

15 May 2013

The Director: Standards
The Independent Regulatory Board for Auditors
PO Box 8237
Greenstone 1616
South Africa

Dear Sandy

COMMENTARY ON THE PROPOSED SAAPS 6 (REVISED) EXTERNAL CONFIRMATIONS FROM FINANCIAL INSTITUTIONS

We are pleased to have the opportunity to comment on the above proposed statement.

This comment paper deals with of the questions posed in the invitation to comment on the *Proposed SAAPS 6 (Revised) External Confirmations from Financial Institutions*, which was released by the IRBA in March 2013. The comments and considerations are based on collated views of Ernst & Young Inc. South Africa and do not represent the collective view of Ernst & Young Globally.

We present our detailed commentary as follows:

- General comments
- Responses to Request for Specific comments

General comments

We support the objective of this proposed SAAPS to provide practical assistance to an auditor when obtaining external confirmation certificates, manually or electronically, from a financial institution as audit evidence.

We also prefer the title: *"External confirmations from Financial Institutions"* as it reflects the broader nature of financial instruments from whom an auditor may seek external confirmation.

Responses to Request for Specific comments

Question 1:

Do respondents find the illustrative alternative audit procedures, as noted in paragraph 15 to 17, to provide useful guidance when evaluating the completeness of accounts maintained by an entity and when obtaining sufficient appropriate audit evidence from financial institutions?

Response

Financial institutions include a legal disclaimer in their confirmation responses regarding the completeness of financial accounts and information.

We are against financial institutions being given complete and unfettered discretion to disclaim. This gives the institution the ability to knowingly or recklessly withhold information. Accordingly we recommend developing a disclaimer wording which will nevertheless acknowledge the practical difficulties in giving auditors complete information but at a minimum require them to use their "best endeavours" to give information.

We believe the alternative audit procedures provide useful guidance when evaluating the completeness of accounts maintained by an entity and when obtaining sufficient appropriate audit evidence from financial institutions with the exception of the following:

- i. "Confirm, by review of the debtors confirmation letters received, that debtors payments are all made into one of the entity's financial institution accounts"*

The bank account into which the payment will be made is not requested when confirming the balance of the Accounts Receivable. Therefore it would not provide assurance regarding the completeness of financial institution accounts.

- iii. "Confirm, by tracing samples of payments selected from the accounting records to the entity's financial institution statements to ensure payments were made from one of the entity's financial institution accounts"*
This is not a procedure that an auditor would do on every audit. In most cases this would be additional work.

vi & vii. The proposed guideline also proposes the use of CAATS to determine the completeness of financial institution accounts. This would be in addition to the audit work normally done on an audit, in particular on the smaller and medium sized entity audits.

Question 2:

Do respondents believe sufficient guidance has been provided regarding the electronic external confirmation process?

Response

We believe the guidance provided regarding the electronic confirmation process is sufficient and welcome the move towards the use of the electronic confirmation process as it will streamline external confirmations.

The Proposed SAAPS 6 introduces a new means for an auditor to request and obtain an external confirmation certificate electronically through the use of an external confirmation certificate service provider. Confirmation responses received electronically will involve additional risks relating to the reliability of the electronic confirmation and a risk exists that the confirmation process channelled through the service provider might not be secure and properly controlled. The auditor will need to design procedures to cater for this increased risk. The auditor may need to determine the implementation and operation effectiveness of the service provider control environment regarding the electronic confirmation process.

It is unclear whether the possible controls mentioned in paragraph 23, are applicable to the auditor requesting the confirmation or the external service provider who is providing the confirmation.

We welcome the illustrative examples of the various means that might be used to validate the source of the electronic information as noted in paragraph 24.

Question 3:

Do respondents find the format and coverage of the nine form types is sufficiently comprehensive and useful?

Response

We believe the format and coverage of the nine form types is sufficiently comprehensive and useful. We also believe that the flexibility introduced in the new format of external confirmation requests will assist to provide a more rapid response from financial institutions as the auditor will only need to select the relevant form type specific to the client circumstances for which they seek external confirmation.

We also welcome the structural changes to the format of the forms and the inclusion of the separation of interest received / paid and interest amount accrued / owed on the Assets- and Liabilities Form respectively.

Question 4:

Do respondents believe the standardisation will facilitate a more efficient and effective means to obtain both manual and electronic confirmation certificates from financial institutions more promptly?

Response

Yes.

Question 5:

Do respondents agree with the broad categorisation of financial securities included in the "Securities Form Type" as *Debt securities*, *Equity securities* and *Hybrid securities*?

Response

We agree with the broad categorisation of financial securities as Debt-, Equity- and Hybrid Securities. We also believe that the brief description of each security type as provided in the Securities Form Type adds value and enhances the understanding of the security types by the auditor and financial institutions.

Question 6:

Do respondents believe the Table for FEC information is clear and should be retained in the Derivatives Form Type?

Response

We believe the Table for FEC information is clear and should be retained in the Derivatives Form Type. The option that is provided for the financial institution to attach a systems generated portfolio of trade / open positions of the entity FEC's should also be retained in the Derivatives Form type.

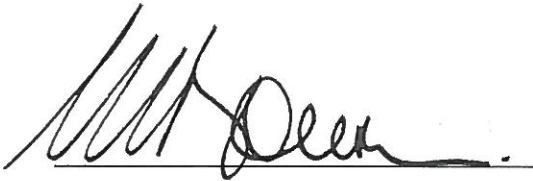
It could however be helpful to specifically state that if the financial institution provides a system generated portfolio of trade / open FEC's it should as minimum include the information as tabled for FEC's in the Derivatives Form Type.

Question 7:

Respondent Category: **Large Firm**

Should you wish to discuss our comments or require clarity on any of the matters raised please do not hesitate to contact our Anzelle Wessels at (011) 772 3322 or 083 251 5171 or myself at (021) 443 0258 or 082 603 0772, or by way of email to michael.bourne@za.ey.com.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Michael F. J. Bourne', written over a horizontal line.

Michael F. J. Bourne

Professional Practice Director

South Africa