# External Confirmations

(Effective for audits of financial statements for periods beginning on or after [date])

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* See footnote 1.
Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) establishes requirements and provides guidance for the performance of external confirmation procedures. This ISA does not address inquiries regarding litigation and claims. Part C: Procedures Regarding Litigation and Claims when the auditor determines that confirmation of ISA 501, “Audit Evidence – Additional Considerations for Specific Items”, establishes requirements and provides guidance on such inquiries.

External Confirmations as a Response to Assessed Risks

2. ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” requires the auditor to identify and assess the risks of material misstatement of the financial statements to provide a basis for designing and performing further audit procedures.

3. When designing the nature, timing and extent of audit procedures, different procedures may provide appropriate audit evidence in addressing the assessed risks of material misstatement at the assertion level. ISA 330, “The Auditor’s Responses to Assessed Risks,” requires the auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk. Consequently, as the assessed risk of material misstatement increases, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable.

4. When designing the nature, timing and extent of audit procedures, different procedures may be effective in addressing the assessed risks of material misstatement at the financial statement assertion level. The auditor’s selection of audit procedures from a range of possible effective procedures is a matter of professional judgment and depends on a number of factors, including:
   - The nature and significance of the assessed risk;
   - The relevance of the audit procedures in addressing the assessed risk;
   - The likely persuasiveness of the audit evidence to be obtained;
   - Whether the audit procedures also may provide evidence relating to other assessed risks or corroborate evidenced obtained by performing other audit procedures; and
   - The cost of the procedures relative to the quantity and/or quality of audit evidence that might be obtained.

4. [Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence,” indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. [Proposed] ISA 500 (Redrafted) indicates that the following generalizations applicable to audit evidence may be useful:
   - Audit evidence is more reliable when it is obtained from independent sources outside the entity.
• Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.

• Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium.

5. Audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more relevant than internally generated evidence. In addition, other ISAs recognize the importance of external confirmations as audit evidence, for example:

- ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks,” requires the auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk. Consequently, as the assessed risk of material misstatement increases, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, e.g., by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.

- ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements,” indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.

- [Proposed] ISA 500 (Redrafted) indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management. The auditor may determine that seeking external confirmations is an effective response to address risk of material misstatement at the financial statement assertion level on the basis of these factors. (Ref: Para. A1-A4)

6. The auditor also may determine that obtaining a response to an external confirmation request is the only means of obtaining sufficient appropriate audit evidence to address an assessed risk of material misstatement. (Ref: Para. A5A7)

Effective Date

75. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Objectives

8. When the auditor decides to perform confirmation procedures in response to an assessed risk of material misstatement, the objectives of the auditor are:

   (a) To determine whether and to what extent, in the circumstances of the audit, to request external confirmation of information as a means of obtaining sufficient appropriate audit evidence in response to an assessed risk of financial statement misstatement; and, if so,

   (b) To design and perform effective external confirmation procedures.
Definitions

97. For the purpose of this ISAs, the following terms have the meanings attributed below:

(a) External confirmation – Audit evidence obtained by the auditor relating to assertions in the financial statements or related disclosures either as a direct written response to the auditor from a third party (the confirming party) as a result of a positive or a negative confirmation request, or the lack of response to a negative confirmation request.

(b) External confirmation process – The process of performing procedures directed towards obtaining audit evidence in the form of an external confirmation.

(c) Positive confirmation request – A request for information that asks the confirming party to respond directly to the auditor.

(d) Negative confirmation request – A request for information that asks the confirming party to respond directly to the auditor only in the event of disagreement with the information provided in the request.

(e) Non-response – When the confirming party does not respond, or does not fully respond, to a positive confirmation request, or when any positive or negative confirmation request is returned undeliverable.

(f) Exception – A response to any positive or negative confirmation request indicating that there is a difference between the information requested for confirmation, or contained in the entity’s records, and the information reported provided by the confirming party.

