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The Director: Standards
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Your ref Proposed SAAPS 6 (Revised)

Our ref WR/SAAPS 6

Contact Werner Roetz (+27827119760)

10 May 2013

Dear Mrs. Van Esch

Proposed SAAPS 6 (Revised): External Confirmations from Financial Institutions

We appreciate the opportunity to respond to the Independent Regulatory Board of Auditors' (IRBA) exposure draft (ED) entitled, the proposed *South African Auditing Practice Statement (SAAPS) 6 (Revised), External Confirmations from Financial Institutions*, dated March 2013. We have consulted with, and this letter represents the views of, the KPMG practice in South Africa.

In general, we support the proposals of the ED. We have considered the specific matters posed as questions to ED for comments and views. We have specific additional observations and recommendations on some of the elements of the ED. These follow below:

Specific Matter for Comment

You ask whether we "*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*"

We agree with the inclusion of paragraph 15 and 16 on the basis that the completeness disclaimer included by financial institutions remain an area requiring additional audit consideration and potential mitigating action to address the ensuing risk.

We suggest that paragraph 17 be included as it currently reads, only for the first sentence ("*The procedures an auditor...risk that the financial institutions account balances are incomplete.*"). The inclusion of the illustrative procedures as reflected in sentence 2 and the bulleted items that follow (page 14, 15 and 16), in our view, create the adoption of a "must perform" instruction from the regulator, rather than the perceived intention of providing guidance on illustrative procedures that the auditor **may perform** based on professional judgment and risk assessment.

It is our suggestion that these illustrative procedures be removed from the main content of the proposed SAAPS 6 and rather included as a separate appendix to the SAAPS (proposed

Policy Board:
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Executive Directors: DC Duffield, A Hari, AM Mokgabudi, D van Heerden

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KPMG Inc is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

Appendix B). In this appendix we suggest that the context of the illustrative procedures be clearly articulated not to be authoritative in nature but rather suggested action based on an auditor's professional judgement and perceived risk of requests being incomplete.

We believe that the removal from the main content of the proposed SAAPS, and inclusion in an appendix, will better facilitate the achievement of the regulator's intent. You may even consider not to include that at all.

Specific Matter for Comment 2

You ask whether we *"believe sufficient guidance has been provided regarding the electronic external confirmation process"*

We note the inclusion of paragraphs 18 to 24, explaining the use of electronic confirmations. We agree to the content proposed in these paragraphs and acknowledge that they do facilitate guidance regarding the electronic confirmation process. We however propose a redraft of paragraphs 20 and 21 in that, in our view, these paragraphs are not simplistically stated and thereby will inhibit consistent application.

It is our understanding, from reading paragraph 20 that it describes a scenario where the respondent (financial institution) either facilitates, directly, the retrieval of confirmations from their own secure data transfer facility, or engage the services of a third party service organisation to facilitate the information flow between the respondent and an auditor. Paragraph 21 continues to describe the acceptable sources of access rights to such securely held information, and agreeably concludes that these access rights are not acceptable when obtained directly from the audit client.

We propose that the essence of the paragraphs, as captured above, be incorporated in the final version of the proposed SAAPS in order to simplify understanding and enhance sufficient application.

It is our observation that paragraph 22 and 24 puts forward considerations for an auditor regarding the assessment of reliability of the source. Paragraph 24 incorporates considerations relating to manual confirmation requests, communicated over electronic media as well as the considerations applicable to the third party facilitated confirmation process. We note that the ED remains silent as to the auditor's considerations when a financial institution provides direct access as described in paragraph 20. We suggest that this be considered for incorporation within the proposed SAAPS.

We believe that paragraph 23 should be removed, as a separate paragraph, from the proposed SAAPS. This paragraph, although informative, does not require action from an auditor, but rather action from, either, the financial institution, or the third party service organisation. Our proposed treatment of the current content of paragraph 23 is to include the specific considerations within the current content of paragraph 22.

