

SA 505 → External Confirmation.

★ Direct Response from third party to Auditor.

Positive Confirmation

↳ Respond in ALL the situation

Negative Confirmation

↳ Response only if Balance Not Agree.

↳ Risk is Low
 ↳ I.C. EFFECTIVE
 ↳ Small Amount
 } NOT SEEN IN REAL LIFE.

★ External Confirmation Procedure.

- ↳ Information to be Confirmed e.g. Bank, Dr, Cr., Third Party Asset, Agreement terms, Legal e.t.c
- ↳ Determine Confirming Party.
- ↳ Design Confirmation Request; Address, Return information (Address of Auditor)
- ↳ FOLLOW UP if Required.

★ DESIGN Confirmation Request → Factors:

- ↳ Risk of Mat. Mis-statement including Fraud Risk
- ↳ Layout & Presentation of Confirmation Request
- ↳ Prior Exp. of Auditor
- ↳ Assertion Addressed
- ↳ Method of Communication → E-mail, visit, Post
- ↳ Management 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 factor and Consider EFFECT of NTE of other Procedure.

★ Management Refuse to send Confirmation. (Important)

Auditor should Ask,

- ↳ Reason and Evaluate Reasonableness.
- ↳ Implications of Mgt. Refusal.
- ↳ Perform ALTERNATIVE Audit Procedure.
- ↳ Communicate with TCWG, if Required
- ↳ Determine implication on Audit Report SA 105

★ Non Response to Positive Confirmation Request,

- ↳ Perform Alternative Audit Procedure
- ↳ Effect on Audit Report.