Requirements

External Confirmation Process (Ref: Para. A6-A10)

10. When the auditor decides to perform confirmation procedures in response to an assessed risk of material misstatement, the auditor shall maintain control over the external confirmation process, including:

(a) Designing and preparing the confirmation requests;

(b) Directing the communication of the confirmation requests to the confirming party;

(c) Considering the results (responses, non-responses and exceptions) of the confirmation requests; and

(d) Evaluating Seeking External Confirmations

8. In assessing the appropriateness of requesting external confirmation of information as a means of obtaining sufficient appropriate audit evidence, the auditor shall evaluate whether external confirmations likely will provide relevant and reliable audit evidence in response to an assessed risk of financial statement misstatement. (Ref: Para. A1-A13)
9. The auditor shall seek external confirmations when that is the only means of obtaining sufficient appropriate audit evidence in response to an assessed risk of financial statement misstatement. If, in this circumstance, the auditor determines that external confirmation will not provide reliable audit evidence, the scope of the auditor’s work has been limited and the auditor shall consider the possible impact on the auditor’s report in accordance with ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report”. (Ref: Para. A14)

**External Confirmation Process**

10. When the auditor decides to request positive or negative confirmations, the auditor shall plan, design, undertake and control the external confirmation procedures, including:

(a) Identification of the member or members of the audit team responsible for controlling the external confirmation process, the resources assigned and the timing of the related procedures;

(b) Selection of items for which external confirmations will be requested;

(c) Design and preparation of the confirmation requests;

(d) Communication of the confirmation requests to the appropriate confirming party;

(e) Consideration of the results (responses, non-responses and exceptions) of confirmation requests; and

(f) Evaluation of the evidence obtained from the confirmation requests. (Ref: Para. A15-A26)

11. The auditor shall only use negative confirmations to reduce the risk of financial statement misstatement to an acceptable level without also performing other substantive procedures when:

(a) The assessed risk of material misstatement associated with the relevant financial statement assertion is low;

(b) A large number of small balances is involved;

(c) A substantial number of errors is not expected; and

(d) The auditor believes that respondents will not disregard the confirmation requests.

**Management Request to Not Confirm**

11.42. When management requests that the auditor not send a positive or negative confirmation request, the auditor shall:

(a) perform alternative procedures with respect to the information contained in that request to provide relevant and reliable audit evidence (Ref: Para. A11), and

(b) evaluate the impact of management’s request on the assessment of the relevant risks of material misstatement and on the nature, timing and extent of other audit procedures whether there are valid reasons for such request. The existence of a dispute between the entity and the confirming party, in and of itself, is not a valid reason for not requesting confirmation of a balance or other information. (Ref: Para. A12A27)
12. When the auditor is prevented from requesting a confirmation and is unable to perform sufficient alternative procedures, the auditor shall perform appropriate alternative procedures and shall consider the possible impact on the auditor’s opinion report in accordance with ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.” (Ref: Para. A28)

Considering the Results of the External Confirmation Process

13. When the auditor requests confirmation of multiple items in a single confirmation request, the auditor shall evaluate the results for each item individually.

14. If the auditor has concerns about the reliability of an external confirmation, then the auditor shall appropriately respond to such concerns. If the information in an oral external confirmation is significant, then the auditor shall request that the parties involved submit written confirmation of the specific information directly to the auditor. When the auditor determines that a response to a confirmation request is not reliable, the auditor shall treat the response as a non-response. (Ref: Para. A14-A15A29-A31)

14. The auditor shall perform alternative audit procedures for non-responses. (Ref: Para. A32-A33)

17. The auditor shall perform alternative audit procedures for non-responses to obtain relevant and reliable audit evidence. When the auditor determines that a response to a positive confirmation request is the only means of obtaining sufficient appropriate audit evidence to respond to an assessed risk of material financial statement misstatement, and the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor’s report. (Ref: Para A16-A19 A34-A35)

18. The auditor shall investigate exceptions to determine whether or not they represent misstatements or acceptable differences. (Ref: Para. A20-A21A36)

Evaluating the Evidence Obtained

19. The auditor shall evaluate whether the results of the external confirmation process provide the expected audit evidence or whether further audit procedures are necessary to obtain relevant and reliable audit evidence. ISA 330 (Redrafted) provides guidance when further audit procedures are necessary.

