SA 505

External Confirmation

Definitation

Confirming Party

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

Objective of Auditor

when using external confirmation procedures, is to design & perform such procedures to obtain relevant & reliable AE.

Scope of SA

Definitations :-

(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.

Sept 24 (b) **Exception :-** A response that indicates a diffⁿ betwⁿ infoⁿ requested to be confirmed, or contained in the entity's records & infoⁿ provided by the confirming party.

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

Conclusion :- Evaluate whether along with other Procedure

SAAE Obtained + SAAE ⊗ Performing FAP necessary as per SA 330.

~~eg :- Invoice/agreement / purchase order.~~

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+++ ✓ ✗ (or) — fill

(c) +ve confirmation request :- (Sept 24)

1. definitation :- 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 +++]] (or) [to provide the requested info^n [fill in the blacks to be used]].

2. It will provide more persuasive evidence.

3. To avoid a Risk that confirming party may respond without verifying the info^n, auditor can use blank confirmation request which will require the confirming party to fill in the amount or to furnished the required info^n.
[Blank Confirmation Request may result in lower response rate because of additional efforts.]

(d) -ve Confirmation request :-

1. definitation :- A request that confirming Party respond directly to the auditor only if the confirming party disagrees with the info^n provided in the request letter [as per clients records].

2. It will provide less persuasive evidence.
↓
why?

3.

failure to receive response doesn't indicate

confirmation received by Confirming party (or) verficiation of accuracy of information

eg Creditors in FS=1000 (Co's) — Creditors Book ✓

1. 500 Response ✗ Favour ✓
2. 1000 Response ✗ match
3. 1500 Response ✓ Favour ✗

In which case Creditors will respond → Confirming Party more likely to respond when info^n requested is not in their favour.

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अनेक स्वतंत्र प्रक्रियाएँ Procedures भी करते

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Less Persuasive

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

SQ

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

RMM↓
IC↑ → CR↓

(a) The auditor has assessed the RMM as low & has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion ; (+)

Small Homogenous↑

(b) The population of items subject to -ve confirmation procedure comprises a large no. of small, homogenous, a/c balances, Tx^n or condition ; (+)

Exception rate ↓

(c) A very low exception rate is expected; (+) Book & Confirming Party Bal match

(d) That auditor is not aware of circumstances or conditions that would case recipient of -ve confirmation request to disregard such request.

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.

MT : { दो 2 Cheeze कम है, एक है zyda.
Ignore नहीं करने का kiya है vaada }

Limitation Scope of AV

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

May 23 - NOV 20

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:-

① Auditor should inquire with the mgmt about the proper reasons for their refusal & auditor should seek to obtain AE regarding the validity & reasonableness

Limitation on Scope of Audit

(Justifiable reasons can be litigations or ongoing negotiation with 3rd party). → common reason. → Prove करो कि ये case चल रहा है legal documents

② Auditor should evaluate the effect 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)

③ Auditor should plan and perform alternative AP to obtain relevent & reliable AE

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

(Note:-) (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 ie effects on his audit opinion as per SA 705.

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Procedure
- what info" ya need
- 3rd party → List → o/s with → select करो
- Confirmation letter बनाना पड़ेगा
- send करना पड़ेगा & wait करना है for response → yes / NO

Ⓐ Ⓐ cannot be delegated

External confirmation Procedure adopted by Auditor to obtain AE :-

MCQs

(i) Determining what info" is required to be confirmed or to be requested? [Kya Jaana hai?]

⇒ External confirmation procedure frequently are performed to confirm or to request info regarding a/c balances & their elements.

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

ⓔ o/s Balances with 3rd parties (eg - a/c payable, receivable, stock lying with 3rd party, loans & advances etc)

(ii) Selecting the appropriate confirming party? [Kisse Jaana ?]

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

RTP may

(e) Mgmt's authorisation / encouragement to confirming party to respond

(f) Method of communication (email / speed post)

(g) Ability of confirming party to confirm or to provide requested infoⁿ

(iii) +ve confirmation request

(iv) Determination of properly addressed request

(iv) Sending the requests, including follow-up requests when applicable, to the confirming party

resend कर सकते है agr reasonable time में reply ना मिले

Evaluating the AE obtained

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 (diffⁿ)

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.

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