BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly from those versions sent directly to firms.

Victoria Saporta
Executive Director, Prudential Policy
Prudential Regulation Authority

Letter sent to Chief Financial Officers
of selected deposit-takers

[30 September 2020]

Dear [CFO]

Thematic feedback from the 2019/2020 round of written auditor reporting

This letter provides thematic feedback to both firms and auditors from our review of written auditor reports received in 2020 and subsequent discussions with firms.

Each year we receive a written report from your auditors responding to our questions on issues of particular supervisory interest. We provide feedback on what we learn from those reports through a number of channels. The main thematic findings are briefly set out in this letter, with detail provided in the two annexes. The first annex covers thematic findings on IFRS 9 expected credit loss accounting (ECL). The second annex covers thematic findings relating to the global benchmark reform, investment in technology, and third party controls.

The findings in this letter do not identify any particular firm or auditor. Firm-specific feedback is provided to firms and their auditors by supervisors through continuous assessment meetings, regular auditor–supervisor bilateral meetings and trilateral meetings involving supervisors, your auditors, and your audit committee chair.

Thematic findings on IFRS 9 expected credit losses

Our previous letters have explained the importance the PRA attaches to ECL being implemented well and in ways that achieve as much consistency of outcomes as is practicable. We have also made it clear that we expect firms' ECL methodologies to evolve for several years after initial implementation at the beginning of 2018, and that we expect the resources and budgets to be made available to enable that to happen[1]. My most recent

1 'Implementation of IFRS 9 Financial Instruments' – November 2016 is available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2016/letter-from-sam-woods-implementation-of-ifrs-9-financial-instruments
'IFRS 9 Financial Instruments' – August 2017 is available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2017/letter-from-sam-woods-ifrs-9-financial-instruments

letter to you on the subject, published on 2 October 2019[2] suggested a direction for some of those changes by setting out our views on practices that would contribute to a high quality and more consistent implementation of ECL ('high quality practices'), and so reduce the risk that firms will recognise inappropriate levels of provisions.

We envisaged that some of the high quality practices described would be in place by the end of 2019, but we also recognised that, given the lead time needed for change, others would take more time. To monitor progress, we asked, as part of the 2019/2020 round of written auditor reporting, for your auditor's views on the extent to which your firm has either adopted the high quality practices in 2019 or has alternative processes in place that achieve the same result.

We were pleased to hear that significant progress has been made by all firms to enhance the controls and governance around their ECL models and data. As a result of significant efforts made by all firms, many of the high quality practices were already in place at the time the reports were written. However, further progress is needed.

It is against that background that we have set out below the main thematic findings:

Model risk

- Significant progress was made by firms to enhance controls around ECL models and data. Nevertheless, there were weaknesses in aspects of firms' controls, consistent with these controls being relatively immature. In addition, weaknesses in underlying models and data had started to emerge prior to the start of the Covid-19 pandemic, with a number of significant models either failing validation or being rated as 'needs improvement'. This meant that reliance was already being placed on post-core model adjustments (PMAs) to compensate for issues such as low modelled provision cover for mortgages. Model performance is likely to have deteriorated in 2020 because of the need to select economic scenarios that are outside the bounds for which core models are calibrated to operate. These factors have placed pressure on management's ability to oversee complex models effectively. For that reason, we expect firms to consider the adequacy of their resourcing and infrastructure to monitor model performance and react to weaknesses identified, including the adequacy of management information to enable effective oversight of models and PMAs.
- We saw limited progress made in 2019 to reduce reliance on PMAs by updating models, with some PMAs that appear suitable for incorporation into the model being in place

[2] 'Written auditor reporting – update and main thematic findings' is available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2019/written-auditor-reporting-thematic-feedback-from-the-2018-2019-reporting-period

longer than 12 months. As Sam Woods explained in his letter published on 26 March 2020[3] we consider it critical that firms make appropriate use of PMAs based on expert judgement to ensure that provisions reflect actual credit risk expectations, and that those PMAs are the subject of high-quality governance. This is particularly relevant while economic conditions are outside those for which models have been calibrated to operate. We understand that model changes will take time to develop and need more real data on which models can be trained. However, PMAs are only a temporary solution and we continue to expect firms to give due priority to the need to reduce reliance on PMAs when determining their longer term model redevelopment programmes.

