

KAEG-I [INTL VERSION 2024]: ISA 505 External Confirmations

Contents

KAEG-I [INTL VERSION]: ISA 505 External Confirmations [ISA | KAEGISA505]

ISA 505 External Confirmations

Introduction, Objective and Definition

International Standards on Auditing: ISA 505.01-06

External Confirmation Procedures

International Standards on Auditing: ISA 505.07

ISA Application and Other Explanatory Material: ISA 505.A1-A7

How do we comply with the standards?

[1 Perform relevant confirmation procedures](#)

[1.1 Design the confirmation request](#)

[1.1.1 Consider the nature and type of information the respondent will be able to confirm](#)

[1.1.2 Direct the confirmation request to the appropriate respondent at the appropriate address](#)

[1.1.3 Determine the form, content, layout and presentation of the confirmation request](#)

[1.1.4 Consider prior experience](#)

[1.2 Maintain control while performing confirmation procedures](#)

[1.3 Evaluate the reliability of responses](#)

[1.4 Send follow-up requests if necessary](#)

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

International Standards on Auditing: ISA 505.08-09

ISA Application and Other Explanatory Material: ISA 505.A8-A10

How do we comply with the standards?

[1 Evaluate the implications of and respond to management's refusal to allow us to send confirmations](#)

Results of the External Confirmation Procedures

International Standards on Auditing: ISA 505.10-14

ISA Application and Other Explanatory Material: ISA 505.A11-A22

How do we comply with the standards?

[1 Evaluate the reliability of responses](#)

[2 Evaluate implications of responses which are not reliable or not received](#)

[3 Perform alternative procedures when responses are not received](#)

[4 Investigate responses to negative confirmation requests](#)

[5 Evaluate the combined evidence provided](#)

Negative Confirmations

International Standards on Auditing: ISA 505.15

ISA Application and Other Explanatory Material: ISA 505.A23

How do we comply with the standards?

[1 Determine the form, content, layout and presentation of the confirmation request](#)

[2 Consider the impact on the audit if responses to negative confirmations indicate a pattern of misstatement](#)

Evaluating the Evidence Obtained

International Standards on Auditing: ISA 505.16

ISA Application and Other Explanatory Material: ISA 505.A24-A25

How do we comply with the standards?

[1 Evaluate the combined evidence provided](#)

ISA 505 External Confirmations

[View the Full Chapter for this Standard](#)

ISA 505 *External Confirmations*

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

Introduction, Objective and Definition

International Standards on Auditing: ISA 505.01-06

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330¹ and ISA 500.² It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.³

1 ISA 330, *The Auditor's Responses to Assessed Risks*

2 ISA 500, *Audit Evidence*

3 ISA 501, *Audit Evidence - Specific Considerations for Selected Items*

External Confirmation Procedures to Obtain Audit Evidence

2. ISA 500 indicates that 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.⁴ That ISA also includes the following generalizations applicable to audit evidence:⁵

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
- 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. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

4 ISA 500, paragraph A5

5 ISA 500, paragraph A31

3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:

- ISA 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, ISA 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
- ISA 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. ISA 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
- ISA 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
- ISA 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

6 ISA 330, paragraphs 5 - 6

7 ISA 330, paragraphs 18 - 19

8 ISA 330, paragraph 7(b)

9 ISA 330, paragraph A53

10 ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

11 ISA 500, paragraphs A8 - A9

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

5. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

Definitions

6. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) External confirmation - Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
- (b) 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.
- (c) 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.
- (d) Non-response - A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
- (e) Exception - A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

External Confirmation Procedures

International Standards on Auditing: ISA 505.07

Requirements

External Confirmation Procedures

7. When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

- (a) Determining the information to be confirmed or requested; (Ref: Para. A1)
- (b) Selecting the appropriate confirming party; (Ref: Para. A2)

(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3-A6)

(d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7)

ISA Application and Other Explanatory Material: ISA 505.A1-A7

Application and Other Explanatory Material

External Confirmation Procedures

Determining the Information to Be Confirmed or Requested (Ref: Para. 7(a))

A1. External confirmation procedures frequently are performed to confirm or request information regarding account balances and their elements. They may also be used to confirm terms of agreements, contracts, or transactions between an entity and other parties, or to confirm the absence of certain conditions, such as a "side agreement."

Selecting the Appropriate Confirming Party (Ref: Para. 7(b))

A2. Responses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

Designing Confirmation Requests (Ref: Para. 7(c))

A3. The design of a confirmation request may directly affect the confirmation response rate, and the reliability and the nature of the audit evidence obtained from responses.

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).

A5. 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, or by asking

the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties.

A6. Determining that requests are properly addressed includes testing the validity of some or all of the addresses on confirmation requests before they are sent out.

Follow-Up on Confirmation Requests (Ref: Para. 7(d))

A7. The auditor may send an additional confirmation request when a reply to a previous request has not been received within a reasonable time. For example, the auditor may, having re-verified the accuracy of the original address, send an additional or follow-up request.

How do we comply with the Standards?

[ISA | KAEGHDWC]

1 Perform relevant confirmation procedures [ISA | 3891]

What do we do?

IF we determine to perform confirmations as substantive audit procedures THEN perform relevant procedures

Why do we do this?

Our objective when using confirmation procedures is to perform such procedures to obtain sufficient and appropriate audit evidence over assertion-level risk(s) of material misstatement (RMMs). If we determine that confirmation procedures are appropriate we exercise professional skepticism throughout the process when sending confirmations.

Execute the Audit

[What relevant procedures do we perform if we determine to perform confirmations as substantive audit procedures?](#) [ISA | 3891.1300]

When sending confirmation requests, we:

- [Design the confirmation request](#);
- [Maintain control while performing confirmation procedures](#);
- [Evaluate the reliability of responses](#);
- [Send follow-up requests if necessary](#)

[When do we send confirmation requests?](#) [ISA | 3891.1500]

We may perform confirmation procedures at the balance sheet date or at an interim date (approach 1).

If the confirmation procedure is performed at other than the balance sheet date, we determine the procedures necessary to extend our conclusions reached to period-end (see activity '[If we use approach 1 then perform relevant procedures](#)' for additional considerations).

[How do we exercise professional skepticism throughout the confirmation process?](#) [ISA | 3891.1600]

We exercise professional skepticism through maintaining a questioning mind and critically assessing the audit evidence we obtain. Specifically for confirmation procedures, this may include validating the authenticity of the response, evaluating responses for possible disconfirming evidence and obtaining sufficient evidence when exceptions are noted in confirmation responses.

For example, if we received a series of confirmation responses from different customers that all appear to have similar hand written signatures and were signed on the same day, we may consider whether the confirmations could have been intercepted by someone within management.

1.1 Design the confirmation request [ISA | 3893]

What do we do?

Design the confirmation request to provide sufficient and appropriate audit evidence

Why do we do this?

The design of the confirmation request may directly affect the response rate and the reliability of the evidence obtained from confirmation responses. We design confirmation requests so they provide audit evidence to respond to the relevant risk(s) of material misstatement.

Execute the Audit

[How do we design confirmation requests?](#) [ISA | 3893.1300]

When we design confirmation requests, we:

- [Consider the nature and type of information the respondent will be able to confirm](#) ;
- [Direct the confirmation request to the appropriate respondent at the appropriate address](#) ;
- [Determine the form, content, layout and presentation of the confirmation request](#) ;
- [Consider prior experience](#) .

1.1.1 Consider the nature and type of information the respondent will be able to confirm [ISA | 3896]

What do we do?

Consider the nature and type of information the respondent to a confirmation request will be readily able to confirm.

Why do we do this?

The nature of the information being confirmed has a direct effect on the reliability of the evidence obtained through confirmation requests. We consider the nature and type of information being confirmed in order to determine the most appropriate and effective confirmation to send.

If we request confirmation of information that the respondent is not able to confirm, the response we receive may not be appropriate and in turn will not be reliable. If the respondent is not able to confirm the information we request, the response rate will be directly affected.

Execute the Audit

[What do we mean by the 'nature and type of information' in relation to confirmation procedures? \[ISA | 3896.1300\]](#)

The nature and type of the information we confirm depends on the relevant accounts, transactions, and risk(s) of material misstatement (RMMs) identified. It may include a variety of different information, including:

- specific information about the terms and conditions of a transaction or agreement,
- the absence of certain conditions, such as a "side agreement"
- account balances or transaction amounts, and/or
- information affecting how transactions are recorded (for instance, interest rates).

Having a thorough understanding of the client's arrangements and transactions with third parties is key to determining the information to be confirmed.

This information may come from information learned during inquiry of management, process walkthroughs with the entity's management, and inspection of relevant contracts and supporting documentation as part of our planning and risk assessment procedures when considering transactions or arrangements for which we might elect to perform confirmation procedures.

This includes considering whether to confirm the amounts and terms of any unusual agreements or transactions we identify.

[How might the nature and type of the information being confirmed affect the reliability of evidence obtained through confirmation requests? \[ISA | 3896.1500\]](#)

The nature and type of the information can directly affect the effectiveness and/or response rate of confirmation requests. The nature and type of the information on the confirmation request is determined by the RMMs we are addressing.

For example, if we are testing RMMs relating to the accuracy of amounts recorded in accounts receivable, we determine whether it is most effective to confirm the ending accounts receivable by customer or whether it is most effective to confirm individual transactions.

[What does 'readily able to confirm' mean in relation to a confirmation request? \[ISA | 3896.1600\]](#)

Readily able to confirm means that the confirmation request includes the appropriate information necessary to allow an appropriate respondent to confirm.

How can we tailor the nature and type of the information in a confirmation request so that a respondent may be more readily able to confirm it? [ISA | 3896.1700]

We tailor the request to the specific RMMs identified and considering the factors that may impact reliability.

For example, if we are testing the accuracy of accounts receivable, we think about whether the respondent will be able to confirm the ending accounts receivable balance or an individual transaction.

When the verification of an account balance is more difficult or complex, we think about alternatively asking the recipient to confirm certain supporting information that will allow us to later compute the appropriate ending account balance.

If we do not tailor the request to include information that the respondent is able to confirm, it is more likely the respondent may not respond to the request entirely, even for the information the respondent is able to confirm.

For example, if we send an accounts receivable confirmation to a customer with the objective of confirming the balance at period end and also include a request to confirm volume discounts or other terms the customer is entitled to, it may affect the respondents willingness to respond. If the respondent is not apprised of the terms of the contract with the entity, the respondent (employee within the customer organization) may simply not respond at all. If the details of the volume discounts or other terms are not key to the audit objective of confirming the ending balance, excluding these items from the confirmation may increase the likelihood of the respondent providing a response without negatively affecting the audit evidence we obtain.

Are there specific considerations relating to oral modifications to agreements? [ISA | 3896.14998]

Yes. We consider whether there may be oral modifications to agreements, such as unusual payment terms or liberal rights of return. If we believe there is a moderate or high degree of risk that there may be significant oral modifications, we inquire about the existence and details of any such modifications to written agreements.

To properly tailor the confirmation request and include information that can readily be confirmed, in those circumstances we might elect to confirm such modifications or request the respondent to provide details of any known modifications to agreements, in conjunction with other elements of the agreement through confirmation procedures.

For example, we may be confirming the existence of an entity's agreement with a supplier to purchase a minimum quantity of goods during a specified period of time or else penalties will be incurred. If management asserts that the vendor orally agreed to modify the period of time stated in the contract, we may choose to request that the vendor confirm the modified period of time.

What if we identify information that cannot readily be confirmed? [ISA | 3896.1900]

If we are concerned that the respondent may not be able to readily confirm information we determine is relevant, we might reconsider whether confirmation procedures will be effective and design other procedures to address the related RMMs.

