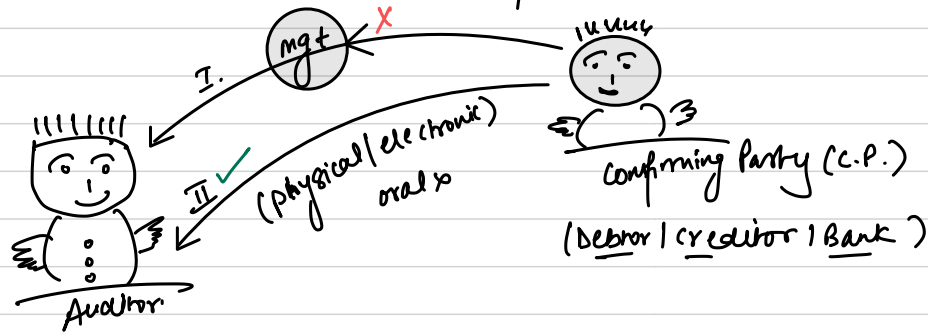


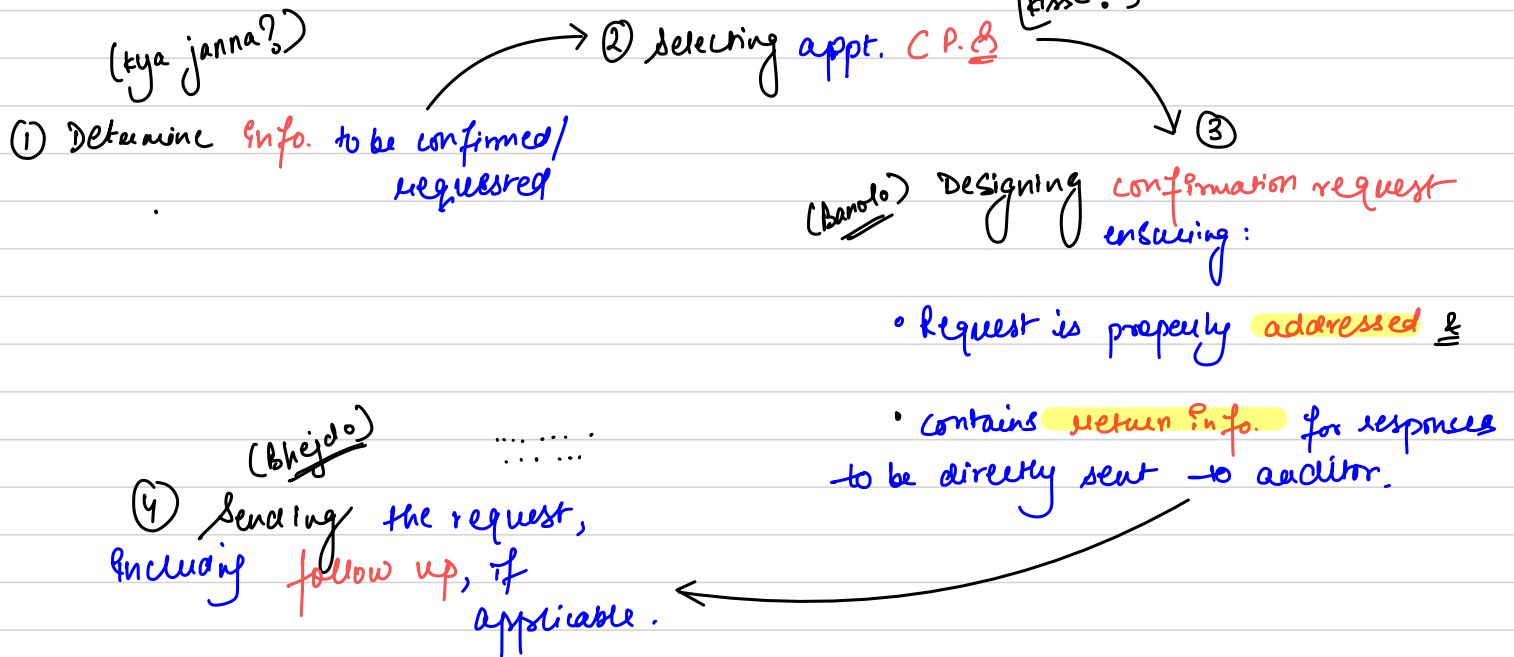
SASOS: External confirmations



- Audit Evidence → Direct written response → from C.P. to Auditor (physical / electronic)

