



Trade Receivables Confirmation

Reporting under the current financial turbulence requires careful review of certain areas during an audit. One of the areas that an auditor needs to heighten his / her scrutiny is the trade receivables balance in the balance sheet.

The classic audit work performed to test the credibility of trade receivables reported in a balance sheet is by sending external confirmation as a means of obtaining audit evidence. The receipt of third party or external confirmation directly by the auditors is considered a more reliable form of evidence when it is obtained from independent sources outside the entity.

The following are some pointers to assist in performing a proper external trade receivables confirmation:-

1. Trade receivable confirmation requests should be issued out. If an auditor decides not to do so, an explanation should be documented to explain the reason for not requesting the confirmation.
2. Basis of selection should be documented, which could be either targeted testing or use of non-statistical sampling or random.
3. Trade receivable confirmations sent out must be controlled by the audit firm, and the responses sent directly to the audit firm and not through the client. Trade receivable confirmation request must be strictly managed by the audit firm regardless of the time constraints of an auditor. This is to ensure that the balance confirmations received are not compromised. Client's involvement should only be limited to providing authorisation to respondent to disclose the information to the auditor.
4. Responses with exceptions or information received must be properly dealt with and evaluated.
5. Confirmation replies should be analysed and checked in detail for unusual items to evaluate fraudulent confirmation responses:
 - To accept original trade receivable confirmation responses especially for material balances or transaction
 - In rare circumstances to accept facsimile or electronic confirmation responses, which should be followed up with a phone call and documentation of the phone conversation
 - Alternative audit procedures should be carried out on when there is no response. Work done should be on the receivables that had been selected and not on other receivable balances. There are fraud risks attached to trade receivables with regards to remittances received,
 - Match cash remittances subsequent to balance sheet date to bank statements and match to invoices that make up trade debtors balances;
 - Check supporting documentation such as shipping documents, acknowledged delivery orders supporting trade receivable balances and;
 - If required other procedures should be considered to evaluate the existence of the trade receivable balance.

Attached is the appendix of a sample template of a receivable or payable confirmation.

SAMPLE OF A RECEIVABLE / PAYABLE CONFIRMATION
(TO BE TYPED ON CLIENT LETTERHEAD)

Address of the debtor/creditor)

Date

Dear Sir (s) / Madam

For the purposes of audit, please complete and return this form **directly to our auditors (Name of audit firm)** on the balances shown below. Please attention your response to (Mr or Ms XXX , Manager, Audit Department).

Our records show that as at _____ the balance on your accounts was:-

Debt due by you to us RM _____

Debt due by us to you RM _____

The amount shown above does not take into consideration any money received or paid by us after the stated date. Please send back the confirmation in the enclosed envelope directly to the Audit Firm.

Yours faithfully,

(Signature of Client)

(Designation of Client)

CONFIRMATION OF BALANCE

We confirm that the balance shown above as at _____ is correct.

(Signature)

(Designation)

(Company Stamp)

SAMPLE OF A RECEIVABLE / PAYABLE CONFIRMATION
(TO BE TYPED ON CLIENT LETTERHEAD)

If the balance shown above is not in agreement with your records, please give details of the balance shown in your records and any comments you have in the space below.

(Signature)

(Designation)

(Company Stamp)

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