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# TAKING A VIEW



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Following a four-month consultation, The Financial Reporting Council (FRC) decided in July to withdraw Practice Note 16 *Bank Reports for Audit Purposes in the UK* (PN 16), effective as of 15 December 2017.

A feedback statement and impact assessment (at [tinyurl.com/AB-WithdrawPN](http://tinyurl.com/AB-WithdrawPN)) stated that their intention was: "... to encourage the auditor to apply their professional judgement as to when a confirmation report is required. Our material is intended to be principles based rather than prescriptive, and therefore we do not consider that if

Withdrawal of Practice Note 16 may have significant implications for approaches to the audit of bank and cash by some firms. **Katharine Bagshaw** and **Phil Lenton** consider why and how

additional guidance is needed that it should be for the FRC to provide, however audit firms or professional bodies may consider whether they feel it appropriate to develop further guidance to supplement that material in the standards. Deciding whether a confirmation report is required continues to be a matter of professional judgement for the auditor, obtaining one is an administrative process, which will continue to be supported by the material on the BBA website in exactly the same way as is currently the case."

The withdrawal of PN 16 could have significant implications for the audit of

bank and cash for some firms. To date, the wording in the PN has led firms to obtain confirmations as a matter of course, regardless of risk or the other evidence obtained.

“It will not normally be practical to obtain sufficient appropriate audit evidence from other sources,” PN 16 read. Its replacement with footnotes to International Standards on Auditing (UK) 330 (*The Auditor’s Response to Assessed Risks*) and 505 (*External Confirmations*) made it clear the decision to obtain a bank confirmation could be taken in the context of the risk assessment.

### OVERARCHING STRATEGY

The baseline work on bank and cash for many firms involves: testing the year-end reconciliation; testing cut off and controls over reconciliations during the year; and obtaining bank confirmations.

The withdrawal of PN 16 means firms could approach obtaining a bank confirmation on the basis of the risk assessment rather than always obtaining a bank confirmation as a matter of course. Many firms will take this opportunity to review their methodologies, as well as the nature and extent of audit evidence obtainable from the sources now available. Some firms’ methodologies may lead them to continue securing bank confirmations as a default position.

Interviews with various firms’ practitioners, training providers, and ICAEW’s Quality Assurance Department (QAD) and FRC staff suggested that some firms would review their methodologies and the value attached to the bank confirmation as audit evidence and believe bank confirmations should be obtained in specific circumstances or by exception. Others may take the view that the decision to obtain a confirmation should simply be considered on a case-by-case basis for each audit.

Most of our interviewees questioned the value of bank confirmations, particularly in relation to the

confirmation of balances. They pointed to a decline in the value of bank confirmations as audit evidence in recent years, particularly as a result of the requirement to provide account numbers which compromises completeness testing. Interviewees were divided regarding whether bank confirmations identify balances not recorded. Some were adamant this never happens, while others maintained that the bank confirmation is more likely to show unrecorded balances than the internet. Others again thought it depends on the bank.

Accounts are often set up in names that are not quite the same as the entity’s name, meaning auditors often spend time getting banks to confirm details of accounts they already know about. Interviewees noted that the work involved in simply getting confirmations right was often excessive. They suggested that, as in other areas, the approach should first consider whether an external confirmation is needed, based on the risk assessment, and then consider the need for additional or alternative procedures.

Comments included the following:

- “In some respects the bank letter is ancillary. We don’t really rely on it any more, we’re doing our own checks”;
- “Confirmations aren’t reliable any more”;
- “Getting direct online access to bank accounts you can search can be effective.”

Interviewees suggested that obtaining a confirmation might be helpful on a risk

basis when, for example, ‘other’ information is needed (such as information that related to letters of credit – although they noted that confirmation

of ‘other’ information may well be available online or from other third-party evidence within client records); or the risk is other than low.

Where confirmations are obtained, interviewees noted that although the

most junior person on the audit team is often tasked with reviewing the bank confirmation, it is important a more senior person is involved if there is anything unusual with the client’s arrangements (such as a treasury function), or anything unusual within the response. The review of bank confirmations is sometimes weak because juniors may not “know what to look for in the back pages”.

### INTERNET BANKING

Some interviewees suggested that evidence from internet banking may be sufficient in non-complex situations and in some cases better than evidence provided by a poor quality bank confirmation. Some firms now routinely observe clients logging into bank accounts and take extensive screen shots of the information retrieved for evidential reasons. This is done in the presence of the client and attention is paid to totals as well as the detail. Screen shots are often deemed necessary as

audit evidence, particularly where bank statements are no longer sent in hard copy. The value of such documentation as audit evidence depends

partly on the quality of audit evidence provided by tests of controls, including IT general controls and access and authorisation controls within individual applications.

Interviewees suggested that more guidance from standard-setters on electronic source documentation could be generally helpful.

In the next edition of *Audit & Beyond* we will return to matters related to the audit of bank and cash and the withdrawal of PN 16, focusing on risk and fraud and other matters, such as data analytics and internal control issues, and sharing more insights based on our interviews. Comments and observations on this matter are welcome and can be sent to [katharine.bagshaw@icaew.com](mailto:katharine.bagshaw@icaew.com) ●

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**“Confirmations aren’t reliable any more”**

**“In some respects the bank letter is ancillary. We don’t really rely on it any more, we’re doing our own checks”**



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