Specific Matter for Comment 3

You ask whether we *"find the format and coverage of the nine form types is sufficiently comprehensive and useful"*



We believe that the form types presented are sufficiently comprehensive and commend the Regulator’s intent to provide for flexibility in the selection of confirmation types, required by the auditor, based on risk assessment and professional judgment. We support this approach in that it creates efficiencies and sufficiently focuses audit attention of areas of risk as intended.

Specific Matter for Comment 4

You ask whether we “*believe the standardisation will facilitate a more efficient and effective means to obtain both manual and electronic confirmation certificates from financial institutions, more promptly*”

We believe that the efficiency in proposed process will result in a more quality focussed, effective audit application of the ISA 505 *External Confirmations*.

Specific Matter for Comment 5

You ask whether we “*agree with the broad categorisation of financial securities included in the “Securities Form Type” in the external confirmation forms in Appendix A*”

It is our view that the inclusion of the broad categorisations within the form type will facilitate a better understanding, by the financial institution, as to the intent of an auditor requesting confirmation. The financial institutions will, in context of the categorisation, be in a position to assess the request to specific product types and naming conventions within the institution and respond appropriately on that basis.

Specific Matter for Comment 6

You ask whether we “*believe the Table for FEC information is clear and should be retained in the Derivatives Form Type*”

It is our view that the inclusion of the table guides that financial institution as to the minimum content required by an auditor when requesting such information. The financial institution is prompted, when responding to such a request, to ensure that the system generated portfolio of trade/open position summary provide sufficient detail so as to avoid a re-request.

Specific Matter for Comment 7

You ask to “*indicate category of respondent with an “X” in the table below*”

Audit firms: <ul style="list-style-type: none"> • Large firm; • Medium sized firm; • Small firm; • Academic; Other (insert details below):	
	X



In addition to the above matters for specific comment, we would like to comment on the following matters of general nature within the ED:

Paragraph 7:

The content of paragraph 7, when read in relation to paragraphs, 15 to 17 and our formal response to *Specific Matter for Comment 1*, above, may require a reference to either the existing paragraphs 15 to 17, or, should our proposed suggestion, above, be accepted, a reference to the suggested appendix (proposed Appendix B).

In our view this formal reference will clarify the regulator's proposed stance on the completeness consideration as well as further highlight the importance of the guidance presented.

Paragraph 8:

It is our view that this paragraph is a duplication when read in the context of paragraph 6.

We suggest that the contents of paragraph 8 be merged with the introductory statement of paragraph 6.

Paragraph 9:

We suggest a redrafting of this paragraph in order to create clarity. The current sentence construction could be simplified as follows: "A standardised external confirmation request format is included as Appendix A: *Illustrative External Confirmation Request*, and aims to provide illustrative guidance to an auditor when designing an external confirmation request."

Paragraph 14:

We agree with the guidance that an auditor is to assess the reliability of the source of the confirmation (as originating from the financial institution) as well as the integrity of the transmission from the financial institution. We do, however, suggest the deletion of the words/requirement "..., *the person providing the confirmation was authorised to do so...*" as in our view it is not practical for an auditor to establish whether the respondent within the financial institution holds such authorisation.

Appendix A: Illustrative external confirmation request, form type 9: Authorised Transactor / Signatories List

We note the omission of the word "the auditor" in the section 9 of the form type. We suggest the sentence to read: "Exceptions and/or Comments from **the auditor** for the Financial Institution:" In addition the numbering for form type 9 starts at six and we suggest that this be renumbered from one.





*The Independent Regulatory Board of Auditors
Proposed SAAPS 6 (Revised): External Confirmations
from Financial Institutions
10 May 2013*

KPMG appreciates the opportunity to respond to this Exposure Draft. Please contact Riana Fourie at +27 83 251 8341 or Werner Roetz at +27 82 711 9760, if you wish to discuss any of the issues in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Fourie', with a horizontal line underneath.

Riana Fourie
Director, Department of Professional Practice