



**BANK OF ENGLAND**

# News release

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## **The Bank of England consults on new rules and powers over external auditors and actuaries**

The Bank of England is today consulting on a rule to require the external auditors of the largest UK banks to provide written reports to the Prudential Regulation Authority (PRA) as part of the statutory audit cycle.

The PRA relies on external statutory audit to be of sufficient quality to support its judgement-based supervision in promoting the safety and soundness of the firms it regulates and, for insurers, contributing to securing an appropriate degree of protection for those who are or will become policyholders.

At the PRA's request, HM Treasury has recently laid regulations to commence the PRA's disciplinary powers over actuaries and external auditors. The PRA is also consulting on how it will use those powers and how it will co-operate with other regulators when it is using the powers.

### **External auditors of the largest deposit takers to provide written reports to the PRA**

The absence of an effective auditor-supervisor relationship in the pre-crisis period was identified as a weakness in the Financial Services Authority's supervisory approach by both the Treasury Select Committee and the Parliamentary Commission on Banking Standards.

Although engagement between external auditors and the PRA has improved in recent years, the PRA's monitoring of the quality of auditor-supervisor dialogue has shown that there is more that can be done.

The PRA is therefore proposing that external auditors of the largest UK headquartered deposit takers provide written reports to the PRA on an annual basis on firms' financial reporting and the accompanying audit. These written reports will enable the PRA to gain a better understanding of the risks in banks' financial reporting and help supervisors to focus on the key areas of risk. This will give supervisors a more consistent and holistic set of information on which to base their dialogue with auditors. The reporting process will also give auditors an early indication of the PRA's concerns in any particular year before the main audit starts.

The consultation proposes that, initially, only the largest UK headquartered deposit takers will be in scope, as they pose most risk to financial stability, and that it will be introduced, in full, in relation to the audits of financial reporting periods ending on or after 1 November 2016.

### **Disciplinary powers over external auditors and actuaries**

The Financial Services and Markets Act (FSMA) gives the PRA the power to discipline external auditors and actuaries of PRA-authorized firms if they fail to comply with reporting requirements under FSMA or duties imposed by PRA rules. The range of disciplinary powers that the PRA can use includes fines, public censures or disqualification from working in financial services.

Disciplinary action could be taken against the “person” who is formally appointed to undertake the audit or actuarial work. This may be an individual or a firm, depending on the terms of appointment.

Andrew Bailey, Deputy Governor, Prudential Regulation, Bank of England and CEO of the PRA said:

“We need the relationship between external auditors and supervisors to work effectively. This needs to be supported by high quality, thorough audits which can help mitigate emerging issues and risks that can threaten both the safety and soundness of individual firms and financial stability more broadly. Where auditors and actuaries fail to provide us with the information that we need to supervise firms effectively, we now have disciplinary powers which allow us to take action to rectify this.”

ENDS

### **Notes to Editors**

Consultation Paper 8/15: Engagement between auditors and supervisors and commencing the PRA's disciplinary powers over external auditors and actuaries:

<http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp815.aspx>

Treasury Committee: Banking Crisis: reforming corporate governance and pay in the City:

<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/519/519.pdf>

Parliamentary Commission on Banking Standards: Changing banking for good:

<http://www.parliament.uk/documents/banking-commission/Banking-final-report-vol-ii.pdf>

The Financial Services and Markets Act 2000 (Regulation of Auditors and Actuaries) (PRA Specified Powers) Order 2015 (S.I. 2015/61):

[http://www.legislation.gov.uk/uksi/2015/61/pdfs/ukxi\\_20150061\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/61/pdfs/ukxi_20150061_en.pdf)