

All banks

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Onderwerp

Evaluation audits Single Client View Policy Rule

Handelsregister 3300 3396

The Single Client View (SCV) Policy Rules for the Deposit Guarantee Scheme prescribe that banks must have the internal audit department (IAD) and the external auditor assess whether the requirements of the policy rule have been complied with (see also Articles 11 and 12 of the Policy Rule; hereinafter: SCV audits). In cooperation with the NVB, an evaluation of the SCV audits was carried out together with a delegation of banks and accountancy firms. This letter explains the adjustments that DNB is making as a result of this evaluation. The amendments will take effect from the next reporting period, which starts on April 1, 2021.

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Uw kenmerk

Ons kenmerk

T052-85402729-544

Behandeld door

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The following points are addressed:

- a) reporting period for the SCV audits of the IAD and the external auditor
- b) auditing standard for assessment by the external auditor
- c) consistency between the activities of the IAD and the external auditor
- d) proportionality
- e) applying carve-outs in connection with outsourcing of processes and services
- f) Improvement of insight into measures for remediating findings, and progress on these
- g) consistency with audits of a bank's KYC processes
- h) further guidance on the generic control framework

a) Audit period for SCV audits remains April 1st – March 31st

The policy rule states that an opinion will be formed for the year under review. The period of the reporting year was set in 2019 in consultation with banks from April 1st to March 31st. This period was discussed during the evaluation. Some banks requested that the audit period be set coinciding with the calendar year. An alternative that has been suggested was to set the audit period from July 1st to June 30th. In response to this discussion, DNB asked the participating banks to express their preference. The result was that the majority wanted to keep the April 1st - March 31st reporting period.

b) The audit standard for the assurance report of the external auditor remains ISAE 3402 for the time being

The policy rule stipulates that the engagement to an external auditor must be based on ISAE 3402, whereby not only design and existence, but also the operational effectiveness is part of the evaluation (type 2). During the evaluation meeting, the audit firms and a number of banks suggested changing the audit standard to ISAE 3000. The main argument for this is that this standard gives more headway to the external auditor for evaluating data quality.

In consultation with external auditors and banks, DNB has previously deliberately opted for the ISAE 3402 standard, and thus a process-oriented audit. The reason is that it is the responsibility of banks to adapt the relevant processes and controls to assure the high degree of accuracy required of banks. The internal control of banks must be to such a standard that the chance of errors is negligible (focus on zero tolerance, as explained in the policy rule). This demands considerable time and effort from banks, following a growth path to address any deficiencies.

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The usefulness and added value of data quality oriented assessment was extensively discussed during the evaluation. DNB is of the opinion that there is a risk that such checks will distract from proper attention for adjustment of underlying processes and control measures by banks, which should be the focus in this phase. Moreover, data quality oriented assessment fits perfectly within the bank's own control framework. We see that banks are increasingly paying attention to this in their control framework. The correct operation of the data quality oriented assessment as part of the audit framework of banks can then be tested for design, existence and effectiveness within the ISAE 3402 standard.

DNB does not rule out that the ISAE standard may be re-examined in the future for the assessment by the external auditor. For the time being, ISAE 3402 is being maintained as the standard.

Some banks have also suggested considering other standards, like COS 4400N (Agreed Upon Procedure). These are not acceptable to DNB, because these standards do not provide the assurance required by DNB.

c) **IAD and external accountant have different roles in the SCVframework**

In recent years, the similarities and differences in the role of the IAD versus that of the external auditor in the SCV framework have been discussed several times. Banks indicate that there are still uncertainties on this point. Points for attention include preventing overlap in activities and including foreign branches in the audits. DNB is of the opinion that overlap in activities must be avoided as much as possible. At the same time it should be acknowledged that the IAD and external auditors have different roles.

The basic principle is that DNB receives assurance from the external auditor that a bank complies with the requirements of the Single Client View Policy Rule, that is, applies the control measures for the relevant processes with a high degree of accuracy. The external auditor must be able to provide assurance on this, at which their work program should be aimed. The IAD, on the other hand, is part of the bank's control framework. The activities of the IAD are part of the bank's three lines of defense. In our opinion, there is an interaction between the work program of the external auditor and the operation of the three lines of defense. As the three-lines-of-defense is more effective, the work program of the external auditor may be more limited. The external auditor also assesses whether the role of the IAD is fulfilled in accordance with the requirements in Article 11 of the Policy Rule Single Client View. To this end, a control objective was added to the generic Control Framework (9.1) last year.

The current guidance raises many questions on this point and is cause for confusion. The guidance is that *"the bank may conclude on the basis of its risk analysis that control measures with regard to regular processes do not need to be additionally tested by the external auditor, provided a number of conditions are met"*. In practice, this is often misconstrued and banks, in consultation with the external auditor, choose to include all processes and associated control measures in scope. Another factor in this is that DNB doesn't set any further requirements in the policy rule on the reporting format of the IAD (free format).

Only a full assessment by the external auditor provides the requested assurance.

The decision is that this option will be withdrawn effective the coming reporting year (starting on April 1, 2021). The engagement to the external auditor must cover all relevant processes and controls.