External Confirmation Procedure

(Auditor maintains "control" → Delegate to)



"factors" to be considered → Designing Confirmation Request

- Layout & presentation of request.
- Assertions being addressed. [LUs → competence]
- Prior Experience of audit.
- Identified R.O.M.M including fraud risk. [Related parties]

- love gharu Mgt's authorisation / encouragement to C.P. to respond to auditor.
- Method of communication (e-mail / regat. post / Softwares)
- Ability of C.P. to confirm / provide requested info.

By Debtor to to

xxx	Invoice due
I ₁	x x x
I ₂	x x x
I ₃	x x x

dmw 00 →

Types of confirmation Request

Positive Confirmation Request (P.C.R)

Negative Confirmation Request (NCR)

- C.P. respond to Auditor directly ~~xxx~~
 - when C.P. Agrees/ Disagrees with info.

- C.P. responds directly to auditor only if C.P. disagrees with info. requested.

or
→ providing requesting info. —
i.e. reply in all cases.

- It provides less persuasive A.E. than P.C.R.
- Why? Failure to receive response doesn't mean confirmation is recd. by C.P. \times or verification of accuracy of info. \times

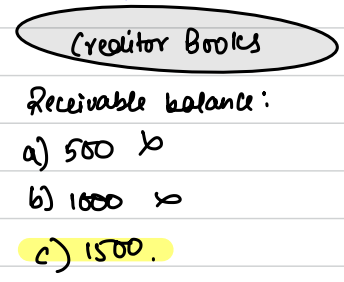
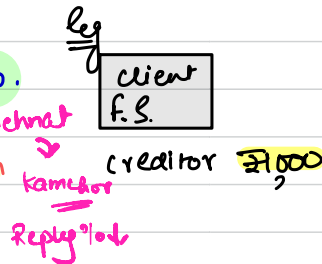
- Response to PCR provides Reliable A.E.

- Risk is there that C.P. replies without verifying info. \rightarrow ~~fill~~

- C.P. more likely to respond with disagreement when info. requested is not in their favour.

- Reduce this risk by not stating and ask the C.P. to fill and/ provide info.

- (Risk) Use of this type of blat confirmation request may result in lower response rate, because of additional effort.



Q In which case creditor will respond?

As auditor don't perform NCR as "Sole substantive Procedure" unless All conditions satisfied:

