

Sandy van Esch
Director of Standards
Independent Regulatory Board for Auditors (IRBA)
Building 2
Greenstone Hill Office Park
Emerald Boulevard
Modderfontein

3 May 2013

Dear Sandy

We appreciate the opportunity to provide our comments on the Proposed SAAPS 6 (Revised) *External Confirmations from Financial Institutions* (the Proposed Statement), issued by IRBA (the Board).

We have separated our comments into two sections:

- **Response to request for specific comments** – this provides comments to the specific questions posed by IRBA in the explanatory memorandum.
- **General comments on the Proposed Statement** – this provides other general comments based on the Proposed Statement.

RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

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, we do believe that sufficient guidance is provided but we suggest that the following additional procedures be added to the last bullet point of paragraph 17:

- Property, plant and equipment: confirm, by tracing a sample of payments for property, plant and equipment to the entity’s financial institution statements, to ensure that the payments were made from one of the entity’s financial institution accounts.

- Other acquisition of non-current assets for example of investments: confirm, by tracing a sample of payments for other non-current assets to the entity's financial institution statements, to ensure that the payments were made from one of the entity's financial institution accounts.

The current examples in the last bullet point of paragraph 17 only relates to items of a trading nature and no transactions of a long term nature. The risk that the entity is using accounts not disclosed to the auditors to make payments is especially present in long term transactions, which will in most cases be once-off transactions and not with established long standing suppliers of the entity.

We also draw the Board's attention to point (iv) Payments of the last bullet point of paragraph 17. We believe it should be stated that this paragraph relates to general and ad-hoc expense transactions. We are supportive of the guidance provided in paragraphs 15-17 for determining the completeness of financial institution accounts and we believe that this will assist practitioners to design and execute appropriate procedures to address the risk of completeness of bank accounts and transactions.

We recommend that the items listed in the last bullet point of paragraph 17 be updated to state that the auditor will be testing a sample of selections for each item.

We ask the Board to consider changing the "and" to "or" at the end of point (vi) of the third bullet point of paragraph 17, as we do not believe that all these considerations will necessarily be applicable to all audits.

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, we do believe that sufficient general guidance has been provided regarding the electronic external confirmation process.

We do however draw the Board's attention to the last sentence of paragraph 21 where it states that "...such information does not meet the definition of a confirmation." We recommend replacing the word "confirmation" with "external confirmation certificate", since this concept is defined in the Proposed Statement.

3. The Illustrative external confirmation requests in Appendix A include nine different categories of Form Types relating to a variety of account balances and financial instruments of an entity, that an auditor is most likely to encounter and wish to seek external confirmation about.

Flexibility is introduced for an auditor to select only those form types relevant to the audit client's accounts and financial information, for which external confirmation is sought.

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, we believe the format and coverage of the nine form types are sufficiently comprehensive and useful.

We do however have the following comments on the contents of Appendix A:

- In the last sentence on page 19 of the Proposed Statement (first page of Appendix A), it is indicated that the Appendix is available as an electronic confirmation request form or as a Microsoft Word Template. It doesn't however state where an auditor can obtain this request form or Template and we recommend that this information is included here.

- On page 22 of the Proposed Statement, there is a reference to multiple companies' details that should be listed on the external confirmation certificate request. On the nine forms, it is unclear whether the auditor should list multiple companies on each form in the table at the start of each form, or if a single form should be submitted per company. If multiple companies are listed, it is unclear how the financial institution would indicate which information provided, relates to which company. We believe that the design of the forms should be improved to clarify how information on multiple companies should be requested and aggregated.
- We recommend that the Board review the wording of the last sentence on page 22 of the Proposed Statement, as the meaning of the sentence is unclear. The sentence reads: "Attached is a table of parties involved in this audit external confirmation request process has been included for your review."
- For the Securities, Contingent Liabilities and Guarantees, Derivatives, Bills, Letter of credit, Cash Management Systems and Authorised Transactors/Signatories List Form Types, there is a standard sentence included on each form. This wording reads: "According to our records at the close of business on year/period ended "[Enter Client Year / Period ended]:" with a table that is to be populated by the auditor with columns for account number and type of account. From the standard sentence, it is unclear precisely what information should be populated by the auditor in this table. The design of the forms should be improved with clear instructions in the different parts to ensure accurate completion by the different parties.
- In the Authorised Transactors / Signatories List Form Type, in the second table, there is a column requiring the financial institution to indicate a Yes or No on whether it was confirmed. It is unclear from whom this confirmation is required.
- The items in the Authorised Transactors / Signatories List Form Type are numbered starting from 6, instead of 1.
- The document has not been designed to include a name, date, sign off and title of the authorised approver of the confirmation letter by the financial institution. We recommend that the design of the document be amended to include these items.

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.

Yes, we believe the standardisation will facilitate a more efficient and effective means to obtain both manual and electronic confirmation certificates from financial institutions.

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, we agree with the broad categorisation of financial securities on the Securities Form.

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”.

Yes, we believe the table for FEC information is clear and should be retained. Question 6 of the Explanatory Memorandum, which is addressed in this response, states that this table for FEC information should be populated by the auditor. The Proposed Statement indicates in footnote 10 to the Derivatives Form that the financial institution should be completing this table. In addition, the table has not been shaded as an indication that the auditor should furnish the related information. If it was the intention of the Board that the auditor should be populating this table, we recommend that this is clarified in the Proposed Statement.

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

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

GENERAL COMMENTS ON THE PROPOSED STATEMENT

We note the following general comments on the Proposed Statement for the Board’s attention:

- In paragraph 5, the definition of a Financial Institution: We recommend including the information in footnote 3 in the Proposed Statement, instead of having this information as a footnote, as it is essential information that needs to be known by the auditor.
- We believe that paragraph 24 provides very good guidance on procedures that can be performed to validate the source of the electronic information and therefore evaluate the reliability of the external confirmation certificate. In contrast, paragraphs 13 and 14 only indicate that alternative procedures can be performed to evaluate the reliability of the external confirmation certificate, but it doesn’t give examples of what those alternative procedures might be. We believe that it will be useful to auditors if reference is made in paragraph 14 to paragraph 24 in relation to electronic external confirmation and that possible additional procedures to evaluate the reliability of manual external confirmation certificates, are added to paragraph 14.

- On page 18 of the Proposed Statement, in the second last sentence of paragraph 27, it is stated that “To assist the financial institutions in furnishing the required information expeditiously, an auditor ensures that these shaded sections are completed, and *schedules are attached...*”. We request the Board to consider indicating for which specific items schedules should be attached, in order to make it clear to the auditor, and avoid possible delays in the external confirmation process.

* * * * *

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please do not hesitate to contact Liezl du Plessis, Partner, at 012 482 0126 or 082 374 2765.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'L du Plessis', written in a cursive style.

Deloitte & Touche
Per L du Plessis
Partner