

Proposed International Standard on Auditing (ISA) 505 (Revised), *External Confirmations*

This Agenda Item presents a clean version of the draft of Proposed ISA 505 (Revised).

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 Proposed ISA 330 (Revised)¹ and Proposed ISA 500 (Revised).² It does not address inquiries regarding litigation and claims, which are dealt with in Proposed ISA 501 (Revised).³

External Confirmation Procedures to Obtain Audit Evidence

2. Proposed ISA 500 (Revised) indicates that the appropriateness of audit evidence refers to the quality of audit evidence which, among other matters, depends on the relevance and reliability of the information intended to be used as audit evidence.⁴ In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor considers the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures.⁵ Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide higher quality audit evidence that is more persuasive.⁶ Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received by the auditor from confirming parties, directly or through an intermediary, may be more persuasive than evidence generated internally by the entity.
3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:

Proposed ISA 330 (Revised) requires the auditor to consider whether to perform external confirmation procedures when designing substantive procedure⁷ and, in certain circumstances, to make a determination about the need for external confirmation procedures in relation to cash and cash equivalent balances held by third parties.⁸

 - Proposed ISA 330 (Revised) indicates that audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining persuasive audit evidence to respond to significant risks of material misstatement, whether due to fraud or error.⁹

¹ Proposed ISA 330 (Revised), *The Auditor's Responses to Assessed Risks*

² Proposed ISA 500 (Revised), *Audit Evidence*

³ Proposed ISA 501 (Revised), *Audit Evidence—Specific Considerations for Selected Items*

⁴ Proposed ISA 500 (Revised), paragraph A8

⁵ Proposed ISA 500 (Revised), paragraph 11

⁶ Proposed ISA 500 (Revised), paragraph A10-A12

⁷ Proposed ISA 330 (Revised), paragraphs 11

⁸ Proposed ISA 330 (Revised), paragraphs 11A

⁹ Proposed ISA 330 (Revised), paragraph A33

- ISA 240 (Revised) indicates that the auditor may design external confirmation procedures to obtain audit evidence as a response to address the assessed risks of material misstatement due to fraud at the assertion level.¹⁰
- Proposed ISA 500 (Revised) indicates that inspection or external confirmation procedures, may provide more persuasive audit evidence than inquiry.¹¹

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 20XX.

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:
 - (aA) Confirming party – A third party, whether an individual or an organization, to which the auditor sends an external confirmation request directly or through an intermediary.
 - (aB) 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.
 - (a) External confirmation – Audit evidence obtained as a written response to the auditor from the confirming party, directly or through an intermediary.
 - (aC) External confirmation procedures – A type of audit procedure that is designed and performed as a substantive procedure to obtain relevant and reliable audit evidence about one or more assertions from a confirming party, directly or through an intermediary, in the form of an external confirmation.
 - (aD) Intermediary – A service provider who facilitates digital external confirmation requests and responses between the auditor and the confirming party. An intermediary is not a confirming party.
 - (c) Negative confirmation request – A request that the confirming party respond to the auditor, directly or through an intermediary, 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, in written form, to a positive confirmation request, or a confirmation request returned undelivered.
 - (dA) Positive confirmation request – A request that the confirming party respond to the auditor, directly or through an intermediary, indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

¹⁰ ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A130–A134

¹¹ Proposed ISA 500, paragraphs A12

Requirements

External Confirmation Procedures

7. When using external confirmation procedures, the auditor shall maintain control over the external confirmation process, by:
- (a) Determining the information to be confirmed or requested; (Ref: Para. A1)
 - (aA) Selecting the items to be confirmed or requested;
 - (b) Selecting the appropriate confirming parties; (Ref: Para. A2)
 - (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent to the auditor directly or through an intermediary; and (Ref: Para. A3–A6)
 - (d) Sending the requests, including follow-up requests when applicable, to the confirming parties directly or through an intermediary. (Ref: Para. A7)
 - (e) Obtaining the confirmation responses from the confirming parties directly or through an intermediary.