Examples

How might we tailor the nature of information in a confirmation request, so that the respondent is more readily able to confirm it? [ISA | 3896.2000]

Scenario 1 | Low volume, high value transactions

Fact Pattern

The engagement team is performing confirmation procedures over the existence of accounts receivable. The entity processes a few large and high dollar value transactions for each customer throughout the year.

Analysis

Based on the infrequent number of transactions and high dollar value of transactions, the engagement team determines the customer may be able to readily identify individual transactions. Based on this, the engagement team confirms the individual transactions.

Scenario 2 | High volume, low value transactions recorded in batches

Fact Pattern

The engagement team is performing confirmation procedures over the existence of accounts receivable. The entity processes many low volume and low dollar value transactions per day; however, the sales ledger does not retain a record of each transaction because the entity batches transactions into a single sales entry each day.

Analysis

Because the sales ledger detail is only available in batches by day, the engagement team will likely confirm the end balance rather than a batch of transactions as the customer may not be able to readily identify a batch of sales for 1 day.

Scenario 3 | Amounts dependent on complex calculation

Fact Pattern

The engagement team is performing confirmation procedures over the existence of notes receivable. Each note has a varying rate and installment payment amount by customer.

Analysis

Instead of asking an individual to confirm a mortgage balance that includes a complex interest calculation, the engagement team determines it is most appropriate to confirm the original balance, interest rate, number of instalments, and the date the last instalment was paid.

How do we determine the appropriate information to confirm in relation to an unusual or complex transaction? [ISA | 3896.2100]

Fact Pattern 1

The engagement team is performing an audit of a large pencil manufacturer and through their quarterly inquiries with management, the team identifies a transaction the entity entered into with a customer whereby the customer committed to a minimum sales purchase for the year in exchange for a discounted price per pencil by the entity. The sales from this customer represent approximately 15% of the entity's sales for the period. This sort of transaction is unusual for the entity.

Analysis 1

Based on the facts of the transaction, the engagement team elects to confirm the terms of this transaction given the nature of the transaction is unusual for the entity and its material nature in comparison to the total projected sales.

Fact Pattern 2

The engagement team is performing an audit of a small car part manufacturer and through their quarterly inquiries with management, the team identifies that one of the entity's major customers filed for bankruptcy. The customer's annual sales to the entity are significant and material to the financial statements. Due to the customer's financial challenges, the customer's balance as of period-end is significant and long over-due.

Analysis 2

Based on the facts of the transaction, the engagement elects to confirm the customer's terms given the material nature of the balance and the risk associated with the ability of the entity to collect the unpaid balance.

1.1.2 Direct the confirmation request to the appropriate respondent at the appropriate address

[ISA | 3897]

What do we do?

Direct the confirmation request to the appropriate respondent at the appropriate address.

Why do we do this?

If we send the confirmation request to the wrong respondent or to the wrong address, we are likely not to receive a response or if received the response might not be reliable.

Execute the Audit

[How do we determine the appropriate respondent to direct the confirmation request to?](#) [ISA | 3897.1300]

We think about the nature of the information we are confirming in order to determine the appropriate party to direct the confirmation request to. Once we determine the information necessary to be confirmed, we consider who within the confirming entity might be most knowledgeable about such information.

For example, if we are confirming the accuracy of a cash balance, we may not expect for the marketing manager at the bank to be knowledgeable of the client's bank balance information and we do not direct the confirmation request to them. We direct the request to the official who is responsible for the financial institution's relationship with the entity or is knowledgeable about the transactions or arrangements they are involved in.

When we do not have a specific individual to direct our request to, we consider addressing the confirmation request to the applicable department (e.g., accounts payable) within the confirming entity.

What information about the intended respondent do we consider? [ISA | 3897.1400]

We consider if anything related to the respondent comes to our attention that may raise concerns over the reliability of the response.

For example, we send a confirmation of accounts receivable to a customer of the entity and direct such confirmation to the customer's Accounts Payable department. We notice the response has been received and signed by an intern within in the Accounts Payable department. We might question whether an intern is fit to confirm the requested information and as such, we may ultimately determine that the confirmation response is not reliable unless we perform additional procedures.

When such information comes to our attention, we consider the effects on designing the confirmation request and evaluating results, including determining whether the confirmation request includes the appropriate information and we are sending it to an appropriate respondent.

There may be circumstances, such as significant, unusual year-end transactions that have a material effect on the financial statements or where the respondent is the custodian of a material amount of the audited entity's assets, in which we exercise professional skepticism relative to information that comes to our attention that may raise concerns over the reliability of the response. In these circumstances, we consider whether there is sufficient basis for concluding that we are sending the confirmation request to a respondent from whom we can expect the response will provide meaningful and appropriate evidence.

What else about the respondent of the confirmation request do we think about? [ISA | 3897.1600]

When selecting the respondent for our confirmation request, we think about whether management can influence the respondent. Indicators of possible management influence over the respondent might include:

- Difficulties in confirming cash balances, including when requesting to visit the offices of the entity's bank, or questions about the authenticity of bank statements provided to us;
- Follow-up visits to bank offices indicating serious discrepancies between bank confirmations provided to us and the bank's actual records, such as previously undisclosed material borrowings and no record of or significant differences regarding certain transactions;
- Attempts by management to intercept or alter confirmation requests or responses;

For example, management may have attempted to interfere with our confirmation requests or responses if:

- the confirmation requests were received from a personal e-mail account rather than a company network domain,
- multiple confirmations are returned with similar handwriting and the same date, or
- confirmations returned from companies with different physical addresses contain mail stamps indicating same time processing.

- If the confirming party is susceptible to pressure from entity's management; or

For example, if the confirming entity is the only or a significant customer or supplier of the entity, the staff of that confirming entity may be more susceptible to pressure from the entity's management to falsify documentation provided to us.

- If the respondent is a related party of the entity and if so, whether a response from such respondent may be influenced by management of the entity.

[How does management's influence over the respondent impact the reliability of the evidence provided by confirmation procedures?](#) [ISA | 3897.15010]

We think about whether management's influence may result in the respondent providing false or misleading information to us and whether the evidence provided by the confirmation is reliable.

[How does management's influence on the respondent of the confirmation request affect the procedures we perform?](#) [ISA | 3897.15012]

If we determine that there is a heightened risk that the intended respondent may provide false or misleading information, we think about whether other procedures are necessary to obtain sufficient appropriate audit evidence.

If we determine that management has influence over the respondent and therefore determine that the confirmation response cannot be relied upon, we perform procedures other than confirmation procedures to obtain sufficient audit evidence specific to the risks of material misstatement (RMMs) being addressed.

[How do we determine that the confirmation is appropriately addressed?](#) [ISA | 3897.15013]

Determining that confirmation requests are appropriately addressed includes verifying the accuracy of the addresses (including e-mail addresses), including testing the validity of some or all of the addresses on confirmation requests before they are sent out, regardless of the confirmation method used.

[How do we verify the addresses for confirmations?](#) [ISA | 3897.15014]

If a confirmation request is sent by mail, we may determine that the request is appropriately directed to the appropriate confirming party at the appropriate party by verifying the physical address. We may do so by performing one or combination of procedures below:

- agreeing the physical addresses to the entity's master file of addresses.
- physically observing the location if feasible,
- verifying the address via a search engine on the internet to determine whether the address provided matches the confirming entity's information on the internet.

If our confirmation is returned to us by the postal service, this might indicate that we have not addressed the confirmation to the appropriate address. In these circumstances, we think about what additional procedures might be performed to validate that the address of the respondent is appropriate.

If a confirmation request is sent by e-mail, we may test the validity by requesting them to verify that the e-mail address is appropriate for receiving confirmation requests. We also may test the validity of the e-mail address supplied by also confirming with the respondent directly by telephone. The nature and extent of the necessary procedures is dependent on the risks associated with the particular type of confirmation or address.

For example, a confirmation addressing a specific identified risk of material misstatement, such as a fraud risk, or a confirmation address that appears to be potentially less reliable (for example, an electronic confirmation addressed in a manner that appears easier to falsify) may necessitate different or more extensive procedures to determine that the request is directed to the intended recipient.

[How do we determine the nature and extent of the procedures performed to verify the addresses for sending confirmations?](#) [ISA | 3897.15015]

The nature and extent of the necessary procedures is dependent on the risks associated with the particular type of confirmation or the type of and source of address (e.g. mailing to a physical location versus sending by e-mail or third party service provider).

For example, a confirmation addressing a specific identified RMM, such as a fraud risk, or a confirmation address that appears to be potentially less reliable (for example, an electronic confirmation addressed in a manner that appears easier to falsify) may necessitate different or more extensive procedures to determine that the request is directed to the intended recipient.

[When we request third party confirmations for cash and cash equivalents or investments, how do we determine the appropriate respondent?](#) [ISA | 3897.15016]

When we determine to request third party confirmations to respond to an RMM over the existence of cash and cash equivalents or investments, we request the confirmations to the custodian. An engagement team's rationale for the rebuttal of this procedure is documented in the work papers and reviewed by an engagement partner or other audit partner on the engagement.

When requesting third party confirmations to respond to an RMM over the existence of cash, the custodian is typically the bank.

As it relates to cash equivalents and investments, entities often engage one or more external parties, such as asset managers or trustees to assist in the management or administration of the entity's cash equivalents or investment portfolio. When there is uncertainty about which party is the custodian to confirm existence of cash and cash equivalents or investments, the engagement team may consider obtaining the custody agreement from the entity.

In certain cases, if a custodial relationship does not exist, it may be appropriate to confirm with another entity. Some examples of the alternative entity to confirm existence of an investment may be (list is not all inclusive):

Investment type	Alternative entity with whom to confirm existence when a custodian is not applicable
Private entity investment (for example, a private company that is not publicly traded)	Transfer agent, law firm, or responsible party at the private entity, such as in-house counsel
Mutual fund share	Transfer agent
Private fund investment	Investment manager of the private fund
Term loans and bank debt	Agent bank or loan servicer

[What do we think about when the custodian and asset manager are within the same financial institution?](#) [ISA | 3897.7944]

We think about the possible lack of proper segregation of duties over the custodial and asset management functions in designing the confirmation request and evaluating the results. For example, when the custodian and asset manager of the confirming entity are within different divisions of the same financial institution, we direct the confirmation request to the custody division of the financial institution.

If the custodian or other appropriate confirming entity is an affiliate entity of the entity being audited, we think about the risk arising from the nature of the related party arrangement to determine whether any response from the affiliate can be considered to be reliable audit evidence.

1.1.3 Determine the form, content, layout and presentation of the confirmation request [ISA | 3894]

What do we do?

Determine the form, content AND tailor the layout and presentation of the confirmation request

Why do we do this?

The form of the confirmation request affects the persuasiveness of the audit evidence and the reliability of the audit evidence obtained from confirmation procedures. We tailor the layout and presentation of the confirmation request to obtain sufficient and appropriate evidence to respond to the risk(s) of material misstatement identified.

Execute the Audit

[What are the different forms of confirmation request?](#) [ISA | 3894.1300]

There are two forms of confirmation requests: the positive and the negative form.

What is a positive confirmation request? [ISA | 3894.1400]

A positive confirmation requests the confirming party respond directly to us and indicate that they either agree or disagree with the information in the request, or specifically providing certain requested information. Other positive confirmations, referred to as blank forms, do not state the amount (or other information) on the confirmation request, but request the recipient to fill in the balance or furnish other information.

Positive confirmations provide evidence only when we receive full responses from the recipients; non-responses do not provide audit evidence to address the RMMs identified and may indicate a previously unidentified RMM. However, positive confirmation requests provide more persuasive evidence than negative confirmation requests.

