

July 2017

Feedback Statement and Impact Assessment

Withdrawal of Practice Note 16 – Bank Reports for Audit Purposes in the United Kingdom and conforming minor revisions to ISA (UK) 330 (Revised July 2016) The Auditor’s Responses to Assessed Risks and ISA (UK) 505 (Revised July 2016) External Confirmations

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Introduction

1. The FRC is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit.
2. The ISAs (UK) are based on the corresponding international standards issued by the International Auditing and Standards Board¹ (IAASB). Where necessary, the international standards have been augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural and business context.
3. The application of ISAs (UK) is supported by Practice Notes issued by the FRC which contain contextual application material to help in the application of the ISAs in a particular sector. Practice Notes are best practice guidance, but the FRC’s expectation is that they will be used to support high quality audit – where this is not the case, a practitioner should be able to explain the basis for not doing so. Practice Note 16 is an unusual departure from this principle – it sets out the process that auditors should follow when requesting bank confirmation letters, and provides an agreed and consistent process, supported by templates issued by the British Bankers’ Association (now integrated into UK Finance) for doing so.
4. Practice Note 16 was last updated in February 2011, and we have considered as part of our assessment of whether to revise the document whether it continues to be necessary. As a result we decided to consult of a proposal to withdraw the Practice Note, and to make two small amendments to ISAs (UK) which we believe will achieve exactly the same outcome as the current Practice Note.
5. Those amendments are:

¹ IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB’s constitution and due process is described in its ‘Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements’.

Additional Application Material ISA (UK) 330 – *The Auditor’s Response to Assessed Risks*

Paragraph A50 (grey shaded material)

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.

Additional Footnote^{13a} ISA (UK) 505 – *External Confirmations*

Paragraph A4 (grey shaded material)

^{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/instructions-for-using-pn16-templates/>

6. The Financial Reporting Council (FRC) considers that these limited amendments improve the guidance currently available as they:
 - Clarify and simplify the volume of material in effect, reflecting a well-established and consistent approach to obtaining bank confirmations using a consistent approach which is supported by the trade body for banks in the UK.
 - Allow for the withdrawal of a Practice Note that no longer conforms to the FRC’s Framework for the development of standards, statements of practice, codes and guidance, and integrates necessary material within the relevant standards.
7. The FRC consulted publicly on the proposals, and the consultation closed on Friday 26 May 2017. We received seven responses – three from Professional Bodies and four from Audit Firms. Given the minor nature of the changes proposed our expectation was that comments would be limited. In the rest of this paper we set out a summary of the responses received to each question, along with the FRC’s proposed response.

Consultation Questions

Q1. 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.

Summary of Responses

Five of the seven responses received supported the proposal to withdraw PN 16 and replace it with two small additional items of application material. Endorsement for this approach was subject to the FRC and the BBA agreeing that the BBA will continue to make available the templates for obtaining bank reports, so that consistent practice is adopted across the market. Two of those respondents also suggested the FRC provide more detailed guidance on obtaining bank reports, however, one respondent suggested that no new application material was needed for ISA (UK) 330, and another commented that the FRC should minimise the number of UK pluses in standards.

One respondent recommended that PN 16 be retained, as its withdrawal could result in a lack of motivation on the part of banks to respond to requests for confirmations from auditors. Another respondent suggested that the FRC should carry out detailed analysis of the current use of PN 16 to determine how it is being used, before concluding whether PN 16 should be retained. The same respondent suggested that withdrawing PN 16 might undermine auditors seeking external confirmations in support of audits that they undertake.

FRC Response

The FRC has liaised closely with the BBA and the BBA has agreed to continue to make available via its website the confirmations material that is currently provided to support auditors. This includes the confirmations templates for those auditors wishing to seek paper or emailed confirmations in support of their audit work. The FRC will work with the BBA to update website references as BBA material is migrated onto the new UK Finance website.

The FRC's proposals in this consultation are intended to encourage the auditor to apply their professional judgment 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 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 judgment 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 FRC proposes, therefore, to withdraw PN 16 and issue revised standards with the additional application material contained therein.

Q2. 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.

Summary of Responses

All but one respondent, which chose not to give a response to the question supported an effective date for the proposed changes of 15 December 2017 as set out in the consultation. Two respondents suggested that early adoption of the changes should be permitted.

FRC Response

The FRC will issue the revised standard with an effective date of 15 December 2017. Early adoption of the changes will be permitted.

Conclusion

8. The Financial Reporting Council will, therefore, revise ISA (UK) 330 (revised June 2016) – *The Auditor's Response to Assessed Risks*, and ISA (UK) 505 – *External Confirmations* as proposed in the consultation. We will also withdraw Practice Note 16 – Bank Reports for Audit Purposes in the United Kingdom, which is, in our view no longer needed to support the work of auditors seeking bank confirmations to support an audit engagement. There is nothing in this proposal that is contrary to the FRC's support for the international harmonisation of auditing standards based on ISAs, and our commitment to ensure that using ISAs (UK) allow the auditor to claim full compliance with ISAs.
9. **The effective date for the revisions to standards is for the audit of financial statements for periods beginning on or after 15 December 2017**, with early adoption permitted for the changes to ISAs (UK) 330 and 505.

Impact Assessment

We have undertaken an impact assessment to identify any costs and benefits relating to our proposals to revise ISA (UK) 330 (Revised June 2016) and ISA (UK) 505.

We have proposed minor revisions to support the withdrawal of Practice Note 16, and in so doing reduce the total amount of guidance currently in issue. We do not believe that this will impact on the work effort required, or result in significant additional costs or add to the regulatory burden on business. Any necessary minor changes to audit firms' methodology and training packages will be picked up as part of their annual updates.

Streamlining the total amount of guidance material will deliver benefits, however, it is not possible to quantify these for the purposes of this assessment. We do not, therefore, consider that there are measureable costs and benefits to report that arise as a result of any regulatory decisions taken by the FRC. In finalising changes proposed in the consultation, and in the light of feedback provided, we have revisited the impact assessment, but consider that no changes to it are required.

Financial Reporting Council

July 2017

Respondents to the Consultation

PricewaterhouseCoopers LLP

The Institute of Chartered Accountants of Scotland

The Institute of Chartered Accountants in England and Wales

Deloitte LLP

BDO LLP

The Association of Chartered Certified Accountants

Ernst and Young LLP



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