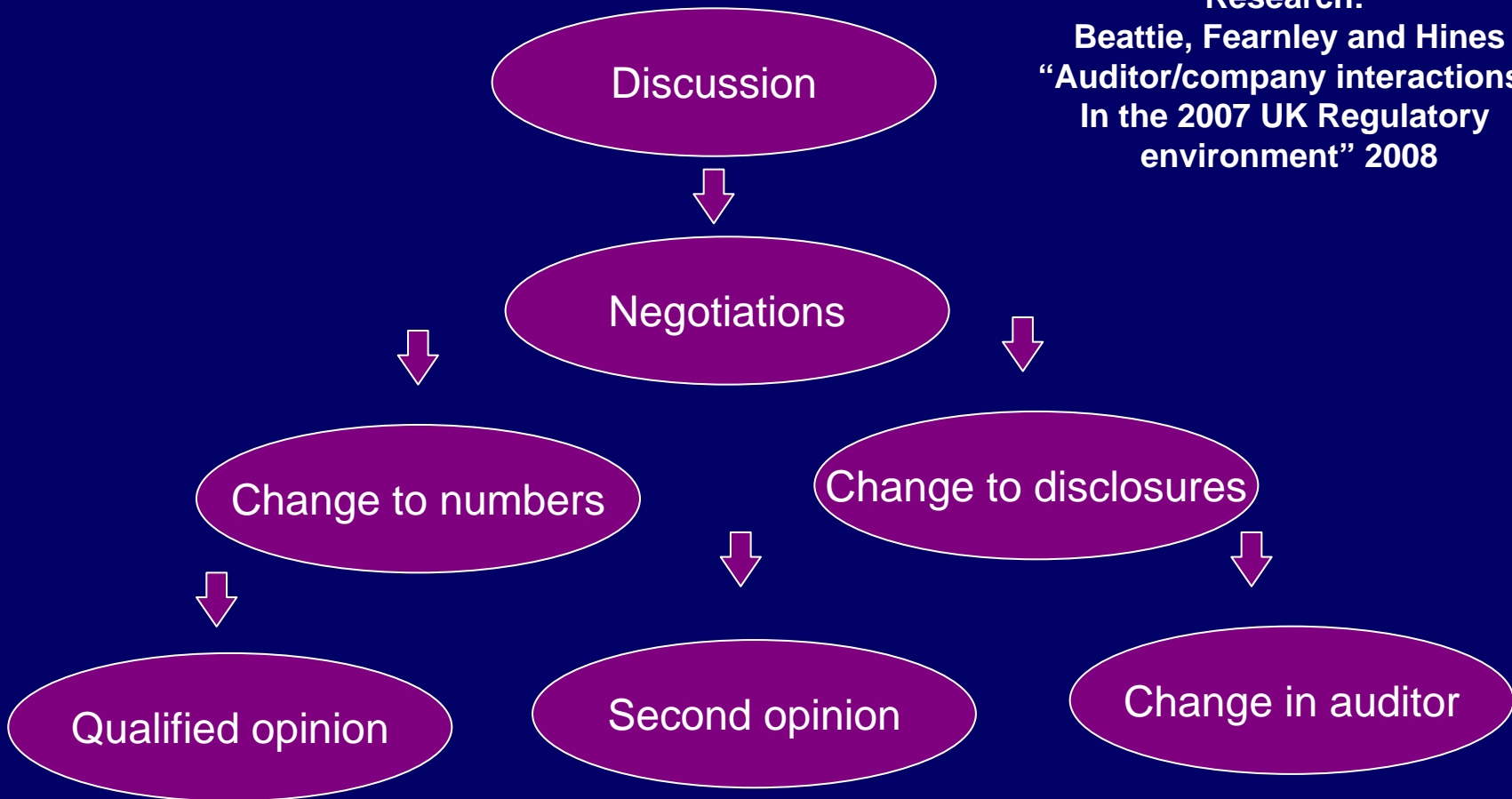
ALM
Committee ?

Other
Committees ?

External audit

Communication - is it more than a written report?

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



Communication

Issues resulting in changes to disclosure

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

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

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

Communication

Issues resulting in changes to disclosure

Key issues for banks are generally around management judgments

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

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

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

Independence

How is it assessed?

Threats



Example Safeguards



IFAC Code of Ethics

Evidence and objective judgement

Why is it important?

Provides basis for opinion

Links work to
established standards
(ISAs)

Enables
communication

Allows for challenge

Audit regulation

External audit

What about internal control?

Gain an overall understanding (including control environment)

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

Consider testing controls to gain assurance

Report weaknesses to management and those charged with governance

Attestation is possible but benefit comes from rethinking what you do

External auditors

Any other benefits?

Reputation

Promote and spread
best practices

Ask the difficult
questions

Development
of talent

Develop
Guidance
(e.g. credit crunch)

Promote
discussion of risks

Deter
fraud

Empower
governance
structures

Moderate
regulator
Interactions?

External auditors

How do banks secure the benefits?

Planning the financial reporting and closing process

Taking responsibility for every aspect of the financial statements

Open communication throughout the year

Taking Corporate Governance seriously

Develop a culture of continuous improvement

External auditors

Any questions ?

Thank you

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom. Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

Deloitte.

Member of
Deloitte Touche Tohmatsu