When might we use positive confirmations? [ISA | 3894.1500]

If information available to corroborate management's assertion(s) is only available outside the entity, we might determine a response to a positive confirmation is necessary. We also consider fraud risks, such as the risk of management override of controls, or the risk of collusion, which can involve employee(s) and/or management, as these might prevent us from relying on evidence from the entity. In those cases, we might determine a written response to a positive confirmation request from outside the entity is necessary.

How do we determine whether to use blank positive confirmation requests? [ISA | 3894.1600]

We may use blank forms to mitigate certain risks, such as the recipient returning a confirmation without determining that the information stated in the form is correct.

Although blank forms may provide more persuasive and better quality evidence about the information we are confirming, they may result in lower response rates because of the additional effort by the respondent to complete the request.

What is a negative confirmation request? [ISA | 3894.1700]

A negative confirmation request is a request that the confirming party respond directly to us only if the confirming party disagrees with the information provided in the request.

How do we determine which form of confirmation request is appropriate? [ISA | 3894.1800]

In order to determine the most appropriate form for the confirmation request, we consider the quality of evidence necessary along with the level of CAR assessed for the RMM(s) we are addressing. As combined assessed risk (CAR) increases, we seek more persuasive audit evidence.

How do we determine whether it is appropriate to use negative confirmation requests? [ISA | 3894.1900]

There may be some circumstances where we choose to use negative confirmation requests as the sole substantive audit procedure to address an RMM, but only when all of the following factors are present:

Factor	Impact to Procedures
CAR assessment of BC	Negative confirmation requests are appropriate when CAR is low, which equates to a CAR of BC. Our assessment of CAR

	may be revised based on the results of our tests of operating effectiveness.
Nature of population	Negative confirmation requests are appropriate when the population of items subject to negative confirmation procedures comprise a large number of small, homogeneous account balances, transactions or conditions.
Expected exception rate	Negative confirmation requests are appropriate when a very low exception rate is expected.
Likelihood of respondent to disregard request	Negative confirmation requests are appropriate when we are not aware of circumstances or conditions that may cause the recipients of negative confirmation requests to disregard such requests.

Negative confirmation procedures are not used frequently given the very low level of audit evidence they provide.

What else do we consider when we send negative confirmation instead of positive confirmation requests?

[ISA | 3894.2000]

If we decide to send negative confirmation requests, we do not use KPMG sampling tools to select the items for testing because when we receive no response, no explicit audit evidence has been obtained for the sample item, and no positive conclusion on the sample item can be reached. Instead, we may select items for confirmation using 100% of the population, a specific items testing approach, or via substantive attribute sampling. We determine the appropriate method based on the nature of the account balance and the RMMs identified.

Why might negative confirmation procedures alone not provide sufficient audit evidence? [ISA | 3894.2200]

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties may respond indicating their disagreement with a confirmation request when the information in the request is not in their favor, and not to respond otherwise.

For example, holders of bank deposit accounts may respond if they believe that the balance in their account is understated in the confirmation, but may not respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated, but is may not be effective if we are seeking evidence regarding overstatement.

What do we mean by the "layout and presentation" of the confirmation request? [ISA | 3894.2300]

The layout and presentation of the confirmation request refers to the structure of the request and the information included - e.g. whether we use a blank confirmation and request for the respondent to provide the necessary information or whether we provide the necessary information on the confirmation request and request that the respondent confirm whether it is correct or not.

How do we tailor the layout and presentation of the confirmation request? [ISA | 3894.2400]

We tailor the request to include the specific information necessary in order to respond to the relevant assertions and RMMs identified.

For example, if we are performing the confirmation procedure in response to an identified RMM over the existence of accounts receivable with a customer, we likely will not include information about the cost of goods sold for the customer's purchases during the year, as this is not the objective of the test.

We also think about whether there are factors that may affect the ability and willingness of a respondent to respond to the confirmation request, which may influence how we tailor the layout and presentation of the confirmation request.

The more closely the confirmation request aligns with the respondent's accounting system, the more likely we will be able to obtain a response.

What factors may affect the ability and willingness of a respondent to respond to the confirmation request? [ISA | 3894.2500]

When we tailor the request, we consider factors that may affect reliability. If we provide the respondent with the balance we are confirming, we think about whether the response is as reliable as if we leave the balance open for the respondent to complete. Further, including detail to support the information being confirmed will facilitate a more accurate or reliable response by the respondent.

A respondent may be less willing or unable to respond to a confirmation request if we do not include a response deadline within the request.

A respondent may also be less willing or able to respond if we are unclear about the items requested to be confirmed. Confirmation of terms can be performed in conjunction with the confirmation of account balances or separately, but we think about what information the respondent is readily able to confirm and may know when requesting whether to confirm terms and account balances together.

For example, a person in the accounts payable department may only have knowledge of the account balances and not the specific legal terms of an arrangement.

How do we determine the medium in which to send the confirmation? [ISA | 3894.2600]

We consider the most appropriate and reliable method of communication, for example in paper form or by electronic or other medium.

Depending upon the jurisdiction of the addressee, the local laws and regulations or business customs in those jurisdictions may require specific mediums to send confirmations, for example, organizations in certain jurisdictions may only accept confirmations in paper form. If we do not know or are not

sure of the local laws and regulations or business customs, we may inquire of the local member firm (e.g. component auditor) or also research the country in the [Geographical Market Summaries](https://alex.kpmg.com/AROWeb/bridge/6209/17939?d=INTL,US).

alex.kpmg.com/AROWeb/bridge/6209/17939?d=INTL,US

Some recipients no longer accept and respond to paper confirmation requests received by mail and only respond to confirmation requests sent electronically through designated third party service providers. Additionally, some respondents may direct us to their web portals to allow us to access and obtain confirmation of the entity's information.

If we use a designated third party service provider, we may perform additional procedures to address the risks that:

- the response may not be from the proper source
- a respondent may not be authorized to respond, and
- the integrity of the transmission may have been compromised

Does sending and receiving confirmations through an electronic portal constitute a confirmation procedure? [ISA | 3894.15024]

It depends. If we receive the confirmation directly through an electronic portal, such as Confirmation.com, this constitutes a confirmation procedure. However, if we access an electronic portal via the client's personal log in information to obtain information about a balance, which we are confirming, this does not constitute a confirmation procedure.

For example, a brokerage firm may set up a portal and grant the auditor a unique ID and password for a one-time access to the entity's detailed account statements. In setting up such a portal, the respondent aims to achieve greater efficiencies in processing and responding to a large number of confirmation requests from auditors. If, however, we use the client's personal identification number, to obtain their bank balance information, this procedure may provide audit evidence concerning that information, but it does not meet the definition of confirmation as there is no "active" response from the third party. Rather this online inquiry constitutes an alternative or separate procedure.

How might we design confirmation requests to increase their effectiveness and/or response rate? [ISA | 3894.15025]

To increase the effectiveness and/or response rate of confirmations, we might:

- Stamp the words "Confirmation enclosed: Please examine carefully" on an envelope with KPMG's return address containing the confirmation request;
- Ask an appropriate entity official to manually sign the request;
- Include detail to support the information being confirmed (for example, a copy of the customer's most recent statement);
- Direct the confirmation request "to the attention of" a specific department or employee of the respondent;
- Use clear wording;
- Identify the organization being audited and how the confirmation response will be used by us;
- Set response deadlines; and

- Confirm specific details, for example, for trade receivables, confirming individual invoices, rather than account balances, may increase the response rate

We also consider whether management's authorization or encouragement to the confirming parties to respond to us may increase our response rates, as confirming parties may only be willing to respond to a confirmation request containing management's explicit authorization.

1.1.4 Consider prior experience [ISA | 3895]

What do we do?

Consider prior experience on the audit or similar engagements when designing confirmation requests.

Why do we do this?

Prior experience might provide insight into whether or not confirmation procedures will be effective or how we can design them to be more effective.

Execute the Audit

[What about our prior experience do we consider in relation to confirmation procedures?](#) [ISA | 3895.1300]

We consider the following about our prior experience in relation to confirmation procedures:

- Prior periods' audits response rates - including what has positively and negatively affected those rates;
- Our knowledge of misstatements identified during prior periods' audits; and/or
- Our knowledge of inaccurate information on returned confirmations in prior periods' audits.

If we identify low response rates in the prior period audits, we first think about whether those response rates stem from a failure to address the confirmations to the appropriate respondent or a failure to send follow-up requests on such confirmations. In these circumstances, sending confirmations may still be effective in the current period.

[How does prior experience affect the confirmation procedures we perform?](#) [ISA | 3895.1400]

Our prior experience might affect how we use confirmation procedures in the current period.

For example, in situations where our prior periods' audit experience or experience with similar engagements suggests that:

- response rates to properly designed confirmation requests will be inadequate, or
- responses are known or expected to be unreliable

we may conclude that the use of confirmations is ineffective.

We consider combined assessed risk (CAR) and the specific risks of material misstatement (RMMs) identified when thinking about how our prior experience affects the confirmations we sent.

For example, if we sent appropriately designed confirmation requests in the prior year and experienced a low response rate, but CAR is assessed at EC, EN, SC or SN, we may still

determine that confirmation procedures are necessary to obtain sufficient evidence despite the low response rates we have experienced. In this circumstance, we likely still send confirmation requests, but consider how we may improve the response rates in the current period.

If our prior experience is indicative of poor response rates to properly designed confirmation requests, we may instead consider changing the manner in which the confirmation process is performed, with the objective of increasing the response rates, or may consider obtaining audit evidence from other sources.

1.2 Maintain control while performing confirmation procedures [ISA | 3899]

What do we do?

Maintain control over confirmation requests and responses.

Why do we do this?

When using confirmation procedures, we maintain control of the confirmation requests and responses in order to limit the risk of interception or alteration of the confirmation requests or responses.

Execute the Audit

[What does maintain control of the confirmation process mean?](#) [ISA | 3899.1300]

Maintaining control refers to establishing direct communication between the intended recipient and ourselves to minimize the possibility that the results will be biased because of interception and alteration of the confirmation requests or responses.

[How do we maintain control of the confirmation process?](#) [ISA | 3899.1400]

We maintain control over the confirmation process by sending the confirmation requests, including follow-up requests, ourselves and receiving the response directly from the respondent. We do not use the entity's mail service facilities to send our confirmations due to the increased risk of interception, alteration or fraud.

[Can we use internal auditors to assist us in sending and evaluating confirmation requests?](#) [ISA | 3899.7956]

We do not use internal auditors in sending the confirmation requests, including follow-up requests. When the assessed risk associated with the confirmation procedure is sufficiently low (i.e. Base inherent risk), the entity's internal audit personnel may investigate exceptions if we supervise the activity and subsequently inspect the evidence supporting the entity's explanation of differences. When we use entity's internal audit personnel, we maintain control over the confirmations by maintaining the original confirmation reply and providing the entity personnel with a copy or other record of the reply.

1.3 Evaluate the reliability of responses [ISA | 3900]

What do we do?

Evaluate the reliability of responses to confirmation requests AND if factors that give rise to doubts about the reliability of the response are identified, THEN obtain further audit evidence to resolve those doubts.

Why do we do this?

Even when audit evidence is obtained from sources external to the entity, they could still be unreliable. All responses carry some risk of interception, alteration or fraud and such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Therefore, we evaluate the reliability of the responses and perform additional procedures when doubts about the reliability of the responses are identified.

Execute the Audit

[How do we evaluate the reliability of responses?](#) [ISA | 3900.1300]

To evaluate the reliability of responses we:

- Determine whether there are factors that may indicate doubts about the reliability of a response including:
 - Whether the response was received by us indirectly
 - Whether the response appeared to come from someone other than the intended confirming party.
- Consider verifying the source and contents of a confirmation response when the respondent responds by a method other than through a written communication mailed directly to us - for example, responses received via email, fax and phone or in person. We also consider requesting the sender to mail the original confirmation directly to the auditor. These steps help us obtain additional evidence to support the validity of the response received.