Negative Confirmations

17. The use of negative confirmations without a misstatement identified in performing other substantive external confirmation procedures that address an assessed risk shall be limited to circumstances when all of the following conditions are met: in accordance with ISA 450, “Evaluation of Misstatements Identified during the Audit”:

(a) The assessed risk of material misstatement associated with the relevant financial statement assertion is low;
(b) A large number of small balances is involved;
(c) A substantial number of exceptions is not expected; and
(d) The auditor does not believe that respondents will disregard the confirmation requests. 
(Ref: Para. A22-A23)
Application and Other Explanatory Material

Seeking External Confirmations as a Response to Assessed Risks (Ref Para. 2-6)

Relevance and Reliability of External Confirmations (Ref. Para. 8)

A1. Confirmation procedures frequently are relevant when addressing assertions associated with account balances and their constituent parts, but need not be restricted to these items. For example, the auditor may request confirmation of the terms of agreements, contracts or transactions that an entity has executed with other parties. Confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a confirmation request may specifically address the absence of a “side agreement” that may affect assertions such a cut-off assertion. Other examples of situations where confirmation procedures provide relevant audit evidence in responding to assessed risks of material misstatement include:

ISA 330 indicates that the higher the auditor’s assessment of risk, the more persuasive is the audit evidence obtained by the auditor. Consequently, as the assessed risk of material misstatement increases, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, e.g., by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.

- Bank balances and other information relevant to banking relationships.
- Accounts receivable balances and terms.
- Inventories held by third parties at bonded warehouses for processing or on consignment.
- Property title deeds held by lawyers or financiers for safe custody or as security.
- Investments purchased from stockbrokers but not delivered at the balance sheet date, which may be relevant for the valuation and cut-off assertions.
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants.
- Accounts payable balances and terms.

A2. While external confirmations may provide relevant evidence relating to certain assertions, there are some assertions for which external confirmations provide less relevant evidence. A2. ISA 500, “Audit Evidence” states that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. It indicates that, while recognizing exceptions may exist, the following generalization about the reliability of audit evidence may be useful:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
- Audit evidence is more reliable when it exists in documentary form.
• Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles.

A3. Accordingly, audit evidence in the form of external confirmations received directly by the auditor from confirming parties who are not related to the entity being audited, may be more reliable audit evidence than internally created evidence. However, the reliability of external confirmations as audit evidence may be affected by numerous factors. For example, the reliability of accounts receivable confirmations may be affected by:

• The reputation and objectivity of the confirming party;
• The confirming party’s understanding of the external confirmation request;
• The confirming party’s willingness to respond; and
• Whether the confirming party is the appropriate person to provide the information requested.

A4. External confirmations can provide relevant evidence relating to certain assertions, for example in determining whether unpaid accounts receivable exist at a certain date. On the other hand, external confirmation of accounts receivable amounts outstanding as of a particular date provide less relevant evidence relating to the recoverability of accounts receivable balances such amounts. Refer to Appendix 1 for examples of assertions addressed by accounts receivable and bank confirmations.

A3A5. Confirmation procedures frequently are relevant when addressing assertions associated with account balances and their components, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts or transactions an entity has executed with other parties. Confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a confirmation request may specifically address the absence of a “side agreement” that may influence revenue recognition in certain circumstances. Other examples of situations where confirmation requests may be effective in responding to particular risks of financial statement misstatement include:

• Bank balances and other information relevant to banking relationships.
• Accounts receivable balances and terms.
• Inventories held by third parties at bonded warehouses for processing or on consignment.
• Property title deeds held by lawyers or financiers for safe custody or as security.
• Investments purchased from stockbrokers but not delivered at the balance sheet date.
• Amounts due to lenders, including relevant terms of repayment and restrictive covenants.
• Accounts payable balances and terms.

A6. When designing the nature, timing and extent of audit procedures, the auditor may determine that a number of different procedures would be effective in addressing the assessed risk of financial statement misstatement at the assertion level. For example, the auditor may determine that external confirmations will be effective in addressing the risk of material misstatement associated with the existence of unpaid accounts receivable balances as of a
particular date. However, there may be other audit procedures that would effectively address the assessed risk, such as examining subsequent cash receipts. The auditor’s selection of audit procedures from a number of possible effective procedures is a matter of professional judgment.

A7. The auditor may decide to perform external confirmation procedures rather than other effective audit procedures on the basis of the factors in paragraph 34 of this ISA. For example, even though there may be other effective procedures for obtaining audit evidence about the existence of an entity’s bank balances, the auditor may decide to seek external confirmation from the entity’s banks because such external confirmation request may provide the opportunity to confirm other information relevant to the entity’s banking relationships.