Using an Intermediary

- 7A. In evaluating the reliability of information intended to be used as audit evidence in accordance with Proposed ISA 500,¹² the auditor shall evaluate the implications of using an intermediary. (Ref: Para. A7A–A7D)

Negative Confirmation Requests

- 7B. Negative confirmation requests provide significantly less persuasive audit evidence than positive confirmation requests. Accordingly, the auditor shall only use negative confirmation requests to address an assessed risk of material misstatement at the assertion level if: (Ref: Para. A7E–A7G)
- (a) Used in combination with other substantive procedures; and
 - (b) All of the following preconditions are present:
 - (i) The auditor's assessment of risks of material misstatement at the assertion level is such that the assessment of inherent risk is on the lower end of the spectrum of inherent risk;
 - (ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions or conditions;
 - (iii) A very low exception rate is expected; and
 - (iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

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

¹² Proposed ISA 500, paragraphs 11

- 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 material misstatement due to 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).¹³ The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with ISA 705 (Revised).¹⁴

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests

- 9A. In evaluating the reliability of confirmation responses in accordance with Proposed ISA 500 (Revised),¹⁵ the auditor shall remain alert throughout the audit for information about conditions, events or circumstances that: (Ref: Para A10A)
- (a) Impairs the credibility of the confirming party; or
 - (b) Indicates that the confirmation request or confirmation response may not be authentic.
10. In applying Proposed ISA 500 (Revised),¹⁶ if the auditor has doubts about the reliability of a response to a confirmation request, the auditor shall determine what modifications to external confirmation procedures, or determine what other audit procedures, are necessary to resolve those doubts. (Ref: Para. A10B–A16)
11. In applying Proposed ISA 500 (Revised),¹⁷ if doubts about the reliability of confirmation responses cannot be resolved, the auditor shall evaluate the implications on the assessment of the risks of material misstatement, including the risk of material misstatement due to 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 for the selected item to obtain relevant and reliable audit evidence. (Ref: Para A17A–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

¹³ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

¹⁴ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹⁵ Proposed ISA 500 (Revised), paragraph 11

¹⁶ Proposed ISA 500 (Revised), paragraph 15(b)

¹⁷ Proposed ISA 500 (Revised), paragraph 16

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: (Ref: Para. A21–A22B)
- (a) Misstatements and if so, whether such misstatements are indicative of fraud;¹⁸ or
 - (b) Deficiencies in the entity's system of internal control.¹⁹

Application and Other Explanatory Material

A0B. [Moved to ISA 330, paragraph A37B – see conforming amendments]

A0C. [Moved to ISA 330, paragraph A37C – see conforming amendments]

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 risks of material misstatement due to fraud.

¹⁸ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5A

¹⁹ ISA 315 (Revised 2019), paragraph 27

- Prior experience on the audit or similar engagements.
- The method of communication.
- 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).
- Whether an intermediary is used to send external confirmation requests and to receive external confirmation responses. The use of an intermediary does not diminish the auditor's responsibility to maintain control over the external confirmation process.

A4A. External confirmation procedures are designed and performed to obtain audit evidence relevant to one or more assertions. However, because an external confirmation ordinarily addresses only specific information requested from the confirming party, external confirmation procedures may not, on their own, provide sufficient appropriate audit evidence for all relevant assertions.

Examples:

- Valuation – For accounts receivable balances, external confirmation procedures may provide evidence that the debtor acknowledges the amount owed at the confirmation date. However, they do not, on their own, provide sufficient appropriate audit evidence regarding the valuation of the receivable, as the debtor may be experiencing financial difficulties.
- Completeness – For loans, a bank confirmation provides evidence in relation to the financial institution from which the confirmation is obtained. It does not provide sufficient appropriate audit evidence regarding the completeness of all bank accounts, borrowings or other banking arrangements, as the entity may have relationships with other financial institutions that are not subject to the confirmation.