For example, we send a cash confirmation request to the Confirmations Department of XYZ Bank and receive a response from a generic email address stating "The information requested to confirm is accurate", which is signed by the 'Confirmation Department.'

In this circumstance, it is difficult for us to verify the validity of the source of this confirmation based on the email address it came from and the lack of information about the signatory of the confirmation response (nothing denoting the information being confirmed) and we may take additional steps, such as:

- inquiring with another party at the bank by telephone to verify the validity of the email address the response came from, the appropriateness of the signor of the confirmation response and the detailed information being confirmed; and/or
- performing internet searches to confirm entity name and address on the confirmation and agree the entity, contract name and address from confirmation to management's customer records.

[How is a 'facsimile' response defined?](#) [ISA | 3900.15057]

A facsimile is an exact copy, particularly of written or printed material. A facsimile response may be received by fax machine, email or scanned via email.

What information about the intended respondent do we consider? [ISA | 3900.1400]

We consider if anything related to the respondent comes to our attention that may raise concerns over the reliability of the response.

For example, we send a confirmation of accounts receivable to a customer of the entity and direct such confirmation to the customer's Accounts Payable department. We notice the response has been received and signed by an intern within in the Accounts Payable department. We might question whether an intern is fit to confirm the requested information and as such, we may ultimately determine that the confirmation response is not reliable unless we perform additional procedures.

When such information comes to our attention, we consider the effects on designing the confirmation request and evaluating results, including determining whether the confirmation request includes the appropriate information and we are sending it to an appropriate respondent.

There may be circumstances, such as significant, unusual year-end transactions that have a material effect on the financial statements or where the respondent is the custodian of a material amount of the audited entity's assets, in which we exercise professional skepticism relative to information that comes to our attention that may raise concerns over the reliability of the response. In these circumstances, we consider whether there is sufficient basis for concluding that we are sending the confirmation request to a respondent from whom we can expect the response will provide meaningful and appropriate evidence.

What if we determine that the respondent to a confirmation request may not be reliable? [ISA | 3900.15058]

When we determine that the respondent to a confirmation request may not be reliable, we determine whether additional procedures can be performed to provide sufficient appropriate audit evidence.

In these instances, we may elect to send the confirmation request to a different confirming party based on the information we receive. We also think about whether the form of the confirmation request continues to be appropriate based on the information received about the intended recipient.

For example, if we plan to use a negative confirmation request and determine that the intended respondent's willingness to respond is not reliable, we may elect to utilize positive confirmations instead.

When do we request the sender to provide the confirmation directly to us? [ISA | 3900.15216]

We request that the sender provide confirmations directly to us for all confirmation requests.

What if a confirmation response is returned to us indirectly? [ISA | 3900.15060]

When a response has been returned to us indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to us), we request the confirming party respond in writing directly to us instead of the entity.

Is an oral response considered a "received" response? [ISA | 3900.15061]

An oral response to a confirmation request alone does not meet the definition of a confirmation, because it is not a direct written response to us.

Upon obtaining an oral response we may, depending on the circumstances, request the confirming party to respond in writing directly to us. If we do not receive a written response to such a request, we perform additional procedures that support the evidence obtained from the oral responses.

[How may we verify the source and contents of a confirmation response? \[ISA | 3900.15063\]](#)

We may verify the source and contents of a confirmation response other than through a written communication mailed directly to us - for example, responses received via email, fax and phone or in person - by telephoning the confirming party to determine whether the confirming party did, in fact, send the response and/or corroborate the information provided in the response.

We also consider whether to request the respondent to send the confirmation response by mail, taking into account the risk associated with the particular type of confirmation and specific facts and circumstances about the response.

Other examples of procedures we may perform to verify the source and contents of a confirmation response include:

- performing procedures to test the validity of the e-mail address utilized by the respondent;
- telephoning the respondent's supervisor to corroborate the respondent's independence, knowledge of the matter, and authority to respond;
- sending confirmation requests at interim and period end dates, and reconciling period movements in the relevant account balances using the entity's records and other relevant information;
- contacting an audit or law firm in the offshore jurisdiction to confirm the existence of the responding entity - for example, when a respondent holds funds or investments for the entity.

We also think about the possibility of fraud when an external confirmation is the primary audit evidence for a material financial statement item, particularly if the item itself is susceptible to fraud.

[What if the confirming party uses automated systems to coordinate and provide electronic responses to confirmation requests? \[ISA | 3900.15065\]](#)

When the confirming party uses automated systems (for example, "Confirmations.com") to coordinate and provide an electronic response to our confirmation request, we think about the security of the system in order to address the risks that a response may not be from the proper source, a respondent may not be authorized to respond, and/or the integrity of the transmission may have been compromised through interception or alteration and whether the electronic confirmation process is insecure or is improperly controlled. The use of encryption and electronic digital signatures may improve the security of the electronic confirmation system or process.

Such automated systems may meet the definition of a Software Audit Tool (SAT) (i.e. programs, applications and ready-to-use routines that we use to examine, sort, filter or analyze transactions or other data used as audit evidence or which generate results that supplement our judgment). See activity '[Plan and perform CAATs](#)' for further information.

[Are alternative procedures necessary when a confirmation response contains disclaimers and/or restrictions regarding its use? \[ISA | 3900.15066\]](#)

It depends. Disclaimers and/or restrictions in a confirmation response do not necessarily invalidate the reliability of the response as audit evidence. Whether we may rely on the information contained and the degree of such reliance will depend on the nature and substance of the restrictive language.

Examples of restrictions which may cause doubt about the completeness or accuracy of the information within the confirmation response include:

- 'Information is obtained from electronic data sources, which may not contain all information in the respondent's possession', and/or
- 'Information is not guaranteed to be accurate nor current and may be a matter of opinion.'

Examples

What factors might indicate doubt about the reliability of a confirmation response? [ISA | 3900.15070]

Fact Pattern 1

The engagement team sends a confirmation request to confirm a customer's accounts receivable balance as of period-end and subsequently learns that the customer is a related party of the entity. The customer mailed the confirmation response to the entity directly and a member of management provided the response to the engagement team.

Analysis 1

The engagement team determines that the confirmation request is not reliable because it was not received directly by the engagement team, but rather was intercepted by the entity. Because the customer is a related party of the entity, the engagement team determines it is inappropriate to rely on the confirmation response. The engagement team performs alternative procedures over the selection.

Fact Pattern 2

The engagement team sends a confirmation request to confirm the cash balance of the entity's primary cash account. The bank responds, indicating that they no longer accept and respond to paper confirmation requests directs the engagement team to use Confirmation.com. The engagement team sends the request through Confirmation.com and receives a response from the bank. The engagement team reviews the signor information on the response and verifies the title and name of the signor with the bank.

Analysis 2

The engagement team determines that the response received via Confirmation.com is reliable despite that the response has been received electronically. The use of Confirmation.com does not make the request unreliable given the response has been submitted by a signor with an appropriate title/position within the bank.

1.4 Send follow-up requests if necessary [ISA | 3905]

What do we do?

IF we send positive confirmation requests, and a response has not been received, THEN send a follow-up request, if necessary.

Why do we do this?

When a positive confirmation response has not been received, it may be necessary to send a follow-up request in order to obtain sufficient and appropriate evidence over the risk(s) of material misstatement (RMMs). If we send a positive confirmation request, a non-response does not represent audit evidence to support the balance or transaction we are confirming.

Execute the Audit

Under what circumstances do we send a follow-up to a confirmation request? [ISA | 3905.1300]

We send a follow-up request when we have determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence and alternative audit procedures will not provide the necessary audit evidence.

We may also send a follow-up request when a reply to a previous request has not been received within a reasonable time.

It may be helpful to check the accuracy of the original address and modify the address as necessary before sending an additional or follow-up request.

Why might we not receive a response to a confirmation request? [ISA | 3905.1500]

We might not receive a response to a confirmation request because:

- The requested respondent is unwilling to respond;
- The requested respondent never received the request - for example, we used an incorrect address;
- The requested respondent responded but did not send the response to the appropriate address;
- The requested respondent received the request but forgot to respond;
- The requested respondent does not have the requisite knowledge or authority to respond; and/or
- The requested respondent is influenced by management and therefore elects not to send a response.

How do we send a follow-up request? [ISA | 3905.1600]

We may use the same method (mail, email, electronic) as we did when we sent the original confirmation request.

In some instances, we may directly contact the intended respondent to confirm that they received the request and ask them to return the response in writing. This might increase our chances of receiving a response back.

When do we not send a follow-up request? [ISA | 3905.1700]

We do not send follow-up requests for negative confirmations.

If we send positive confirmation requests and we do not receive a response, we might not send a follow-up request if we determine that it is unlikely the respondent will respond to the second request or if time does not permit. In these circumstances, we perform alternative procedures necessary to obtain sufficient evidence.

However, since positive confirmations were our original planned procedure, we think about whether it is appropriate to perform alternative procedures without first attempting to follow up.

Why do we not send follow-up requests for a negative confirmation request?

For negative confirmation requests, the intended respondent responds only if the information contained within the confirmation is not correct and as such, a lack of response to a negative confirmation request does not represent a non-response. If we subsequently determine the information requested within a negative confirmation request is significant, we may send a follow-up confirmation request in the form of a positive confirmation request.

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

International Standards on Auditing: ISA 505.08-09

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

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)

9. If the 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 in accordance with ISA 260 (Revised).¹² The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with ISA 705 (Revised).¹³

¹² ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

¹³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA Application and Other Explanatory Material: ISA 505.A8-A10

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

Reasonableness of Management's Refusal (Ref: Para. 8(a))

A8. A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore required to inquire as to the reasons for the limitation. A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. The auditor is required to seek audit evidence as to the validity and reasonableness of the reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

Implications for the Assessment of Risks of Material Misstatement (Ref: Para. 8(b))

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 ISA 315 (Revised).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 ISA 240.¹⁵

¹⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 31

¹⁵ ISA 240, paragraph 25

Alternative Audit Procedures (Ref: Para. 8(c))

A10. The alternative audit procedures performed may be similar to those appropriate for a non-response as set out in paragraphs A18-A19 of this ISA. Such procedures also would take account of the results of the auditor's evaluation in paragraph 8(b) of this ISA.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Evaluate the implications of and respond to management's refusal to allow us to send confirmations [ISA | 3903]

What do we do?

IF management refuses to allow us to send confirmations, THEN evaluate the implications of their refusal and perform procedures in response to their refusal.

Why do we do this?

If management refuses to allow us to send confirmations, it could represent a scope limitation, as well as have other implications for our audit. Given the impact, we perform any other procedures that we believe are necessary and the impact on our audit.

Execute the Audit

Why might management refuse to allow us to send a confirmation request? [ISA | 3903.1300]

Circumstances which might cause management to refuse to allow us to send confirmation requests include:

- Litigation or other disputes,
- Business negotiations that are ongoing, and/or
- Possible fraud or known errors.

What do we do when management refuses to allow us to send a confirmation request? [ISA | 3903.15026]

We inquire about management's reasons for the refusal and seek evidence about their validity and reasonableness and assess the reasonableness of management's refusal. This information helps us to determine whether management's refusal represents a scope limitation on our audit.

We also perform alternative procedures designed to obtain relevant and reliable audit evidence, as well as evaluate the implications of management's refusal on our assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures.

For example, when we are not able to send accounts receivable confirmations, we perform alternative procedures such as obtaining evidence to support subsequent cash payment of the ending balance.

When we conclude that management's refusal to allow us to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, then we communicate with those charged with governance (see the chapter on communication with those charged with governance [ISA 260](#)) and determine the implication to the audit and our opinion in accordance with [chapter 4 of the International Standards Reports Manual](#)

https://alex.kpmg.com/AROWeb/document/lfc/find/UN_IISRM_ISRM2018_4/toc (ISRM).

