

## **Methodological Instruction of the Banking Supervision Division of the National Bank of Slovakia No. 4/2003**

**relating to the provisions of Article 40, paragraphs 3 and 4,  
of Banking Act No. 483/2001 Z.z., as amended**

The banking supervision has been involved in maintaining the stability of the banking system and promoting safe and sound operation of individual banks in order to protect depositor interests. At the current stage of internationalisation and growing complexity of banking activities, the banking supervision, among other things, seeks to intensify its collaboration with external auditors. This methodological instruction, too, is issued to ensure transparency in this collaboration with external auditors.

1. After receiving a notice identifying an auditor approved by the supervisory board of a bank, the National Bank of Slovakia may, pursuant to Article 40, paragraph 3, of Banking Act No. 483/2001 Z.z., as amended, disapprove the auditor. In this respect, it shall consider whether any reasons as set out in Article 40, paragraph 4, of Banking Act No. 483/2001 Z.z., as amended, or any other reasons exist to disapprove the auditor.
2.
  - a) An audit firm means a legal person established pursuant to Article 2, paragraph 5, of Act No. 466/2002 on auditors and the Slovak Chamber of Auditors.
  - b) An auditor means a natural person as defined in Article 2, paragraph 4, of Act No. 466/2002 on auditors and the Slovak Chamber of Auditors.
  - c) A responsible auditor, responsible partner or responsible employee of an audit firm means an auditor, partner or employee of the audit firm who took, is, or will be taking part in the provision of audit services to the bank delivering the notice of auditor selection.
3. Reasons for disapproval of an audit firm shall be in particular the following:
  - a. facts set out in Article 40, paragraph 4, of Banking Act No. 483/2001 Z.z., as amended,
  - b. the existence of hindrances to the provision of audit services pursuant to Article 19 of Act No. 466/2002 on auditors and the Slovak Chamber of Auditors,
  - c. any failure to comply with applicable legislation and requirements imposed by decrees of the National Bank of Slovakia,
  - d. the existence of significant differences between the opinion of the audit firm as expressed in audit reports and the opinion of the National Bank of Slovakia as regards the assessment of adequacy, effectiveness and efficiency of the bank's internal control system, including its risk management system, in the previous period,
  - e. the existence of significant differences between the opinion of the audit firm and the opinion of the National Bank of Slovakia as regards the reporting system in place for reports required by the National Bank of Slovakia under Article 42, paragraph 2, of Banking Act No. 483/2001 Z.z., as amended,
  - f. any conflict of interests on the part of the audit firm and the auditor and other risks which might impair its independence,
  - g. restricted ability to provide audit services as specified in Article 3 of Act No. 466/2002 on auditors and the Slovak Chamber of Auditors, and other findings made by the National Bank of Slovakia with respect to restricted competence of the audit firm and the auditor to provide audit services, or a loss of credibility of the audit firm or the auditor.
4. An audit firm or auditor may also be disapproved due to the existence of material differences between the opinion of the audit firm and the opinion of the National Bank of Slovakia with respect to a bank other than the bank giving notice of the selection of an audit firm and auditor.
5. If the National Bank of Slovakia identifies any material failure to comply with applicable legislation or National Bank of Slovakia decrees in internal control and risk management systems, it shall consider whether the audit firm and the auditor have notified such a failure when and as due in their reports or otherwise.
6. When assessing an audit firm's and an auditor's ability and competence to provide audit services, the National Bank of Slovakia shall in particular consider:

- a. the methodological approach, methods and procedures applied by the audit firm and the auditor in conducting an audit, focusing in particular on the methodology of assessment of management methods and their effect on a bank's control systems, economic conditions, nature of banking activities and financial stability; the quality and completeness of principles and procedures applied by the audit firm and the auditor in assessing the bank's condition,
  - b. whether or not the audit firm has in place and adheres to procedures ensuring its independence, objectiveness and professional integrity in the performance of an audit with regard to the size and organisation structure of the bank concerned, including persons with a special relationship, in order to prevent the risk of conflicts of interests not only in relation to the bank, but also in any direct or indirect relations to other persons encompassed in the audit environment,
  - c. experience, education and knowledge of responsible auditors, responsible partners and responsible employees of the audit firm, in particular in the area of banking activities and financial risks,
  - d. experience of responsible auditors, responsible partners and responsible employees of the audit firm in auditing banks and financial institutions,
  - e. professional background and the level of professional support provided to the audit firm by its parent, partner or otherwise ownership-related audit company within a group to which the audit firm belongs.
7. The National Bank of Slovakia shall consider as facts possibly giving rise to the risk of a conflict of interests and/or other risks, which might impair the independence and objectiveness of the audit firm and the auditor, in particular the following:
- a. any direct or indirect financial or commercial relations and interests between the audit firm and the bank, other than those related to the provision of audit services in the current or previous period,
  - b. the provision of services in connection with the performance of any of the activities of internal control at the bank by the audit firm, by the auditor, or by an otherwise related audit firm in terms of ownership or personnel in the current or previous period,
  - c. the provision of services other than audit services related to the provision of audit services to the bank by the audit firm, by the auditor, or by an otherwise related audit firm in terms of ownership or personnel in the current or previous period,
  - d. the provision of audit services by the audit firm or the auditor to other persons having a special relationship to the bank as defined in Article 35, paragraph 4, letters a) to h), j) and k), and Article 35, paragraph 5, letters a) to h) and j) of Act No. 483/2001 Z.z., as amended; this provision shall not apply to the provision of audit services by one audit firm to persons within a consolidated group,
  - e. the provision of services other than audit services related to the provision of audit services to the bank by the audit firm or the auditor to other persons having a special relationship to the bank as defined in Article 35, paragraph 4, letters a) to h), j) and k), and Article 35, paragraph 5, letters a) to h) and j) of Act No. 483/2001 Z.z., as amended,
  - f. the participation of responsible auditors, responsible partners and responsible employees of the audit firm in the provision of services under letters b), c), d) and e) in the previous period, also where such services were provided through a different audit firm,
  - g. the adequacy of fees for the provision of audit services and services other than audit services to the bank and their being independent from the audit outcome or other bank indicators,
  - h. the fact that a manager of the bank has become a responsible auditor, responsible partner or responsible employee of the audit firm being reviewed by the National Bank of Slovakia, or vice versa,
  - i. the fact that other persons, other than persons specified in paragraph 2, letter c), taking part in or able to influence the outcome of an audit have a special relationship to the bank as defined in Article 35, paragraph 4, letters a) to h), j) and k), and Article 35, paragraph 5, letters a) to h) and j) of Act No. 483/2001 Z.z., as amended,
  - j. the fact that in the previous period the bank has raised objections to the audit firm or the auditor in respect of possible detected irregularities in audit performance,
  - k. the fact that the responsible auditor, responsible partner or responsible employee of the audit firm has audited the bank being reviewed by the National Bank of Slovakia for a period of 5 years or longer.
8. In reviewing an audit firm and an auditor, the National Bank of Slovakia shall in particular rely on:
- a. a comparison of the results of on-site examinations at banks with reports prepared by the audit firm and the auditor with regard to their time and circumstances,
  - b. written documents submitted by the audit firm and the auditor,
  - c. presentations, working meetings and discussions with the audit firm and the auditor,
  - d. other documents available to the National Bank of Slovakia,
  - e. other findings of the National Bank of Slovakia.

9. If, while reviewing an audit firm, the National Bank of Slovakia concludes that any reasons exist for disapproving the audit firm or the auditor, it shall discuss this fact with the bank, the audit firm and the auditor concerned prior to notifying its disapproval decision, in order to allow the audit firm and the auditor to present their views.

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