

IAASB CAG PAPER



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Agenda Item **B.1**

Committee: IAASB Consultative Advisory Group

Meeting Location: London

Meeting Date: September 20-21, 2007

Report Back—External Confirmations

Objectives of Agenda Item

To provide a brief report back on the April 2-3, 2007 proposals of Representatives on proposed ISA 505 (Revised and Redrafted), “External Confirmations.” The proposed exposure draft will be submitted to the IAASB for approval in September 2007.

April 2-3, 2007 CAG Proposals

Below is an extract from the minutes of the April 2-3, 2007 CAG meeting and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ comments	IAASB task force/IAASB response
Ms. Sucher asked whether legal confirmations were covered by proposed ISA 505 (Revised and Redrafted). Mr. Crawford noted that such confirmations were covered in ISA 501, “Audit Evidence—Additional Considerations for Specific Items.” Ms. Sucher suggested that a cross reference to ISA 501 be inserted in proposed ISA 505 (Revised and Redrafted).	Paragraph 1 of the proposed ISA indicates that legal confirmations are outside the scope of proposed ISA 505 (Revised and Redrafted) and are addressed in ISA 501.
Mmes. Blomme and De Beer supported the Task Force’s view that external confirmations should not be mandatory.	The IAASB agreed with the Task Force position.
Ms. De Beer supported the change in tone to encourage confirmations. She noted that ECSAFA was comfortable with the language in paragraphs 8 and 9, in that auditors often find instances where they would consider not using external confirmations. Mr. Crawford noted that, while the specific paragraphs are to be deleted, the concepts will be retained in application material.	The IAASB agreed to delete paragraphs 8 and 9 but retain certain related guidance in the application material.

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<p>A number of Representatives expressed concern over negative confirmations.</p> <ul style="list-style-type: none">• Ms. De Beer was of the view that negative confirmations should be prohibited. Mr. Crawford noted this had been considered by the Task Force. The Task Force concluded that it is difficult to preclude the auditor from doing something. The key is to ensure that there is sufficient cautionary language in the proposed ISA so that the auditor can understand the limitations of these types of confirmations• Mr. Damant was of the view that the relevant language in the application material (i.e., paragraph A13) should be changed to be less positive regarding the use of negative confirmations.• Mr. Morris noted that preparers are unlikely to find value in the auditor electing to use negative confirmations.	<p>This issue is still under consideration by the IAASB and will be resolved in September. The requirements and application material are drafted to drive behavior to limit the use of negative confirmations, and provide sufficient guidance relative to the limitations on persuasiveness of related audit evidence. The Task Force continues to believe that it is not appropriate to prohibit use of negative confirmations.</p>
<p>Mr. Sekiguchi asked whether the definition of “external confirmation” should specifically state that the confirmation could be written or oral, as paragraph 15 of the proposed ISA appears to indicate that oral confirmation is permitted. He also noted that paragraph A20 acknowledges that the auditor may use facsimile transmission, electronic mail or the internet. He believed that in most cases auditors will mail a request for a confirmation and will request confirmation via fax in an emergency. Mr. Crawford agreed that the definition of “external confirmation” was inconsistent with paragraph 15, and noted that the Task Force intends to revise the definition to include only written confirmations. Mr. Crawford also noted that paragraph A20 was not intended to require the auditor to follow up confirmations received by other means with a mailed response; rather, it was meant to point out that there may be issues with reliability of information obtained via</p>	<p>The definition of “external confirmations” and application material dealing with reliability of confirmations now clarify that a confirmation response is considered an external confirmation only if received in writing, whether in paper form, or by electronic or other medium. Oral confirmation is considered the response to an inquiry, and is not contemplated in proposed ISA 505 (Revised and Redrafted).</p>

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these means because of the potential for the information to be altered.	
Messrs. Morris and Pickeur noted potential difficulties with paragraph A21. External confirmations may be requested from the accounting or auditing department of a bank, rather than the official responsible for the banking relationship. They suggested that the proposed ISA be changed to include language indicating that there could be different people involved in the process.	The example in the revised draft is unchanged. The point of this example is to emphasize the importance of identifying the appropriate confirming party, rather than demonstrating that the official responsible for the relationship always would be considered the appropriate confirming party.
Mr. Pickeur suggested additional language in paragraph A27 to address the circumstance in which management requests the auditor not to confirm with a related party, as this could have serious implications.	The revised draft includes additional guidance on dealing with circumstances when management's request to not confirm is unreasonable, including evaluating the reasons and the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and communication considerations.

The proposed exposure draft to be approved by the IAASB in September 2007 is available from <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0092&ViewCat=0816>.