

ISA (UK) 505 amendments (Lecture A843 – 6.12 minutes)

On 5 October 2023, the Financial Reporting Council (FRC) issued a revised ISA (UK) 505 *External Confirmations*. The revisions follow recent enforcement findings which demonstrate that the work undertaken by auditors in respect of investigating exceptions (eg, when confirmations do not contain the information expected) has sometimes been insufficient and that some auditors have also placed too much reliance on negative confirmations when such confirmations were unlikely to provide sufficient evidence to support a conclusion.

1.1 Key changes

The key changes are as follows:

Additional clarification on what constitutes an electronic external confirmation

ISA (UK) 505 has been revised to provide clarity on the modern use of electronic confirmations. This is contained within the definition of an 'external confirmation' which is set out as follows:

Audit evidence obtained as a direct written response to the auditor, or by the auditor directly, from a third party (then confirming party), in paper form, or by electronic or other medium. Electronic or other medium could include auditors directly accessing information held by third parties through web portals, software interfaces or other digital means.

ISA (UK) 505,
para 6(a)

Prohibition on the use of negative confirmations

Negative confirmations, where the confirming party responds directly only if they disagree with the information provided in the request, are prohibited in ISA (UK) 505 (Revised). The reason for this prohibition is that it will improve the quality of audit evidence obtained when auditors make the use of external confirmations.

In addition, enforcement findings noted that auditors have inappropriately relied on negative confirmations, for example where a response was unlikely ever to be received even if there were relevant matters, hence calling into question the suitability of a negative confirmation. The FRC also concluded that negative confirmations are also a less persuasive form of audit evidence in comparison to positive confirmations.

In practice, negative confirmations were not used as extensively as positive ones. There is also a conforming amendment to ISA (UK) 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* to remind group auditors that they should communicate this prohibition to component auditors undertaking work in respect of the opinion on the group financial statements.

Designing confirmations to provide evidence for relevant assertions

ISA (UK) 505 (Revised) contains a list of factors to consider when designing confirmation requests, which include:

- *The assertions being addressed.*
- *Specific identified risks of material misstatement, including fraud risks.*
- *The layout and presentation of the confirmation request.*
- *Prior experience on the audit or similar engagements.*
- *The method of communication (for example, in paper form, or by electronic or other medium).*
- *Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.*
- *The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).*

ISA (UK) 505,
para A4

Enhanced requirements in relation to investigating exceptions

The FRC have included enhanced requirements in relation to auditor responsibilities when investigating exceptions. This is in response to enforcement findings that in some cases auditors are failing to appropriately consider risk when confirmations are not as expected.

The enhanced requirements direct auditors to consider if exceptions are indicative of fraud or a deficiency in the entity's system of internal control and how follow-up procedures will allow the auditor to obtain sufficient appropriate audit evidence.

1.2 Effective date of ISA (UK) 505 (Revised)

The effective date of ISA (UK) 505 (Revised) is for audits of financial statements for periods commencing on or after 15 December 2024 (ie, 31 December 2025 year ends and short periods).