

The External Auditor

Performing Audits and Reviews in Accordance with Certain US Standards

Introduction

1. The procedure regarding auditing of a banking corporation and credit card company by an external auditor (for brevity, in this directive the term banking corporations will include also credit card companies) is an integral component of both the control and supervision processes of the supervisory authorities, and of market forces, because on its completion the corporation's audited financial statements are published.
2. This Directive specifies that a banking corporation's external auditor shall implement at least certain standards set in the US regarding the preparation and publishing of a banking corporation's annual financial statements, and in preparing and publishing the external auditor's review of the banking corporation's quarterly financial statements.
3. Circulars from the Supervisor of Banks nos. 2175-06 of 5 December 2005 and 2223-06 of 20 January 2008 specified the requirements relating to the implementation of Section 404 of the Sarbanes–Oxley Act (henceforth, section 404) in a banking corporation. These requirements include:
 - 3.1 The financial statements of a banking corporation for the year ending 31 December 2008 shall include certification that the signing officers are responsible for internal control of financial reporting.
 - 3.2 The above financial statements shall include an opinion by the external auditor regarding the internal control of financial reporting.
4. This directive specifies that, consistent with the circulars mentioned above, the external auditor who prepares and publishes an opinion of the banking corporation's financial statements shall attach an attestation report on the internal control of its financial reporting, and that the report shall be formulated in accordance with the auditing standards set in the US.

5. Fulfilling this directive does not absolve external auditors from fulfilling the other requirements of other auditing standards specified by the law that apply to the function of the external auditor in a banking authority, such as "Generally accepted auditing standards, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973."

External auditor's report—the financial statements of a banking corporation

6. In auditing the annual financial statements and reviewing the quarterly financial statements of a banking corporation, the external auditor shall implement at least the relevant US audit standards specified in the appendix to this directive. **These US audit standards** include the audit standards of the Public Company Accounting Oversight Board (PCAOB) (USA), which incorporate the Statements on Auditing Standards published by the American Institute of Certified Public Accountants (AICPA), and the Audit and Accounting Guides published by the AICPA.
7. If changes are made to the certain US audit standards, detailed in this directive or in the appendix after this directive has been issued, those changes must be implemented concurrently with their becoming effective in the US.

Attestation report—internal control over financial statement

8. Every external auditor who prepares and publishes an opinion of the financial statements of a banking corporation shall attach an attestation report on the internal control of financial reporting. The report shall be formulated according to the standards relating to such attestation reports adopted by the PCAOB.
9. The above report shall not be under a different engagement from that of the opinion of the financial statements.
10. In performing audits, external auditors of banking corporations shall implement Auditing Standard No. 5 of the PCAOB, "An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements," with the adjustments required by the law and the standards applicable to a banking corporation and the auditing of a banking

corporation. Moreover, in the event that clarifications and/or additional auditing standards are introduced in the US in the future regarding the implementation of section 404, external auditors of banking corporations in Israel shall act in accordance with those clarifications and/or standards.

Attestation report—whether a previously reported material weakness continues to exist

11. There might be situations where an external auditor who prepares and publishes an opinion of the financial statements of a banking corporation, as well as a report on the internal control of financial reporting, shall be required to prepare an attestation report on whether material weakness previously reported in the report of internal control of financial reporting continues to exist.
12. In the above case:
 - a. The above report shall be under a different engagement from that of the opinion of the financial statements.
 - b. In performing audits, external auditors of banking corporations shall implement Auditing Standard No. 4 of the PCAOB, "Reporting on Whether a previously Reported Material Weakness Continues to Exist" with the adjustments required by the law and the standards applicable to a banking corporation and the auditing of a banking corporation

Appendix –

**Certain US Auditing Standards to be Implemented in Audits of Financial Statements
of Banking Corporations**

1. AICPA Auditing Standards applied by the PCAOB

Note: Reference is made to the AU section in the integrated version in the PCAOB website

- (a) **AU 150 – Generally Accepted Auditing Standards**
- (b) **AU 230.12 ,316– Consideration of Fraud in a Financial Statement Audit**
- (c) **AU 310.05-07 – Establishing an Understanding with the Client**
- (d) **AU 311 - Planning and Supervision**
- (e) **AU 312 - Audit Risk and Materiality in Conducting an Audit**
- (f) **AU 317 – Illegal Acts by Clients**
- (g) **AU 319 - Consideration of the Internal Control Structure in a Financial Statement Audit**
- (h) **AU 322 - The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements**
- (i) **AU 324 – Service Organizations**
- (j) **AU 325 - Communication About Control Deficiencies in an Audit of Financial Statements**
- (k) **AU 326 - Evidential Matter**
- (l) **AU 328 – Auditing Fair Value Measurements and Disclosures**
- (m) **AU 329 - Analytical Procedures**
- (n) **AU 330 – The Confirmation Process**
- (o) **AU 332 – Auditing Derivative Instruments, Hedging Activities, and Investments in Securities**
- (p) **AU 333 - Management Representation**

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- (q) **AU 337, AU 560.12 – Inquiry of a Client’s Lawyer Concerning
Litigation, Claims, and Assessments**
- (r) **AU 342 - Auditing Accounting Estimates**
- (s) **AU 350 - Audit Sampling**
- (t) **AU 380 - Communication with Audit Committees**
- (u) **AU 390 – Consideration of Omitted Procedures after the Report Date**
- (v) **AU 411 – The Meaning of Present Fairly in Conformity with Generally
Accepted Accounting Principles**
- (w) **AU 420.07-.11 – Consistency of Application of Generally Accepted Accounting
Principles – Change in the Reporting Entity**
- (x) **AU 431 - Adequacy of Disclosure of Financial Statements**
- (y) **AU 625 – Reports on the Application of Accounting Principles**
- (z) **AU 722 – Interim Financial Information**

2. PCAOB Audit Standard:

- (a) **AS3 - Audit Documentation**
- (b) **AS 7 – Engagement Quality Review and Conforming amendment to the
Board's Interim quality Control Standards**

3. AICPA audit guides applied by the PCAOB:

- (a) **AICPA Audit and Accounting Guides, Industry Guides – Banks and Savings
Institutions**
- (b) **AICPA Audit and Accounting Guides – General Guides - Auditing Derivative
Instruments, Hedging Activities and Investments in Securities**
- (c) **AICPA Audit and Accounting guides – General Guides: Analytical Procedures**
- (d) **AICPA Audit and Accounting Guides – General Guides: Audit Sampling**

Supervisor of Banks: Proper Conduct of Banking Business (7/10)

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- (e) **AICPA Audit and Accounting Guides – General Guides:
Consideration of Internal Control in a Financial Statement Audit**

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