



Banks – Audit of expected credit loss

Global IFRS Institute

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Reinhard Dotzlaw
Partner, Global IFRS leader
KPMG in Canada
+1416 777 3955
rdotzlaw@kpmg.ca

Basel Committee issues guidance for audit committees on the audit of ECL estimates

Highlights

- Helping audit committees assess auditor’s work on ECL estimates
- Auditor expected to consider five key components of ECL estimate
- What next? – Consider for upcoming audits

To help audit committees of banks in their role of overseeing banks’ external audits, the Basel Committee on Banking Supervision (‘the Committee’) has issued a **supplemental note**¹ dealing specifically with the audit of expected credit loss (ECL) estimates under IFRS 9 *Financial Instruments*. This elaborates on its **2014 guidance** and aims to help audit committees when assessing the work of the external auditor around ECL estimates.

Helping audit committees assess auditor’s work on ECL estimates

The supplemental note discusses:

- the Committee’s expectations around the work of the external auditor, focusing on some key themes relevant to the quality of auditing the ECL estimate; and
- questions that the audit committee might ask the external auditor.

Auditor expected to consider five key components of ECL estimate

The Committee expects an external auditor to consider five key components of an ECL estimate and sets out key questions that an audit committee can use to challenge the external auditor on each of these components of an ECL estimate:

1. Forecast and forward-looking information
2. Macroeconomic scenarios and weighting
3. Models

¹ Applies to internationally active banks subject to a financial statement audit, including those within a banking group; and holding companies whose subsidiaries are predominantly internationally active banks.

4. Significant increase in credit risk criteria

5. Disclosure

It also sets out its expectations on audit quality and considers that when assessing an external auditor's audit of the ECL estimate, key themes to assess include professional scepticism, management bias, risk assessment, internal control and the use of experts.

What next?

Although the Committee states that the guidance may be most useful for 2021 year-end audits, audit committees and external auditors may find the guidance helpful for 2020 year-end audits.

Read the **guidance** and consider how it might help for forthcoming audits of ECL estimates – in particular for forecasts and forward-looking information in the ECL estimate, the construction of macroeconomic scenarios and weightings and model performance.

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