
EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

EXTERNAL CONFIRMATIONS

(Amends:

- *Statements on Auditing Standards [SAS] No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended,*
 - *Section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained [AICPA, Professional Standards, AU-C sec. 330]*
 - *Section 505, External Confirmations [AICPA, Professional Standards, AU-C sec. 505]*
- *SAS No. 142, Audit Evidence, as amended [AICPA, Professional Standards, AU-C sec. 500].*

Also Amends:

- *Statements on Auditing Standards (SAS) No. 117, Compliance Audits, as amended [AICPA, Professional Standards, AU-C sec. 935]*
- *Various other sections in SAS No. 122, as amended [AICPA, Professional Standards, AU-C secs. 200, 402, 501, 510, and 530]*
- *SAS No. 128, Using the Work of Internal Auditors, as amended [AICPA, Professional Standards, AU-C sec. 610]*
- *SAS No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, as amended [AICPA, Professional Standards, AU-C sec. 570]*
- *SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended*
 - *Section 705, Modifications to the Opinion in the Independent Auditor's Report [AICPA, Professional Standards, AU-C sec. 705]*
- *SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, as amended [AICPA, Professional Standards, AU-C sec. 315]*

February 27, 2025

Comments are requested by June 30, 2025

**Prepared by the AICPA Auditing Standards Board for comment from persons interested
in auditing and reporting issues**

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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *External Confirmations* (hereinafter referred to as *the proposed SAS* for purposes of this memorandum). If issued as final, the proposed SAS will amend the following:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended
 - section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* [AICPA, *Professional Standards*, AU-C sec. 330]
 - section 505, *External Confirmations* [AICPA, *Professional Standards*, AU-C sec. 505]
- SAS No. 142, *Audit Evidence*, as amended [AICPA, *Professional Standards*, AU-C sec. 500]

To align the concepts and terminology in the preceding SASs, the proposed SAS includes amendments to other SASs and other sections in SAS No. 122 in an appendix. The proposed SAS will also amend the following:

- SAS No. 117, *Compliance Audits*, as amended [AICPA, *Professional Standards*, AU-C sec. 935]
- Various other sections in SAS No. 122, as amended [AICPA, *Professional Standards*, AU-C secs. 200, 402, 501, 510, and 530]
- SAS No. 128, *Using the Work of Internal Auditors*, as amended [AICPA, *Professional Standards*, AU-C sec. 610]
- SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended [AICPA, *Professional Standards*, AU-C sec. 570]
- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended
 - section 705, *Modifications to the Opinion in the Independent Auditor's Report* [AICPA, *Professional Standards*, AU-C sec. 705]
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, as amended [AICPA, *Professional Standards*, AU-C sec. 315].

Background

The Mission of the Auditing Standards Board

The mission of the Auditing Standards Board (ASB) is to serve the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services effectively and efficiently. The ASB accomplishes this mission by (1) developing auditing, attestation, and quality control standards that inspire public trust; (2) contributing to the development of high-quality international auditing and assurance standards; and (3) responding timely to the need for guidance and communicating it clearly to the profession and to users.

Why the ASB Has Developed These Proposed Amendments

In developing and updating auditing standards, the ASB considers the standards of other standard-setters, such as the International Auditing and Assurance Standards Board (IAASB), the Public Company Accounting Oversight Board (PCAOB), and the Government Accountability Office (GAO).

In September 2023, the PCAOB adopted a new standard, replacing AS 2310, *The Confirmation Process*, with AS 2310, *The Auditor's Use of Confirmation* (AS 2310), and made conforming amendments to certain related PCAOB auditing standards. The new standard is designed to improve the quality of audits when confirmation is used by the auditor and to reflect changes in the means of communication and business practice since the standard was originally issued. The new AS 2310 is effective for audits of financial statements for fiscal years ending on or after June 15, 2025.

The ASB determined it should analyze AS 2310 to consider whether similar changes to generally accepted auditing standards (GAAS) would be appropriate and in the public interest. The ASB compared AS 2310 to GAAS to

1. identify requirements or guidance in AS 2310 that are incremental to GAAS,
2. consider whether the incremental requirements or guidance would enhance audit quality for audits of nonissuers and, if so,
3. consider whether the differences warrant amendments to GAAS.

The ASB used the following criteria in assessing preceding items 2 and 3 in determining whether to propose changes to GAAS based on the PCAOB standard:

- Does the PCAOB requirement address a circumstance that is common for nonissuers or an area for which there may be concerns about quality (for example, as noted by Peer Review results)?
- Would the PCAOB requirement, if incorporated into GAAS, be expected to result in a meaningful difference in how the audit would be performed for a nonissuer?
- Is the PCAOB requirement consistent with a principles-based standards approach?
- Is the PCAOB requirement scalable?
- Would applying the PCAOB requirement in GAAS audits enhance audit quality in an effective and efficient manner?

Based on the outcome of the ASB's analysis, the ASB is proposing revisions to GAAS based on material in AS 2310 and other applicable updates. The ASB believes that the proposed changes will drive increased consistency in practice regarding external confirmation procedures, clarify definitions related to external confirmation procedures, and enhance audit quality for audits of financial statements of nonissuers.

Effective Date

If issued as final, the proposed amendments would be effective for audits of financial statements for periods ending no earlier than December 15, 2027. Early implementation would be permitted.

Request for Comment

1. Do respondents believe that the proposed effective date is appropriate and provides adequate time for implementation? If not, respondents are asked to state their reasons and an alternate effective date.

Explanation of Proposed Changes

Amendment to AU-C Section 330

New Requirement to Confirm Cash and Cash Equivalents

The proposed amendment to AU-C section 330 would add new paragraph .21 that requires the auditor to use external confirmation procedures (the definition of which includes directly accessing information held by a confirming party) for cash and cash equivalents held by third parties (cash) to respond to the assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures. The ASB believes that the critical role cash plays in an entity's liquidity, solvency, and operational stability leads stakeholders to expect external confirmation procedures to be performed. The ASB also believes that the confirmation of cash is common practice and including this as a requirement would enhance consistency across the profession.

