

EXTERNAL CONFIRMATIONS – (S.L.Au.S – 505)

A) Introduction

The reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

- A) Audit evidence is more reliable when it is obtained from independent sources outside the entity.*
- B) Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.*
- C) Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.*

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity.

B) What are External Confirmations?

"The Audit Evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, by electronic or other medium"

C) Types of Confirmation Request?

Confirmation Requests can be divided into two segments.

- 1) Positive Confirmation Request
- 2) Negative Confirmation Request

1) Positive Confirmation Request

A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

There are two options under this method where the confirmation request is sent.

- A) With the information to be confirmed (Send request letter including outstanding receivable balances)
- B) Without the information to be confirmed (Send a blank confirmation request)

A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information (With information), or by asking the confirming party to provide information (Without information).

A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

2) *Negative Confirmation Request*

A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Negative confirmations provide less persuasive audit evidence than positive confirmations.

The auditor shall only use negative confirmations to reduce the risk of financial statement misstatement to an acceptable level without also performing other substantive procedures when:

- ✚ The assessed risk of material misstatement associated with the relevant financial statement assertion is low;
- ✚ A large number of small balances is involved.
- ✚ A substantial number of errors is not expected; and
- ✚ The auditor believes that respondents will not disregard the confirmation requests.

D) External Confirmation Procedure

When the auditor decides to request positive or negative confirmations, the auditor shall plan, design, undertake and control the external confirmation procedures, including:

- (a) Identification of the member or members of the audit team responsible for controlling the external confirmation process, the resources assigned and the timing of the related procedures.
- (b) Selection of items for which external confirmations will be requested.
- (c) Design and preparation of the confirmation requests.
- (d) Communication of the confirmation requests to the appropriate confirming party.
- (e) Consideration of the results (responses, non-responses and exceptions) of confirmation requests; and
- (f) Evaluation of the evidence obtained from the confirmation requests.

E) Management's Refusal to Allow the Auditor to Send a Confirmation Request

If management refuses to allow the auditor to send a confirmation request, the auditor shall Inquire the reasons for the refusal, and seek audit evidence as to their validity and reasonableness, Evaluate the implications of management's refusal on the risk of fraud, and on the nature, timing and extent of other audit procedures perform. The auditor should focus on the alternative audit procedures designed to obtain relevant and reliable audit evidence.

If auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance of the company and response on the risk associated with management refusal.

Important:

If there is a difference between the balance appear in the confirmation with the balance recorded in the client's financial statement, the proper attention should be devoted to the identified differences to ascertain whether there are material misstatements