How do we evaluate the implications of management's refusal to allow us to send a confirmation request? [ISA | 3903.15033]

We determine whether the reason for management's refusal is appropriate in the circumstances by obtaining evidence or documentation to support the reason for their refusal.

We then think about whether management's refusal indicates a new or increased risk over the relevant risks of material misstatement (RMMs). If management's refusal is unreasonable, this may indicate a fraud risk factor.

For example, if management refuses to allow us to send cash confirmations, we may determine that management is trying to deceive us. In response, we might identify a new fraud risk over cash.

If we do not accept the reasonableness of management's refusal to allow us to send a confirmation request and are prevented from sending confirmations, we consult with DPP and the Risk Management Partner to discuss the reason for their refusal and to determine whether such refusal is a scope limitation or whether their refusal is sufficiently supported.

What alternative procedures do we perform when management refuses to allow us to send confirmation requests? [ISA | 3903.15038]

Our alternative audit procedures may be similar to those appropriate for a nonresponse to a confirmation request, which will vary according the nature of the RMMs the confirmation was intended to address.

For example, if management refuses to allow us to send confirmations to test the existence of cash in the bank at period-end, we may obtain the bank statement for the period-end as well as the period following and trace subsequent cash activity in order to obtain sufficient evidence as to the cash balance at period-end.

As another example, if management refuses to allow us to send confirmations to test the existence of inventory held in a third-party warehouse at period-end, we may physically observe and count the inventory managed in the third party warehouse as an alternative procedure.

Results of the External Confirmation Procedures

International Standards on Auditing: ISA 505.10-14

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests

10. If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (Ref: Para. A11-A16)

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)

Non-Responses

12. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para. A18-A19)

When a Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence

13. If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with ISA 705 (Revised). (Ref: Para. A20)

Exceptions

14. The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements. (Ref: Para. A21-A22)

ISA Application and Other Explanatory Material: ISA 505.A11-A22

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests (Ref: Para. 10)

A11. ISA 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.¹⁶ All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

¹⁶ ISA 500, paragraph A31

A12. Responses received electronically, for example, by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect. A process used by the auditor and the respondent that creates a secure environment for responses received electronically may mitigate these risks. If the auditor is satisfied that such a process is secure and properly controlled, the reliability of the related responses is enhanced. An electronic confirmation process might incorporate various techniques for validating the identity of a sender of information in electronic form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity.

A13. If a confirming party uses a third party to coordinate and provide responses to confirmation requests, the auditor may perform procedures to address the risks that:

- (a) The response may not be from the proper source;
- (b) A respondent may not be authorized to respond; and
- (c) The integrity of the transmission may have been compromised.

A14. The auditor is required by ISA 500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence.¹⁷ The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

¹⁷ ISA 500, paragraph 11

A15. On its own, an oral response to a confirmation request does not meet the definition of an external confirmation because it is not a direct written response to the auditor. However, upon obtaining an oral response to a confirmation request, the auditor may, depending on the circumstances, request the confirming party to respond in writing directly to the auditor. If no such response is received, in

accordance with paragraph 12, the auditor seeks other audit evidence to support the information in the oral response.

A16. A response to a confirmation request may contain restrictive language regarding its use. Such restrictions do not necessarily invalidate the reliability of the response as audit evidence.

Unreliable Responses (Ref: Para. 11)

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 ISA 315 (Revised).¹⁸ For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with ISA 240.¹⁹

¹⁸ ISA 315 (Revised), paragraph 31

¹⁹ ISA 240, paragraph 25

Non-Responses (Ref: Para. 12)

A18. Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances - examining specific subsequent cash receipts, shipping documentation, and sales near the period end.
- For accounts payable balances - examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

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 ISA 315 (Revised).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 ISA 240.²¹

²⁰ ISA 315 (Revised), paragraph 31

²¹ ISA 240, paragraph 25

When a Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 13)

A20. In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include where:

- The information available to corroborate management's assertion(s) is only available outside the entity.
- Specific fraud risk factors, such as the risk of management override of controls, or the risk of collusion which can involve employee(s) and/or management, prevent the auditor from relying on evidence from the entity.

Exceptions (Ref: Para. 14)

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 ISA 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.

²² ISA 240, paragraph 36

A22. Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Evaluate the reliability of responses [ISA | 3900]

What do we do?

Evaluate the reliability of responses to confirmation requests AND if factors that give rise to doubts about the reliability of the response are identified, THEN obtain further audit evidence to resolve those doubts.

Why do we do this?

Even when audit evidence is obtained from sources external to the entity, they could still be unreliable. All responses carry some risk of interception, alteration or fraud and such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Therefore, we evaluate the reliability of the responses and perform additional procedures when doubts about the reliability of the responses are identified.

Execute the Audit

How do we evaluate the reliability of responses? [ISA | 3900.1300]

To evaluate the reliability of responses we:

- Determine whether there are factors that may indicate doubts about the reliability of a response including:
 - Whether the response was received by us indirectly
 - Whether the response appeared to come from someone other than the intended confirming party.
- Consider verifying the source and contents of a confirmation response when the respondent responds by a method other than through a written communication mailed directly to us - for example, responses received via email, fax and phone or in person. We also consider requesting the sender to mail the original confirmation directly to the auditor. These steps help us obtain additional evidence to support the validity of the response received.

For example, we send a cash confirmation request to the Confirmations Department of XYZ Bank and receive a response from a generic email address stating "The information requested to confirm is accurate", which is signed by the 'Confirmation Department.'

In this circumstance, it is difficult for us to verify the validity of the source of this confirmation based on the email address it came from and the lack of information about the signatory of the confirmation response (nothing denoting the information being confirmed) and we may take additional steps, such as:

- inquiring with another party at the bank by telephone to verify the validity of the email address the response came from, the appropriateness of the signor of the confirmation response and the detailed information being confirmed; and/or
- performing internet searches to confirm entity name and address on the confirmation and agree the entity, contract name and address from confirmation to management's customer records.

How is a 'facsimile' response defined? [ISA | 3900.15057]

A facsimile is an exact copy, particularly of written or printed material. A facsimile response may be received by fax machine, email or scanned via email.

What information about the intended respondent do we consider? [ISA | 3900.1400]

We consider if anything related to the respondent comes to our attention that may raise concerns over the reliability of the response.

For example, we send a confirmation of accounts receivable to a customer of the entity and direct such confirmation to the customer's Accounts Payable department. We notice the response has been received and signed by an intern within in the Accounts Payable department. We might question whether an intern is fit to confirm the requested information and as such, we may ultimately determine that the confirmation response is not reliable unless we perform additional procedures.

When such information comes to our attention, we consider the effects on designing the confirmation request and evaluating results, including determining whether the confirmation request includes the appropriate information and we are sending it to an appropriate respondent.

There may be circumstances, such as significant, unusual year-end transactions that have a material effect on the financial statements or where the respondent is the custodian of a material amount of the audited entity's assets, in which we exercise professional skepticism relative to information that comes to our attention that may raise concerns over the reliability of the response. In these circumstances, we consider whether there is sufficient basis for concluding that we are sending the confirmation request to a respondent from whom we can expect the response will provide meaningful and appropriate evidence.

What if we determine that the respondent to a confirmation request may not be reliable? [ISA | 3900.15058]

When we determine that the respondent to a confirmation request may not be reliable, we determine whether additional procedures can be performed to provide sufficient appropriate audit evidence.

In these instances, we may elect to send the confirmation request to a different confirming party based on the information we receive. We also think about whether the form of the confirmation request continues to be appropriate based on the information received about the intended recipient.

For example, if we plan to use a negative confirmation request and determine that the intended respondent's willingness to respond is not reliable, we may elect to utilize positive confirmations instead.

When do we request the sender to provide the confirmation directly to us? [ISA | 3900.15216]

We request that the sender provide confirmations directly to us for all confirmation requests.

What if a confirmation response is returned to us indirectly? [ISA | 3900.15060]

When a response has been returned to us indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to us), we request the confirming party respond in writing directly to us instead of the entity.

Is an oral response considered a "received" response? [ISA | 3900.15061]

An oral response to a confirmation request alone does not meet the definition of a confirmation, because it is not a direct written response to us.

Upon obtaining an oral response we may, depending on the circumstances, request the confirming party to respond in writing directly to us. If we do not receive a written response to such a request, we perform additional procedures that support the evidence obtained from the oral responses.

How may we verify the source and contents of a confirmation response? [ISA | 3900.15063]

We may verify the source and contents of a confirmation response other than through a written communication mailed directly to us - for example, responses received via email, fax and phone or in person - by telephoning the confirming party to determine whether the confirming party did, in fact, send the response and/or corroborate the information provided in the response.

We also consider whether to request the respondent to send the confirmation response by mail, taking into account the risk associated with the particular type of confirmation and specific facts and circumstances about the response.

Other examples of procedures we may perform to verify the source and contents of a confirmation response include:

- performing procedures to test the validity of the e-mail address utilized by the respondent;
- telephoning the respondent's supervisor to corroborate the respondent's independence, knowledge of the matter, and authority to respond;
- sending confirmation requests at interim and period end dates, and reconciling period movements in the relevant account balances using the entity's records and other relevant information;
- contacting an audit or law firm in the offshore jurisdiction to confirm the existence of the responding entity - for example, when a respondent holds funds or investments for the entity.

We also think about the possibility of fraud when an external confirmation is the primary audit evidence for a material financial statement item, particularly if the item itself is susceptible to fraud.

What if the confirming party uses automated systems to coordinate and provide electronic responses to confirmation requests? [ISA | 3900.15065]

When the confirming party uses automated systems (for example, "Confirmations.com") to coordinate and provide an electronic response to our confirmation request, we think about the security of the system in order to address the risks that a response may not be from the proper source, a respondent may not be authorized to respond, and/or the integrity of the transmission may have been compromised through interception or alteration and whether the electronic confirmation process is insecure or is improperly controlled. The use of encryption and electronic digital signatures may improve the security of the electronic confirmation system or process.

Such automated systems may meet the definition of a Software Audit Tool (SAT) (i.e. programs, applications and ready-to-use routines that we use to examine, sort, filter or analyze transactions or other data used as audit evidence or which generate results that supplement our judgment). See activity '[Plan and perform CAATs](#)' for further information.

Are alternative procedures necessary when a confirmation response contains disclaimers and/or restrictions regarding its use? [ISA | 3900.15066]

It depends. Disclaimers and/or restrictions in a confirmation response do not necessarily invalidate the reliability of the response as audit evidence. Whether we may rely on the information contained and the degree of such reliance will depend on the nature and substance of the restrictive language.

Examples of restrictions which may cause doubt about the completeness or accuracy of the information within the confirmation response include:

- 'Information is obtained from electronic data sources, which may not contain all information in the respondent's possession', and/or
- 'Information is not guaranteed to be accurate nor current and may be a matter of opinion.'

Examples

What factors might indicate doubt about the reliability of a confirmation response? [ISA | 3900.15070]

Fact Pattern 1

The engagement team sends a confirmation request to confirm a customer's accounts receivable balance as of period-end and subsequently learns that the customer is a related party of the entity. The customer mailed the confirmation response to the entity directly and a member of management provided the response to the engagement team.

Analysis 1

The engagement team determines that the confirmation request is not reliable because it was not received directly by the engagement team, but rather was intercepted by the entity. Because the customer is a related party of the entity, the engagement team determines it is inappropriate to rely on the confirmation response. The engagement team performs alternative procedures over the selection.

