

ANNOUNCEMENT FOR THE ATTENTION OF THE MEMBERS

Using Information Available at Information Utility (IU) Platform for External Confirmations

1 Standards on Auditing (SAs) recognize the importance of 'External Confirmations' as audit evidence. Relevant extracts of some SAs regarding external confirmations are reproduced below.

- More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation. (*Para A8 of SA 500, Audit Evidence*)
- An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a "side agreement" that may influence revenue recognition. (*Para A18 of SA 500, Audit Evidence*)
- The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures (*Para 19 of SA 330, "The Auditor's Responses to Assessed Risks"*)
- Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. (*Para A53 of SA 330*)
- The auditor may design external confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement, due to fraud at the assertion level (*Para A37 of SA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"*,

2 SA 505, 'External Confirmations' provides detailed requirements and guidance for auditors regarding the use of external confirmation procedures to obtain audit evidence.

Para 7(b) of SA 505 requires the auditor to select the appropriate confirming party. Further, para A2 of SA 505 provides as follows:

- Responses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

3 On the matter of External Confirmations, the ICAI has recently received communication from the National Financial Reporting Authority (NFRA) regarding functions of National e-Governance Services Limited (NeSL) which might be useful for the auditors in obtaining audit evidence through external confirmations. The highlights of the same are as under:

NeSL incorporated as a Union Government Company has set up the '**Information Utility (IU)**' and is regulated by the Insolvency and Bankruptcy Board of India. The IU is designed as an institutional intervention that stores evidence of financial contracts to assist in stressed assets resolution. The IU is open to financial and operational creditors since January 2018. Till date, approx. two-third of the loans to companies given by banks have been filed in the IU as creditors have an incentive to buy protection and enhance enforceability of contracts under the IBC. The IU is designed to receive financial information from any party to the debt. The debtors are expected to verify and authenticate the liability as sent by their respective creditors to IU. However, in the absence of any such statutory requirement, the debtors are not filing this information or reconciling the same with IU. The auditors can have full access to the information stored in IU in respect of client company as reported by their creditors.

4. The Auditing and Assurance Standards Board of ICAI at its 193rd meeting held on 25th January 2019 (meeting adjourned and continued on 5th February 2019) considered the aforesaid communication received from NFRA. After detailed discussion on the matter, the Board was of the view that the information available at IU platform would be highly useful in the audit process and will strengthen the audit opinion. Accordingly, the following guidance is being issued for the benefit of the members:

Whenever, external confirmations are required as per the requirements of SA 505 - External Confirmations, auditors should seek external confirmations directly from the third parties (the confirming parties). Further, auditors are advised to use the information available at the Information Utility platform of National e-Governance Services Limited, as detailed in paragraph 3 above, as an additional source of external confirmations to strengthen the audit evidence.

**Chairman, Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India**