- 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 provides relevant and 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.
- 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.

Using an Intermediary (Ref: Para 7A)

A7A. An intermediary used in external confirmation procedures is a service provider as defined by ISQM1²⁰ because it is an individual or organization external to the firm that provides a resource that is used in the performance of an engagement. ISQM 1 requires the firm to establish quality objectives that address whether human, technological or intellectual resources from service providers are appropriate for use in the performance of engagements.²¹ Accordingly, when an intermediary is used in confirmation procedures, the firm establishes policies or procedures that set out matters for the engagement team to consider in determining whether the intermediary is appropriate for that purpose.

A7B. In evaluating the implications on the reliability of the confirmation request sent through an intermediary and the confirmation response received through an intermediary, the auditor may consider information obtained through the firm's policies or procedures established in accordance with ISQM1 or through procedures performed at the engagement level. Such information may assist the auditor in:

- Obtaining an understanding of the intermediary's controls that address the risk of interception and alteration of the external confirmation requests and responses.
- Determining whether the intermediary's controls designed to address the risk of interception and alteration of the external confirmation requests and responses have been designed, implemented and, where relevant, are operating effectively. This determination may include considering a report on controls at a service organization (e.g., a type 1 or type 2 report as per ISA 402)²² that is relevant to the intermediary's services.
- Evaluating whether any relationship between the intermediary and the entity (e.g., financial, ownership, or other business relationships or contractual rights) may enable the entity to override or influence the controls designed to address the risks of interception and alteration of the confirmation requests and responses.

A7C. The auditor's evaluation may indicate that the use of an intermediary could adversely affect the reliability of the information intended to be used as audit evidence. This may be the case, for example, when:

- The auditor is unable to obtain sufficient appropriate audit evidence that the intermediary has implemented controls that appropriately address the risks of interception or alteration of confirmation requests and responses; or
- Relationships or other circumstances exist that could enable the entity to override the intermediary's controls that address the risks of interception or alteration of confirmation requests and responses.

In such circumstances, the auditor may determine that the use of the intermediary is not appropriate and instead send the confirmation requests directly to the confirming parties or perform alternative audit procedures that may be similar to those appropriate for a non-response as set out in paragraphs

²⁰ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 16(v)

²¹ ISQM 1, paragraph 32(h)

²² ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraphs 8((b) and 8(c)

A18–A19 of this ISA.

A7D. If a confirming party uses an intermediary 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. [Moved from paragraph A13]

Negative Confirmation Requests (Ref: Para. 7B)

A7E. The absence of 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, the absence of a response from a confirming party 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.

A7G. The following are examples of other substantive procedures that auditors may perform in combination with negative confirmation requests:

- Substantive analytical procedures.
- Tests of details over subsequent cash receipts or payments.
- Cut-off testing over sales or purchase transactions.
- Analytical procedures that are not substantive analytical procedures.

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 in accordance with ISA

315 (Revised 2019)²³ and modify planned further audit procedures to be responsive to the revised risk assessment.²⁴ For example, if management's refusal to allow the auditor to send a confirmation request is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).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.

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests (Ref: Para. 9A–10)

A10A. Information that calls into question the credibility of a selected confirming party may arise, for example, from:

- Publicly available information (e.g., through news and other media);
- The auditor's previous experience with the confirming party;
- The auditor's knowledge obtained from other engagements; and
- Management.

A10B. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- A response indicating an exception;
- A non-response; or
- A response deemed unreliable. [Moved from paragraph A24]

A11. Proposed ISA 500 (Revised) indicates that when evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor is required to consider the source of the information. The source of the information may affect the auditor's professional judgment regarding relevance and the attributes of reliability of the information intended to be used as audit evidence. .²⁶ Although external confirmation procedures result in information from external sources, 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 digital or other medium, directly or through an intermediary. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly, or through an inappropriate intermediary;
- Appeared not to come from the originally intended confirming party (e.g., came from a physical

²³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 37

²⁴ Proposed ISA 330 (Revised), paragraphs 6-7

²⁵ ISA 240 (Revised), paragraph 38

²⁶ Proposed ISA 500 (Revised), paragraph A32

or digital address other than the address on the confirmation request); or

- Does not include a signature of the confirming party or otherwise identify the confirming party.

