



International Federation of Accountants

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Agenda Item

C.2

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9 – 10, 2009

Report Back—External Confirmations – ISA 505 (Revised and Redrafted)

Objective of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on proposals of Representatives on proposed ISA 505 (Revised and Redrafted), “External Confirmations,” discussed at the September 4-5, 2008

The IAASB approved the proposed ISA as a final standard at its September 15-19, 2008 meeting.

September 4 - 5, 2008 CAG Proposals

2. Below is an extract from the draft minutes of the September 2008 CAG meeting¹ and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ Comments	Task Force/IAASB Response
DETERMINING WHETHER TO USE EXTERNAL CONFORMATION PROCEDURES	
Mr. Morris indicated that the Working Group is of the view that the Task Force’s approach in response to comments on exposure is appropriate. It agrees that the need to use external confirmation procedures should be based on the assessed risks of material misstatement, and that external confirmations should not be mandated in any particular circumstance. It also finds the proposed wording of the revised draft acceptable. Messrs. Robberecht and Roussey agreed with Mr. Morris’ comments. Mr. Robberecht encouraged the IAASB to accept the proposed wording in the draft	Point taken into account. The IAASB determined that a requirement should be established for the auditor to consider whether external confirmation procedures should be performed as substantive audit procedures, and that such a requirement should be placed within the section addressing substantive procedures in ISA 330 (Redrafted) ² by means of a conforming amendment. Supporting guidance that describes the relevance of external confirmations has been moved from the proposed ISA to ISA 330 (Redrafted) through a

¹ The minutes will be approved at the March 2009 IAASB CAG meeting.

² ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

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<p>presented and not to revert to the position set out in the exposure draft.</p>	<p>conforming amendment. See paragraphs 20a and A47a-A47d of the conforming amendments to ISA 330 (Redrafted).</p> <p>The IAASB believes that establishing this requirement appropriately elevates the profile of external confirmation procedures as substantive procedures by providing a clear obligation for the auditor to consider them as part of the audit, without establishing a presumption that they be used for any particular assertion. By placing the requirement in ISA 330 (Redrafted), the IAASB agreed that the purpose and scope of ISA 505 (Revised and Redrafted) would be appropriately focused on establishing requirements that improve auditor performance when using external confirmations, once the auditor has decided to do so.</p>
ELECTRONIC CONFIRMATIONS	
<p>Mr. Roussey asked whether the Task Force has explored relevant auditing techniques in regard to validating the reliability of electronic confirmations, for example by matching Internet Protocol addresses in the electronic confirmation to those of the respondent and service provider, where appropriate, or in relation to digital signatures. Mr. Crawford indicated that the Task Force did consider such guidance. It concluded, however, that such guidance may be too detailed for an international standard. Further, because technology changes so rapidly, there is a risk that detailed guidance may become dated quickly. The Task Force's view is that any such guidance would reside best outside the auditing standards in some form of good practice guidance. In response, Mr. Roussey commented that it would seem appropriate that some additional guidance be provided in the ISA once it introduces the notion of the use of electronic confirmation.</p>	<p>Point taken.</p> <p>The IAASB agreed that it would be appropriate to provide some guidance in ISA 505 (Revised and Redrafted) to highlight relevant considerations pertaining to the use of electronic confirmations, i.e.:</p> <ul style="list-style-type: none"> • There may be issues regarding the reliability of responses to confirmation requests received electronically, and a secure environment for such responses may mitigate the attendant risks. • There are risks in the use by entities of third parties to coordinate and provide responses (including electronic ones) to confirmation requests, and the auditor may perform procedures to mitigate such risks. <p>See paragraphs A12-A13 of the final ISA as approved by the IAASB.</p>

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Mr. Koktvedgaard was of the view that the ISA should not be too sophisticated or prescriptive in regard to electronic confirmation. A very restrictive requirement pertaining to the validation of an electronic signature, for example, might undermine development in practice and reduce response rates. He also noted that risks such as fraud are prevalent irrespective of the medium (electronic or paper), though level of complexity may differ.	Point taken into account. The IAASB agreed that detailed technical guidance in this area would be more appropriate in good practice guidance outside of the ISA.
NEGATIVE CONFIRMATIONS	
Mr. Morris indicated that the Working Group agrees with the approach being taken by the Task Force with respect to the restrictions imposed on the use of negative confirmations, notwithstanding some reservation by members of the Working Group about whether negative confirmations should be used at all.	Point taken into account. The IAASB believes that this approach provides the auditor with the flexibility to consider using negative confirmations as a sole response to an assessed risk when the strict preconditions have been satisfied, without unnecessarily constraining practice by barring performance of the procedure altogether. <i>See paragraph 15 of the final ISA as approved by the IAASB.</i>
Ms. Koski-Grafer noted that paragraph 16(d) of the revised draft states as a condition for the use of negative confirmations that “the auditor is <i>not aware of circumstances or conditions</i> that would cause recipients of negative confirmation requests to disregard such requests.” This is changed from the exposure draft which states “the auditor <i>has no reason to believe</i> that recipients of negative confirmation requests will disregard such confirmation request.” Mr. Koski-Grafer was of the view that the wording in the exposure draft evokes a positive thought process, and is slightly stronger in tone than the current wording, although she was not intending by this comment to say that the proposed draft was unacceptable.	Point not accepted. The IAASB believes that the former wording (i.e. “not aware of circumstances or conditions”) is clearer as it avoids the possibility of auditors misinterpreting the condition as implying a responsibility to perform specific procedures to be able to reach that conclusion.
Mr. Gutterman suggested that it might be useful to	Point not accepted.

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include guidance in relation to paragraph 16(d) that acknowledges the effect of today's phenomenon of identity theft and the fact that some individuals may be reluctant to respond to confirmation requests.	The Task Force believes that identity theft is one of many reasons why recipients of negative confirmation requests would disregard such requests. In addition, identity theft could also be a reason why recipients of positive confirmation requests do not respond to such requests. The Task Force believes that detailed guidance explaining the reasons why recipients of confirmation requests often do not respond to such requests would be more appropriate in implementation guidance outside of the ISA.

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Final version of ISA 505 (Revised and Redrafted) and related conforming amendments as issued by the IAASB in December 2008

<http://www.ifac.org/Store/Details.tmpl?SID=1229365477610684&Cart=1229371027613490>