The ASB acknowledges, however, that the auditor may be unable to perform external confirmation procedures for cash in circumstances in which (i) external confirmation procedures, including direct access to information held by a confirming party, are prohibited by law or regulation, or (ii) the auditor has determined that the confirming party will not respond to confirmation requests as a matter of policy or practice. In such circumstances, the auditor would not be required to perform external confirmation procedures. It is important to note that the proposed SAS does not require the auditor to confirm all cash accounts but rather uses a risk-based approach. The amendment to AU-C section 505 provides the auditor with guidance for determining the information to be confirmed or requested, including the individual items for which audit evidence is to be obtained.

The PCAOB included a requirement for the auditor to confirm cash in AS 2310 or to otherwise obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source (direct access) when cash is a significant account.¹ AS 2310 does not contain a provision about overcoming the presumptively mandatory requirement to confirm cash other than through “direct access.” The ASB is proposing exceptions as previously described.

Request for Comment

2. Do respondents agree with adding a presumptively mandatory requirement to confirm cash as shown in proposed paragraph .21 of AU-C section 330? If not, respondents are asked to state their reasons.
3. Do respondents believe that the exceptions provided in proposed paragraph .21 of AU-C section 330 are appropriate and understandable?
4. Do respondents believe that there are other circumstances in which the auditor may be unable to or should not be required to confirm cash?

Documentation

Amendments proposed to renumbered paragraph .33 (formerly paragraph .32) revise the requirement to document the basis for any determination not to use external confirmation procedures for both accounts receivable and cash in accordance with paragraph .20 and proposed paragraph .21. The proposed amendment expands the documentation for accounts receivable by removing “when the account balance is material” from the requirement and instead ties the documentation requirement directly to the circumstances in which exceptions to the use of external confirmation procedures are present.

Request for Comment

5. Do respondents agree with adding the requirement to document the basis for any determination not to use external confirmation procedures for cash in accordance with proposed paragraph .21? If not, respondents are asked to state their reasons.
6. Do respondents agree with the revisions to document the basis for any determination not to use external confirmation procedures for accounts receivable in accordance with paragraph .20?

Other Changes

Proposed amendment to paragraph .01 directs the auditor to AU-C section 505 for the auditor’s use of external confirmation procedures to obtain audit evidence.

¹ Paragraph .24 of AS 2310, *The Auditor’s Use of Confirmation*.

Proposed amendment to paragraph .19 clarifies that external confirmation procedures are not required for all classes of transactions, account balances, or disclosures, but only those that are determined to be significant (those that have risks of material misstatement). The changes were meant to limit the need to perform external confirmation procedures to only certain relevant assertions of significant accounts.

Proposed amendment to paragraph .A53 includes additional examples of situations in which external confirmation procedures may provide audit evidence in responding to identified risks of material misstatement at the assertion level. The ASB believes these examples will help auditors in responding to risks of material misstatement at the assertion level.

Request for Comment

7. Do respondents believe that the proposed amendment to paragraphs .01, .19, and .A53 are appropriate? If not, respondents are asked to state their reasons.

Amendment to AU-C Section 505

Definitions

The proposed amendments to paragraphs .06 and .07 include the addition of definitions for the following terms to provide clarification throughout the section:

- *Confirmation request*
- *Confirming party*
- *External confirmation procedures*
- *Intermediary*

The additions of *confirmation request* and *confirming party* are consistent with the definitions included in the PCAOB's auditing standards; however, the ASB clarified in the definition of *confirming party* that an intermediary is not a confirming party.² The definition of *external confirmation procedures* clarifies that (i) such procedures are used to obtain audit evidence about one or more relevant assertions and (ii) retains the language in extant standards that external confirmation procedures include directly accessing information held by a confirming party, which is not included in the PCAOB's definitions. The definition of *intermediary* clarifies that, for purposes of this section, an intermediary is a party, other than the auditor or the confirming party, who facilitates direct electronic transmission of confirmation requests and external confirmation responses between the auditor and the confirming party. The ASB notes that although the PCAOB did not define the term *intermediary*, the ASB thought it would be helpful to define the term for purposes of section 505.

² Paragraphs .A4 and .A6 of AS 2310, *The Auditor's Use of Confirmation*.

The term *external confirmation* was revised to *external confirmation response* and the definition was revised to clarify that an external confirmation response is information provided from the confirming party. The term *external confirmation response* includes evidence that is either in paper form or by electronic or other medium (for example, through the auditor’s direct access to information provided by the confirming party).

Amendments were proposed for the use of consistent terminology in AU-C section 330, AU-C section 505, and AU-C section 500. Additional conforming amendments to other AU-C sections were proposed in appendix A, “Amendment to Other SAS, as Amended, and to Various Other Sections in SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as Amended.”

Request for Comment

8. Respondents are asked whether

a. the proposed definitions in paragraph .06 and new paragraph .07 and the related conforming amendments for consistency of terminology in AU-C section 330, AU-C section 500, and AU-C section 505 are appropriate;

b. the proposed amendments to other AU-C sections as shown in appendix A are appropriate; and

c. there are other sections of AICPA *Professional Standards* that might need to reflect the terminology of this proposed SAS.

9. Do respondents believe that retaining the concept that direct access to information held by a confirming party is a form of confirmation and including that language in the proposed definition of *external confirmation procedures* is appropriate? If not, respondents are asked to state their reasons.

Use of an Intermediary

Proposed amendments include the addition of a requirement in new paragraph .11 to evaluate the implications on the reliability of confirmation requests and external confirmation responses when determining whether to use an intermediary as defined in this section. This new requirement has been added to reflect the increasingly widespread use of such intermediaries. The proposed amendment would also add application material that addresses evaluating the implications on the reliability of confirmation requests and external confirmation responses when using an intermediary. The ASB included the evaluation of the implications of using an intermediary as application material (rather than as requirements, as is the case with AS 2310³) to align with the objective of principles-based standards.