Considerations in Determining the Appropriateness of External Confirmations

A4. Factors that may assist the auditor in determining whether confirmation procedures are an appropriate response to an assessed risk include:

- The confirming party’s knowledge of the subject matter – if the subject matter on which confirmation procedures are being performed is extremely complex or highly subjective, responses may be more reliable if the requests are sent to the appropriate person at the confirming party;

- The ability or willingness of the confirming party to respond – for example, the confirming party:
  - may not view responding to a confirmation request as its responsibility,
  - may consider responding too costly or time consuming,
  - may account for transactions in different currencies, or
  - may operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, respond in a casual manner or restrict the reliance to be placed on the response;

A8. Direct access by the auditor to information held by a third party concerning a client’s account balance does not constitute an external confirmation because it does not require a direct response from a confirming party. The auditor may use such access as an alternative audit procedure in accordance with paragraphs 16 and 18 of this ISA when considered appropriate.

A9. An underlying presumption in seeking an external confirmation is that it provides more reliable audit evidence than internally generated audit evidence. However, this presumption may not always be the case. There may be factors relating to external confirmation procedures performed by the auditor and other factors that may be outside of the auditor’s control that affect the reliability of external confirmations.

A10. The reliability of the audit evidence obtained from an external confirmation depends, among other factors, upon the auditor designing and performing effective external
confirmation procedures. Factors affecting the reliability of information obtained in external confirmations include the control the auditor exercises over confirmation requests and external confirmations received, the characteristics of the respondents, and restrictions that may be included in the external confirmation or imposed by management.

A11. Factors outside of the auditor’s control that may affect the reliability of external confirmations include:

- The subject matter being confirmed— if the subject matter on which external confirmation is being sought is extremely complex or highly subjective, external confirmations may be less reliable;
- The relationship of the confirming party to the entity— if the confirming party is an unrelated party of the entity, external responses to confirmation requests may be more or less reliable;

When a Response to a Positive Confirmation Request is the Only Means of Obtaining Sufficient Appropriate Audit Evidence (Ref: Para. 6)

A5. The auditor may determine that a response to a positive confirmation request is the only means of obtaining sufficient appropriate audit evidence to address an assessed risk. Examples of circumstances when obtaining a response to a confirmation request directly from a confirming party may be the only way of obtaining appropriate audit evidence to address the assessed risk include:

- The only information available to corroborate management’s assertion(s) resides outside the entity;
- The willingness of the confirming party to respond— the confirming party may not view responding to an external confirmation request as its responsibility, may consider responding too costly, or may consider responding to be too time-consuming; accordingly, confirming parties may not respond or may do so in a casual manner, making information obtained in external confirmations less reliable;
- The confirmation of information with parties in other countries— transactions may be accounted for in different currencies or confirming parties may be reluctant to respond to requests for confirmation across jurisdictions;
- The industry in which entity operates— some industries, such as investment dealers, operate in an environment where external confirmation is a significant aspect of day-to-day operations; accordingly, the quality, reliability and speed of external confirmations generally are high; and
- The compatibility of entity and confirming party financial systems— if entity and confirming party financial systems are closely integrated and share information, obtaining a reliable external confirmation will be much easier than, for example, if the two information systems are not compatible with each other.
A12. Understanding the characteristics of the environment in which the entity subject to audit operates and the practice of potential respondents in dealing with confirmation requests may assist the auditor in deciding whether and to what extent to perform confirmation procedures.

Reliability of Negative Confirmation Requests

A13. A negative confirmation request asks the respondent to reply only in the event of disagreement with the information provided in the request. However, when no response has been received to a negative confirmation request, there is no explicit audit evidence that the intended confirming party has received the confirmation request and verified that the information contained therein is correct. Accordingly, the use of negative confirmation requests provides less reliable audit evidence than the use of positive confirmation requests.

When External Confirmations are the Only Means of Obtaining Sufficient Appropriate Audit Evidence (Ref: Para. 9)

A14. The auditor may determine that a response to a positive confirmation request is the only means of obtaining sufficient appropriate audit evidence that will be effective in addressing an assessed risk. Examples of circumstances when obtaining an external confirmation directly from a confirming party may be the only way of obtaining appropriate audit evidence to address the assessed risk include:

- There is insufficient information available within the entity to substantiate the assertion(s) being audited;
- The entity’s information systems and internal controls are unreliable or ineffective;
- The subject matter is highly subjective and requires highly specialized expertise; and
- There are specific fraud risk factors, such as the risk of management override of internal controls, which prevent the auditor from relying on evidence obtained internal to the entity.