Economic scenarios

- It is clear from the auditors' written reports that a continuing limitation of firms' ECL processes is the time they take to run end-to-end. As a consequence, to incorporate late breaking events, firms have had to rely on tactical solutions that sit outside the normal control framework to respond to the need to update economic scenarios more frequently. We encourage firms to ensure control and governance frameworks are adapted to cope with increased reliance on these tactical processes and data. Additionally, the time taken to run the ECL processes from end-to-end leaves little room for sensitivity tools that inform effective challenge around the use of alternative economic assumptions. We think it is essential that firms develop the capability to perform more comprehensive economic sensitivity analysis more quickly to inform governance and public disclosures.

Much has happened of course since my October 2019 letter, but we think the challenges created by Covid-19 give many of the high quality practices described in that letter even greater significance, with the output of many credit risk models requiring adjustments to reflect the economic outlook and support measures in place. For that reason, the expectations in that letter regarding the adoption of high quality practice are unchanged. We thought it would therefore be helpful to set out our views on the most significant gaps between practices observed by the auditors at the time they reported back to us, and the high quality practices shared with you in 2019. These are covered in the first annex to this letter.

We also intend to discuss adoption of the high quality practices with your firm in 2021 as part of our continuing work with firms on consistent application of IFRS 9 ECL.

---

[3] 'Covid-19: IFRS 9, capital requirements and loan covenants' is available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2020/covid-19-ifrs-9-capital-requirements-and-loan-covenants

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

You will be aware, from letters Sam Woods wrote to your CEO in November 2016 and August 2017 and I wrote to you in January 2018 and January 2019[4], of the importance we attach to good period-end market disclosure about ECL. Indeed, we have said in the past that good ECL disclosure is essential if your firm is to explain its ECL story in a way that users of your financial reports will be able to understand and use as the basis for their analysis. This is even more so at the moment in view of the uncertainty and significant judgments that underlie current ECL estimates. I will be writing to you again on this subject shortly.

We will be publishing this letter on the PRA's website. If you have any questions concerning it, please get in touch with me by email and copy your usual supervisory contact.

Yours sincerely

Victoria Saporta

Executive Director, Prudential Policy, Prudential Regulation Authority

---

4 All these letters are available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2017/transition-disclosures-for-ifrs9-financial-instruments

Annex 1

Thematic findings on IFRS 9 expected credit loss accounting (ECL)

1. In this annex we set out our thematic findings on ECL from our review of written auditor reports received in 2020. Those thematic findings focus on the most significant gaps between practices observed by the auditors at the time they reported back to us, and the high quality practices described in my October 2019 letter. As all but one firm in scope have year ends of 31 December, the findings reflect practice prior to the Covid-19 pandemic. We have therefore added observations that set these findings in the context of Covid-19. These are based on subsequent discussions with firms in 2020. Our aim in providing this feedback is to encourage firms to identify improvements that can be made to risk monitoring and measurement, and to the management information used to inform challenge of ECL estimates.

2. We have reviewed the high quality practices in light of the guidance issued by Sam Woods in March 2020 and June 2020[5] in the context of Covid-19. No changes or additions were deemed necessary.

3. The high quality practices set out in the October 2019 letter were developed with the size, nature, and complexity of firms in scope of written auditor reporting particularly in mind. However, we think that the findings in this letter will also be helpful for firms applying IFRS 9 that are not within the scope of written auditor reporting.

4. As Sam Woods explained in his letters published on 25 November 2016 and 7 August 2017, although it is not our role to set, interpret, or enforce accounting standards, we have an interest in how the standards are implemented where the application of those accounting standards has an impact on our statutory objectives. We regard the effective implementation of ECL to be important in ensuring the safety and soundness of PRA-authorised firms. We will continue to work with firms to share concerns, facilitate cross-industry solutions, and promote high quality implementation.

Model risk

5. The high quality practices described in my October 2019 letter focus on controls around model risk, which are discussed in the first section below – Progress embedding high quality practices in 2019. Covid-19 has highlighted some additional model performance

5 'Covid-19: IFRS 9 and capital requirements – Further guidance' is available at: https://www.bankofengland.co.uk/prudential-regulation/letter/2020/covid-19-ifrs-9-capital-requirements-further-guidance

issues, which are noted in the following section – Observations in the context of Covid-19.