Fact Pattern 2

The engagement team sends a confirmation request to confirm the cash balance of the entity's primary cash account. The bank responds, indicating that they no longer accept and respond to

paper confirmation requests directs the engagement team to use Confirmation.com. The engagement team sends the request through Confirmation.com and receives a response from the bank. The engagement team reviews the signor information on the response and verifies the title and name of the signor with the bank.

Analysis 2

The engagement team determines that the response received via Confirmation.com is reliable despite that the response has been received electronically. The use of Confirmation.com does not make the request unreliable given the response has been submitted by a signor with an appropriate title/position within the bank.

2 Evaluate implications of responses which are not reliable or not received [ISA | 3907]

What do we do?

IF we determine that a response is not reliable, OR when a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence and we do not receive a response, THEN we evaluate the implications.

Why do we do this?

Confirmation responses that are not reliable or not received may have implications on our risk assessment and planned procedures. In some cases, they can ultimately impact our audit opinion if we cannot obtain sufficient appropriate audit evidence to address the identified risk(s) of material misstatement (RMMs).

Execute the Audit

[How do we evaluate the implications if response to a confirmation request is not reliable?](#) [ISA | 3907.1300]

If we determine the response is not reliable we:

- re-evaluate our original risk assessments to determine whether the unreliable response has an impact on overall assessment of the RMM or elsewhere in the audit, including our assessment of inherent risk and potential fraud risks; and
- consider what alternative procedures or modifications to the nature, timing and extent of other planned procedures we can perform to allow us to appropriately address the associated RMM.

As part of re-evaluating our risk assessment, we also think about whether the unreliable response has an implication on any control testwork performed related to the RMM.

[What if we cannot perform alternative procedures to a confirmation request?](#) [ISA | 3907.15085]

If alternative procedures cannot be performed and/or we cannot obtain sufficient audit evidence with respect to the response, we consider whether the item represents a misstatement or exception in our testing and evaluate the impact on our opinion in accordance with modifications to the opinion ([AU-C 705](#), [ISA 705](#)).

How do we evaluate the implications if a written response to a confirmation request is not received? [ISA | 3907.1600]

Much like when we receive a response that is not reliable, we:

- re-evaluate our original risk assessments to determine whether the unreliable response has an impact on overall assessment of the RMM or elsewhere in the audit, including our assessment of inherent risk and potential fraud risks; and
- consider what alternative procedures or modifications to the nature, timing and extent of other planned procedures we can perform to allow us to appropriately address the associated RMM.

If a written response is the only way to obtain sufficient appropriate evidence, we consider the effect on our audit and the audit opinion if we are unable to receive a response, including the CAR assessment for the RMM(s) we are addressing. In these instances, alternative audit procedures will not provide the audit evidence necessary.

For example, if we have identified an RMM due to fraud over the existence of significant side agreements to a contract and we do not receive a confirmation response, it is unlikely that alternative procedures will provide sufficient evidence over the RMM due to fraud identified. We therefore determine the implications for the audit and our opinion.

Furthermore, if the information available to corroborate management's assertion(s) is only available outside the entity, we might determine that a written response is necessary. In some cases, specific fraud risk factors might prevent us from relying on evidence from the entity (e.g., the risk of management override of controls or the risk of collusion, which can involve employee(s) or management, or both).

3 Perform alternative procedures when responses are not received [ISA | 3906]

What do we do?

Perform alternative procedures for each non-response

Why do we do this?

We use alternative procedures to help us obtain sufficient appropriate audit evidence when we do not receive responses to positive confirmation requests.

Execute the Audit

What alternative procedures do we perform on each non-response? [ISA | 3906.15011]

In the case of each non-response, we perform alternative procedures to obtain relevant and reliable audit evidence.

For example, if we receive a confirmation response which is signed by the respondent but the respondent has not indicated on the confirmation whether the information is correct or incorrect

(through the use of a check-box), we do not consider the confirmation response to provide sufficient evidence and we either send a follow-up request or perform alternative procedures over the selection.

If we do not obtain a written confirmation response, we determine whether additional or alternative procedures can be performed, depending on the RMMs being addressed.

For example, if we send confirmations to obtain evidence over the existence of a cash balance and we do not receive a written confirmation response, we might obtain the bank statement for the period-end as well as the period following and trace subsequent cash activity in order to obtain sufficient evidence as to the cash balance at period-end.

We also think about whether any information has come to our attention as to the respondent and whether the response given remains reliable (see question '[What information about the intended respondent do we consider?](#)')

[What is a non-response to a confirmation request?](#) [ISA | 3906.15009]

A non-response is a failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a positive or negative confirmation request that is returned undelivered.

[What alternative procedures to confirmation procedures do we perform?](#) [ISA | 3906.1400]

The nature and extent of alternative procedures varies according to the RMMs the confirmation was intended to address.

For example, in the examination of accounts receivable, alternative procedures may include examination of subsequent cash receipts (including matching such receipts with the actual items being paid), shipping documents, or other client documentation to provide evidence for the existence assertion.

In the examination of accounts payable, alternative procedures may include examination of subsequent cash disbursements, correspondence from third parties, or other records to provide evidence for the completeness assertion.

However, our alternative procedures are responsive to the RMMs we initially intended to address through our confirmation procedures. Those alternative procedures address the same objectives as the original confirmation procedures; otherwise, we may not collect the audit evidence necessary to reach our conclusions.

For example, we send accounts receivable confirmations to confirm the existence of the receivable, as well as the contractual terms of the arrangements with the customer, but we do not receive a response. We perform alternative procedures by obtaining shipping documents and cash receipts after period-end to validate the existence of the receivable at period-end. However, such procedures may not provide sufficient evidence about the contractual terms. Accordingly, we may perform additional alternative procedures, such as obtaining the signed sales agreement for the transactions, to validate the customer's payment terms.

When we determine alternative procedures are necessary to respond to non-responses to confirmation requests, what population do we apply these procedures over? [ISA | 3906.1500]

We apply alternative procedures to all items for which a response is either not received or not sufficient. We do not perform alternative procedures over a sample of those items or a subpopulation of the unconfirmed amounts or items.

For example, if we are confirming accounts receivable balances (i.e., not individual invoices) and we do not receive responses for all the confirmations sent, we perform alternative procedures over each of the individual invoices that make up the unconfirmed balances. We do not perform alternative procedures over a sample or subset of those invoices.

What else do we think about in relation to non-responses to confirmation requests? [ISA | 3906.1600]

A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, it may be necessary to revise the assessed risk of material misstatement at the assertion level, and modify our planned audit procedures.

Fewer responses to confirmation requests than anticipated, or a greater number of a responses than anticipated, may indicate a previously unidentified fraud risk factor we had not previously considered.

For example, we send positive confirmations over the existence of accounts receivable and we have not identified a fraud risk related to the existence of accounts receivable. In previous audits, we have experienced high response rates (greater than 75%) and expect to have similar results in the current year. For 50 confirmations sent, we only receive 5 responses. The 10% response rate might be indicative of an unidentified fraud risk factor, for example, possible pressure by management on customers to ignore auditor confirmation requests in an effort to hide fictitious sales.

Examples

How do we determine the nature and extent of alternative procedures to be performed? [ISA | 3906.1800]

Fact Pattern 1

The engagement team sends confirmation requests for 10 customer invoices for which payment has not been received at period end. The engagement team received responses to 6 confirmation requests, which indicate the information requested is correct.

Analysis 1

The engagement team performs alternative procedures in the form of agreeing to shipping documentation and evidence of subsequent cash received for the remaining 4 invoices for which no response was received. The engagement team evaluates the sufficiency of the evidence obtained from alternative procedures in relation to the RMMs.

Fact Pattern 2

The engagement team sends confirmation requests for 52 customers, and requests to confirm the entire customer balance and each customer balance is comprised of approximately 20 outstanding

invoices. The engagement team receives responses for 48 confirmation requests, all of which indicate the information requested to be confirmed is correct.

Analysis 2

The engagement team performs alternative procedures in the form of requesting shipping documentation and evidence of subsequent cash received for all of the invoices that comprise each of the 4 customers for which no response was received. The engagement team evaluates the sufficiency of the evidence obtained from alternative procedures in relation to the RMMs.

4 Investigate responses to negative confirmation requests [ISA | 3908]

What do we do?

IF negative confirmations are used AND are returned with relevant information, THEN investigate the information and determine the effect on the audit.

Why do we do this?

We investigate exceptions on returned negative confirmation responses to determine if they are indicative of misstatements, and to determine the impact on the audit and our audit approach. Negative confirmation requests may generate responses indicating misstatements and are more likely to do so if we send a large number of negative confirmation requests.

Execute the Audit

How do we investigate the information within responses to negative confirmation procedures? [ISA | 3908.1300]

We inspect the responses to returned negative confirmation requests and compare to supporting documentation to determine whether the information returned indicates a possible exception.

How do we determine the effect on the audit of information received through negative confirmation procedures? [ISA | 3908.1400]

We first determine whether such information received is indicative of an exception. We then inspect any other relevant supporting information/obtain additional evidence (through inquiry, inspection of documents and/or other means) and determine whether such exception represents a misstatement in the financial statements.

How do we identify an exception arising from a negative confirmation request?

We identify an exception when we receive a response to a negative confirmation request that indicates the balance or transaction included on the confirmation request is not correct.

How do we determine whether an exception arising from a negative confirmation request represents a misstatement?

We investigate the exception identified to determine whether the information requested to be confirmed is inaccurate, or if the confirmation respondent incorrectly identified the information as inaccurate.

We may determine it is necessary to gather additional information to draw a conclusion, including inquiring of the client, inspecting other documents or evidence about the transaction, etc.

For example, if we send a confirmation request to confirm the existence of an AR balance of \$400 and we send a negative request, only requesting a response if the \$400 balance is not correct, and we receive a response from the respondent indicating the balance is \$350 because the respondent made a payment after period-end of \$50, we inquire of management and obtain evidence to substantiate the payment of \$50 and timing of such payment. If we determine the payment was in-fact made after period-end, the exception initially identified does not represent a misstatement.

What if we identify a misstatement through negative confirmation procedures? [ISA | 3908.15059]

We treat the exceptions identified as misstatements through negative confirmation procedures in accordance with '[Evaluate the nature, circumstances, effect and implications of misstatements](#)'.

We do not use KPMG sampling tools when selecting items for testing for negative confirmation request procedures and it is therefore *not appropriate* to extrapolate misstatements the remaining population, or to conclude on the population as a whole based solely on negative confirmation procedures.

If we have selected negative confirmations for testing utilizing a substantive attribute sampling approach, we evaluate any errors (exceptions) in accordance with '[Evaluate the possible effect of misstatements/errors, obtaining concurrence if relevant](#)'.

We consider whether to supplement the audit evidence obtained through negative confirmations with other substantive procedures in accordance with the question '[What else do we consider when we send negative confirmation instead of positive confirmation requests?](#)'.

When the level of exceptions is higher than expected, the criteria to be met to use negative confirmations as an audit procedure may no longer be met and we may modify the nature, timing and extent of our planned substantive procedures and no longer use negative confirmations as audit evidence.

5 Evaluate the combined evidence provided [ISA | 3910]

What do we do?

Evaluate the combined evidence provided by confirmations and alternative procedures, including whether exceptions are indicative of misstatements and retain confirmations in audit documentation.

Why do we do this?

We evaluate the combined evidenced provided by confirmation requests and alternative procedures to assess whether we have obtained sufficient and appropriate audit evidence and to determine whether we can conclude on the relevant RMMs.

We also retain confirmation request responses received from third parties as part of our documentation. We do so in order to appropriately document that we have obtained sufficient appropriate audit evidence to support the accounts and RMMs for identified.

Execute the Audit

[How do we evaluate the combined evidence provided by confirmations and alternative procedures?](#) [ISA | 3910.1300]

We evaluate the combined evidencing first by categorizing the responses to confirmation requests. We categorize responses by:

- A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or a response by the appropriate party providing the requested information without exception;
- A response deemed unreliable;
- A non-response; or
- A response indicating an exception.

