



AUDITOR - GENERAL
SOUTH AFRICA

Ms Sandy van Esch

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15 May 2013

Dear Ms van Esch

Exposure draft: SAAPS 6 – External confirmations from financial institutions

The Auditor-General of South Africa would like to take this opportunity of submitting comment on the exposure draft referred to above.

We attach, annexed to this letter, our general comments, responses to the specific questions asked and specific paragraphs for your consideration.

Yours sincerely

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Overall comments

The overall proposed SAAPS has improved from the previous SAAPS 1100 as it accommodates manual and electronic requests and is more descriptive. This makes the process of drafting confirmations more efficient and effective.

Response to specific questions

1. **Respondents are requested to indicate whether they find the illustrative, alternative audit procedures, in paragraphs 15 to 17, provide useful guidance when evaluating the completeness of accounts maintained by an entity and when obtaining sufficient appropriate audit evidence from various financial institutions? “Yes / No”**
 - a) **If your answer is “Yes”, do you believe that sufficient guidance is provided; or**
 - b) **If your answer is “No”, please explain what additional procedures you believe should be included, or whether you believe the guidance in paragraphs 15 to 17 should be removed?**

Yes, the procedures are useful and should not be removed. Sufficient guidance has been provided in respect of accounts maintained by an entity and when obtaining sufficient appropriate audit evidence from various financial institutions.

2. **Do respondents believe sufficient guidance has been provided regarding the electronic external confirmation process? “Yes / No” If “No”, please explain what additional guidance is needed.**

Yes, it is suggested to also include the procedures to perform the confirmation for example to communicate directly with and receive an active response from the 3rd party, to exercise professional judgement, to identify and validate a respondent who is free from bias and authorised to respond and to maintain control over the confirmation process.

From paragraph 24 it is not clear whether the auditor is always required to obtain the original documents after the electronic version was obtained?

3. **Respondents are requested to indicate whether:**
 - a) **They find the format and coverage of the nine form types is sufficiently comprehensive and useful? “Yes / No”**
 - b) **If “No”, please explain what additional categories you encounter and find useful to add.**

Yes, the format and coverage of the 9 form types are sufficiently comprehensive and useful.

4. **The external confirmation request forms accommodate both manual and electronic external confirmation requests.**
 - a) **Respondents are requested to indicate whether they believe the standardisation will facilitate a more efficient and effective means to obtain both manual and electronic confirmation certificates from financial institutions, more promptly. “Yes / No”**
 - b) **If “No”, please indicate why not.**

Though the standardisation would help efficiency and effectiveness, it would not necessarily result in prompt responses from financial institutions.

There does not seem to be a specific place where the auditors and the external parties agree on whether the response is expected in manual or electronic format or whether the method of response is at the discretion of the external party.

5. The financial securities included in the “Securities Form Type” in the external confirmation forms in Appendix A are broadly categorised as follows:
- Debt securities (debt securities may be called debentures, bonds, deposits, notes or commercial paper depending on their maturity and certain other characteristics);
 - Equity securities, e.g. common stocks (“safe custody assets”); and
 - Hybrid securities e.g. preference shares (combination of the characteristics of both debt and equity securities).
- a) Do respondents agree with this broad categorisation? “Yes / No”
 b) If No, please suggest an alternative categorisation.

Yes, the categorisation of securities is adequate.

6. The Derivatives Form Type includes a Table for FEC information to be populated by the auditor requesting the external confirmation, but an option is provided for a financial institution to attach their systems generated portfolio of trade / open positions of the entity’s FECs?
- a) Do respondents believe the Table for FEC information is clear and should be retained in the Derivatives Form Type? “Yes / No”
 b) If “No”, please provide an alternative request format, for example: the financial institution is requested to provide a print-out of the entity’s “portfolio of trade / open positions”.

No, the note indicates that shaded sections on the forms indicate that the auditor has to furnish related information. The FEC table is not shaded and therefore it is not clear that the auditor should complete this. It is suggested that this is replaced with a request that the financial institution is requested to provide a print-out of the entity’s “portfolio of trade/ open positions”.

7. Please indicate category of respondent with an “X” in the table below:

Audit firms:	
• Large firm	
• Medium sized firm	
• Small firm	
Academic	
Other (insert details below)	X
Public sector	

Comments on specific paragraphs

Paragraph 7	The paragraph states that financial institutions cannot give information about legal entities that are not covered by an authority provided to disclose information. In other words if the auditor is unaware of a bank account held by an entity the bank may not inform the auditor of this account. In the letter from the client to the bank however, authorisation is provided to release any other information requested by the auditor. Due to this authorisation the bank should inform the auditor of such accounts. It is suggested that paragraph 7 be amended.
Paragraph 11	The importance of obtaining external confirmation certificates is not only

	to confirm the financial institution balances <u>held at the financial institution</u> and <u>the</u> interest received / paid for the period under review but for all the "other disclosures" that are requested from the financial institution in the external confirmation request.
Paragraph 12	In the 6 th bullet please add "number" after "total". In the 8 th bullet please replace "his" with "its".
Paragraph 14	The meaning of "reliable source" is not clear. If reference is made to a financial institution the source should always be reliable. In the last sentence it states that the auditor should inquire about the reasons when there is doubt regarding the reliability of the confirmation. Please indicate with whom inquiries should be made and what would indicate that the information is not reliable.