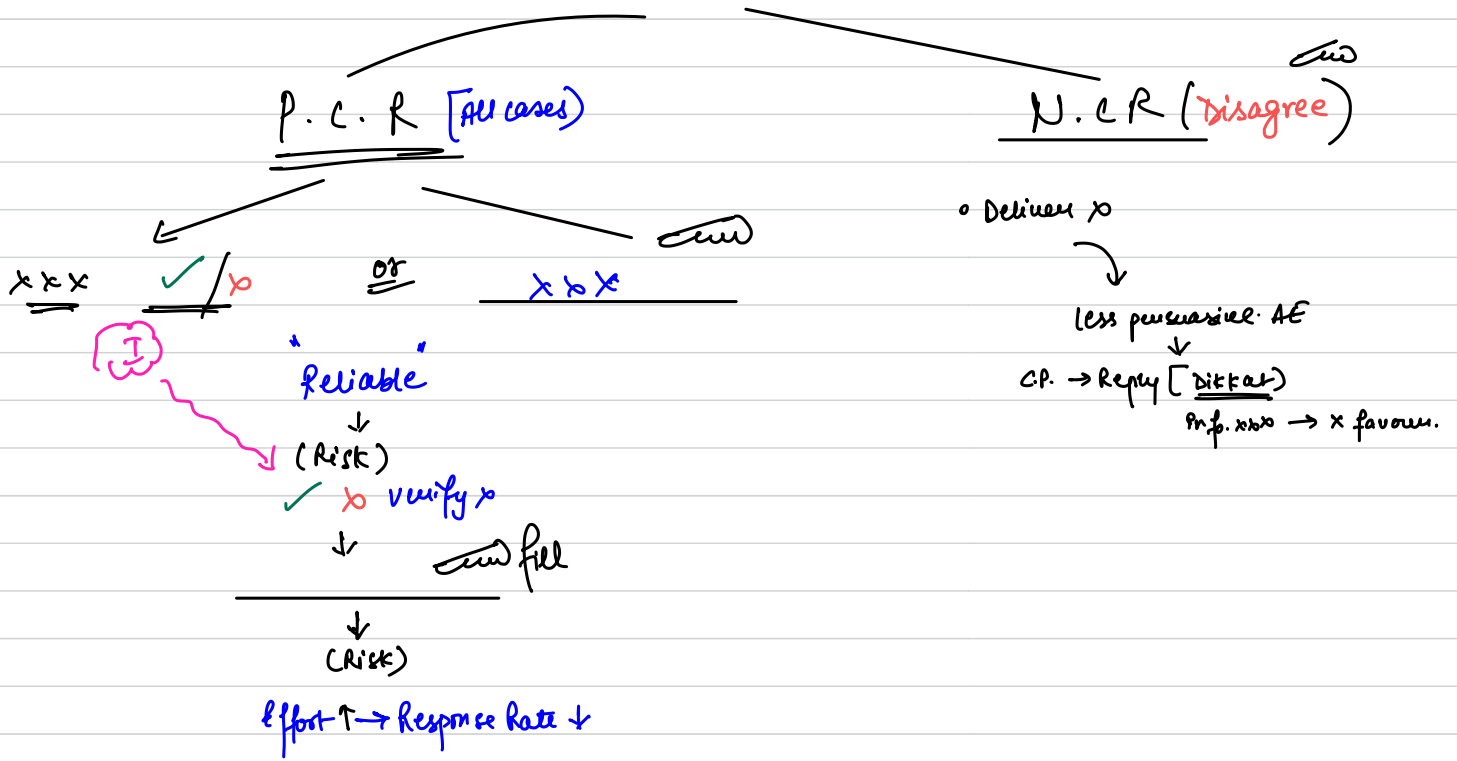
a) Low ROMM \downarrow & obtained SAAE about effectiveness of controls.

b) Very low exception rate.