Progress embedding high quality practices in 2019

6. Significant progress was made by firms to enhance controls around the use and performance of ECL models, and all firms established more comprehensive programmes of model testing and model validation. This progress enabled auditors and supervisors to place more reliance on the results of these controls.

7. Nevertheless, further progress is needed in enhancing model risk management. We judged firms to have partially adopted the high quality practices relating to model risk management. The most significant gaps we saw were:

   - The scope of model testing and validation performed did not cover all material models used to calculate ECL, including those used for regulatory stress testing and the various feeder models used.

   - Model monitoring for some firms was based on performance data that were more than six months old. As more recent loss experience becomes available to compare models against, we see opportunities for firms to perform model back-testing more frequently and in more detail across a broader set of models.

   - While most firms had put in place a ‘red’, ‘amber’, and ‘green’ metric for model performance, we saw evidence that justification for how models are graded could be improved. In some cases, the scope of work was either not properly documented or not performed in line with the group model risk framework.

   - We saw limited evidence of findings, from model testing and validation being provided in an aggregate form that would enable management to assess the overall direction and significance of model limitations. For example, monitoring was typically

performed at the ECL component level, and did not consider the ECL balance as a whole for portfolios, legal entities, or the group as a whole.

- Limited use was made of sensitivity analysis as part of ongoing model risk management. Firms tended to rely on historical assessments made when models were designed.

Observations in the context of Covid-19

8. Weaknesses in underlying models and data had started to emerge prior to the start of the Covid-19 pandemic, with a number of significant models across all firms either failing validation or being rated as 'needs improvement' in 2019. In addition, limited progress was made in 2019 to reduce reliance on PMAs by updating models. While most firms had set a target for remediating PMAs within 6 months, some of the more material PMAs noted in auditors' reports had been in place for longer than 12 months.

9. This meant that prior to the pandemic reliance was already being placed on post-core model adjustments (PMAs) to compensate for issues such as low modelled provision cover for mortgages. As at December 2019, PMAs to compensate for model and data limitations increased modelled ECL by around 5% on average[6]; the range across firms varied from a reduction of 1% to an increase of 12%. The most material PMAs were to compensate for issues raised by model monitoring (such as models over/under predicting recent defaults), as well as hard-to-model risks (such as interest-only maturity risk, forbearance, buy-to-let lending, affordability, and indebtedness).

10. The nature and use of PMAs changed dramatically in 2020. As at June 2020, PMAs to compensate for model and data limitations reduced modelled ECL by around 17% on average; the range across firms varies from a reduction of over 30% to an increase of 10%. The most material PMAs were to suppress the modelled impact of changes in gross domestic product (GDP) on corporate loan provisioning to reflect the impact of government-led support measures. While differences in the level of PMAs are partly because some models are performing better or worse than others (for example because of their relative sensitivity to changes in GDP), there also seem to be differences in the extent to which economic forecasts are adjusted for support measures.

11. We believe firms will face challenges in operating their core model risk controls effectively in current conditions. The inherent lag in controls, such as back-testing, places reliance on governance to identify implausible model outputs and to raise

6 All PMAs other than PMAs for economic uncertainty.

sufficient PMAs to compensate. To supplement the core model validation and testing process, we have seen some firms undertake additional analysis to:

- establish whether economic scenarios selected are outside the bounds for which core models are calibrated to operate; and
- apply judgemental PMAs informed by assessments of whether model outputs are plausible, both overall and for key risk cohorts.

12. In anticipation of model performance deteriorating in 2020, we expect firms to consider the adequacy of their resourcing and infrastructure to monitor and react to model performance, including the adequacy of management information to enable effective oversight of models and PMAs.
13. We understand that model changes will take time to develop and need more real data on which models can be trained. However, we continue to expect firms to give due priority to the need to reduce reliance on PMAs when determining their longer-term model redevelopment programmes.

