

## BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 505, External Confirmations

September 2009

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 505, *External Confirmations*.

### Background

In October 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standard on Auditing (ISA) 505 (Revised and Redrafted), *External Confirmations* (ED-ISA 505). The IAASB approved final ISA 505 at its meeting in September 2008 subject to confirmation from the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in December 2008.

In November 2007, the AASB issued its Exposure Draft to adopt proposed ISA 505 as CAS 505 (ED-CAS 505) to replace Section 5303, CONFIRMATION. There were 6 respondents to ED-CAS 505 (identified below).

The AASB approved CAS 505 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

### Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 505 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 505.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 505 is also available. This information is set out below.

### Significant Matters

#### AASB's Consideration of Amendments to ISA Wording

1. CAS 505 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in ED-CAS 505.  
*Use of Confirmation Regarding Accounts Receivable*  
One respondent suggested that CAS 505 should contain a requirement, equivalent to paragraph 5303.28, for the auditor to use confirmation as a means of obtaining audit evidence regarding accounts receivable, except in certain circumstances (i.e., include a rebuttable presumption for use of confirmations of accounts receivable).
2. The issue of whether confirmation should be mandated in any particular circumstance was debated extensively by the IAASB in developing ISA 505. The IAASB concluded that a requirement should not be established for a rebuttable presumption that external confirmation procedures be performed in a particular circumstance. The IAASB noted that there are many circumstances where external confirmation procedures may not be effective. In addition, a costly documentation burden would arise when the presumption is rebutted.
3. The AASB agreed with the position taken by the IAASB and does not believe that there is a need for a different standard in Canada.  
*Non-responses to Positive Confirmation Requests*  
One respondent suggested that CAS 505 should contain a requirement, equivalent to paragraph 5303.21(b), to deal with circumstances when the auditor receives no response to a positive confirmation request. The requirement would be for the auditor to treat the information for which sufficient appropriate audit evidence has not been obtained as an error.
4. Paragraph 12 requires the auditor to perform alternative procedures to obtain sufficient appropriate audit evidence when a response to a positive confirmation is not received. Performing such procedures is important because, as paragraph A19 notes, 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, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*. 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, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

7. The AASB believes that treating a non-response to a positive confirmation request as an error without having performed alternative audit procedures could result in the auditor failing to identify a previously unidentified risk of material misstatement, as discussed in paragraph A19. Therefore, the AASB believes that the amendment suggested by the respondent would weaken CAS 505 and concluded that it should not be made.

**Other Matters**

None.

**List of Respondents to ED-CAS 505**

BDO Dunwoody LLP

Auditor General of Alberta

Canadian Public Accountability Board

Deloitte & Touche LLP

Institute of Chartered Accountants of British Columbia

Provincial Auditor Saskatchewan

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