



**International Federation of Accountants**

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## Agenda Item

# 9

**Committee:** IAASB

**Meeting Location:** Montreal

**Meeting Date:** September 18-22, 2006

### External Confirmations

#### Objective of Agenda Item

To obtain IAASB's input on the proposed direction of the project to revise ISA 505, "External Confirmations."

#### Task Force Members

Craig Crawford, Chair	IAASB Member
David Swanney	IAASB Member
Roberto Tizzano	IAASB Member
Simon Hancox	External Member
John O'Brien	External Member

#### Background

The objectives of the project, as set out in the project proposal approved by the IAASB in December 2005 are:

- To determine whether to change the extent of the obligation on the auditor to obtain external confirmations; and
- To develop, as necessary, additional standards and guidance to improve the effectiveness of the external confirmation process, and the reliability of confirmation responses, including that relating to audit evidence obtained with respect to lawyer letters.

The Task Force met in April, June and July, and held a conference call in August 2006.

The general approach adopted by the Task Force in identifying issues and developing the project approach is to consider external confirmations in the context of the audit risk model. The preliminary conclusion of the Task Force is that the auditor should design audit procedures that are responsive to the risks of material misstatement. The Task Force is proposing confirmation requests not be mandated to address pre-defined risks. The Task Force believes that the benefits of this approach will include:

- *Improved relevance of confirmations:* auditors will make a conscious decision to seek confirmations that will be responsive to risks assessed at the assertion level rather than as a residual procedure on all assertions.

- *Improved reliability of confirmations:* auditors will be less likely to inappropriately rely on confirmations because they seek confirmations when a confirmation is an appropriate response to the assessed risk.
- *Improved execution by auditors:* by linking guidance on the design of confirmations with the assessed risks, and enhancing the guidance in ISA 505 to improve the design of requests and improve follow up of responses, auditors will be more likely to obtain confirmations that will provide the audit evidence the auditor requires.

The Task Force believes that the outcome of the project will be an enhanced ISA that will improve the quality of audits with respect to use of external confirmations.

The project is being discussed at the September IAASB CAG meeting. A verbal report of this discussion will be provided at the IAASB meeting.

### **Material Presented**

Agenda Item 9-A                      Issues Paper  
(Pages 2421 – 2438)

### **Action Requested**

The IAASB is asked to provide direction to the Task Force on the questions raised in the accompanying Issues Paper.