This does not subtract from the fact that the report of the IAD provides very valuable additional insights into the extent to which the bank complies with the SCV requirements. The reports of IADs of banks often provide more detailed information on the safeguarding of control measures and problems in the field of data quality. We see differences in the level of detail of the IAD reports of banks. DNB expects a level of detail from the report that provides sufficient insight into the improvements that still need to be realized in order to be able to fully comply with the requirements of the SCV policy rule.

d) **Assurance of proportionality**

Smaller banks in particular are commenting on the proportionality of the SCV audits, in particular the ISAE 3402 assignment. During the evaluation it was discussed that proportionality is sufficiently considered in applying the ISAE 3402 audit standard. DNB also requires assurance from smaller banks that the requirements of the policy rule are complied with. At the same time, the scope of the activities is closely related to the size and complexity of the bank.

e) **Application of carve-out only under certain conditions**

Many banks outsource processes to external service providers. In the ISAE 3402 audits, these are then placed outside the scope of the assignment via a carve-out. As a result, DNB does not always receive the requested assurance. Banks are responsible for assuring control for all relevant processes and systems. Although DNB prefers to avoid carve-outs as much as possible, we acknowledge that the use of a carve-out is sometimes unavoidable. Large IT service providers in particular often exclude permission for specific audits from their contractual terms and conditions.

DNB accepts the application of a carve-out, provided the following conditions are met:

- the requirements from the Single Client View Policy Rule are demonstrably secured in the contractual agreements and the associated service levels
- the bank obtains an assurance report from its external service provider(s) (based on the ISAE 3402 standard or on the SOC 1 or SOC 2 standard) that explicitly covers the control measures from the Control Framework that the bank has outsourced to the external service provider(s)
- the reporting period of that assurance report either corresponds with the assurance period that the bank uses for the ISAE 3402 reporting in order to comply with the Single Client View Policy Rule, or the bank obtains a bridge letter from the external service provider for any period that is not covered

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- the bank includes monitoring control measures¹ that demonstrate the outsourced processes meeting the requirements of the policy rule in the control framework for the ISAE 3402 report of the bank itself
- In performing his testing procedures on these monitoring controls, the auditor has to report concerning the requirements how:
 - (a) the outsourced controls are covered and met in the assurance report of the external service provider, (b) the reporting period of the external service provider is either the same as the assurance period or that a bridge letter is available for the period that isn't and (c) the controls have been assessed as effective by the auditor of the external service provider and/or the control measures the auditor of the external service provider(s) has determined as being ineffective

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The above guarantees that DNB receives assurance on all relevant processes and systems. If it is not possible for the bank to meet these requirements, it must be agreed with DNB how these requirements should be dealt with for any specific situation.

f) **Improvement of insight into measures for remediating findings, and progress on these**

In addition to providing assurance via the ISAE 3402 report, the IAD report and the ISAE 3402 report are an important instrument for implementing improvements. DNB therefore expects a management response in these reports, in which, for each finding, an explanation is given of the follow-up on the findings of the previous report, and an action plan with timelines for the outstanding and newly identified findings.

The ISAE 3402 standard offers the possibility for this via an additional section V. Various banks already employ this additional section. DNB asks all banks to include this section as standard in the ISAE 3402 report from now on. This section can also elaborate on improvements made after the closure of the reporting period.

g) **Synergy with audits on KYC processes**

Banks ask about the relationship between the control of KYC processes and the requirements in the Single Client View Policy Rule. Banks indicate that KYC is very broad, for which separate control programs have often been set up on the basis of the requirements in the Wwft. These requirements go further than the SCV requirements, although the SCV requirements sometimes go further in yet other areas. Consider, for example, the collecting and processing of BSNs from customers and representatives or the reliability of data that is necessary for deduplicating customers.

¹ In the policy rule, the current control measure 8.5 in control objective 15 of the Control Framework is replaced by the following control measures:

8.5 At least once a year and in addition (a) after every change to the Single Client View Policy Rule and (b) after every change in the way in which the bank has outsourced the control measures from the Control Framework to external service providers, the bank establishes that the external service providers effective agreements have been made about the control measures from the Control Framework that the bank has outsourced to one or more external service providers. In addition, the bank has established that effective service level agreements have been made with the external service provider that the services will continue to the extent necessary for DGS in the event of bankruptcy.

8.6 At least once a year, the bank establishes that one or more assurance reports have been obtained on all control measures from the Control Framework that the bank has outsourced to one or more external service providers and that these assurance reports cover the entire assurance period, or that a bridge letter has been received from the external service provider (s) for the period for which no assurance has been obtained. In addition, the bank establishes that the auditor of the external service provider has concluded that the outsourced control measures have worked effectively during the entire assurance period associated with the assurance report obtained and that the management has not provided any indication in any bridge letter(s) that these controls are no longer effective.

DNB encourages banks to utilize the synergy that exists between KYC requirements and SCV requirements. The existing control measures can be tested against the SCV requirements, both in terms of content and depth in view of the high degree of accuracy required by the DGS. Where necessary, these control measures can be supplemented. IADs can also enrich their existing work programs for KYC with specific SCV requirements. The results of the audits on KYC processes, if and insofar as these results have implications for compliance with SCV requirements, can then be included in the assessment and the report on compliance with SCV requirements. This prevents duplication of work.

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h) **Further guidance generic control framework**

At the end of 2020, DNB published a new version of the generic Control Framework. This framework will be further adapted on the basis of the explanation in this letter. The new version will be published on the DNB website in April 2021.

If you have any questions regarding this letter, please let us know.

Kind regards,



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Department head Resolution



H.M. Kooy
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