



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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February 25, 2008

Mr. Jim Sylph, CA
Executive Director, Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Mr. Sylph:

RE: Exposure Draft, ISA 505 – External Confirmations

The Canadian Public Accounting Board (CPAB) is pleased to respond to the above Exposure Draft (ED).

General comments

Overall, we believe this ED, including the conforming amendment, provide a sound standard, although we have concerns about the issues noted below and, as with other EDs, some unnecessarily weak wording.

Comments on the Explanatory Memorandum

Mandating external confirmation requests

While not mandating confirmation requests is acceptable, we believe there are certain uses of confirmation that are traditionally built into audit processes, and for good reason. We therefore believe that auditors should be required to use external confirmations at least when the related audit risk is a significant risk and there is an expectation that external confirmations will be an effective means of obtaining relevant and reliable audit evidence to respond to the risk. We also believe there should be a requirement to consider (and document such consideration) whether to request confirmations in all circumstances when there is a reasonable expectation that this will be an effective means of obtaining relevant and reliable audit evidence. Most importantly, this applies to confirmation of accounts receivable balances or, more usually, specific invoices. This technique is the auditor's primary means of detecting management fraud perpetrated by means of processing fictitious invoices, and fraud by other employees. Other examples are confirmation of bank balances and related information such as loans, guarantees, hedges



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and other derivatives. The argument in the second bullet that mandating confirmation requests in particular circumstances would be inconsistent with ISA 330, which is risk based, is invalid. There are any number of procedures mandated in the ISAs that are there for good reason.

Determining When to Use External Confirmation Procedures

For the reasons set out above, we do not believe the general guidance contained in ISAs 315 (Revised and Redrafted) and 330 (redrafted) is sufficient to lead auditors to an appropriate audit approach.

Negative Confirmation Requests

We agree with the approach to negative confirmation requests.

The Application of the Clarity Drafting Convention

Overall, we believe the balance achieved is reasonable. However, we have several specific comments on the application of the convention. Many relate to use of unnecessarily weak language when more robust language is needed, as illustrated below.

Key concern

Significant reduction in requirements relating to non-returned confirmations

1. Regarding management's refusal to allow the auditor to send a confirmation request, paragraph 8(c) requires alternative procedures to be performed "where possible". This is a significant watering down of existing ISA 505.25, which requires it in all circumstances. It is also inconsistent with paragraph 12 of the ED, which requires alternative procedures to be performed for non-responses. "Where possible" should be removed from the text. If alternative evidence is not available, the auditor is in a restricted scope situation.
2. We also refer to CICA Handbook paragraph 5303.21(b), which requires the auditor to treat the unverified portion of non-responses to confirmations as an error. This is an important requirement that we believe should be added to this ED, even though it is not in existing ISA505. It reads as follows:



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The auditor often will encounter circumstances where no response is received to a positive confirmation request, even after follow-up requests have been made, because a recipient is unable or unwilling to reply. In these circumstances, the auditor needs to:

- (a) perform other audit procedures to obtain sufficient appropriate evidence; or
- (b) treat information for which sufficient appropriate evidence has not been obtained as an error. In such circumstances, the auditor needs to be satisfied that the effect of treating the non-response as an error is not material to the fair presentation of the financial statements when combined with other uncorrected errors identified during the audit.

Unnecessarily weak language

Implementation of these suggestions would not result in promoting guidance into a requirement.

Reference	Comment
2	On line four, “may be” should be “are”. There is no case when the generalizations would not be relevant because they are pervasive to all auditing.
2	On the last line, “may be” should be “is normally”, to be consistent with the above generalizations.
3	In the first bullet, line three, “may increase” should be “increases”. There is no circumstance where an increase in the assessed risk of material misstatement does not require an increase in the audit evidence obtained.
9	The word “possible” on line four is superfluous and should be removed.
A9	Delete “may include” on line one and substitute “include, when applicable”. There are no circumstances when all seven bullets would not be considered if they were applicable.
A16	The word “could” on line two is superfluous and should be removed.
A17	When the response has inadvertently been returned to the client, there are several approaches that can be taken to obtain compensating evidence, one of which is to request a second confirmation. We suggest the word “may” be replaced by “should normally”. Perhaps this should be a requirement, but since it is an unusual situation, this is probably not necessary.
A22	If a non-response to a confirmation request indicates a previously unidentified risk of material misstatement, the auditor automatically must revise the assessed risk. To not do so would negate the entire risk based framework. “May need to revise” should be “revises” or “would revise”.



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If you wish to discuss any of the above comments please contact David Selley at CPAB
(416) 913-8260 extension 4153.

Yours truly,

A handwritten signature in black ink, appearing to read 'K. Boocock', written in a cursive style.

Keith Boocock
Chief Executive Officer

cc. Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
Canadian Institute of Chartered Accountants