Agenda Item 9-D

COMPARISON OF REQUIREMENTS IN EXTANT ISA 505 WITH PROPOSED REVISED AND REDRATED ISA 505

EXTANT ISA 505	PROPOSED ISA 505	STAFF COMMENT
Introduction		
2. The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion. In making this determination, the auditor should consider the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level.		The determination of whether to use external confirmation is made under ISAs 315 and 330. This is explained in paragraphs 2-6.
17. The auditor should tailor external confirmation requests to the specific audit objective.	See paragraph 10 below	The Objective of the proposed revised ISA sets out the objective of the ISA.
Use of Positive and Negative Confirmations		
	17. The use of negative confirmations without also performing other substantive procedures, which address the assessed risk, shall be limited to circumstances when all of the following conditions are met: (a) The assessed risk of material misstatement associated with the relevant financial statement assertion is low; (b) A large number of small balances is involved; (c) A substantial number of exceptions is not expected; and (d) The auditor does not believe that respondents will disregard the confirmation requests. (Ref: Para. A22-A23)	No requirements in extant ISA 505. Requirements in proposed revised ISA 505 is closely based on extant guidance but elevated to a requirement that limits the use of negative confirmations.

Management Requests		
25. When the auditor seeks to confirm certain balances or other information, and management requests the auditor not to do so, the auditor should consider whether there are valid grounds for such a request and obtain audit evidence to support the validity of management's requests. If the auditor agrees to management's request not to seek external confirmation regarding a particular matter, the auditor should apply alternative audit procedures to obtain sufficient appropriate audit evidence regarding that matter.	11. When management requests that the auditor not send a confirmation request, the auditor shall: (a) perform alternative procedures with respect to the information contained in that request to provide relevant and reliable audit evidence (Ref: Para. A11), and (b) evaluate the impact of management's request on the assessment of the relevant risks of material misstatement and on the nature, timing and extent of audit procedures. (Ref: Para. A12)	The proposed revised ISA does not require the auditor to make a specific assessment of the validity of management's request. The auditor's assessment of a request not to confirm is made in the context of the audit risk model by reference to the risks of material misstatement and the auditor's procedures.
26. If the auditor does not accept the validity of management's request and is prevented from carrying out the confirmations, there has been a limitation on the scope of the auditor's work and the auditor should consider the possible impact on the auditor's report.	11. When management requests that the auditor not send a confirmation request, the auditor shall: (b) evaluate the impact of management's request on the assessment of the relevant risks of material misstatement and on the nature, timing and extent of audit procedures. (Ref: Para. A12) 12. When the auditor is prevented from requesting confirmation and is unable to perform appropriate alternative procedures, the auditor shall consider the possible impact on the auditor's opinion in accordance with ISA 705, "Modifications to the Opinion in the Independent Auditor's Report."	Proposed paragraph 11 requires the auditor to evaluate the impact of management's request not to confirm, whether the request is valid or not. Proposed paragraph 12 is very similar to extant paragraph 26 when the auditor determines that there are no suitable alternative procedures that the auditor can perform to address the impact on the risk of material misstatement.
30. When performing confirmation procedures, the auditor should maintain control over the process of selecting those to whom a request will be sent, the	10. When the auditor decides to perform confirmation procedures in response to an	Proposed guidance is similar to extant ISA.

preparation and sending of confirmation requests, and the responses to those requests.	assessed risk of material misstatement, the auditor shall maintain control over the external confirmation process, including: (a) Designing and preparing the confirmation requests; (b) Directing the communication of the confirmation requests to the confirming party; (c) Considering the results (responses, non-responses and exceptions) of the confirmation requests; and (d) Evaluating the evidence obtained.	
No Response to a Positive Confirmation Request		
31. The auditor should perform alternative audit procedures where no response is received to a positive external confirmation request. The alternative audit procedures should be such as to provide audit evidence about the assertions that the confirmation request was intended to provide.	14. The auditor shall perform alternative audit procedures for non-responses to obtain relevant and reliable audit evidence. When the auditor determines that a response to a positive confirmation request is the only means of obtaining sufficient appropriate audit evidence to respond to assessed risks of material misstatement, and the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion. (Ref: Para A16-A19) 15. The auditor shall investigate exceptions to determine whether or not they represent misstatements. (Ref: Para. A20-A21)	Proposed paragraph 14 requires the auditor to perform alternative audit procedures for non-responses, which is consistent with extant paragraph 31. Proposed paragraph 15 provides increased emphasis on the need to pursue and resolve the implications of exceptions.
Reliability of Responses Received		

	13. When the auditor determines that a response to a confirmation request is not reliable, the auditor shall treat the response as a non-response. (Ref: Para. A14-A15)	No requirements in extant ISA 505. Proposed paragraph 13 increases the emphasis on addressing concerns about reliability of responses.
Causes and Frequency of Exceptions		
34. When the auditor forms a conclusion that the confirmation process and alternative audit procedures have not provided sufficient appropriate audit evidence regarding an assertion, the auditor should perform additional audit procedures to obtain sufficient appropriate audit evidence.		The Task Force believes that this paragraph is redundant because "additional procedures" would likely constitute "alternative audit procedures" for the purposes of the proposed revised ISA.
Evaluating the Results of the Confirmation Process		
36. The auditor should evaluate whether the results of the external confirmation process together with the results from any other audit procedures performed, provide sufficient appropriate audit evidence regarding the assertion being audited.	16. The auditor shall evaluate whether the results of the external confirmation process provide the expected audit evidence or whether further audit procedures are necessary to obtain relevant and reliable audit evidence. ISA 330 (Redrafted) provides guidance when further audit procedures are necessary.	Proposed revised ISA is consistent with extant ISA.