

## SA 505

### \* External confirmation :-

\* Definition :- It is an audit obtained as a direct written response to the Auditor from a third party, in paper form or by electronic or other media.

### \* External confirmation Procedure :-

- (A) Determining the information to be confirmed or requested.
- (B) Selecting the appropriate confirming party.
- (C) Designing confirmation request  
→ Request is proper addressed and containing written information
- (D) Send the Request, including follow up if applicable.

→ (A) Determining the information :-

- Regarding the Account Balance & their elements.
- Terms of agreements, contracts or transaction B/w entity & other parties
- confirm absence of certain condition such as a "side agreement"

- (b) Confirming Party
  - Knowledgeable party

### → (c) Designing

#### ⊗ Factors

- layout & transactions of request
- Assertions being addressed
- Prior Experience
- identify risk, including fraud risk
- Management's authorisation to confir party
- method of communication (Email / speed post)
- Ability of confir. party

#### ⊗ Follow up on confirmation request

- Auditor can send additional confirmation request when reply has not been received within reasonable time

#### ⊗ Design of a confirmation request :-

- It may directly effect the confirmation response rate and reliability.

#### ⊗ Positive confirmation Request :-

- A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence
- auditor may reduce the non response rate by using the blanket confirmation methods.

#### ⊗ Determination of properly addressed request :-

- Determining that request are properly addressed, and it includes confirmation before they are send out

### ① Management's Refusal to Auditor :-

→ If mgt refuse auditor to send confirmation request, Auditor shall

- (A) Inquire the reason of mgt and inspect it's validity and reasonableness.
- (B) Evaluate implication of management's refusal on assessment of relevant risk by Auditor.
- (C) Perform alternative audit procedure.

→ if mgt's refusal is unreasonable or unable to obtain relevant and reliable audit evidence from Alternative A. procedure communicate with TCWG and also determine implication of Audit & report as per SA 705

### ④ Reasonableness of management's Refusal :-

→ when it reasonable,

- inquired reasons properly, and common reason is existence of a legal dispute or ongoing negotiation with confir. party
- And Also seek audit evidence as to validity and reasonableness of reason because of risk and reveal fraud or error

③ Implications for the assessment of risk of MM  
→ when Auditor assess the risk of MM, he can revise the assessment of the risk of MM at the assertion level and modify planned audit procedures.

④ Alternative Audit Procedure:-

→ Example:- Examine the cash receipts, shipping document and sell near the period end and account payable balance.

⑤ Evaluating the evidence obtained:-

→ when evaluating the result of individual external confirmation requests, the auditor may categorised such result as follows

(A) Agreed with the information provides in confirmation request without exceptions

(B) Response deemed unreliable

(C) A non-response

(D) A response indicating an exception

→ Auditor's evaluation, when the evaluating result are taken into account with other auditor procedure the auditor may have performed

→ Auditor's evaluation may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether performing further audit procedure is necessary, as required by SA 330.

### ⊛ Positive Confirmation Request :-

→ when confirming party directly agrees or disagreed with the auditors info

### ⊛ Negative Confirmation Request :-

→ The request on which confirming party only respond directly auditor, if only disagree

### ⊛ Non response :-

→ The failure of the confirming party to respond to positive confirmation request or a confirmation request returned undelivered.

### ⊛ Exception :-

→ A response that indicates a difference b/w information requested and contained in the entity's records

④ As Auditor don't use negative confirmation rate as sole substantive procedure unless following all conditions satisfied :-

- (A) Auditor assess low risk of MME obtain SAAE about effectiveness of control
- (B) A very low exception rate
- (C) Population has large no. of small homogenous item.
- (D) Auditor not aware of circumstances that confirming party will ~~not~~ disregard request.

⑤ Scope of SOS :-

- This SA Deals with the auditor's use of external confirmation procedure to obtain audit evidence in accordance with the requirement of SA 505.
- External confirmation received directly by the auditor from confirming party may be more reliable than evidence generated internally by the entity.
- SA 505 is intended to assist the auditor in designing and performing external confirmations procedure to obtain relevant and reliable audit evidence. Also this is a Objective of the Auditor.

→ SA 505 indicates the reliability of the audit evidence is influenced by its sources and by its nature

#### ④ Generalisation to Audit Evidence:-

- AE is more reliable when it is obtained from independent sources outside of entity
- AE is more reliable when it is obtained from the auditor rather than indirectly or in reference
- AE is more reliable when it is existing documentary form, whether paper, electronic or other medium.