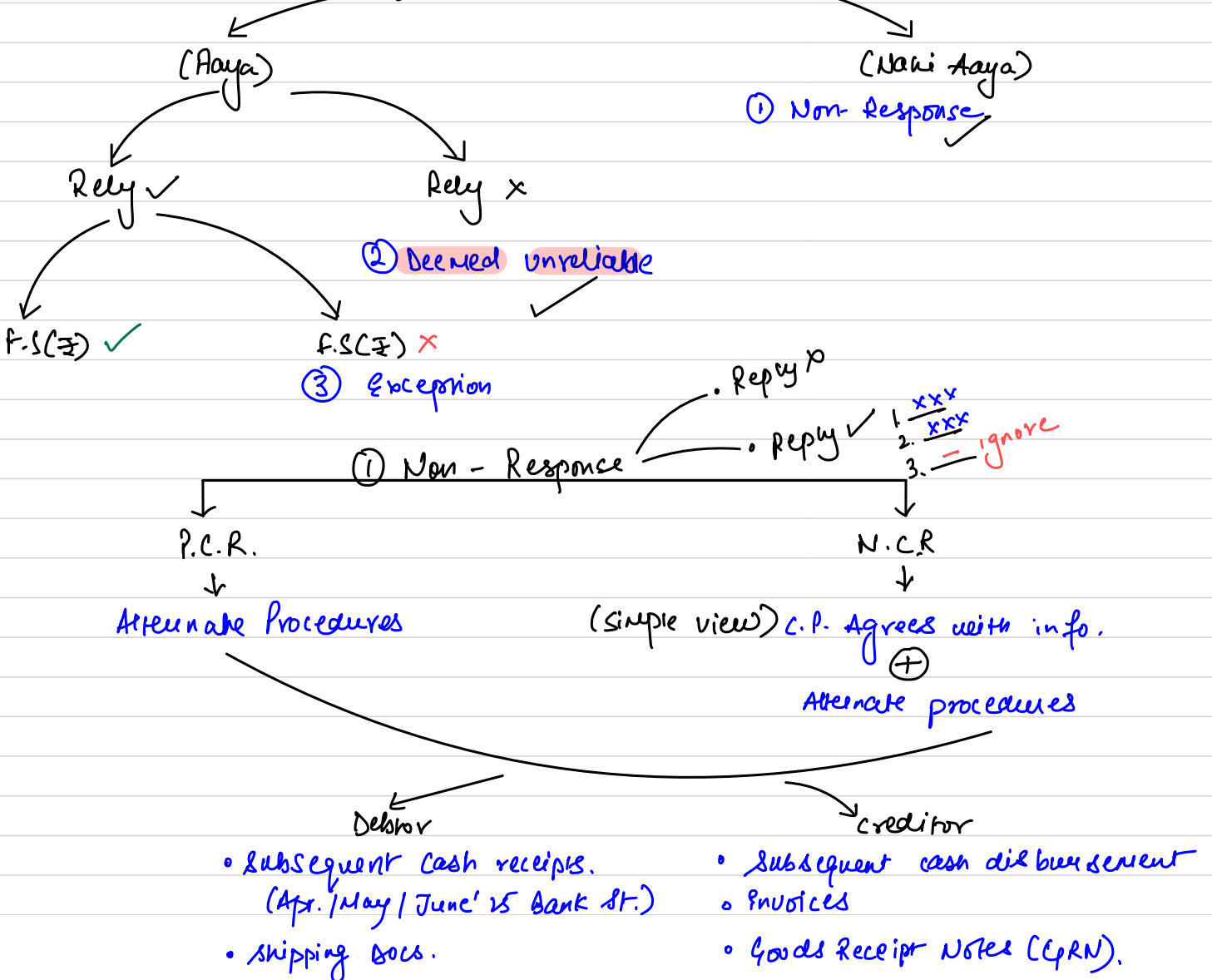
c) Population has large no. of small homogeneous items.

d) Auditor not aware of circumstances that C.P. will disregard the request.

Q Q1/2



Evaluating Response obtained



2. Unreliable response from C.P.

Intro: If auditor believes response is **not reliable**
 evaluate implications on **R.O.M.** i.e. **Fraud risk** & **N.T.E. of A. pro.**

