

## CANADIAN AUDITING STANDARDS

### CAS 505

#### external confirmations

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##### SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

3. Other CASs recognize the importance of external confirmations as audit evidence, for example:
  - CAS 330 discusses the auditor's responsibility to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on, and are responsive to, the assessed risks of material misstatement at the assertion level. 6 In addition, CAS 330 requires that, irrespective of the assessed risks of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure. The auditor is also required to consider whether external confirmation procedures are to be performed as substantive audit procedures. 7
  - CAS 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk. 8 To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. CAS 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. 9
  - CAS 240 indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level. 10
  - CAS 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management. 11
8. If management refuses to allow the auditor to send a confirmation request, the auditor shall:
  - (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (Ref: Para. A8)
  - (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (Ref: Para. A9)
  - (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para. A10)
11. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. (Ref: Para. A17)
- A4. Factors to consider when designing confirmation requests include:
  - The assertions being addressed.
  - Specific identified risks of material misstatement, including fraud risks.
  - The layout and presentation of the confirmation request.
  - Prior experience on the audit or similar engagements.
  - The method of communication (for example, in paper form, or by electronic or other medium).
  - Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.
  - The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).
- A9. The auditor may conclude from the evaluation in paragraph 8(b) that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with CAS 315. 14 For example, if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with CAS 240. 15

- A17. When the auditor concludes that a response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with [CAS 315. 18](#) For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with [CAS 240. 19](#)
- A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with [CAS 315. 20](#) For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with [CAS 240. 21](#)
- A21. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the auditor is required by [CAS 240](#) to evaluate whether such misstatement is indicative of fraud. [22](#) Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.
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## Footnotes

6. CAS 330, paragraphs 5-6
7. CAS 330, paragraphs 18-19
8. CAS 330, paragraph 7(b)
9. CAS 330, paragraph A55
10. CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38
11. CAS 500, paragraphs A12-A13
14. CAS 315, *Identifying and Assessing the Risks of Material Misstatement*, paragraph 37
15. CAS 240, paragraph 25
18. CAS 315, paragraph 37
19. CAS 240, paragraph 25
20. CAS 315, paragraph 37
21. CAS 240, paragraph 25
22. CAS 240, paragraph 36
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