Request for Comment

³ Paragraphs .B1–.B2 of AS 2310, *The Auditor’s Use of Confirmation*.

10. Do respondents believe that the proposed requirement in paragraph .11, proposed revisions to renumbered paragraph .A22 (formerly paragraph .A14), and the introduction of new paragraphs .A15–.A18 are appropriate? If not, respondents are asked to state their reasons.

Direct Access to Information

The proposed revisions to paragraphs .A1–.A2 clarify that when data is received via access to information and that access is provided by management, such information is not an *external confirmation response*. However, such procedure may be considered an alternative audit procedure subject to relevance and reliability considerations.

Request for Comment

11. Do respondents believe that the proposed revisions in paragraphs .A1–.A2 are appropriate? If not, respondents are asked to state their reasons.

Selecting a Confirming Party

The proposed revisions to renumbered paragraph .A8 (formerly paragraph .A3) provide clarity that there may be instances in which government regulatory bodies may be knowledgeable about the information to be confirmed and are an appropriate confirming party. For example, the ASB is aware of situations in which state auditors use government regulatory bodies as a confirming party.

The proposed new paragraph .A9 clarifies that the auditor may consider revising the assessment of relevant risks of material misstatement and modifying the nature, timing, and extent of other audit procedures when the auditor is unable to identify a confirming party who would provide a relevant and reliable external confirmation response. The ASB believes that this additional application material is a helpful reminder to auditors.

Request for Comment

12. Do respondents believe that the proposed revisions to renumbered paragraph .A8 (formerly paragraph .A3) and addition of paragraph .A9 are appropriate? If not, respondents are asked to state their reasons.

Other Changes

The proposed new paragraph .A7 provides examples of when the auditor’s understanding of arrangements and transactions may assist the auditor in determining the information to be confirmed or requested, including individual items for which audit evidence is obtained. The ASB believes that such examples will be helpful to auditors in applying paragraph .10a.

The proposed revisions to renumbered paragraph .A19 (formerly the first part of paragraph .A12) explain that information that calls into question the potential confirming party's motivation, ability, or willingness to respond, or objectivity and freedom from bias with respect to the audited entity may be an indication of incentives or pressures for the external confirmation responses to be inaccurate or otherwise misleading.

The proposed revisions to renumbered paragraph .A20 (formerly the second part of paragraph .A12) provide factors that may indicate doubts about the reliability of an external confirmation response.

Request for Comment

13. Do respondents believe that the proposed addition of paragraph .A8 and proposed revisions in renumbered paragraphs .A19–.A20 are appropriate? If not, respondents are asked to state their reasons.

Amendment to AU-C Section 500

The proposed amendment to AU-C section 500 adds application material to paragraph .A15 that the ASB believes will enhance the quality of audits of financial statements of nonissuers. Paragraph .A15 explains that confirmation requests need not be restricted to classes of transactions, account balances, and disclosures. The additional application material provides examples of when such confirmation requests may be appropriate. Although the PCAOB included a requirement to consider confirmations in these circumstances,⁴ the ASB included this as application material to align with the principles-based approach in determining the appropriate responses to the auditor's risk assessment.

Amendments to paragraph .A55 are conforming amendments to align with the changes to the definitions in AU-C section 505.

Request for Comment

14. Do respondents believe that the proposed revisions to AU-C section 500 are appropriate and complete? If not, respondents are asked to state their reasons.

Explanation of Changes Considered and Not Made

Use of Negative Confirmations

⁴ Paragraph .30 of AS 2310, *The Auditor's Use of Confirmation*.

Using negative confirmations as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level is precluded by AS 2310⁵ but permitted in specified circumstances by AU-C section 505.⁶ Renumbered paragraph .A40 (formerly paragraph .A32) of AU-C section 505 provides considerations for when negative confirmations may be effective. For example, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated because such holders may be more likely to respond if they believe that the balance in their account is understated but is unlikely to be effective if the auditor is seeking evidence regarding overstatement. The ASB believes it is appropriate to maintain the current language in AU-C section 505 regarding negative confirmations in order to continue to allow flexibility and scalability for practitioners.

Request for Comment

15. Is the use of negative confirmations as the sole substantive audit procedure still appropriate under the conditions specified by AU-C section 505, or should AU-C section 505 require that negative confirmation requests be used only in combination with the performance of other substantive audit procedures?

Exception for Immaterial Accounts When Confirming Accounts Receivable

The following are the key paragraphs in AU-C section 330 as proposed to be revised:

.19 The auditor should consider whether external confirmation procedures are to be performed as substantive ~~audit~~ procedures *to respond to the assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures*. (Ref: par. .A53–.A58)

.20 The auditor should use external confirmation procedures for accounts receivable *in response to the assessed risks of material misstatement*, except when one or more of the following is applicable: (Ref: [par. .A57](#))

- a. The overall account balance is immaterial (*both qualitatively and quantitatively*).
- b. External confirmation procedures for accounts receivable would be ineffective. (Ref: [par. .A58](#))
- c. The auditor's assessed ~~level of~~ risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk. In many situations, the use of external confirmation procedures for accounts receivable and the performance of other substantive procedures are necessary to reduce the assessed risk of material misstatement to an acceptably low level.

⁵ Paragraphs 12 and 13 of AS 2310, *The Auditor's Use of Confirmation*.

⁶ Paragraph .15 of AU-C section 505, *External Confirmations*.

The proposed amendment to paragraph .19 clarifies that external confirmation procedures are only required for classes of transactions, account balances, or disclosures that are determined to be significant (those that have risks of material misstatement). The changes were meant to limit the need to send confirmation to only certain relevant assertions of significant accounts.

Paragraph .20 requires confirmation procedures for accounts receivable, with exceptions including when the overall account balance is immaterial. The ASB acknowledges that there may be instances in which an immaterial accounts receivable balance may be identified by the auditor as a significant account, thereby raising questions about the appropriateness of the exceptions in paragraph .20a. The ASB deliberated the removal of the exception in paragraph .20a but retained the exception to avoid any potential unintended consequences.

