BANKING INQUIRY

Statement of Gerry Fitzpatrick
Partner, Deloitte & Touche Ireland

Introduction

1. I am one of the Deloitte audit partners engaged with the banking sector. I have worked with Deloitte for over thirty years and have been an audit partner for fifteen years. I am a fellow of the Institute of Chartered Accountants in Ireland.

2. My work has primarily been engaged with providing audit and professional services to entities in the banking and financial services sector. I was the group audit partner for the audit of the Ulster Bank Group Limited (‘UBG’) (Northern Ireland registered) for the years 2004-2008 and as already indicated audit partner for Ulster Bank Ireland Limited (‘UBIL’ or the ‘Bank’) from 2004-2008.

3. I am giving this statement in a voluntary capacity. My colleague, Pat Cullen, whose expertise is primarily in taxation, was directed by the Inquiry to provide a statement and I have assisted him in that regard.

Ulster Bank Ireland Limited

4. My statement addresses the engagement of Deloitte in Ireland as auditors of UBIL, a subsidiary of UBG and part of RBS Group registered in the UK. Deloitte in Ireland and the UK remain as auditors to UBIL, UBG and RBS.

5. As Independent Auditors to UBIL our role was to report to the shareholder in accordance with the requirements of the Companies Acts. Our work was carried out in accordance with International Standards on Auditing.

6. In that regard we provided an opinion on whether the financial statements prepared by the directors gave a true and fair view. Those financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with Irish companies’ legislation.

7. Having regard to the lines of inquiry which have been raised by the Joint Committee, the two important areas of judgement applied by the directors of UBIL which came under the
scope of our review were those dealing with the accounting for loan impairment and with going concern.

8. Taking the 2008 financial statements of UBIL by way of example, they included detailed accounting policies and disclosures on those topics and I will highlight some key aspects relating to loan impairment and going concern.

9. In the 2008 UBIL financial statements, the directors of UBIL described the accounting policy and the level of judgment and uncertainty which could cause the actual credit losses to differ materially from the reported impairment provision judgments involved. The disclosure included a statement that “estimating the quantum and timing of future recoveries involved significant judgment”.

10. The 2008 UBIL financial statements disclosed loans and advances to customers of €38.6bn. The quality of those loans was explained to the reader by reference to the Bank’s internal credit rating system and this disclosed that the quality of loans had deteriorated during 2008. For example the financial statements showed an analysis of customer loan quality which indicated that the value of loans in the lower quality categories (under the UBIL rating system an “AQ4” or lower) had increased from €6.3bn in 2007 to €14bn in 2008.

11. Further detail was provided of the balance sheet exposure by industry which showed exposures split 22% to Property, 6% to Construction and 19% to Home Mortgages.

12. The charge for impairment for 2008 was estimated at €304m, up from €52m in 2007. In the subsequent year, 2009, the impairment charge was €1.4bn.

13. The financial statements disclosed that total liabilities of the Bank were €55.7bn with €25.9bn of that amount provided by Group (RBS entities) thus highlighting the significant reliance the Bank had on its parent. The financial statements also disclosed that, of its financial liabilities of €49bn, €36.6bn fell due within 0-3 months of the balance sheet date.
14. The directors of UBIL confirmed that it was appropriate to prepare the financial statements of the Bank on a going concern basis and that the Bank had adequate resources to continue in business for the foreseeable future. The directors concluded this assessment having considered the financial position of the Bank and the ongoing support of the RBS Group by way of capital, funding and liquidity facilities.

15. Similar disclosures on loan impairment and going concern were provided in the financial statements for earlier years.

16. Such communication at the end of the financial year provided important disclosure both to the shareholder (its parent Group RBS who also had representatives on the board of the Bank) and to the Regulator (who would have also received monthly analyses directly from the Bank).

17. The Firm issued our audit report on an unmodified true and fair basis on 25 February 2009. In considering our opinion, we assessed whether the accounting policies used were appropriate; that the nature of risks and uncertainties were disclosed; and that adequate disclosure of key aspects of loan quality and going concern had been provided.

18. In addition to our statutory opinion included on the financial statements, we provided an Audit Summary Report to the Audit Committee of UBG on 11 February 2009 which included our work on UBIL. A copy of that report and similar reports for other years were submitted to the Joint Committee in February.

19. In that Audit Summary Report we provided to the Audit Committee further detail on our audit work, an analysis of risk in customer lending and of provision coverage by lending category. We reported on the impairment processes tested by us. We referred to the absence of up-to-date collateral valuations and the need for enhanced documentation of the impairment process. We reported that the going concern assessment relied on the RBS Group’s management of capital and funding on a group-wide basis.

20. Annually we provide a copy of all Audit Summary Reports directly to the Regulator. We submitted a Statutory Duty Confirmation to the Regulator for each of the years on a ‘nil return’ basis.
21. The reporting on required capital levels including the application of regulatory scalars to reflect specific risk factors relating to a particular institution is not part of the scope of the external audit.

Gerry Fitzpatrick
Partner, Deloitte & Touche Ireland

24th April 2015