Economic scenarios

Progress embedding high quality practices in 2019

14. Firms' approaches to capturing economic scenarios were largely unchanged in 2020, although a number of firms noted a desire to simplify and automate processes. We judged firms to have partially adopted the high quality practices relating to economic scenarios. The most significant gaps we identified were as follows:

- Limited use is still being made of sensitivity analysis to inform the oversight of provision adequacy and support effective challenge of using reasonably possible alternative economic inputs. Firms tended to focus their sensitivity analysis on the impact of weighting different scenarios at 100% for selected portfolios, and most lacked the capability to perform additional sensitivity analysis for use in governance without considerable time and manual effort.
- While firms typically benchmark the severity of their downside scenarios to stress tests and their base case scenarios to consensus data or market-implied forward rates, differences tended still not to be monitored in terms of ECL. Downside scenarios were generally noted to be less severe than those used in regulatory stress tests, and varied in severity across firms. In some cases firms' severe scenarios were less severe than some peers' base case forecasts. While scenarios reflect management expectations, benchmarking revealing a lack of directional

consistency may call into question whether expectations are reasonable and supportable. However, it is important to consider not just the severity of the scenarios chosen, but also the appropriateness of the effect on ECL. Because differences tended not to be monitored in terms of ECL, it was not always apparent whether firms are aware of how material these differences were.

- We saw limited evidence of steps being taken to review how economic uncertainty is captured in the model in order to identify enhancements that can be made to reduce reliance on PMAs over time.

Observations in the context of Covid-19

15. A common limitation with firms' ECL methodologies is the time it takes to run ECL processes from end-to-end (ie from generating a new economic scenario to producing a revised ECL estimate). In 2020, we have seen increased use of tactical solutions to respond to the need to update economic scenarios more frequently and to avoid use of out-of-date economic data. This means an increase in use of data and processes to incorporate multiple economic scenarios that sit outside the normal control framework.

16. Firms consider multiple economic scenarios differently. While it is hard to make direct comparisons, the ECL impact of multiple economic scenarios continues to vary across firms. As at June 2020, overall the use of multiple economic scenarios increased reported ECL relative to base case by 7% on average, although the range across firms varied from 5% to 23%. Applying 100% weight to the most severe downside scenario would have increased reported ECL by 50% on average, with the range across firms varying from 30% to 90%. Where both the severity of scenario and probability weightings differ across firms, it was unclear whether firms had common definitions for what their base case and severe downside scenarios represent.

17. Most firms use PMAs to capture the impact of additional low probability, high impact scenarios. As at December 2019, 64% of the impact of multiple economic scenarios was in the form of such PMAs, although the range across firms varied from 0 to 100%. Firms whose core approach is to consider just one downside scenario were outliers pre-Covid, but it has become increasingly apparent that using one downside scenario is insufficient in the current economic conditions.

18. As this heightened level of economic uncertainty is likely to continue for a while, we encourage firms to:

    - ensure control and governance frameworks are adapted to cope with the need for more frequent updates to economic scenarios; and

- develop the capability to perform more comprehensive economic sensitivity analysis, more quickly, to inform governance and support more comparable public disclosures.

Significant increase in credit risk (SICR)

Progress embedding high quality practices in 2019

19. Firms made progress in enhancing the controls around the validation of SICR criteria. However, firms made relatively few changes to their SICR approaches in 2019 (because validation generally supported the view that their SICR criteria had operated effectively). We continue to believe that wider use of industry standard metrics are a good first step to benchmarking the effectiveness of different approaches across firms in recognising SICR in a timely manner.

20. We judged firms to have partially adopted the high quality practices relating to SICR. The most significant gaps we identified were as follows:

    - While firms considered a broader set of validation metrics in 2019, most firms had set arbitrary or no thresholds against which to test the performance of SICR. It is important that validation thresholds are based on a clear rationale and a sound understanding of the expected level for the metrics being used.

    - Not all firms used qualitative SICR indicators to capture risks not otherwise captured in loan-level probability of default (PD). From the auditors' reports, we think it is noteworthy that firms that used qualitative indicators that were aligned to the 'high risk' indicators being monitored at a portfolio level have a higher proportion of retail exposures in stage 2 than those that did not. Examples of qualitative indicators aligned to 'high risk' indicators include: forbearance, over-indebtedness, negative affordability, use of payday loans, breach of lending policy, and interest-only-loans approaching maturity without a confirmed repayment vehicles.

