INVITATION TO COMMENT – TECHNICAL PROPOSALS TO:
MAKE MINOR REVISIONS TO ISA (UK) 330 (REVISED JUNE 2016) THE
AUDITOR’S RESPONSES TO ASSESSED RISKS AND ISA (UK) 505
EXTERNAL CONFIRMATIONS AND WITHDRAW PRACTICE NOTE 16 –
BANK REPORTS FOR AUDIT PURPOSES IN THE UNITED KINGDOM

RESPONSE FROM ICAS TO THE FRC

24 May 2017
Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK’s and the world’s great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Key comments

Whilst we acknowledge that the amendments to the existing standards, minor in nature as they are, should be enough, in practice we are not convinced that the removal of Practice Note 16 is an appropriate step.

Feedback from our members indicates that obtaining accurate bank confirmation letters can be a very frustrating experience, and the inability to obtain them, or errors identified in those that have been obtained, can, in some cases, delay the approval of the financial statements. Therefore, we have some concerns that the removal of Practice Note 16, which has been agreed by the British Bankers’ Association (BBA) and sets out the process and steps that the audit firms should follow when requesting these confirmation letters, might remove the incentive or motivation for the banks to respond.

We have also been made aware that where bank balances are denominated in foreign currencies, the costs of obtaining the bank confirmation letter have increased substantially and some organisations are now facing four figure fees for a service whose value they question and, as a result, are reluctant to request.

We are aware, however, that from a regulatory perspective, the bank confirmation letter is a valuable source of evidence for confirming not only bank balances, but also the nature of any securities and obligations, and therefore a workable arrangement needs to be found.

This highlights the need for continued collaboration and co-operation between the firms and the banks. The banks depend upon the reliability and accuracy of the information included in the audited financial statements when assessing a company’s financial position, or for measuring compliance with covenants. The firms rely on the banks being willing and able to provide accurate information about their clients’ bank balances and securities in order that the information provided in the financial statements is complete, reliable and accurate.

Audit quality is not just a matter for the audit firms. Those who have an interest also need to play their part in this process by providing reliable, complete information at a proportionate cost.

Therefore, it is crucial that a practical solution is identified that will not only meet the needs of the audit firms, but not place too onerous a burden on the banks to address the issues highlighted above. However, we recognise this may require more action than what is being proposed in this ‘Invitation to comment’.
We do, however, welcome the proposed amendments to the ISAs which now leave more opportunity for the application professional judgement.

Our responses to the specific questions in the invitation to comment are detailed below.

Specific questions

Question 1
Do you support the FRC’s proposals to withdraw Practice Note 16, and replace it with the proposed minor revisions to ISAs (UK) 330 and 505? If not, please give your reasons and explain what action, if any, that you believe should be taken instead.

Response 1
As stated in our general comments above, although we acknowledge that the proposed revisions to ISAs 330 and 505 are minor, we have some concerns about the withdrawal of Practice Note 16 and whether its withdrawal will lead to more problems for the firms in obtaining accurate and complete bank confirmation letters.

Question 2
Is the proposed effective date, which aligns with the FRC’s revision of ISA (UK) 250 appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

Response 2
We are comfortable with the effective date that has been proposed but again would draw your attention to the concerns we have highlighted in the general comments section.