

EXTERNAL CONFIRMATIONS: CAS 505

Definitions

- **External confirmation** – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party) in paper/electronic form
- **Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information
- **Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request

External Confirmation Procedures

- When using external confirmation procedures, the auditor shall do the following:
 - Determining the **information to be confirmed** or requested
 - Selecting the **appropriate confirming party** (to someone who has knowledge of the info)
 - Designing the confirmation requests, including determining that requests are **properly addressed** and **contain return information** for responses to be sent **directly to the auditor**
 - Sending the requests, including follow-up requests to the confirming party
- **If management refuses to allow the auditor to send a confirmation request:**
 - Evaluate if management's reasons for the refusal are **valid and reasonable**
 - Management may have a valid reason such as a legal dispute or ongoing negotiation with the confirming party, which may be disrupted by an untimely confirmation request by the auditor
 - Evaluate the **implications** of refusal on the **risks of material misstatement**, the risk of fraud, and on the nature, timing and extent of other audit procedures; and
 - Perform **alternative audit procedures**
- If the auditor concludes that **management's refusal** to allow the auditor to send a confirmation request is **unreasonable** or the auditor is **unable to obtain audit evidence** from alternative audit procedures, , the auditor shall communicate with **those charged with governance** and determine the **implications on the auditor's opinion**

Reliability of Responses to Confirmation Requests

- If the auditor identifies factors that puts to doubt the reliability of the response to a confirmation request, **obtain further audit evidence to resolve those doubts**
 - Confirmations can be intercepted or altered by the client (to minimise such risks create a secure environment for responses received electronically)
 - One procedure is to **verify the source** and contents of a response to a confirmation request by **contacting the confirming party** (i.e. **phone the confirming party** to determine whether the confirming party did, in fact, send the response)
 - The auditor should also **re-assess the risks of material misstatement, risk of fraud,** and the nature, extent and timing of **further procedures**

Non-Responses and Exceptions

- If non-responses to confirmations occurs, perform **alternative audit procedures**
- **Investigate exceptions** to determine whether or not they are indicative of misstatements

Negative Confirmations

- Negative confirmations provide **less persuasive audit evidence** than positive confirmations
- Do not use negative confirmation requests as the **sole substantive audit procedure**, unless all of the following are present:
 - 1) When the **risk of material misstatement is low** and **the operating effectiveness of controls have been tested**
 - 2) The population of items subject to negative confirmation procedures comprises a **large number of small, homogeneous account balances**, transactions or conditions
 - 3) A **very low exception rate is** expected
 - 4) The auditor is **not aware of conditions** that would cause **recipients** of negative confirmation requests to **disregard such requests**