



*Audit of bank and cash in the  
light of recent developments  
3 May 2018*

PHIL LENTON - DELOITTE

# *Presenters*



Chris Cantwell  
ICAEW



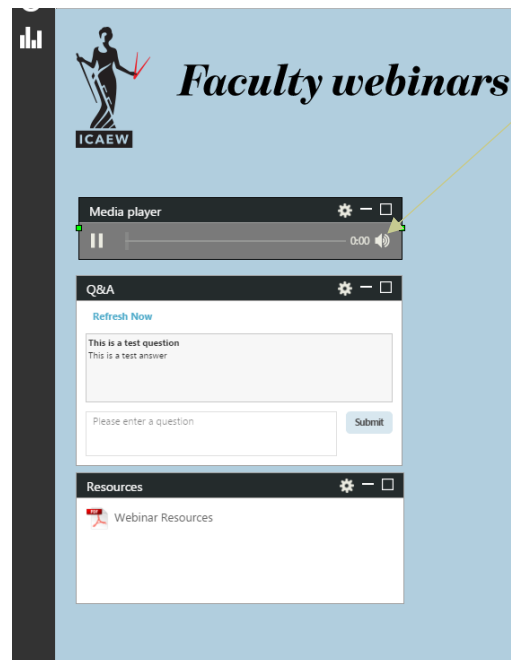
Phil Lenton  
Deloitte

# *Join the Audit and Assurance Faculty*

- Monthly newsletter and publications
- Webinars and events
- Influence – have your say
- Thought Leadership
- Career Development

[icaew.com/aaf](http://icaew.com/aaf)

# Introduction



Audio problems?

- ensure your volume is turned on
- if you experience poor sound quality you may benefit from refreshing your page

# Agenda

- Historic position on bank confirmation
- Position following the withdrawal of PN16
- Risk-based approach to bank confirmations
- Electronic confirmations
- Other areas to consider for audit of bank and cash
- Future developments
- Questions

# Introduction

Practice Note 16 *Bank Reports for Audit Purposes in the UK* (PN16) has been withdrawn

Withdrawal may have significant implications for the approach to the audit of bank and cash

Audit firms may want to revise or develop guidance as to whether a bank confirmation is required in all circumstances

# How useful did you find bank confirmations as audit evidence?

- Critical – a key part of the audit and significant reliance was placed on bank confirmations
- Important – a lot of comfort was placed on bank confirmations
- Moderate – useful as it meant didn't need to consider alternative procedures
- Unimportant – had enough audit evidence already and just used to get bank confirmations to tick a box



Have you ever found a fraud as a result of a bank confirmation?

- Yes
- No





## Feedback from practitioners on bank confirmations

Perceived decline in the value of bank confirmations – particularly as a result of having to provide account numbers

Accounts not set up in the same name often missed off confirmations

Auditors spent a lot of time getting the bank confirmation updated to match information of which the auditor was already aware

Often delegated to the most junior member of the team

Not risk-focused

Confirmations helpful to obtain other information – such as related to letters of credit, facilities etc

Where obtained, good external source of evidence

## Have you changed your approach to bank confirmations following the withdrawal of PN16?

- No – was not aware anything significant had changed
- No – was aware of the change but wasn't planning to modify the approach
- No – was awaiting more guidance / developing an approach internally
- Yes – have moved to a more risk-based approach



**Poll  
question**

## Historic position on bank confirmations

*PN 16 previously stated the following:*

Given the importance of cash to an entity's business and its susceptibility to fraudulent misuse the auditor will usually conclude that, in the absence of a bank report regarding account balances, facilities and securities, it will not normally be practical to obtain sufficient appropriate audit evidence from other sources.

This led many firms to conclude they had to obtain confirmations as a matter of course, regardless of the level or risk or other evidence obtained

## Position following the withdrawal of PN16

*The feedback statement announcing the withdrawal of Practice Note 16 stated the following:*

The FRC's proposals ... are intended to **encourage the auditor to apply their professional judgment** as to when a confirmation report is required.