Request for Comment

16. Do respondents agree with the decision to retain the exception such that the auditor is not required to confirm accounts receivable when the overall account balance for accounts receivable is immaterial? If not, respondents are asked to state their reasons.

Guide for Respondents

The ASB requests that respondents submit their comments using the [online survey](#). However, respondents may also address comments to commentletters@aicpa-cima.com. Responses submitted via email should be submitted in Word format or directly in the body of the email with the appropriate signature (*name, firm*). The ASB requests that all comments be submitted (via email or the survey) by June 30, 2025. Responses will be posted to the AICPA website as a PDF.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Comments will become part of the public record of the AICPA and will be available on the AICPA's website after June 30, 2025, until a final standard is issued.

Consideration of comments received may result in modification of the proposals in this exposure draft before they are issued in final form.

Supplements to the Exposure Draft

To assist respondents in identifying changes and responding to this request to comment on the proposed revisions to AU-C section 505 included in this exposure draft, the Audit and Attest Standards staff has prepared a document that illustrates the complete extant AU-C section 505 marked to show the proposed revisions. However, the "Explanation of Proposed Changes" section includes a discussion of what is proposed to change and issues related to specific changes from the extant auditing standards.

The staff-prepared supplementary material is available on the AICPA website at <https://www.aicpa-cima.com/resources/landing/aicpa-exposure-drafts-of-proposed-sass-ssaes-and-sqmss>. It is for informational purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

Comment Period

The comment period for this exposure draft ends June 30, 2025.

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PROPOSED STATEMENT ON AUDITING STANDARDS

EXTERNAL CONFIRMATIONS

Amendment to Statement on Auditing Standards (SAS) No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended, Sections 330 and 505 (AICPA, *Professional Standards*, AU-C secs. 330 and 505)

Amendment to AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

1. AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, addresses the auditor's responsibility to design and implement responses to identified risks of material misstatement and to evaluate the audit evidence obtained in an audit of financial statements. Proposed amendments to AU-C section 330 accomplish the following:
 - Adds a new requirement to use external confirmation procedures for cash and cash equivalents held by third parties (cash), except when (a) external confirmation procedures, including obtaining direct access to information held by a confirming party, are prohibited by law or regulation or (b) the auditor has determined that the confirming party will not respond to confirmation requests as a matter of policy or practice.
 - Revises the requirement to document the basis for any determination not to use external confirmation procedures for both accounts receivable and cash and expands the documentation requirement for accounts receivable by removing "when the account balance is material" from the requirement.
2. This amendment would be effective for audits of financial statements for periods ending no earlier than December 15, 2027. Early implementation would be permitted.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and to evaluate the audit evidence obtained in an audit of financial

statements. *Section 505, External Confirmations, addresses the auditor's use of external confirmation procedures to obtain audit evidence.* Section 700, *Forming an Opinion and Reporting on Financial Statements*, and section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, address the auditor's responsibility to form an opinion on the financial statements based on the evaluation of the audit evidence obtained.

[No amendment to paragraphs .02–.19.]

Requirements

...

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Relevant Assertion Level

...

Substantive Procedures

...

.19 The auditor should consider whether external confirmation procedures are to be performed as substantive ~~audit~~ procedures ***to respond to the assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures.*** (Ref: par. .A53–.A58)

.20 The auditor should use external confirmation procedures for accounts receivable ***in response to the assessed risks of material misstatement***, except when one or more of the following is applicable: (Ref: [par. .A57](#))

- a. The overall account balance is immaterial (***both qualitatively and quantitatively***).
- b. External confirmation procedures for accounts receivable would be ineffective. (Ref: par. [.A58](#))
- c. The auditor's assessed ~~level of~~ risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk. In many situations, the use of external confirmation procedures for accounts receivable and the performance of other substantive procedures are necessary to reduce the assessed risk of material misstatement to an acceptably low level.

.21 ***The auditor should use external confirmation procedures for cash and cash equivalents held by third parties (cash) in response to the assessed risks of material misstatement except when***

- a. ***external confirmation procedures, including direct access to information held by a confirming party, are prohibited by law or regulation, or***
- b. ***the auditor has determined that the confirming party will not respond to confirmation requests as a matter of policy or practice.***

[No amendment to paragraphs .21–.31, which are renumbered as paragraphs .22–.32.]

~~.32.33~~ The auditor should include in the audit documentation the basis for any determination not to use external confirmation procedures for accounts receivable *and cash in accordance with paragraphs .20 and .21* ~~when the account balance is material.~~

[No amendment to paragraph .33, renumbered as paragraph .34. No amendment to paragraphs .A1–.A52.]

Application and Other Explanatory Material

...

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Relevant Assertion Level

...

Substantive Procedures (Ref: par. .18)

...

Considering Whether External Confirmation Procedures Are to Be Performed (Ref: par. .19–.20.21)

.A53 External confirmation procedures frequently may be relevant when addressing assertions associated with account balances and their elements but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties, ***including oral side agreements or undisclosed written or oral side agreements.*** External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a ***confirmation*** request may specifically seek confirmation that no "side agreement" exists that may be relevant to an entity's revenue cut-off assertion. ~~Other situations in which external confirmation procedures may provide audit evidence in responding to assessed risks of material misstatement~~ ***Examples of other situations in which external confirmation procedures may provide audit evidence in responding to identified risks of material misstatement at the assertion level*** include the following:

- ~~Bank balances and other information~~ ***Information other than cash balances*** relevant to banking relationships, ***such as lines of credit, other indebtedness, compensating balance arrangements, or contingent liabilities, including guarantees (existence; rights and obligations)***
- Inventories held by third parties at bonded warehouses for processing or on consignment ***(existence; rights and obligations)***
- Property title deeds held by lawyers or financiers for safe custody or as security ***(rights and obligations)***
- Investments held for safekeeping by third parties or purchased from stockbrokers but not delivered at the balance sheet date ***(existence; rights and obligations)***

- Amounts due to lenders, including relevant terms of repayment and restrictive covenants (*completeness; rights and obligations*)
- Accounts payable balances and terms (*completeness; rights and obligations*)

.A54 Although external confirmations *responses* may provide audit evidence relating to certain assertions, some assertions exist for which external confirmations *responses* provide less persuasive audit evidence, for example, external confirmations *responses* provide less persuasive audit evidence relating to the recoverability of accounts receivable balances than they do of their existence.