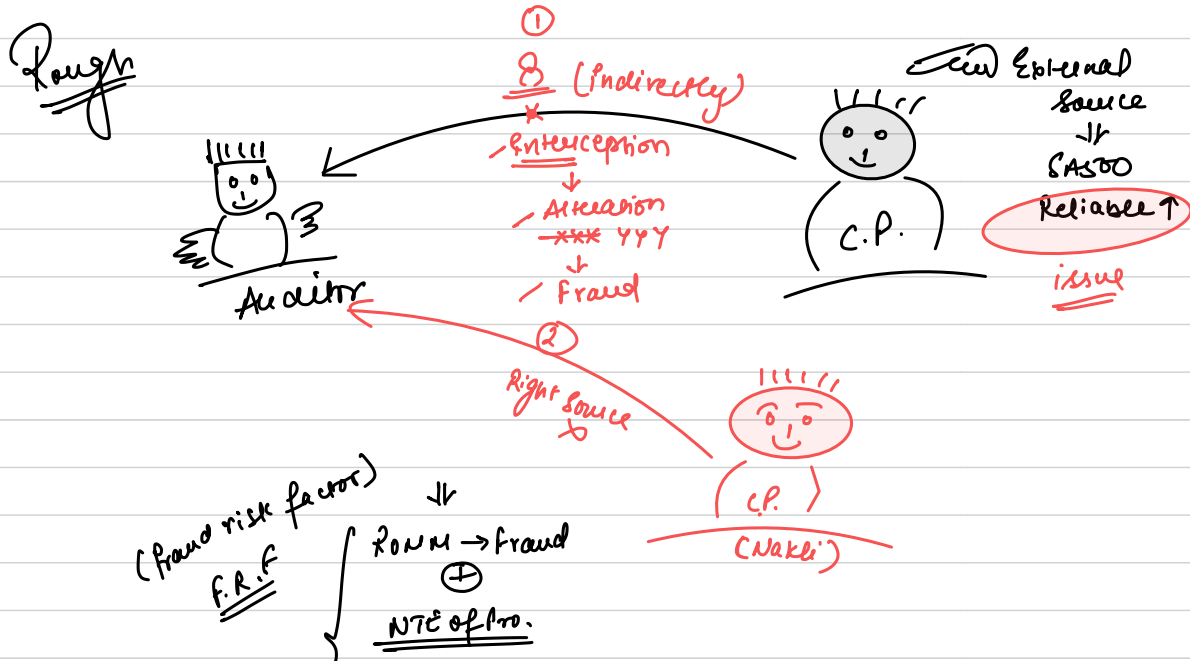
As per **SA 500** even for evidence from **external sources**,
 circumstances may affect its **reliability***

They carry risk of **Interception / Alteration / Fraud.**

* factors that may affect reliability include, that it:

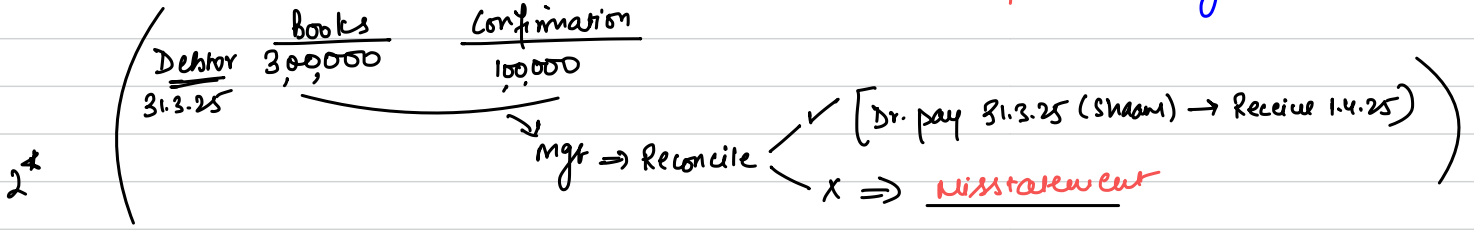
was recd. **Indirectly.** OR **Not from original C.P.**

main ∴ **unreliable response create fraud risk factor.**



3. Exception $\left[\begin{array}{l} \text{Books of A/c} \quad \text{Confirmation} \\ \text{xx x} \quad \quad \quad \text{y to X} \\ \text{margin} \end{array} \right]$

1. Response indicating difference b/w info. $\begin{cases} \rightarrow \text{Requested to be confirmed} \\ \text{ \& } \\ \rightarrow \text{provided by C.P.} \end{cases}$



3. \neq what to do? Assessed to entire population, after analysing reason for difference.