Based on the nature of the responses received, we investigate exceptions identified on returned responses.

We evaluate the evidence obtained for certain factors in order to determine if relevant and reliable audit evidence has been obtained or whether additional procedures are necessary to be performed.

[What do we consider when evaluating the evidence obtained?](#) [ISA | 3910.15028]

When evaluating the evidence obtained, we consider:

- the reliability of confirmations and alternative procedures;
- the nature of any exceptions, including the implications, both quantitative and qualitative, of those exceptions;
- the evidence provided by any other procedures performed; and
- whether additional evidence is necessary.

[How do we retain confirmations received?](#) [ISA | 3910.15029]

We retain documentation of written mailed confirmation responses, either in hard copy or scanned and retained electronically. We also retain copies of confirmation responses received electronically and document a summary of the information orally confirmed to us.

[How do we determine whether exceptions on returned confirmations requests are indicative of misstatements?](#) [ISA | 3910.15030]

To determine whether exceptions are indicative of misstatements by inquiring of management and obtaining supporting documentation to support the information on the returned response.

[Are all exceptions on returned confirmation requests indicative of misstatements?](#) [ISA | 3910.15031]

No, not all exceptions are indicative of misstatements. We may conclude that exceptions in responses to confirmation requests are due to timing, measurement, or clerical errors in the confirmation procedures.

For example, a customer may return an accounts receivable confirmation indicating that the balance as of December 31st is \$400 when the confirmation request indicated it was \$450 because the customer made a payment on 1/2 in the amount of \$50. If we obtain support to evidence the \$50 payment on 1/2, we do not deem this exception to represent a misstatement.

[Are all exceptions on returned confirmation requests indicative of control deficiencies?](#) [ISA | 3910.15032]

No, not all exceptions indicate control deficiencies. When we identify exceptions we also think whether it indicates a control deficiency, or deficiencies, in the entity's internal control over financial reporting. If we conclude an exception is not a misstatement, we may conclude the exception is not indicative of a control deficiency.

[What if we determine that an exception on a returned confirmation request is indicative of a misstatement?](#) [ISA | 3910.15053]

If we determine an exception is indicative of a misstatement we treat the item as a misstatement in accordance with '[Evaluate the nature, circumstances, effect and implications of misstatements](#)'.

If we determine that an exception is indicative of a misstatement, and we identify more than one exception representing a misstatement, we consider whether the multiple exceptions are indicative of a pattern of misstatements. We do so by assessing the similarities of the exceptions and therefore the misstatements. If we identify a pattern of misstatements in the confirmation responses, we consider whether the pattern identified is indicative of a fraud risk we had not previously identified. We think about whether additional procedures are necessary in response to the pattern identified.

If similar misstatements exist, additional audit procedures may be necessary to determine the extent of possible misstatements and their effect on the conclusions over the significant account or disclosure being confirmed.

[How do we determine whether the combined evidence provided by confirmation and other alternative procedures is sufficient?](#) [ISA | 3910.15054]

The table below indicates factors to consider and their impact on our determination of the sufficiency of audit evidence:

Factor	Impact sufficiency of Audit Evidence
Nature, size and composition of the account balance	<p>We think about whether the evidence obtained from confirmation responses is sufficient in proportion to the size of the balance and the composition of the balance.</p> <div> <p>For example, if we select cash equivalents for confirmation from a population of cash equivalents held by the entity, we think about whether the selection of items for confirmation are an appropriate</p> </div>

	<p>representation of the composition of cash equivalents held by the entity.</p>
RMMs identified	<p>We think about whether the evidence from confirmation procedures sufficiently addresses the RMMs identified.</p> <p>For example, if we perform confirmation procedures in response to RMMs over the existence and accuracy of accounts receivable and we receive responses indicating that each of the customer balances confirmed exist as of period end, but we identify discrepancies in the balances for a number of selections, we think about whether to perform additional procedures over the accuracy of accounts receivable in order to obtain sufficient evidence over the accuracy assertion in response to the discrepancies identified.</p>
Quality of evidence necessary	<p>The greater the assurance necessary, the more persuasive audit evidence we seek. When evidence from outside the entity is determined to be necessary, evidence from confirmation procedures may be necessary.</p>
Susceptibility of loss due to error or fraud	<p>When we identify a risk of susceptibility of loss due to error or fraud, we think about whether the evidence provided by confirmation procedures sufficiently responds to the risk identified.</p> <p>For example, if we identify a risk of loss due to error or fraud over inventory which is held in a third party owned facility, we consider whether the confirmation of such inventory by the third party sufficiently addresses the risk of loss by the entity, or whether additional procedures, such as inspection of the third party warehouse's physical access controls, are necessary to respond to the risk identified.</p>

Unusual or unexpected responses to confirmation requests, such as a significant change in the number or timeliness of responses to confirmation requests relative to prior year audits, or a non-response when a response is expected, may indicate previously unidentified fraud risks. In such cases, revision of CAR and planned audit procedures may be necessary.

What if we determine the evidence provided by confirmation and other alternative procedures obtained is insufficient? [ISA | 3910.15055]

If the evidence obtained is determined to be insufficient, we consider additional confirmation procedures, such as requesting additional confirmations or other procedures, such as extending other tests such as tests of details or analytical procedures and if necessary determine the impact on the audit opinion in accordance with the chapter on modifications to the opinion ([AS 3105](#), [ISA 705](#), [AU-C 705](#)).

Negative Confirmations

International Standards on Auditing: ISA 505.15

Negative Confirmations

15. Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present: (Ref: Para. A23)

- (a) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- (b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions or conditions;
- (c) A very low exception rate is expected; and
- (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

ISA Application and Other Explanatory Material: ISA 505.A23

Negative Confirmations (Ref: Para. 15)

A23. The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favor, and less likely to respond otherwise. For example, holders of bank deposit accounts may be more likely to respond if they believe that the balance in their account is understated in the confirmation request, but may be less likely to respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering

whether such balances may be understated, but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Determine the form, content, layout and presentation of the confirmation request [ISA | 3894]

What do we do?

Determine the form, content AND tailor the layout and presentation of the confirmation request

Why do we do this?

The form of the confirmation request affects the persuasiveness of the audit evidence and the reliability of the audit evidence obtained from confirmation procedures. We tailor the layout and presentation of the confirmation request to obtain sufficient and appropriate evidence to respond to the risk(s) of material misstatement identified.

Execute the Audit

What are the different forms of confirmation request? [ISA | 3894.1300]

There are two forms of confirmation requests: the positive and the negative form.

What is a positive confirmation request? [ISA | 3894.1400]

A positive confirmation requests the confirming party respond directly to us and indicate that they either agree or disagree with the information in the request, or specifically providing certain requested information. Other positive confirmations, referred to as blank forms, do not state the amount (or other information) on the confirmation request, but request the recipient to fill in the balance or furnish other information.

Positive confirmations provide evidence only when we receive full responses from the recipients; non-responses do not provide audit evidence to address the RMMs identified and may indicate a previously unidentified RMM. However, positive confirmation requests provide more persuasive evidence than negative confirmation requests.

When might we use positive confirmations? [ISA | 3894.1500]

If information available to corroborate management's assertion(s) is only available outside the entity, we might determine a response to a positive confirmation is necessary. We also consider fraud risks, such as the risk of management override of controls, or the risk of collusion, which can involve employee(s) and/or management, as these might prevent us from relying on evidence from the entity. In those cases, we might determine a written response to a positive confirmation request from outside the entity is necessary.

How do we determine whether to use blank positive confirmation requests? [ISA | 3894.1600]

We may use blank forms to mitigate certain risks, such as the recipient returning a confirmation without determining that the information stated in the form is correct.

Although blank forms may provide more persuasive and better quality evidence about the information we are confirming, they may result in lower response rates because of the additional effort by the respondent to complete the request.

What is a negative confirmation request? [ISA | 3894.1700]

A negative confirmation request is a request that the confirming party respond directly to us only if the confirming party disagrees with the information provided in the request.

How do we determine which form of confirmation request is appropriate? [ISA | 3894.1800]

In order to determine the most appropriate form for the confirmation request, we consider the quality of evidence necessary along with the level of CAR assessed for the RMM(s) we are addressing. As combined assessed risk (CAR) increases, we seek more persuasive audit evidence.

How do we determine whether it is appropriate to use negative confirmation requests? [ISA | 3894.1900]

There may be some circumstances where we choose to use negative confirmation requests as the sole substantive audit procedure to address an RMM, but only when all of the following factors are present:

Factor	Impact to Procedures
CAR assessment of BC	Negative confirmation requests are appropriate when CAR is low, which equates to a CAR of BC. Our assessment of CAR may be revised based on the results of our tests of operating effectiveness.
Nature of population	Negative confirmation requests are appropriate when the population of items subject to negative confirmation procedures comprise a large number of small, homogeneous account balances, transactions or conditions.
Expected exception rate	Negative confirmation requests are appropriate when a very low exception rate is expected.
Likelihood of respondent to disregard request	Negative confirmation requests are appropriate when we are not aware of circumstances or conditions that may cause the recipients of negative confirmation requests to disregard such requests.

Negative confirmation procedures are not used frequently given the very low level of audit evidence they provide.

What else do we consider when we send negative confirmation instead of positive confirmation requests?

[ISA | 3894.2000]

If we decide to send negative confirmation requests, we do not use KPMG sampling tools to select the items for testing because when we receive no response, no explicit audit evidence has been obtained for the sample item, and no positive conclusion on the sample item can be reached. Instead, we may select items for confirmation using 100% of the population, a specific items testing approach, or via substantive attribute sampling. We determine the appropriate method based on the nature of the account balance and the RMMs identified.

Why might negative confirmation procedures alone not provide sufficient audit evidence? [ISA | 3894.2200]

The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties may respond indicating their disagreement with a confirmation request when the information in the request is not in their favor, and not to respond otherwise.

For example, holders of bank deposit accounts may respond if they believe that the balance in their account is understated in the confirmation, but may not respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated, but is may not be effective if we are seeking evidence regarding overstatement.

What do we mean by the "layout and presentation" of the confirmation request? [ISA | 3894.2300]

The layout and presentation of the confirmation request refers to the structure of the request and the information included - e.g. whether we use a blank confirmation and request for the respondent to provide the necessary information or whether we provide the necessary information on the confirmation request and request that the respondent confirm whether it is correct or not.

How do we tailor the layout and presentation of the confirmation request? [ISA | 3894.2400]

We tailor the request to include the specific information necessary in order to respond to the relevant assertions and RMMs identified.

For example, if we are performing the confirmation procedure in response to an identified RMM over the existence of accounts receivable with a customer, we likely will not include information about the cost of goods sold for the customer's purchases during the year, as this is not the objective of the test.

We also think about whether there are factors that may affect the ability and willingness of a respondent to respond to the confirmation request, which may influence how we tailor the layout and presentation of the confirmation request.

The more closely the confirmation request aligns with the respondent's accounting system, the more likely we will be able to obtain a response.

What factors may affect the ability and willingness of a respondent to respond to the confirmation request? [ISA | 3894.2500]

When we tailor the request, we consider factors that may affect reliability. If we provide the respondent with the balance we are confirming, we think about whether the response is as reliable as if we leave the balance open for the respondent to complete. Further, including detail to support the information being confirmed will facilitate a more accurate or reliable response by the respondent.

A respondent may be less willing or unable to respond to a confirmation request if we do not include a response deadline within the request.

A respondent may also be less willing or able to respond if we are unclear about the items requested to be confirmed. Confirmation of terms can be performed in conjunction with the confirmation of account balances or separately, but we think about what information the respondent is readily able to confirm and may know when requesting whether to confirm terms and account balances together.