External Confirmation Process (Ref. Para. 10)

Planned External Confirmation Process

A15. ISA 300, “Planning and Audit of Financial Statements” requires the auditor to develop an audit plan including a description of the nature, timing and extent of planned further audit procedures at the assertion level. The auditor’s planned performance of external confirmation procedures may be contained in the audit plan.

Control Over the Confirmation Process

A6A16. Control over communications between the intended confirming parties and the auditor minimizes the possibility that the results of the external confirmation process will not be reliable or biased because of the interception, or alteration, of confirmation requests or responses external confirmations. Such control may include ensuring that:
- the auditor sends out the confirmation requests,
- that the requests are properly addressed,
- that the auditor’s return information is included in the request, and
- that all responses/replies are requested to be sent directly to the auditor.

**Selecting Items for Confirmation**

A17. The selection of items for confirmation may be influenced by the type of business, the quality of internal control, type of confirming party, size of balances and other similar considerations. Often, sampling techniques are used to select a representative sample of items to request confirmation. ISA 530, “Audit Sampling and Other Means of Testing” provides guidance on the use of audit sampling and other means of selecting items for testing when designing audit procedures to gather audit evidence.

**Designing the Confirmation Request**

A7. The design of the confirmation request may have a direct effect on the confirmation response rate and the reliability and the nature of the audit evidence obtained from responses to confirmation requests.

A8. A18. Considering the assertions being addressed and the factors that are likely to affect the reliability of the external confirmations may assist the auditor when designing the confirmation request. Factors to be considered in designing the confirmation request may include:

- such as the assertions being addressed,
- specific risks identified, form of the confirmation request, prior experience on the audit or similar engagements, including fraud risks,
- the layout information that is relevant to the assertion being audited, the nature of the information being confirmed, and the ability and presentation of the confirmation willingness of the intended confirming party to respond to the request, affect the design of confirmation requests. These factors may have a direct effect on the confirmation response rate and the reliability and the nature of the audit evidence obtained in external confirmations.
- prior experience on the audit or similar engagements, and
- the ability of the intended A19. For example, certain confirming parties may not be able to readily confirm or provide the requested certain types of information (for example, such as an overall accounts receivable balance, but may be able to confirm individual invoice amount versus amounts within the total balance). This information may be useful in designing an effective confirmation request.

A20. The auditor may employ a variety of means for requesting and receiving confirmations, including facsimile transmission, electronic mail or the internet. These means of confirmation may present challenges in evaluating the reliability of external confirmations.
For example, the use of these means may not be appropriate if they will not provide sufficient evidence of the proof of origin of the external confirmation.

Identifying the Appropriate Confirming Party

A9. External confirmation procedures. Responses to confirmation requests provide more relevant and reliable audit evidence are most effective when confirmation requests are sent to a confirming party who the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is responsible for the institution’s relationship with an entity or is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the confirming party from which to request confirmation.

Follow-Up

A22. Knowledge of Confirmation Requests

A10. The auditor may perform procedures the confirming party’s competence, knowledge, motivation, ability, and willingness to obtain external confirmations for non-responses. For example, the auditor may send additional or follow-up requests or obtain correct addresses from the confirming party’s objectivity and freedom from bias with respect to the audited entity, verify the addresses by reference to external sources and then re-send the requests.

Management Request

MAY ASSIST THE AUDITOR IN DESIGNING THE CONFIRMATION REQUEST AND IN EVALUATING THE RESULTS, INCLUDING DETERMINING WHETHER OTHER PROCEDURES ARE NECESSARY to Not Confirm (Ref: Para. 11)

A11. When management requests that the auditor not respond to send a confirmation request, the alternative procedures performed are those appropriate for a non-response as set out in paragraphs A16 to A19 of this ISA.

A12. ISA 705 indicates that limitations imposed by management may have other implications for the audit, for example, the auditor’s assessment of fraud risks and consideration of engagement continuance. Accordingly, challenging the reasons provided by management and seeking corroborating evidence for the reasons provided by management may assist the auditor evaluate the impact of management’s request on the assessment of the relevant risks of material misstatement and on the nature, timing and extent of other audit procedures assessed risk of financial statement misstatement. In addition, knowledge of such factors in relation to confirmation requests may lead the auditor to question whether there is sufficient basis for concluding that the external confirmation will provide reliable audit evidence.