.A55 The auditor may determine that external confirmation procedures performed for one purpose provide an opportunity to obtain audit evidence about other matters. ~~For example, confirmation requests for bank balances often include requests for information relevant to other financial statement assertions.~~ Such considerations may influence the auditor's decision about whether to perform external confirmation procedures.

.A56 Factors that may assist the auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures include the following:

- The confirming party's knowledge of the subject matter. *External confirmation* ~~R~~esponses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- The ability or willingness of the intended confirming party to respond. For example, the confirming party
 - may not accept responsibility for responding to a confirmation request,
 - may consider responding too costly or time consuming,
 - may have concerns about the potential legal liability resulting from responding,
 - may account for transactions in different currencies, or
 - may operate in an environment in which responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, may respond in a casual manner, or may attempt to restrict the reliance placed on the *external confirmation* response.

- The objectivity of the intended confirming party. If the confirming party is a related party of the entity, *external confirmation* responses ~~to confirmation requests~~ may be less reliable.

[No amendment to paragraph .A57.]

.A58 External confirmation procedures may be ineffective when, based on prior years' audit experience or experience with similar entities

- *external confirmation* response rates to properly designed confirmation requests will be inadequate; or
- *external confirmation* responses are known or expected to be unreliable.

If the auditor has experienced poor response rates to properly designed confirmation requests in prior audits, the auditor may instead consider changing the manner in which the *external confirmation procedures are* ~~process is~~ performed, with the objective of increasing the *external confirmation* response rates, or may consider obtaining audit evidence from other sources.

[No amendment to paragraphs .A59–.A60.]

.A61 Audit evidence in the form of external confirmation *responses* received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. For example, if the auditor identifies that management is under pressure to meet earnings expectations, a risk may exist that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may, for example, design external confirmation procedures not only to confirm outstanding amounts but also to confirm the details of the sales agreements, including date, any rights of return, and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of nonfinancial personnel in the entity regarding any changes in sales agreements and delivery terms.

[No further amendment to AU-C section 330.]

Amendment to AU-C Section 505, *External Confirmations*

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

3. AU-C section 505, *External Confirmations*, addresses the auditor's use of external confirmation procedures to obtain audit evidence. Proposed amendments to AU-C section 505 accomplish the following:

- Define *confirmation request*, *confirming party*, *external confirmation procedures*, and *intermediary* to provide clarification in use. The additions of *confirmation request* and *confirming party* are consistent with the definitions included in the PCAOB's auditing standards; however, the ASB clarified in the definition of *confirming party* that an intermediary is not a confirming party. The definition of *external confirmation procedures* clarifies that (i) such procedures are used to obtain audit evidence about one or more relevant assertions and (ii) retains the language in extant standards that external confirmation procedures include directly accessing information held by a confirming party. The definition of *intermediary* clarifies that, for purposes of this section, an intermediary is a party, other than the auditor or the confirming party, who facilitates direct electronic transmission of confirmation requests and external confirmation responses between the auditor and the confirming party. The term *external confirmation* was revised to *external confirmation response* and the definition was revised to clarify that an *external confirmation response* is information provided by the confirming party. The term *external confirmation response* includes evidence that is either in paper form or by electronic or other medium (for example, through the auditor's direct access to information provided by the confirming party).
- Reorder the requirement paragraphs to provide a more logical flow
- Add a requirement to evaluate the implications for the reliability of confirmation requests and external confirmation responses when the auditor or the confirming party uses an intermediary. This new requirement has been added to reflect the increasingly widespread use of such intermediaries. Amendments also add application material that addresses evaluating the implications on the reliability of confirmation requests or external confirmation responses when using an intermediary, including use of attestation reports on controls over the intermediary's system or process to assist the auditor in this evaluation.
- Emphasize that when an external confirmation response has been returned to the auditor indirectly, the auditor may request the confirming party to respond in writing directly to the auditor before treating the situation as a nonresponse.
- Clarify that when data is received via access to information and that access is provided by management, such information is not an *external confirmation response*. However, such procedure may be considered an alternative audit procedure that, subject to relevance and reliability considerations in accordance with section 500, may be used as evidence.

- Provide examples of information that may assist the auditor in determining the information to be confirmed or requested, including individual items for which audit evidence is obtained.
 - Explain that information that calls into question the potential confirming party's motivation, ability, or willingness to respond, or objectivity and freedom from bias with respect to the audited entity, may be an indication of incentives or pressures for the external confirmation responses to be inaccurate or otherwise misleading.
 - Enhance the description of factors that may indicate doubt about the reliability of an external confirmation response.
4. This amendment would be effective for audits of financial statements for periods ending no earlier than December 15, 2027. Early implementation would be permitted.

[No amendment to paragraph .01.]

Introduction

...

External Confirmation Procedures to Obtain Audit Evidence

.02 Section 500 indicates that the reliability of audit evidence depends on the nature and source of the audit evidence and the circumstances under which it is obtained.^{fn 1} Section 500 also includes the following generalizations applicable to audit evidence:^{fn 2}

- ***The reliability of audit*** ~~Audit evidence is more reliable~~ ***increases*** when it is obtained from external parties.
- Audit evidence obtained directly by the auditor ~~is~~ ***may be*** more reliable than audit evidence obtained indirectly or by inference.
- Audit evidence ~~is~~ ***may be*** more reliable when it exists in documentary form, whether paper or electronic.

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations ***responses*** received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This section is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

^{fn 1-2} [Footnotes text omitted for purposes of this proposed SAS.]

