

SA 620

SA 501

SA 5

SA 210

SA 230

SA 505

External ConfirmationDefinition

Confirming Party

AE obtained as direct written response to the auditor from a 3rd party in a paper form, electronic other medium.

Objective of Auditor

When using external confirmation procedures, ^{is} to design & perform such procedures to obtain relevant & reliable AE.

Scope of SADefinitions

- (a) Non response :- A failure of the confirming party to respond, or fully respond, to a +ve confirmation request, or a confirmation request returned undelivered.

- Left side (b) Exception :- A response that indicates a diffⁿ betwⁿ "info" requested to be confirmed, or contained in the entity's records, & "info" provided by the confirming party.

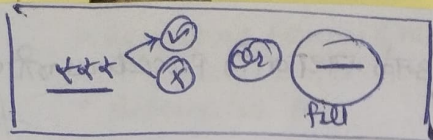
What to do? (Projection) :- Exception needs to be assessed to entire poplⁿ after analysing reason of difference.

Conclusion :- Evaluate whether along with other procedure

SMAE Obtained +

SMAE (X) Performing FAP necessary as per SA 330.

eg -> Invoice/agreement/purchase order.



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+ve confirmation request :- Sept 24

1st definition :- A request that confirming party respond directly to the auditor indicating that whether [the confirming party agrees or disagrees with the info in the request letter [as per client's records]] [to provide the requested info] [fill in the blanks to be used].

2^o It will provide more persuasive evidence.

3^o To avoid a Risk that confirming party may respond without verifying the info, auditor can use blank confirmation request which will require the confirming party to fill in the amount or to furnish the required info.

[Blank Confirmation Request may result in lower response rate because of additional efforts].

-ve Confirmation request :-

1st definition :- A request that confirming party respond directly to the auditor only if the confirming party disagrees with the info provided in the request letter [as per client's records].

2^o It will provide less persuasive evidence.

3^o why?

failure to receive response doesn't indicate

Confirmation received by
Confirming party

verification of accuracy of
information

eg Creditors BOOK
in FS = 1000
(Co's) ① 500 Response X Favour
② 1000 Response X Match
③ 1500 Response ✓ Favour

In which case
Creditors will
respond

Confirming Party more likely to respond
when info requested is not in their
favour.

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Less Persuasive

40 Therefore auditor shall not use -ve confirmation as the sole substantive procedure for a specific area unless
4 conditions are present:

SD
 RMM ↓
 ICT → CR ↓
 Small Homogeneous ↑

If all the following conditions are present then only auditor can use -ve confirmation as the sole substantive AP

- The auditor has assessed the RMM as low & has obtained SAE regarding the operating effectiveness of controls relevant to the assertion; (+)
- The population of items subject to -ve confirmation procedure comprises a large no. of small, homogenous, a/c balances, trⁿ or condition; (+)
- A very low exception rate is expected; (+)
- That auditor is not aware of circumstances or conditions that would cause recipient of -ve confirmation request to disregard such request

Exception rate ↓

Book & confirmatory party not matter

A failure of a confirming party to respond to a -ve confirmation request provides significantly less persuasive AE than does a response to a +ve confirmation.

NT: 2 चीजे कम है, एक है zyda.
 ignore नहीं करने का kiya है vada

Limitation Scope of Au

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Substantive

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- Reasonableness of mgmt
- Implication for assessment of Rmm
- Alternative AP.

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Management Refusal to allow the auditor to send a confirmation request — Steps taken by auditor
If the mgmt does not allow the auditor to send a confirmation request to a 3rd party then auditor shall consider the following procedures →

Limitation on
Scope of Audit

- Auditor should inquire with the mgmt about the reasons for their refusal & auditor should seek to obtain AE regarding the validity & reasonableness (Justifiable reasons can be litigation or ongoing negotiation with 3rd party).
Common → Prove or not in court case & Legal documents.

effect

- Auditor should evaluate the implication of mgmt's refusal on auditor assessed Rmm including a potential fraud risk & accordingly he should consider its effect on remaining AP (read after SA 315)

- Auditor should plan and perform alternative AP to obtain relevant & reliable AE

(eg → Debtor Bal → Sales, Cash receipt
Creditor Bal → Purchases, Good rec note, Cash disbursement)

(NOTES) (If the auditor concludes that the mgmt refusal is unreasonable) or (auditor is unable to obtain reliable & relevant AE by performing alternative AP) then auditor should communicate with TCWG & determine the implication i.e. effects on his audit opinion as per SA 705.

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procedure $\leftarrow$ what info you need
 3rd party $\rightarrow$ List $\rightarrow$ or with $\rightarrow$ select or not
 Confirmation letter $\rightarrow$ send $\rightarrow$ wait for response
 Send $\rightarrow$ wait for response $\rightarrow$ can not be delegated

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External confirmation Procedure adopted by Auditor to obtain AE $\rightarrow$

- (i) Determining what info is required to be confirmed or to be requested? [Kya Janna Hai?]
- $\Rightarrow$ External Confirmation procedure frequently are performed to confirm or to request info regarding a/c balances & their elements.

② a/c Balances with 3rd parties (eg. a/c payable, receivable, deposits with 3rd party, loan advances etc)

- They may also be used to confirm :-
- (a) Terms of agreement; [eg. rental agree, royalty]
 - (b) Contract;
 - (c) Txn betwⁿ entity & 3rd party; &
 - (d) to confirm the absence of certain condition, such as side agreement.

- (ii) Selecting the appropriate confirming party? [Kisse Janna]
- $\Rightarrow$ Confirmation request should be sent to the person who is knowledgeable about the info to be confirmed or requested. because that person will provide more relevant & reliable AE.

- (iii) Design an appropriate confirmation request letter, ensure the letter is properly addressed & contains return info (details of the audit firm).

- (i) design a confirmation request

- (ii) Factors to be considered by auditor when designing Confirmation request includes $\rightarrow$

- (a) Layout & Presentation of request (format)
- (b) Assertion being addressed
- (c) Prior experience of audit / similar engagements
- (d) Identified RMM including fraud risk.

7/10 marks

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② Ability of confirming party to confirm or to provide requested infoⁿ

(iv) Determination of properly addressed request

(iv) Sending the requests, including follow-up requests when applicable, to the confirming party
 send or start it ago reasonable time in reply of that

when evaluating the AE obtained from external confirmation letter, auditor may categorised the results as following.

- a) A non response
- b) A response indicating an exception ^{to diff}
- c) A response deemed unreliable (RPR's)
- d) A response indicating agreement with the infoⁿ provided in the confirmation request, or providing the requested infoⁿ with exceptions.