Use of Negative Confirmation Requests

A23. Paragraph A13 of this ISA indicates that the use of negative confirmation requests provides less reliable audit evidence than the use of positive confirmation requests. Accordingly, circumstances when the auditor may use negative confirmation requests alone to reduce the risk of financial statement misstatement to an acceptable level are limited. The auditor may, however, use negative confirmation requests to supplement other substantive audit procedures.
Consider the Results of the External Confirmation Process Requests

A13. Responses to confirmation requests may be categorized as follows:

(a) A response confirmed correct by the appropriate confirming party;

(b) A response deemed unreliable;

(c) A non-response; or

(d) A response indicating a return with an indicated difference between the information requested for confirmation and the information reported by the confirming party (exception);

Reliability of External Confirmations (Ref: Para. 13)

A14. [Proposed] ISA 500 (Redrafted) requires the auditor to consider the reliability of information to be used as audit evidence. [Proposed] ISA 500 (Redrafted) indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. Accordingly, when evaluating responses to confirmation requests, the auditor may have doubts:

(e) An unreliable response; or

(d) A non-response (including incomplete responses).

A25. The auditor may perform additional procedures to obtain reliable external confirmations for non-responses, including incomplete responses. For example, the auditor may send additional or follow-up requests or obtain correct addresses from the entity, verify the addresses by reference to external sources and then re-send the requests.

A26. Exceptions noted in external confirmations may provide information to assist the auditor in determining the extent of misstatements and potential misstatements. Exceptions may also provide a guide to the quality of external confirmations from similar confirming parties or for similar accounts. Exceptions also may indicate a weakness in the entity’s internal control over financial reporting that may have resulted in other confirming parties reporting similar differences. An effective external confirmation process may therefore include evaluating external confirmations to determine whether exceptions actually exist, whether exceptions represent misstatements in the financial statements, and whether the underlying cause of the exceptions is indicative of a weakness in the entity’s internal control over financial reporting.

Management Request to Not Confirm (Ref: Para. 12)

A27. ISA 705 indicates that limitations imposed by management may have other implications for the audit, for example, the auditor’s assessment of fraud risks and consideration of engagement continuity. Accordingly, challenging the reasons provided by management and seeking corroborating evidence for the reasons provided by management may assist the auditor in evaluating whether there are valid grounds for a request to not confirm or there are fraud risks or other factors affecting engagement continuity.

A28. ISA 705 indicates that an inability to perform a specific procedure does not constitute a scope limitation if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. When management requests the auditor not to confirm,
Considering the Results of the External Confirmation Process

Reliability of External Confirmations (Ref: Para. 15)

A29. When reviewing responses to confirmation requests, the auditor may be concerned about the reliability of the external confirmation as audit evidence. For example, indications that information included in the external confirmation is not reliable may include external confirmations responses that:

- Are not delivered directly to the auditor;
- Do not come from the originally intended confirming party; or
- Are received by a means that does not provide sufficient evidence as to their origin, for example by facsimile or electronically.

A30. When performing audit procedures to respond to concerns about an external confirmation’s reliability [Proposed] ISA 500 (Redrafted) provides guidance when the auditor has doubts over the reliability of information to be used as audit evidence and requires the auditor to determine what modifications, or additional procedures, are necessary to resolve the matter. In this respect, the auditor may choose to verify the source and contents of an external confirmation response to a confirmation request in a telephone call to the purported confirming party. In addition, the auditor may request that the purported confirming party mail the original external response to the confirmation request directly to the auditor. With use of technology, the auditor may validate the source of replies received in electronic format (for example, facsimile or electronic mail).

A31. When the auditor determines that an external confirmation is not reliable, the auditor may consider whether that lack of reliability represents a fraud risk factor by reference to ISA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements.”

Non-responses (Ref: Para. 14)

A16. An oral response to a confirmation request constitutes a non-response for the purposes of this ISA.

A17. Examples of alternative audit procedures the auditor may perform when a response to a positive confirmation request is not considered the only means A32. The nature of alternative audit procedures varies according to the particular financial statement assertion. For example, when performing alternative audit procedures associated with the confirmation of obtaining sufficient appropriate audit evidence include:

- Accounts receivable balances — examination as of a specific date, or other documentation to provide audit confirmation or subsequent cash receipts, examination of shipping documentation or other documentation to provide audit...
evidence for the existence and valuation assertions, and examination of sales near the period-end to provide audit evidence for the cutoff assertion;

- **Accounts.** Alternatively, when performing alternative audit procedures associated with the confirmation of accounts payable balances as of a particular date, alternative audit procedures may include examination of subsequent cash disbursements or correspondence from third parties to provide audit evidence of the existence assertion, and examination of other records, such as goods received notes, to provide audit evidence of the completeness assertion;

- **Bank balances.** Direct access by the auditor to information held by a third party concerning a client’s account, for example by using the client’s personal identification number to make an on-line inquiry.