For example, a person in the accounts payable department may only have knowledge of the account balances and not the specific legal terms of an arrangement.

How do we determine the medium in which to send the confirmation? [ISA | 3894.2600]

We consider the most appropriate and reliable method of communication, for example in paper form or by electronic or other medium.

Depending upon the jurisdiction of the addressee, the local laws and regulations or business customs in those jurisdictions may require specific mediums to send confirmations, for example, organizations in certain jurisdictions may only accept confirmations in paper form. If we do not know or are not sure of the local laws and regulations or business customs, we may inquire of the local member firm (e.g. component auditor) or also research the country in the [Geographical Market Summaries](https://alex.kpmg.com/AROWeb/bridge/6209/17939?d=INTL,US).

alex.kpmg.com/AROWeb/bridge/6209/17939?d=INTL,US

Some recipients no longer accept and respond to paper confirmation requests received by mail and only respond to confirmation requests sent electronically through designated third party service providers. Additionally, some respondents may direct us to their web portals to allow us to access and obtain confirmation of the entity's information.

If we use a designated third party service provider, we may perform additional procedures to address the risks that:

- the response may not be from the proper source
- a respondent may not be authorized to respond, and
- the integrity of the transmission may have been compromised

Does sending and receiving confirmations through an electronic portal constitute a confirmation procedure? [ISA | 3894.15024]

It depends. If we receive the confirmation directly through an electronic portal, such as Confirmation.com, this constitutes a confirmation procedure. However, if we access an electronic

portal via the client's personal log in information to obtain information about a balance, which we are confirming, this does not constitute a confirmation procedure.

For example, a brokerage firm may set up a portal and grant the auditor a unique ID and password for a one-time access to the entity's detailed account statements. In setting up such a portal, the respondent aims to achieve greater efficiencies in processing and responding to a large number of confirmation requests from auditors. If, however, we use the client's personal identification number, to obtain their bank balance information, this procedure may provide audit evidence concerning that information, but it does not meet the definition of confirmation as there is no "active" response from the third party. Rather this online inquiry constitutes an alternative or separate procedure.

How might we design confirmation requests to increase their effectiveness and/or response rate? [ISA | 3894.15025]

To increase the effectiveness and/or response rate of confirmations, we might:

- Stamp the words "Confirmation enclosed: Please examine carefully" on an envelope with KPMG's return address containing the confirmation request;
- Ask an appropriate entity official to manually sign the request;
- Include detail to support the information being confirmed (for example, a copy of the customer's most recent statement);
- Direct the confirmation request "to the attention of" a specific department or employee of the respondent;
- Use clear wording;
- Identify the organization being audited and how the confirmation response will be used by us;
- Set response deadlines; and
- Confirm specific details, for example, for trade receivables, confirming individual invoices, rather than account balances, may increase the response rate

We also consider whether management's authorization or encouragement to the confirming parties to respond to us may increase our response rates, as confirming parties may only be willing to respond to a confirmation request containing management's explicit authorization.

2 Consider the impact on the audit if responses to negative confirmations indicate a pattern of misstatement [ISA | 3909]

What do we do?

IF responses to negative confirmations indicate a pattern of misstatements, THEN reconsider the combined assessed risk and the effect on our planned audit procedures.

Why do we do this?

Returned negative confirmation requests may represent misstatements and can sometimes reveal patterns that we take into account when determining whether an error or exception might exist. These returned confirmations may indicate that there are more pervasive issues related to the related account(s) or that there is a fraud risk we had not previously identified.

Execute the Audit

[How do we determine if responses to negative confirmation requests indicate a pattern of misstatements?](#)

[ISA | 3909.1300]

A pattern of misstatements may occur when there are multiple misstatements that are identified through both positive and negative confirmation requests. When we receive responses to negative confirmation requests indicating widespread discrepancies, we evaluate whether there is a pattern present. We look for similarities in misstatements that arise - for example, the same underlying cause, similar transaction types or similar types of respondents.

[How might identifying a pattern of misstatements through responses to negative confirmation requests impact our overall audit approach?](#) [ISA | 3909.1400]

When we identify a pattern of misstatements, we think about the impact on our overall audit approach by evaluating the reliability of the audit evidence provided by the confirmations and whether additional procedures may be performed to achieve the appropriate level of audit evidence.

We think about whether the pattern of misstatements identified is indicative of a fraud risk we had not previously identified or might indicate inappropriate accounting by management. Misstatements can indicate that the entity's internal controls are not effective and/or that we may not have appropriately assessed the level of inherent risk. In other words, it may be necessary to modify combined assessed risk (CAR) - which causes us to re-evaluate our planned procedures.

If the level of exceptions is higher than expected, the criteria to be met to use negative confirmations as an audit procedure may no longer be met and we may modify the nature, timing and extent of our planned substantive procedures and no longer use negative confirmations as audit evidence.

Evaluating the Evidence Obtained

International Standards on Auditing: ISA 505.16

Evaluating the Evidence Obtained

16. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary. (Ref: Para. A24-A25)

ISA Application and Other Explanatory Material: ISA 505.A24-A25

Evaluating the Evidence Obtained (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

A25. The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether further audit evidence is necessary, as required by ISA 330.²³

23 ISA 330, paragraphs 26 - 27

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Evaluate the combined evidence provided [ISA | 3910]

What do we do?

Evaluate the combined evidence provided by confirmations and alternative procedures, including whether exceptions are indicative of misstatements and retain confirmations in audit documentation.

Why do we do this?

We evaluate the combined evidenced provided by confirmation requests and alternative procedures to assess whether we have obtained sufficient and appropriate audit evidence and to determine whether we can conclude on the relevant RMMs.

We also retain confirmation request responses received from third parties as part of our documentation. We do so in order to appropriately document that we have obtained sufficient appropriate audit evidence to support the accounts and RMMs for identified.

Execute the Audit

[How do we evaluate the combined evidence provided by confirmations and alternative procedures?](#) [ISA | 3910.1300]

We evaluate the combined evidencing first by categorizing the responses to confirmation requests. We categorize responses by:

- A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or a response by the appropriate party providing the requested information without exception;
- A response deemed unreliable;
- A non-response; or
- A response indicating an exception.

Based on the nature of the responses received, we investigate exceptions identified on returned responses.

We evaluate the evidence obtained for certain factors in order to determine if relevant and reliable audit evidence has been obtained or whether additional procedures are necessary to be performed.

What do we consider when evaluating the evidence obtained? [ISA | 3910.15028]

When evaluating the evidence obtained, we consider:

- the reliability of confirmations and alternative procedures;
- the nature of any exceptions, including the implications, both quantitative and qualitative, of those exceptions;
- the evidence provided by any other procedures performed; and
- whether additional evidence is necessary.

How do we retain confirmations received? [ISA | 3910.15029]

We retain documentation of written mailed confirmation responses, either in hard copy or scanned and retained electronically. We also retain copies of confirmation responses received electronically and document a summary of the information orally confirmed to us.

How do we determine whether exceptions on returned confirmations requests are indicative of misstatements? [ISA | 3910.15030]

To determine whether exceptions are indicative of misstatements by inquiring of management and obtaining supporting documentation to support the information on the returned response.

Are all exceptions on returned confirmation requests indicative of misstatements? [ISA | 3910.15031]

No, not all exceptions are indicative of misstatements. We may conclude that exceptions in responses to confirmation requests are due to timing, measurement, or clerical errors in the confirmation procedures.

For example, a customer may return an accounts receivable confirmation indicating that the balance as of December 31st is \$400 when the confirmation request indicated it was \$450 because the customer made a payment on 1/2 in the amount of \$50. If we obtain support to evidence the \$50 payment on 1/2, we do not deem this exception to represent a misstatement.

Are all exceptions on returned confirmation requests indicative of control deficiencies? [ISA | 3910.15032]

No, not all exceptions indicate control deficiencies. When we identify exceptions we also think whether it indicates a control deficiency, or deficiencies, in the entity's internal control over financial reporting. If we conclude an exception is not a misstatement, we may conclude the exception is not indicative of a control deficiency.

What if we determine that an exception on a returned confirmation request is indicative of a misstatement? [ISA | 3910.15053]

If we determine an exception is indicative of a misstatement we treat the item as a misstatement in accordance with '[Evaluate the nature, circumstances, effect and implications of misstatements](#)'.

If we determine that an exception is indicative of a misstatement, and we identify more than one exception representing a misstatement, we consider whether the multiple exceptions are indicative of a pattern of misstatements. We do so by assessing the similarities of the exceptions and therefore the misstatements. If we identify a pattern of misstatements in the confirmation responses, we consider

whether the pattern identified is indicative of a fraud risk we had not previously identified. We think about whether additional procedures are necessary in response to the pattern identified.

If similar misstatements exist, additional audit procedures may be necessary to determine the extent of possible misstatements and their effect on the conclusions over the significant account or disclosure being confirmed.

[How do we determine whether the combined evidence provided by confirmation and other alternative procedures is sufficient?](#) [ISA | 3910.15054]

The table below indicates factors to consider and their impact on our determination of the sufficiency of audit evidence:

Factor	Impact sufficiency of Audit Evidence
Nature, size and composition of the account balance	<p>We think about whether the evidence obtained from confirmation responses is sufficient in proportion to the size of the balance and the composition of the balance.</p> <div data-bbox="721 823 1409 1117"> <p>For example, if we select cash equivalents for confirmation from a population of cash equivalents held by the entity, we think about whether the selection of items for confirmation are an appropriate representation of the composition of cash equivalents held by the entity.</p> </div>
RMMs identified	<p>We think about whether the evidence from confirmation procedures sufficiently addresses the RMMs identified.</p> <div data-bbox="721 1278 1409 1772"> <p>For example, if we perform confirmation procedures in response to RMMs over the existence and accuracy of accounts receivable and we receive responses indicating that each of the customer balances confirmed exist as of period end, but we identify discrepancies in the balances for a number of selections, we think about whether to perform additional procedures over the accuracy of accounts receivable in order to obtain sufficient evidence over the accuracy assertion in response to the discrepancies identified.</p> </div>
Quality of evidence necessary	<p>The greater the assurance necessary, the more persuasive audit evidence we seek. When evidence from</p>

	outside the entity is determined to be necessary, evidence from confirmation procedures may be necessary.
Susceptibility of loss due to error or fraud	<p>When we identify a risk of susceptibility of loss due to error or fraud, we think about whether the evidence provided by confirmation procedures sufficiently responds to the risk identified.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>For example, if we identify a risk of loss due to error or fraud over inventory which is held in a third party owned facility, we consider whether the confirmation of such inventory by the third party sufficiently addresses the risk of loss by the entity, or whether additional procedures, such as inspection of the third party warehouse's physical access controls, are necessary to respond to the risk identified.</p> </div>

Unusual or unexpected responses to confirmation requests, such as a significant change in the number or timeliness of responses to confirmation requests relative to prior year audits, or a non-response when a response is expected, may indicate previously unidentified fraud risks. In such cases, revision of CAR and planned audit procedures may be necessary.

What if we determine the evidence provided by confirmation and other alternative procedures obtained is insufficient? [ISA | 3910.15055]

If the evidence obtained is determined to be insufficient, we consider additional confirmation procedures, such as requesting additional confirmations or other procedures, such as extending other tests such as tests of details or analytical procedures and if necessary determine the impact on the audit opinion in accordance with the chapter on modifications to the opinion ([AS 3105](#), [ISA 705](#), [AU-C 705](#)).

Copyright

This document includes extracts from materials owned and published by the International Federation of Accountants (IFAC) in 2023, and is used with permission of IFAC.

International Standards on Auditing and their respective logos are trademarks or registered trademarks of the International Federation of Accountants (IFAC).