



FRC CONSULTATION ON ISA (UK) 505 (REVISED), EXTERNAL CONFIRMATIONS

Issued 30 August 2023

ICAEW welcomes the opportunity to comment on the FRC's Proposed International Standard on Auditing (UK) 505 (Revised), External Confirmations, published by the FRC on 31 May 2023, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at tdaf@icaew.com quoting REP 77/23.

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KEY POINTS

OVERALL OBSERVATIONS

1. The proposed amendments to this standard should enhance audit quality. We support the proposed amendments subject to the changes noted in the answers to the specific questions below.
2. While the principal failures in the use of external confirmations in practice are failures by auditors to apply the standard, the proposed new material covering digital confirmations needs to be considerably clearer to prevent further failures, as the use of these methods increases, as set out in our response to question 1, below.

ANSWERS TO SPECIFIC QUESTIONS

Question 1: Do you agree with the additional material included in respect of digital means of confirmation? If not, provide your reasons.

3. We agree with the additional material on digital communications, subject to the resolution of internal inconsistencies between paragraphs 7(c) and A6-1, and the addition of further additional material referred to in paragraphs 4 to 6, below.
4. Paragraphs 7(c) and A6-1 require auditors to determine that requests are designed to provide evidence relevant to ISA (UK) 330 assertions. However, A6-1 acknowledges that some digital methods do not provide evidence regarding completeness and notes that evidence in relation to that assertion must be obtained in other ways. A separate requirement should be added stating that:

7-1 In circumstances when the auditor determines that external confirmation requests do not address one or more relevant assertions identified in accordance with ISA (UK) 330, the auditor shall obtain sufficient appropriate audit evidence through designing and performing alternative procedures.

5. Paragraphs 6(a) and A6-1 introduce direct access as a method of obtaining a confirmation. Digital confirmations are an important emerging area and application material should include further clarification on what is and what is not considered to be an external confirmation when obtained using these methods to avoid, for example, the risk of the use of ‘over the shoulder’ checks, rather than auditors using their own login credentials.
6. These paragraphs also state that confirmations may be received via ‘third party web portals, software interfaces and other digital means’ without distinguishing between reliable and non-reliable sources. The application material should refer to the auditor performing appropriate procedures when considering the reliability of the vendor or digital channel.

Question 2: Do you support the prohibition on negative confirmation? If not, please provide your reasons.

7. Yes, we support the prohibition of negative confirmations. Negative confirmations are not widely used in the UK and the prohibition will have little impact in most cases. However, we understand that negative confirmations may still be in use in some jurisdictions and the prohibition may need to be flagged to component auditors in group audits as it is not reflected in the ISA issued by the IAASB. The FRC should consider updating ISA (UK) 600 for this issue, alongside other issues for which ISA (UK) 600 has not yet been updated.

8. Paragraph 6(c) outlines the requirements and related application material which are no longer applicable, with footnote 12 explaining that these are paragraphs 6(c), 15 and A23. However, 6(c) is a definition. Disapplying this paragraph disapplies the shaded paragraph which disapplies the requirements. Footnote 12 should be updated to remove reference to paragraph 6(c).
9. Alternatively, to avoid introducing a prohibition within a definition, additional text could be added in paragraph 6(c) disappling the requirement to paragraph 15, and then a new footnote added to existing paragraph 6(c) stating that:

The use of negative confirmations is prohibited in an audit conducted in accordance with ISAs (UK). See paragraph 15 of this ISA (UK).

Question 3: Do you support the enhanced requirements in relation to auditors investigating exceptions? If no, please provide your reasons.

10. Yes, we support the proposed enhanced requirements.

Question 4: Is the proposed effective date appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

11. Yes, the proposed effective date will give sufficient time to implement the new ISA.