(Debtors 10,00,000 \rightarrow Sample 1,00,000 \Rightarrow Mist. ₹10,000 \rightarrow Projected mist. = ₹1,00,000 $\left(\frac{10,000}{1,00,000} \times 10,00,000 \right)$)

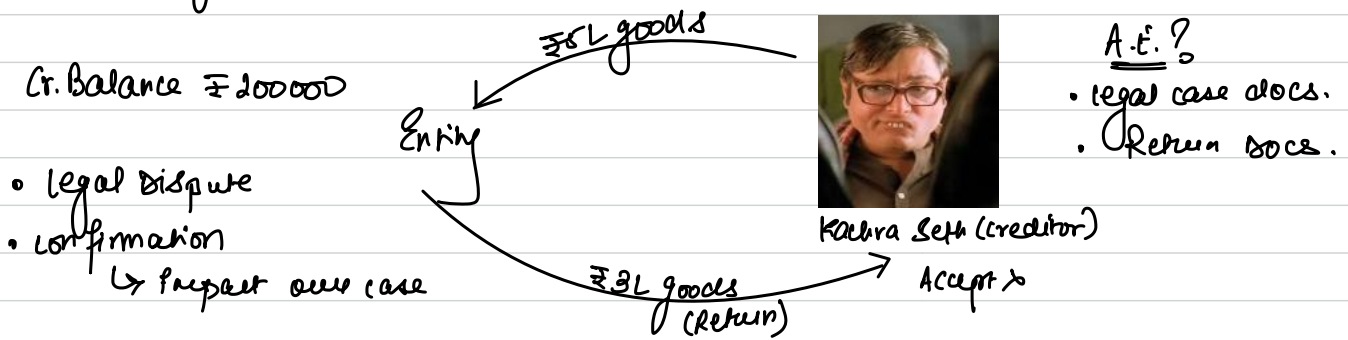
4. Conclusion: Evaluate whether along with other pro.:

\swarrow SAE obtained $\quad \text{or} \quad \quad \quad \searrow$ (SAE¹⁰) [Testing] performing F.A.P necessary as per SA 330.

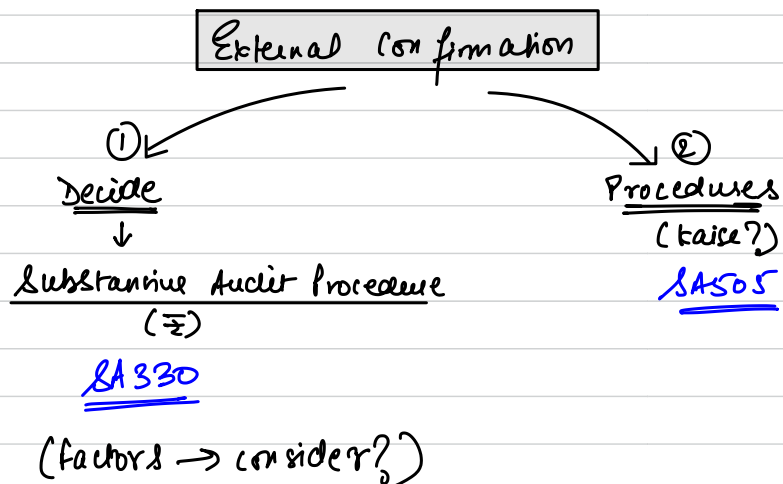
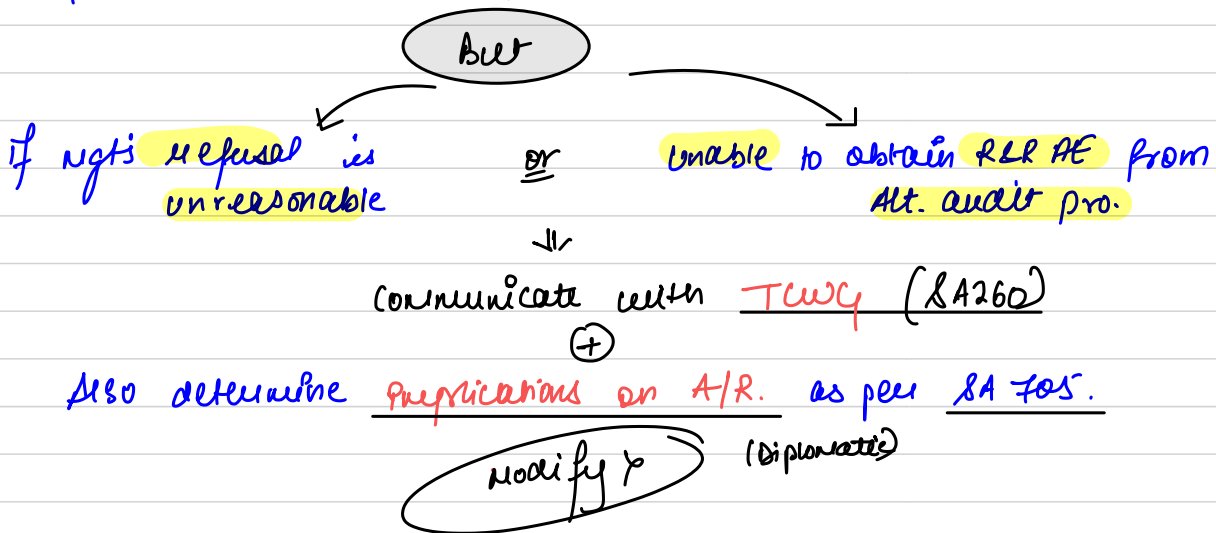
- Sales Invoice.
- Agreement.
- Delivery.