A12. Responses received in digital form, for example, by e-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 in digital form 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 digital form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity.

A13. [Moved to paragraph A7D]

A14. The auditor is required by Proposed ISA 500 (Revised) to determine what modifications or additions to audit procedures are necessary to resolve doubts about the reliability of information intended to be used as audit evidence.²⁷ The auditor may choose to verify the source and contents of a response to a confirmation request by directly contacting the confirming party. 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.

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. If the auditor cannot resolve doubts about the reliability of a response or concludes that a response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level in accordance with ISA 315 (Revised 2019)²⁸ and modify planned further audit procedures to be responsive to the revised risk assessment.²⁹ For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with ISA 240 (Revised).³⁰

Non-Responses (Ref: Para. 12)

A17A. In the case of each non-response, alternative audit procedures for the selected item may provide relevant and reliable audit evidence for the same relevant assertions and achieve a similar level of persuasiveness as the external confirmation procedures originally intended. The auditor may

²⁷ Proposed ISA 500 (Revised), paragraph 15(b)

²⁸ ISA 315 (Revised 2019), paragraph 37

²⁹ Proposed ISA 330 (Revised), paragraphs 6-7

³⁰ ISA 240 (Revised), paragraph 38

determine that a combination of alternative audit procedures is necessary to obtain relevant and reliable audit evidence.

A18. The following are examples of alternative audit procedures the auditor may perform and that individually or in combination may provide relevant and reliable audit evidence for the selected items:

Examples:

- For cash and cash equivalent balances held by third parties – directly accessing information maintained by a knowledgeable external source through direct access mechanisms such as auditor-controlled access to bank account information through a secure portal.³¹
- For accounts receivable balances – examining one or more of the following (i) specific subsequent cash receipts, (ii) shipping documents, or (iii) other supporting documents (e.g., purchase orders or signed contracts and amendments).
- For terms of a transaction or agreement – inspecting the signed contract and amendments thereto, comparing contractual terms to industry norms, and discussing and verifying significant information with other parties involved in the transaction or agreement.
- For accounts payable balances – examining one or more of the following: (i) subsequent cash disbursements, (ii) correspondence from vendors and suppliers, or (iii) other supporting documentation.

A19. The nature, timing and extent of alternative audit procedures may be affected by:

- The assessed risks of material misstatement at the assertion level.
- The nature of the class of transactions, account balance or disclosure.
- The results of other audit procedures performed that address the same assertion(s).

A non-response to a confirmation request may also 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 2019).³² 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 (Revised).³³

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.

³¹ Proposed ISA 330 (Revised), paragraph A37C

³² ISA 315 (Revised 2019), paragraph 37

³³ ISA 240 (Revised), paragraph 38

- 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 450³⁴ to evaluate whether such misstatement is indicative of fraud. Exceptions may also provide a guide to the quality of responses from similar confirming parties or for similar accounts.. If an exception is indicative of fraud, ISA 240 (Revised)³⁵ requires the auditor to obtain an understanding of the matter(s) in order to determine the effect on the audit engagement.
- 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.
- A22A. Exceptions identified through external confirmation procedures also may indicate deficiencies in the entity's system of internal control. ISA 265³⁶ establishes requirements and provides guidance on communicating to management and those charged with governance deficiencies in internal control that the auditor has identified during the audit.
- A24. [Moved to paragraph A10A]

³⁴ ISA 450, paragraph 6

³⁵ ISA 240 (Revised), paragraph 55

³⁶ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*