

INTOSAI



*Practice Note to ISA 505*

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## *External Confirmations*

# INTOSAI



INTOSAI General Secretariat - RECHNUNGSHOF  
(Austrian Court of Audit)  
DAMPFSCHIFFSTRASSE 2  
A-1033 VIENNA  
AUSTRIA

Tel.: ++43 (1) 711 71 • Fax: ++43 (1) 718 09 69

E-MAIL: [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at);  
WORLD WIDE WEB: <http://www.intosai.org>

*Practice Note<sup>1</sup> to International Standard on Auditing (ISA) 505*

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# External Confirmations

## Background

This Practice Note provides supplementary guidance on ISA 505 – External Confirmations. It is read together with the ISA. ISA 505 is effective for audits of financial statements for periods beginning on or after December 15, 2009. The Practice Note is effective the same date as the ISA.

## Introduction to the ISA

ISA 505 deals with the auditor’s use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330<sup>2</sup> and ISA 500<sup>3</sup>. It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501<sup>4</sup>.

## Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) External Confirmation Procedures to Obtain Audit Evidence.
  - (b) Management’s Refusal to Allow the Auditor to Send a Confirmation Request.

## Applicability of the ISA in Public Sector Auditing

- P2. ISA 505 is applicable to auditors of public sector entities in their role as auditors of financial statements.

## Additional Guidance on Public Sector Issues

### External Confirmation Procedures to Obtain Audit Evidence

- P3. Paragraph A1 of the ISA and paragraph A48 of ISA 330<sup>5</sup> state that confirmations can be used to obtain evidence about the presence or absence of certain conditions (e.g. “side agreements” not included in formal arrangements). In addition to assertions related to the audit of financial statements, public sector auditors may find confirmations useful in obtaining evidence related to

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<sup>1</sup> All Practice Notes are considered together with ISSAI 1000, “General Introduction to the INTOSAI Financial Audit Guidelines.”

<sup>2</sup> ISA 330, “The Auditor’s Responses to Assessed Risks.”

<sup>3</sup> ISA 500, “Considering the Relevance and Reliability of Audit Evidence.”

<sup>4</sup> ISA 501, “Audit Evidence— Specific Considerations for Selected Items.”

<sup>5</sup> ISA 330, “The Auditor’s Responses to Assessed Risks.”

additional audit objectives stipulated by their audit mandate or arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature. For example, external confirmations can be used to obtain evidence about:

- The presence or absence in agreements or arrangements with third parties of legislated or other terms and conditions such as guarantees of performance or funding;
- The commitment of expenditures that have not yet been authorized by the legislature;
- The continued eligibility of individuals in receipt of pensions, income assistance, annuities or other ongoing payments; or
- The presence of “side deals” with suppliers for the return of goods for credit in order to use funding that would have otherwise lapsed in a subsequent fiscal period.

- P4. Paragraph 2 of the ISA states that corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from evidence within the accounting records or from representations made by management. As such, paragraph 6 (a) defines an external confirmation as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. Given the size and complexity of governments, public sector auditors need to be vigilant to ensure that external confirmation requests are directed to third parties who are independent of the audited entity and the responses are reliable in light of the relationship between the entity and the confirming party.

## Management’s Refusal to Allow the Auditor to Send a Confirmation Request

- P5. Public sector auditors may, in addition to the requirement to communicate to those charged with governance, as stated in paragraph 9 of the ISA also be required or expected to communicate to the legislature or appropriate oversight body.

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4 ISSAI 705, “Modifications to the Opinion in the Independent Auditor’s Report.”