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ISCA Audit Bulletin 2

AB 2:
Bank Confirmations Through Digital Platforms

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Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

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ISCA's Auditing and Assurance Standards Committee (AASC) comprises practitioner members with significant experience in the field of auditing and assurance, and public members from regulatory bodies, academia and the business sector.

AASC's terms of reference include the development of high-quality auditing and assurance standards; monitoring policy and implementation issues relating to the development of auditing and assurance standards internationally and in Singapore and giving consideration to the need for guidance; and raising public awareness and understanding of the standard setting process and the standards.

The terms of reference are executed through AASC with the support of three Sub-Committees, namely the Core Sub-Committee, the AGS 1 Sub-Committee and the Data Analytics Sub-Committee.

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1. Background

An important procedure in the audit of financial statements is to obtain direct confirmations from banks¹. Items to be confirmed include bank accounts and balances, loan amounts, and other off balance sheet items such as guarantees, forward purchase and sale commitments, repurchase options and offset arrangements.

Such direct confirmations are a valuable source of audit evidence because they are obtained directly from independent external sources and therefore provide a higher degree of reliability than that obtained from internally generated records.

With the advancement of technology, banks are rolling out proprietary digital solutions to automate or streamline the audit confirmation process for their clients. Such solutions are aimed at enhancing convenience and reducing the manual touchpoints and hardcopy documents used in the conventional bank confirmation request process.

In some of these solutions, the entity's management can initiate the confirmation request and submit directly to the bank through an online platform. Subsequent to receiving the confirmation request, the bank will send the confirmation reply directly to the auditor either in an electronic form and/or a hardcopy letter.

2. Scope of this Audit Bulletin

This Audit Bulletin (AB) highlights key considerations for the auditor when relying on bank confirmations which are initiated or obtained through digital platforms where the entity's management initiates and submits the bank confirmation request directly to the banks.

3. Reliance on Bank Confirmations Initiated or Obtained through Digital Platforms

a) Does the auditor maintain control over the external confirmation request?

It is important to note that when using external confirmation procedures, paragraph 7 of SSA 505 *External Confirmations* requires the auditor to maintain control over external confirmation requests, including:

- (a) Determining the information to be confirmed or requested;
- (b) Selecting the appropriate confirming party;
- (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
- (d) Sending the requests, including follow-up requests when applicable, to the confirming party.

¹ Refer to AGS 6 *Bank Reports for Audit Purposes* for further guidance on obtaining bank reports as audit evidence.

As such, where the confirmation requests over digital platforms are initiated and submitted directly by the entity's management, the auditor would need to consider how he is able to maintain control over the external confirmation request process.

b) Considerations over whether control is maintained over the external confirmation request

Depending on the circumstances and the features of the audit confirmation solutions, the following are some considerations which could be relevant in assessing if the auditor is able to maintain control over the external confirmation request:

- (a) Does the auditor have oversight over the selection of information to be confirmed and the appropriate confirming parties?
- (b) Is the entity's management able to control or restrict the completeness of the information provided in the confirmation reply? For example, are there features which allow the entity's management to only select specific accounts or information to be confirmed by the bank?
- (c) Is the entity's management able to modify requests subsequently, without the auditor's knowledge?
- (d) Is there an audit trail/log which the auditor is able to review to evaluate if the request was raised by the entity's management as pre-agreed with the auditor?

The following are some procedures which the auditor could consider in seeking to maintain control over the external confirmation request when the confirmation request is not sent out directly by the auditor.

- i) Agree with the entity's management on the information to be included in the confirmation request. Observe the request submission process to ensure that the confirmation request is completed without any interference. This can be done via physical observation or via virtual means.
- ii) Obtain and review the audit trail/log to assess if the inputs by the entity's management for the various fields are appropriate (or as agreed between the auditor and the entity's management) and if there were any subsequent modifications made to the request.
- iii) Obtain an SSAE 3402 Assurance Report on Controls at Service Organisation in relation to the platform (where available) to assess whether the bank has implemented controls to create a secure confirmation environment to mitigate the risks of interception or alteration to the confirmation requests and responses.

In a heightened risk situation, which includes the risk of fraud, the auditor needs to evaluate if further procedures are required to validate the confirmation request sent to the bank and the reliability of the confirmation reply received. These may include:

- i) Contact the bank directly to confirm the information requested by the entity (i.e. what the auditor understands to be requested is the same as that received by the bank).
- ii) Contact the bank directly to ascertain the information confirmed in the bank confirmation reply received by the auditor. For responses received electronically

through a centralised mailbox, the auditor should consider contacting the bank to confirm that the bank has indeed sent out the response via the said mailbox . The auditor could also consider whether tools such as encryptions and passwords are used to protect the information sent.

The considerations and procedures depend on the specific circumstances and the features and design of the audit confirmation solutions provided by the respective banks and the above list is non-exhaustive. It is critical that the auditor exercises professional judgement to assess if they maintain control over the external confirmation request and document all relevant considerations.

In the event that the auditor has doubts over the confirmation request process and/or confirmation reply received, the auditor needs to evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures.

As obtaining bank confirmation is an important audit procedure, the auditor should exercise due care to ensure that this is properly executed.

For reference: ISCA Auditing and Assurance Pronouncements and Publications

The table below summarises the formal categorisation, degrees of authority and due process for issuance of ISCA’s auditing and assurance standards and guidances. This provides credence to ISCA’s technical content, promulgates ISCA’s views on the application of auditing and assurance standards as well as promotes best practices and consistency in auditing and assurance.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. a) Singapore Standard on Auditing (SSA) b) Singapore Standard on Assurance Engagements (SSAE) c) Singapore Standard on Review Engagements (SSRE) d) Singapore Standard on Related Services (SSRS) e) Singapore Standard on Quality Control (SSQC) f) Statement of Auditing Practice (SAP)	Authoritative pronouncements	Required to comply	Public consultation required	ACRA’s Public Accountants Oversight Committee
2. a) Audit Guidance Statement (AGS) b) Singapore Auditing Practice Note (SAPN)	Provide interpretive and practical guidance to auditors Non-authoritative	Expected to apply or explain departures	Public consultation required	ISCA Council
3. Audit Bulletin (AB)	Informative / educational publications to highlight pertinent topical issues to auditors Non-authoritative	For information and educational purposes	Public consultation not required	ISCA AASC

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