The nature and extent of alternative audit procedures is affected by the assessed risks of material misstatement of the financial statements at the assertion level. Since audit evidence obtained through external confirmations ordinarily is more persuasive than internal audit evidence, the auditor may decide to perform a combination of alternative audit procedures in order to reduce audit risk to the intended level.

**When External Confirmations are the Only Means of Obtaining Sufficient Appropriate Audit Evidence (Ref: Para. 17)**

If a response to a positive confirmation request is the only means of obtaining sufficient appropriate audit evidence that will address an assessed risk, and the auditor does not receive an external confirmation, then a limitation in the scope of the audit may result. ISA 705 provides guidance when there is a limitation in the scope of the audit.

Depending on the circumstances of the audit, and the results of other audit procedures, the auditor may conclude that the failure to obtain audit evidence with respect to the information subject to confirmation represents a misstatement.

**Exceptions (Ref: Para. 15)**

Exceptions noted in responses to confirmation requests may provide information to assist the auditor in determining the extent of misstatements and potential misstatements. When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud in accordance with ISA 240 (Redrafted). Exceptions may provide a guide to the quality of responses to confirmation requests from similar confirming parties or for similar accounts. Exceptions also may indicate a weakness in the entity’s internal control over financial reporting.

Some exceptions may not represent misstatements. For example, the auditor may conclude that differences identified in responses to confirmation requests are due to timing, measurement, or clerical errors.

**Negative Confirmations**

Some differences identified in external confirmations may be acceptable upon further investigation. For example, the auditor may conclude that
differences identified in external confirmations are due to timing, measurement, or clerical errors. Other differences may be indicative of misstatements, weaknesses in internal control, or have implications for other areas of the audit.
Appendix 1

(Ref: Para. 17A4)

A22. When no response is received to a negative confirmation request, there is no explicit indication that the intended confirming party has received the confirmation request and verified that the information contained therein is correct. Accordingly, the use of negative confirmation requests provides less reliable audit evidence than the use of positive confirmation requests.

A23. The circumstances when the auditor may use negative confirmation requests alone to reduce the assessed risks of material misstatement to an acceptable level are limited. The auditor may, however, use negative confirmation requests to supplement other substantive audit procedures.

### Assertions Addressed by Accounts Receivable and Bank Confirmations

<table>
<thead>
<tr>
<th>Accounts receivable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of unpaid amount</td>
<td>Highly relevant because confirming party responds directly to auditor confirming amount owing to entity</td>
</tr>
<tr>
<td>Completeness of recording of transactions</td>
<td>Less relevant because confirming an account balance does not address recording of specific transactions, although they may reveal discrepancies in recording of transactions</td>
</tr>
<tr>
<td>Transactions have been recorded in the correct period</td>
<td>Less relevant because confirming parties are more likely only to respond to overstatements and not understatements of their accounts</td>
</tr>
<tr>
<td>Accuracy and valuation of recorded amount</td>
<td>Relevant to the accuracy of recording of amounts. Less relevant to valuation because they do not address the collectibility of accounts although they may result in the reporting of disputed amounts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank balances and other information</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of amount</td>
<td>Highly relevant because the bank responds directly to the auditor confirming the bank balance</td>
</tr>
<tr>
<td>Completeness of recording of transactions</td>
<td>Less relevant because confirming a bank balance does not address recording of specific transactions, although they may reveal discrepancies in recording of transactions</td>
</tr>
<tr>
<td>Transactions have been recorded in the correct period</td>
<td>Less relevant because a bank confirmation does not provide cut-off information that the auditor can use to verify the recording of transactions in the correct period</td>
</tr>
<tr>
<td>Presentation and disclosure</td>
<td>Highly relevant because a bank confirmation may identify the existence of contingent liabilities, collateral lodged as security and other items that require disclosure in the financial statements</td>
</tr>
</tbody>
</table>