.03 Other AU-C sections recognize the importance of external confirmations as audit evidence; for example

- section 330 discusses the auditor's responsibility (a) to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and (b) to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level.^{fn 3,4} The auditor is required to consider whether external confirmation procedures are to be performed as substantive ~~audit~~ **procedures to respond to the assessed risks of material misstatement** and is required to use external confirmation procedures for
 - accounts receivable unless
 - the overall account balance is immaterial (*both qualitatively and quantitatively*),
 - external confirmation procedures would be ineffective, or
 - the auditor's assessed ~~level of~~ risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.^{fn 5}
 - *cash and cash equivalents held by third parties except when*
 - *external confirmation procedures, including direct access to information held by a confirming party, are prohibited by law or regulation, or*
 - *the auditor has determined that the confirming party will not respond to confirmation requests as a matter of policy or practice.*^{fn 6}
- section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk.^{fn 6-7} To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. Section 330 also indicates that external confirmation procedures 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.~~^{fn 78}
- section 240, *Consideration of Fraud in a Financial Statement Audit*, indicates that the auditor may design 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.^{fn 89}
- section 500 indicates that ~~external confirmations~~ **confirmation requests** need not be restricted to classes of transactions, account balances, or disclosures. 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, the relevant details. External confirmation procedures are also used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).^{fn 910}

^{fn 3–5} [Footnote text omitted for purposes of this proposed SAS.]

^{fn 6} **Paragraphs .19 and .21 of section 330.** [Subsequent footnotes renumbered.]

^{fn 6 7} [Footnote text omitted for purposes of this proposed SAS.]

^{fn 78} Paragraph ~~A58~~ **.A61** of section 330.

^{fn 8–99–10} [Footnote text omitted for purposes of this proposed SAS.]

[Subsequent footnotes renumbered. No amendment to paragraphs .04–.05.]

...

Definitions

.06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Confirmation request. A request from the auditor to a confirming party regarding information about one or more particular accounts, balances, transactions, or other items as a means of obtaining audit evidence about one or more financial statement assertions.

Confirming party. A third party, whether an individual or an organization, to which the auditor sends a confirmation request. An intermediary is not a confirming party.

Exception. *An external confirmation response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.*

External confirmation procedures. Procedures that involve selecting one or more items to be confirmed, sending a confirmation request directly to a confirming party (or otherwise directly accessing the information held by a confirming party), and evaluating the information received and addressing nonresponses to obtain audit evidence about one or more relevant assertions.

External confirmation response. Audit evidence obtained as a direct written response *communication* to the auditor from a ~~third party~~ (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor's direct access to information held by a third party *provided by the confirming party*) *in response to a confirmation request.* (Ref: par. .A1–.A2)

Negative confirmation request. *A confirmation request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the confirmation request.*

Nonresponse. A failure of the confirming party to respond, or fully respond, to a positive confirmation request or a confirmation request returned undelivered.

Positive confirmation request. A *confirmation* request that the confirming party respond directly to the auditor by providing the requested information or indicating whether the confirming party agrees or disagrees with the information in the *confirmation* request.

.07 For purposes of this section, the following term has the meaning attributed as follows:

Intermediary. A *party, other than the auditor or the confirming party, who facilitates direct electronic transmission of confirmation requests and external confirmation responses between the auditor and the confirming party.*

[No amendment to paragraphs .08–.09.]

Requirements

...

External Confirmation Procedures

.07.10 When using external confirmation procedures, the auditor should maintain control over external confirmation requests, *including to minimize the likelihood that information exchanged between the auditor and the confirming party is intercepted or altered by*

- a. determining the information to be confirmed or requested; (Ref: ~~par. A2~~ *par. A6–A7*)
- b. selecting the appropriate confirming party; (Ref: ~~par. A3~~ *par. A8–A9*)
- c. designing the confirmation requests, including determining that *confirmation* requests are properly directed to the appropriate confirming party and provide for being responded to directly to the auditor; and (Ref: ~~par. A4–A7~~ *A10–A13*)
- d. sending the *confirmation* requests, including follow-up *confirmation* requests, when applicable, to the confirming party. (Ref: ~~par. A8~~ *A14 and A24*)

~~Results of the External Confirmation Procedures~~

Using an Intermediary

.11 *The auditor or the confirming party can engage another party as an intermediary. When determining whether to use an intermediary, the auditor should evaluate the implications on the reliability of confirmation requests and external confirmation responses. If the auditor determines that an intermediary will not be used, the auditor should send confirmation*

requests without using the intermediary, or if the auditor is unable to do so, the auditor should perform alternative procedures. (Ref: par. .A15–.A18, .A22)

Reliability of Responses to Confirmation Requests

~~.10.~~12 If the auditor identifies factors that give rise to doubts about the reliability of the **external confirmation** response to a confirmation request, the auditor should obtain further audit evidence to resolve those doubts. (Ref: par. ~~.A14–.A26~~ .A15–.A30)

~~.11.~~13 If the auditor determines that an **external confirmation** response to a confirmation request is not reliable, the auditor should evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing, and extent of other audit procedures. (Ref: par. ~~.A31–.A23~~)

[No amendment to paragraph .12, renumbered as paragraph .14]

...

When an ~~Written~~ External Confirmation Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence

~~.13.~~15 If the auditor has determined that an ~~written~~ **external confirmation** response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor should determine the implications for the audit and the auditor's opinion, in accordance with section 705. (Ref: par. ~~.A28–.A29~~ .A36–.A37)

[No amendment to paragraphs .14–.16, renumbered as paragraphs .16–.18]

...

Application and Other Explanatory Material

Definitions

External Confirmation Response (Ref: par. .06)

.A1 The auditor's ~~direct~~ access to information held by the confirming party ~~may~~ meets the definition of an external confirmation **response** when, for example, the auditor is provided by the confirming party with the electronic access codes or information necessary to **directly** access a secure website where data that addresses the subject matter of the confirmation is held. The auditor's access to information held by the confirming party may also be facilitated by an ~~third-party intermediary~~ service provider.

