

External Confirmation

\* Direct response from third party to Auditors.

Positive Confirmation

↳ Respond in ALL the situation

Negative Confirmation

↳ Response only if bal. not agree

{ Risk is Low  
IC effective  
Small amt } NOT SEEN  
IN REAL LIFE

\* External Confirmation Procedure

- ↳ Information to be confirmed  
Eg: Bank, Dr, Cr, third party asset, agreement terms, legal etc.
- ↳ Determine confirming party
- ↳ Design confirmation request, address, return information  
(Address of auditors)
- ↳ Follow up if required

\* Design confirmation request → factors:

- ↳ Risk of material misstatement including fraud risk
- ↳ Layout & presentation of confirmation request
- ↳ Prior expense of auditor
- ↳ Assertion addressed
- ↳ Method of communication
  - ↳ E-mail
  - ↳ Visit
  - ↳ Post
- ↳ Mgt. follow up
- ↳ Balance v/s transaction confirmation

\* Reliability of response

- ↳ Objectivity of confirming party → Confirming party should not be related party of client
- ↳ Knowledge of the matter → whether client know about subject matter
- ↳ Willingness of third party to respond → Third party may consider it time consuming, costly



Note! If Auditor has doubt on reliability, he should perform further audit procedure to resolve the doubt, If NOT possible, consider fraud risk factors & consider effect of NTE of other procedure.

\* Management refuse to send confirmation (Imp.)

Auditor should ask,

- Reason & evaluate reasonableness
- Implications of mgt. refusal
- Perform alternative audit procedure
- Communicate with TCWG, if required
- Determine implication on audit report (ISA 705)

\* Non Response to positive confirmation request,

- Perform alternative audit procedure
- Effect on Audit report