2nd Co. should be asked to Investigate & reconcile discrepancy provided by C.P.

4. Mgt's refusal to allow Auditor to send confirmation request



- What to do?
- Inquire** mgt's **reasons** & seek **A.E.** for their **reasonableness** & **validity**.
 - Evaluate** implications of mgt's refusal on **ROMM** i.e. **Risk of fraud** & **NTE of A. Pro.**
 - Perform** alternate audit procedures to obtain relevant & reliable A.E.



SASOS [1] Pages Revision

Meaning: Direct written response → from CP to Auditor

Process: 1. Info.? 2. Appr. C.P. B (maintain control) 3. Design conf. request (Addressed + Return info.) 4. Sending + follow up.

factors

layout & presentation → Assertions → Prior Experience → Romm → mgt's authorisation
 method of communication → Ability of CP to confirm.

Types of Requests: PCR: • Reply (Agree/Disagree) or provide info. (All cases)
 [Reliable AE.] → Risk (Reply w/o verify info.)

x State amt + ask to fill amt

↓
 Risk (Blank request → ↓ response rate) ∴ Add. effort

NCR: Reply only if disagree → ↓ persuasive AE (Why?)

No Reply doesn't mean

Recd. by CP or verification of accuracy of info.

∴ C.P. more likely respond when info. not in favour

USE NCR → 4 cond ⁿ satisfied • Romm ↓ • Exception Rate ↓ items • ↑ No. of small homogenous • CP x disregard request.

Evaluating Response

1. **Non Response** → PCR → Alternative Audit Procedures

- NCR • C.P. Agree
- Alt. Audit Pro.

[Drs: Subs. cash receipts + Shipping docs]
 [Crs: Subs. cash payments + G.R.N.]

2. **Unreliable Response** • Implication on Romm (Fraud) + NTE of A.Pro.

• SASO → Evidence (external sources)
 circumstances affect reliability → Risk of Interception Alteration Fraud.

- ① Recd indirectly or ② Not from intended CP.
- [Conclusion] Fraud Risk favor.

3. **Exception** • Diff b/w info. (Requested & provided by CP.)

- Investigate & reconcile discrepancy
- Assess to entire popⁿ
- Evaluate [SAAE obtained or FAP]

4. **mgt's Refusal:** Inquire Reasons + AE → Reasonableness / Validity → Impact → Fraud risk / NTE of A.Pro. → Alt. Audit + TWU + SA#OS.