

PROPOSED CONFORMING AMENDMENTS

Definitions of External Confirmation and Confirmation Process in IAASB Handbook

The definition in the proposed ISA 505 (Revised and Redrafted), “External Confirmations”

- (a) External confirmation – Audit evidence obtained by the auditor as a direct written response to the auditor, whether in paper form, or by electronic or other medium, from a third party (the confirming party).
- (b) External confirmation process – The process of performing procedures directed towards obtaining an external confirmation.

To reflect the definitions in proposed ISA 505 (Revised and Redrafted), the Glossary and proposed ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence,” would need to be amended as follows:

Glossary of Terms

~~Confirmation—A specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party.~~

External confirmation – ~~Audit evidence obtained by the auditor as a direct written response to the auditor, whether in paper form, or by electronic or other medium, from a third party (the confirming party). The process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements.~~

~~External confirmation process – The process of performing procedures directed towards obtaining an external confirmation.~~

Proposed ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence”

A16. ~~An external C~~~~confirmation is~~~~represents~~ audit evidence obtained by the auditor as a direct written response to the auditor, whether in paper form, or by electronic or other medium, from a third party (the confirming party)~~a specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party.~~ Confirmation procedures are frequently are used in relation to account balances and their ~~components~~constituent parts. For example, the auditor may seek direct confirmation of receivables by communication with debtors. However, confirmations need not be restricted to these items. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request is designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. Confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, e.g., the absence of a “side agreement” that may influence revenue recognition. See [proposed] ISA 505 (Revised and Redrafted), “External Confirmations” for further guidance.

ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”

A37. The auditor may design procedures to obtain additional corroborative information. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. In these circumstances, the auditor may, for example, design ~~external~~ confirmation [requests](#) not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor might find it effective to supplement such ~~external~~ confirmation [request](#)s with inquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.