.A2 When ~~access codes or information necessary to access~~ **to** the confirming party's data is provided **by management** to the auditor ~~by management~~, evidence **information** obtained by the

auditor ~~from~~ *through such* access to such information does not meet the definition of an external confirmation *response*. *However, such procedure may be considered an alternative audit procedure subject to relevance and reliability considerations in accordance with section 500.*

[Paragraphs .A9–.A11 are moved and renumbered as paragraphs .A3–.A5 with no amendment. Paragraph .A2 is renumbered as paragraph .A6 with no amendment.]

...

External Confirmation Procedures

Determining the Information to Be Confirmed or Requested (Ref: par. ~~.07a~~ .10a)

...

.A7 The auditor's understanding of the following may assist the auditor in determining the information to be confirmed or requested, including the individual items for which audit evidence is to be obtained

- *for cash, the entity's cash management and treasury function, and the substance of the entity's arrangements and transactions with third parties.*
- *for accounts receivable, the substance of the entity's arrangements and transactions with third parties, and the nature of items that make up account balances.*

Selecting the Appropriate Confirming Party (Ref: par. ~~.07b~~ .10b)

~~.A3~~ .A8 External confirmation rResponses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party who 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. *Additionally, there may be instances in which government regulatory bodies are knowledgeable about the information to be confirmed and are an appropriate confirming party.*

.A9 If the auditor is unable to identify a confirming party that would provide a relevant and reliable external confirmation response, the auditor may conclude that it would be appropriate to revise the assessment of relevant risks of material misstatement and modify the nature, timing, and extent of other audit procedures.

Designing Confirmation Requests (Ref: par. .07e .10c)

~~A4~~ .A10 The design of a confirmation request may directly affect the **external** confirmation response rate and the reliability and nature of the audit evidence obtained from **external confirmation** responses.

[No amendment to paragraph .A5, renumbered as paragraph .A11.]

~~A6~~ .A12 A positive **external** confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information or asking the confirming party to provide information. **An external confirmation** response to a properly designed positive confirmation request ordinarily is expected to provide reliable audit evidence. A risk exists, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request and that ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may result in lower **external confirmation** response rates because additional effort is required from the confirming parties to provide the requested information.

~~A7~~ .A13 Determining that **confirmation** requests are properly addressed includes verifying the accuracy of the addresses, including testing the validity of some or all of the addresses on the confirmation requests before they are sent out, regardless of the confirmation method used. When a confirmation request is sent by e-mail, the auditor's determination that the request is being properly directed to the appropriate confirming party may include performing procedures to test the validity of some or all of the e-mail addresses supplied by management. The nature and extent of the necessary procedures is dependent on the risks associated with the particular type of confirmation or address. For example, a confirmation addressing a higher risk assertion or a confirmation address that appears to be potentially less reliable (for example, an electronic confirmation **request** addressed in a manner that appears easier to falsify) may necessitate different or more extensive procedures to determine that the **confirmation** request is directed to the intended recipient. See further guidance in paragraphs ~~A14.A23–A15~~.

Follow-Up on Confirmation Requests (Ref: par. .07d)

~~A8.A12~~ .A14 The auditor may send an additional confirmation request when a reply to a previous **confirmation** request has not been received within a reasonable time. For example, the auditor may, having reverified the accuracy of the original address, send an additional or follow-up **confirmation** request.

[Paragraphs .A9–.A11 are moved and renumbered as paragraphs .A2–.A4 with no amendment.]

Results of the External Confirmation Procedures

~~A8~~ .A15 *In evaluating the implications on the reliability of confirmation requests and external confirmation responses when using an intermediary, the auditor may*

- a. obtain an understanding of the intermediary's controls that address the risk of interception and alteration of the confirmation requests and external confirmation responses. Examples include controls over data transmission and storage, network security, and authentication and authorization of the users of the intermediary system.*
- b. determine whether the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively. This determination may be performed at the firm level when the intermediary is used on more than one of the firm's engagements.*
- c. assess the relationship of the intermediary with the entity — specifically, whether circumstances exist that give the entity the ability to override the intermediary's controls that address the risk of interception and alteration of the confirmation requests and external confirmation responses (for example, through financial, ownership, or other business relationships, contractual rights, or otherwise).*

.A16 An attestation report resulting from an engagement performed under AT-C section 205, Assertion-Based Examination Engagements, using the Trust Services criteria or another attestation report on controls over that system or process may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls with respect to that system or process. For example, a SOC 1 or SOC 2 report may address the risks described in paragraph .A22, although by their nature, these reports may address different types of controls that may be relevant, including when an intermediary is used. If these risks are not adequately addressed in such a report, the auditor may perform additional procedures to address those risks.

~~A9~~ .A17 *The auditor may perform procedures to determine whether the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively at an interim date. In determining whether additional procedures are necessary to update the results, the auditor may consider the length of time between the date of the procedures and the period the auditor uses the intermediary to facilitate direct electronic transmission of confirmation requests and external confirmation responses, and the nature and extent of any changes in the process and controls used by the intermediary during that time.*

~~A10~~ .A18 *If the auditor determines that (a) the intermediary has not implemented controls that are designed and operating effectively to address the risk of interception and alteration of the confirmation requests and external confirmation responses and the auditor cannot address such risk by performing other audit procedures beyond inquiry, or (b) circumstances exist that give the entity the ability to override the intermediary's controls, paragraphs .11–.13 apply.*

Reliability of Responses to Confirmation Requests (Ref: par. ~~A10–A11~~ .12–.13)

~~A12.~~A19 Section 500 states that consideration of the sources of information to be used as audit evidence includes the possibility that the information source may not be reliable.^{fn 4314} ***If the auditor becomes aware of information that calls into question the potential confirming party’s (a) motivation, ability, or willingness to respond, or (b) objectivity and freedom from bias with respect to the audited entity, such information may indicate that the potential confirming party has incentives or pressures to provide external confirmation responses that are inaccurate or otherwise misleading.***

