



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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January 24, 2008

Mr. Greg Shields, CA  
Director, Auditing and Assurance Standards  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

Dear Mr. Shields:

Re: Exposure Draft (ED), *External Confirmations*

The Canadian Public Accountability Board (CPAB) is pleased to comment on the above ED. When we respond to the IAASB we will send you a copy of that response.

We believe all the noted significant changes represent improvements except for the following important matters:

**1. Dropping the requirements relating to confirming accounts receivable**

We understand that this ED only deals with the confirmation process and does not address when the process should be used. Certain conforming amendments are proposed to ISA 550 that elaborate only a little on confirmation as an audit technique. Unlike existing Handbook Section 5303, no criteria are established for when confirmation is appropriate or required. Furthermore, the requirement in Handbook 5303.28 that justification be documented for not confirming accounts receivable disappears. In our experience, confirmation of accounts receivable is the auditing procedure most likely to detect employee fraud and management fraud perpetrated by falsifying revenues. We also encounter among auditors a reluctance to send trade accounts receivable confirmations. Existing Handbook Section 5303.28 in our view should be the minimum requirement. If this requirement is not carried forward to ISA 550, we believe the AASB should issue a supplementary standard or Assurance Guideline specifically on accounts receivable confirmation.

**2. Significant reduction in requirements relating to non-returned confirmations**

- a) 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 and Handbook paragraph 5303.21, which require 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.
- b) Handbook paragraph 5303.21(b) requires the auditor to treat the unverified portion of non-responses to confirmations as an error. This is an important requirement that is missing from this ED.

We will comment to the IAASB on these matters.

***Significant proposed Canadian Modifications***

We believe the matters set out above under items 1 and 2, if not appropriately amended by the IAASB, require Canadian modification or supplementary guidance.

***Comments on the IAASB ED***

Our response to the IAASB will support the many good features of this ED but will comment on the matters raised in this letter as well as on several aspects of the Introduction to the requirements and the Application and Other Explanatory Material that are unnecessarily weak. Excessive use of the word "may", or similar words, when stronger alternatives are warranted detracts from the proposed ISA.

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

Yours truly,



Keith Boocock, CA  
Chief Executive Officer