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| **INDEPENDENT REGULATORY BOARD FOR AUDITORS****COMMITTEE FOR AUDITING STANDARDS** |

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| **IRBA Staff Audit Practice Alert:****The Audit Implications of the Expected Credit Loss Model for the Auditors of Banks**Johannesburg / 26 September 2016The Independent Regulatory Board for Auditors' (IRBA) Chief Executive Officer has approved for issue the *IRBA Staff Audit Practice Alert:* *The Audit Implications of the Expected Credit Loss (ECL) Model for the Auditors of Banks* (IRBA Staff Audit Practice Alert) for use by registered auditors of banks. This IRBA Staff Audit Practice Alert has been prepared by the IFRS 9 ECL Task Group of the IRBA's Committee for Auditing Standards (CFAS).By developing this IRBA Staff Audit Practice Alert, the IRBA has responded to the interest and concerns raised about the audit implications of the ECL model incorporated into the International Financial Reporting Standard (IFRS) 9, *Financial Instruments,* which becomes effective for annual periods beginning on or after 1 January 2018.In brief, under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred (incurred credit losses) before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses (lifetime expected credit losses/12-month expected credit losses).This change in the impairment methodology has a fundamental impact on the accounting for such losses and also affects how an auditor audits such impairment losses.This IRBA Staff Audit Practice Alert serves to provide registered auditors with:* The background to the risks and audit implications of IFRS 9 and the ECL model in the banking environment;
* A checklist that can be used by the engagement team when considering certain audit implications of the ECL model; and
* Related notes.

The [IRBA website](http://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/staff-practice-alerts/ifrs-9) contains a list of links to relevant guidance on IFRS 9 and the ECL model, which have been developed internationally and locally. The list references information that was known to the IFRS 9 ECL Task Group at the time of issuing this IRBA Staff Audit Practice Alert and it is not meant to be exhaustive.This IRBA Staff Audit Practice Alert **does not constitute an authoritative pronouncement** from the IRBA, nor does it amend or override the International Standards on Auditing, South African Standards on Auditing, South African Auditing Practice Statements or South African Guides (collectively called pronouncements). **Also, this IRBA Staff Audit Practice Alert is not meant to be exhaustive**. Reading this IRBA Staff Audit Practice Alert is not a substitute for reading the abovementioned pronouncements, as they are the authoritative texts. Although this IRBA Staff Audit Practice Alert addresses the audit implications of IFRS 9 and the ECL model on the audit of banks, an auditor may find this publication, if adapted as necessary, useful when auditing other entities that have adopted IFRS 9 and the use of the ECL model.The IRBA Staff Audit Practice Alert is available in PDF format and may be downloaded from the IRBA website at [www.irba.co.za](http://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/staff-practice-alerts). Should you have any further queries, please do not hesitate to contact the Standards Department by email at standards@irba.co.za.**Imran Vanker****Director: Standards*****About the IRBA****The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.**The statutory responsibilities of the CFAS are to assist the IRBA to develop, maintain, adopt, issue or prescribe auditing pronouncements; consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and promote and ensure the relevance of auditing pronouncements.* |