    - Auditors' reports noted that only one firm used collective assessments to move pools of higher risk loans to stage 2 to reflect the impact of emerging risks, local conditions, and other events not otherwise captured in loan-level PD. Examples of emerging risks include Brexit, Covid-19, sovereign downgrade, and climate change.

Observations in the context of Covid-19

21. A wide range of SICR approaches and thresholds continue to be in use. As at 30 June 2020, the proportion of loans in stage 2 varied across firms, from 4% to 15% of retail mortgages; from 7% to 35% of credit card balances, and from 16% to 63% of corporate loans in stage 2. Some of these differences will be because of differences in the books involved, and because of differences in assumptions made about future economic

conditions, but we remain concerned that PD-based SICR approaches may not all respond in a sufficiently similar way to changes in risk as economic conditions change.

22. IFRS 9 has an objective of requiring all SICR to be identified. We have seen some firms introduce collective SICR assessments for higher risk sectors that are most impacted by Covid-19 because of the difficulty of identifying borrower specific information on a timely basis, or capturing sectoral or regional events in macro-economic forecasts. We continue to encourage firms to make greater use of collective assessments to challenge the need to move pools of higher risk loans to stage 2.

Lifetime of an exposure

Progress embedding high quality practices in 2019

23. Approaches to determining lives for revolving facilities continue to differ across retail and corporate portfolios and across firms. The range of modelled lives for credit cards remains broad, from two to ten years. In 2019, lives became shorter on average, as two firms reduced lives for their most material credit card portfolios.

24. We judged firms to have partially adopted the high quality practices relating to expected lives. The most significant gaps identified were as follows:

    - Modelled lives were generally cut short at the point when substantially all defaults are expected to have occurred. This was done to simplify modelling, and it is important to keep the materiality involved under review. While some firms used PMAs to capture losses out to the point where all defaults are expected to have occurred, not all firms had embedded regular monitoring of the risk of bias from the use of unduly short lives.

    - A minority of firms use credit review dates as an approximation for lifetimes. Where this approach was used, we saw no evidence of there being defined minimum standards of effectiveness against which review processes are monitored to determine whether lives go beyond the next credit review date.

Annex 2

Thematic findings relating to matters other than ECL

1. In this annex we set out our thematic findings on matters other than ECL. The questions we asked auditors covered the global benchmark reform, investment in technology, and third party controls, and we have thematic findings in all of those areas.

2. Our aim in providing this feedback is to explain thematic observations and to encourage firms to identify improvements that can be made. We anticipate that the thematic findings will also be relevant to firms not within the scope of written auditor reporting.

3. The annex is structured as follows:

   - There is first a brief description of the supervisory concern behind the question we asked auditors.
   - The findings are then set out. Those findings include a description of high quality practices we observed in the responses. Those practice descriptions are set out in boxes for ease of reference. They have been developed with the size, nature, and complexity of firms in scope particularly in mind.

Global benchmark reform

Supervisory concern

4. Firms may not yet fully understand the risks associated with the transition, or be adequately prepared to make an orderly transition, from the Libor[7] benchmarks to robust alternative reference rates, including risk-free rates (RFRs)[8] by the end of 2021. This could have implications for financial reporting and, as a consequence, regulatory capital.

Findings

5. Auditors' responses confirmed that, while firms have entered into sizeable levels of RFR derivatives in the front book, limited legacy conversion occurred in 2019. Firms have earmarked 2020 to accelerate the transition of legacy exposures and the significance of the transition for audit purposes will increase as the transition picks up pace. Auditors highlighted the importance of firms having plans to scale up operational capacity should there be a spike in conversion activity.

---

7 The question was focused on the transition to alternative reference rates driven by the reform, globally, of major interest rate benchmarks. References to Libor should be read to include other interest rate benchmarks that are expected to be discontinued at or after the end of 2021 as part of global benchmark reform, including EONIA.

8 In this document, references to RFRs encompasses RFRs and other robust alternative reference rates.

6. We were pleased to see that firms generally appeared to have granular transition plans and robust governance structures in place. Responses indicated an awareness and active management of both current and future risks relating to conduct, legal, markets, and operations.

7. However, there are areas where we think improvements could be made. In particular, we saw instances of firms relying on manual processes to capture and aggregate IBOR exposures. Such manual processes increased the risk of error and limit the ability to proactively monitor exposures. As firms increase transition efforts, the ready availability of centralised, standardised data to track the relevant key performance indicators will become more important. We also saw limited evidence of internal audit's involvement in review of the effectiveness of transition programmes.