Deciding whether a confirmation report is required **continues to be a matter of professional judgment** for the auditor.

The above would seem to encourage auditors to adopt a more risk-based approach to the audit of bank and cash

## Position following the withdrawal of PN16

*Changes were made to the ISAs:*

*ISA (UK) 330:*

A50. The auditor may determine that external confirmation procedures performed for one purpose provide an opportunity to obtain audit evidence about other matters. For example, confirmation requests for bank balances often include requests for information relevant to other financial statement assertions. Such considerations may influence the auditor's decision about whether to perform external confirmation procedures. ***In the UK, depending on the auditor's risk assessment, the auditor considers whether confirmation is needed in relation to additional information such as trade finance transactions and balances or information about guarantees and other third party securities, in addition to the confirmation of balances and other banking arrangements usually provided in such a request.***

*ISA (UK) 505:*

Footnote 13a Pro-forma templates to obtain bank confirmations in the United Kingdom which have been agreed with the British Bankers' Association on behalf of the industry can be found at: <https://www.bba.org.uk/policy/financial-and-risk-policy/financial-reporting/audit/instructionsfor-using-pn16-templates/>

## Risk-based approach to bank confirmations

Understand the entity –  
number of banks/accounts  
and purpose for each

Whether confirmations used  
for other purposes – eg client  
money assurance

Whether a first year audit

Whether obtained  
confirmations in the past  
without issue

Type of client – listed, public  
interest entity

Risk of fraud in relation to  
bank and cash

Whether other information in  
confirmations needed – eg  
trade finance arrangements

Expectations of the group  
auditor

Expectations of the client

Nature of the entity and size of  
the cash balance in total or  
relative to other items

## Checking bank information online

Observe clients logging in to bank accounts on screen

Works best for well-known banks

Take screenshots

Need to ensure valid bank website –  
secure with a padlock symbol🔒,  
check the web address begins  
<https://>, ends with .com or co.uk  
rather than .org. or .net

Ask to look at something  
unexpected

## Electronic confirmations

Over the past few years more use has been made of electronic confirmations through Confirmation.com

Some banks (eg Bank of America) will only accept electronic confirmation requests

May be particularly useful for overseas banks



## Other areas to consider for audit of bank and cash

Controls –  
segregation of duties  
and access to bank  
accounts

Is too much reliance  
placed on the  
organisational  
controls of the bank?

Use of data analytics  
– can the cash  
balance be tested in  
detail?

Can data analytics be  
used to identify  
unusual cash  
transactions?

## Future developments – open banking

Payment Services Directive 2 enables regulated third party providers to access a customer's bank account information

If an auditor becomes suitably authorised and has the client's consent, may be able to access bank details directly

# Summary

Withdrawal of PN16 has created an opportunity for audit firms to rethink their approach to bank confirmations



May be appropriate to move to a more risk-based approach



Viewing bank details online may provide sufficient evidence



Always be aware of the potential for fraud – and exercise professional scepticism





# *Resources*

- Audit & Beyond article: Taking a view
- Audit & Beyond article: Sharing insights
- FRC Feedback Statement and Impact Assessment  
Withdrawal of Practice Note 16 – Bank Reports for Audit  
Purposes



*Any questions?*



# *Future webinars and events*

## Events

**Audit & Assurance Faculty Spring and Autumn roadshow 2018 - Various dates and venues taking place now.**

## Webinars

**12 June- When audits go wrong.....and right! The importance of being sceptical**

**02 July – Ethical Standards webinar (details to be announced soon)**

**Further information regarding Audit and Assurance Faculty events programme for 2018 can be found at [icaew.com/aafevents](http://icaew.com/aafevents)**

# *Thank you for attending*

Please take the time to fill out our short survey

Contact the Audit & Assurance Faculty

 +44 (0)20 7920 8493

 [aaf@icaew.com](mailto:aaf@icaew.com)

 [icaew.com/aaf](http://icaew.com/aaf)

ICAEW and Deloitte will not be liable for any reliance you place on the information in this presentation.

You should seek independent advice.