High quality practices we observed [9]

8. RFR transition governance structures are centrally managed and cut across businesses and functions. Transition plans assign specific responsibilities to individuals of appropriate seniority, and frequent touch points are in place between those responsible for delivery to enable timely reprioritisation of efforts.

9. Transition plans include the active management of transition risks. Immediate and future risks or hurdles to transition, and plans to mitigate each of those risks or hurdles, are documented and kept up-to-date through, among other things, active engagement in industry working groups.

10. Internal audit reviews the RFR transition programmes for effectiveness.

11. Automated systems are in place to support aggregate reporting of IBOR exposures, and to ensure there is a single and standardised, accurate view of both conversion progress to date and the scale of conversion activity remaining. To the extent that there remains some reliance on manual processes, those processes are governed by formalised and documented controls over data extraction, validation, and aggregation.

Investment in technology

Supervisory concern

12. Impairment of technology may be identified late if useful lives and recoverable amounts are not kept up-to-date. Overly optimistic assumptions about the useful lives and future economic benefits of existing technology can have consequences for capital planning by, for example, leading to future spend on new technology being underestimated. We are

9 This is not an exhaustive list, and for more instances of good practice, see: https://www.fca.org.uk/publication/feedback/feedback-on-dear-ceo-letter-on-libor-transition.pdf

also concerned that the regulatory treatment of intangible assets creates incentives to delay when technology spend is recognised for capital purposes.

Findings

13. At 31 December, the cost of internally generated software capitalised as balance sheet assets totalled £14 billion. The level of software spend and rate of capitalisation has risen in recent years as firms focus on automation of processes.
14. There is evidence of weaknesses in controls to prevent internal expenditure being capitalised inappropriately. Five out of six auditors noted control deficiencies over the integrity of the data used to work out how much can be capitalised. This included lack of documentation around whether and how the criteria to capitalise internal expenditure had been met. We encourage firms to ensure any control weaknesses are remediated over a reasonable timescale.
15. We think that the pace of change in technology increases the likelihood that newer technology will have shorter useful lives and higher risk of obsolescence. However, in practice the vast majority of technology assets are given the same useful life once they go live, typically five years, with the exception of core systems where useful lives ranged up to 15 years. At 31 December 2019, less than 3% of total software assets had been given a useful life of shorter than five years, which seems intuitively low. In contrast, some firms had a high proportion of software assets given a useful life in excess of five years, the range across firms was wide from 0% to 98%. We encourage firms to consider whether shorter useful lives might be appropriate for new software development, particularly in areas where system needs and software usage are rapidly evolving.
16. We identified room for improvement in the controls and management information around software impairment; particularly in the process to identify assets at higher risk of impairment. For example, auditors told us that firms tend to rely on attestations by asset owners and we saw at least one instance where an auditors' report did not identify assets as being at higher risk at the year-end, yet shortly thereafter they were the subject of a large impairment.

High quality practices we observed

17. A formal committee is in place comprising both business owners and finance, whose role is to review, challenge, and provide evidence supporting software capitalisation and impairment decisions, covering both assets in use and under construction.
18. A formal framework is in place for identifying and reporting assets at higher risk of impairment to help focus management review and challenge.

Third party controls

Supervisory concern

19. Firms may be unable to provide certain core services, such as reporting obligations, if their control framework does not adequately monitor and mitigate the risks arising from reliance on third party suppliers of those services.

Findings

20. We saw instances where the risks associated with outsourcing activities to third parties were managed at the process level rather than at the third party level. Centralising ownership and risk management would assist in ensuring the three lines of defence are appropriately engaged in managing the dependence on third parties and increasing a firm's operational resilience.

21. Auditors' reports noted that firms did not always have controls reports for their material outsourcing service providers. Management continues to have a responsibility for ensuring that outsourced processes are the subject of robust and effective controls; and one way of achieving this is through controls reports.

High quality practices we observed

22. There is centralised ownership and management of the risk of financial reporting errors associated with controls operated by a third party.

23. Up-to-date controls reports are obtained for material outsourcing service providers to help firms effectively oversee outsourced activities.