.A20 All ***external confirmation*** responses carry some risk of interception, alteration, or fraud. Such risk exists regardless of whether ***an external confirmation*** response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of ***an external confirmation*** response include whether ~~it~~ ***the auditor has become aware of information that contradicts the information used when selecting the confirming party or whether the external confirmation response***

- was ***not*** received by the auditor ~~indirectly~~ ***directly from the confirming party.*** ~~or~~
- ~~appeared not to come from the originally intended confirming party.~~
- ***comes from a physical or electronic address other than the address on the confirmation request.***
- ***does not include a signature of the confirming party or otherwise identify the confirming party.***
- ***does not include a copy of the original confirmation request, email chain, or any other information indicating that the confirming party is responding to the auditor’s confirmation request.***

^{fn 4314} [Footnote omitted for purposes of this proposed SAS.]

~~A13.~~A21 The auditor’s consideration of the reliability of the information obtained through the confirmation process to be used as audit evidence ***may*** includes consideration of the risks that

- a. the information obtained may not be from an authentic source,
- b. a respondent may not be knowledgeable about the information to be confirmed, and
- c. the integrity of the information may have been compromised.

~~When an electronic confirmation process or system is used, the auditor’s consideration of the risks described in a–c includes the consideration of risks that the electronic confirmation process is not secure or is improperly controlled.~~

~~A14.~~A22 ***External confirmation*** Responses, ***including those*** received electronically (for example, by ~~fax or e-mail~~), involve risks relating to reliability because proof of origin or identity of the confirming party may be difficult to establish, and alterations may be difficult to detect.

The auditor may determine that it is appropriate to address such risks by utilizing *an intermediary*, a system, or process that validates the respondent (*for example, review of expected email address, including domain*) or by directly contacting the purported sender (for example, by telephone) to validate the identity of the sender of the *external confirmation* response and to validate that the information received by the auditor corresponds to what was transmitted by the sender.

Sending and *Following- Up on Confirmation Requests* (Ref: par. ~~.07d~~ .10d)

~~.A15~~—An electronic confirmation system or process that creates a secure confirmation environment may mitigate the risks of interception or alteration. Creating a secure confirmation environment depends on the process or mechanism used by the auditor and the respondent to minimize the possibility that the results will be compromised because of interception or alteration of the confirmation. If the auditor is satisfied that such a system or process is secure and properly controlled, evidence provided by responses received using the system or process may be considered reliable. Various means might be used to validate the source of the electronic information. For example, the use of encryption, electronic digital signatures, and procedures to verify website authenticity may improve the security of the electronic confirmation system or process. If a system or process that facilitates electronic confirmation between the auditor and the respondent is in place and the auditor plans to rely on the controls over such a system or process, an assurance trust services report (for example, Systrust) or another assurance report on that system or process may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls with respect to that system or process. Such an assurance report may address the risks described in paragraph .A13. If these risks are not adequately addressed in such a report, the auditor may perform additional procedures to address those risks. ~~.A15-/.A23]~~ [Paragraph proposed to be deleted by the issuance of proposed SAS *External Confirmations*.]

~~.A16~~.A24 The auditor is required by section 500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence.^{fn 1514} The auditor may choose to verify the source and contents of *an external confirmation* response to a confirmation request by contacting the confirming party (for example, as described in paragraph .A22-A14). When an *external confirmation* response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than the auditor), the auditor may request the confirming party to respond in writing directly to the auditor *before treating the situation as a nonresponse*.

^{fn 1514} [Footnote omitted for purposes of this proposed SAS.]

Disclaimers and Other Restrictions in Confirmation Responses

~~.A17~~.A25 An *external confirmation* response to a confirmation request may contain restrictive language regarding its use. Such restrictions do not necessarily invalidate the reliability of the *external confirmation* response as audit evidence. Whether the auditor may rely on the information confirmed and the degree of such reliance will depend on the nature and substance of the restrictive language.

[No amendment to paragraph .A18, which is renumbered as paragraph .A27.]

~~A19~~.A27 Other restrictive language also may not affect the reliability of an **external confirmation** response if it does not relate to the assertion being tested. For example, in a confirmation of investments, a disclaimer regarding the valuation of the investments may not affect the reliability of the **external confirmation** response if the auditor's objective in using the confirmation request is to obtain audit evidence regarding whether the investments exist.

~~A20~~.A28 Certain restrictive language may, however, cast doubt about the completeness or accuracy of the information contained in the **external confirmation** response or on the auditor's ability to rely on such information. Examples of such restrictions may include the following:

- Information is obtained from electronic data sources, which may not contain all information in the respondent's possession.
- Information is not guaranteed to be accurate nor current and may be a matter of opinion.
- The recipient may not rely upon the information in the confirmation.

~~A21~~.A29 When the auditor has doubts about the reliability of the **external confirmation** response as a result of restrictive language, then, in accordance with paragraph ~~10.12~~, the auditor is required to obtain further audit evidence to resolve those doubts. When the practical effect of the restrictive language is difficult to ascertain in the particular circumstances, the auditor may consider it appropriate to seek clarification from the respondent or seek legal advice.

~~A22~~.A30 If the auditor is unable to resolve the doubts about the reliability of an **external confirmation** response as a result of restrictive language, then, in accordance with paragraph ~~11.13~~, the auditor is required to evaluate the implications on the assessment of the relevant risks of misstatement, including the risk of fraud, and on the related nature, timing, and extent of other audit procedures. The nature, timing, and extent of such procedures will depend on factors such as the nature of the financial statement item, the assertion being tested, the nature and substance of the restrictive language, and relevant information obtained through other audit procedures.

Unreliable Responses (Ref: par. ~~11~~ .13)

~~A23~~.A31 When the auditor concludes that an **external confirmation** response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with section 315.^{fn 16¹⁵} For example, an unreliable **external confirmation** response may indicate a fraud risk factor that requires evaluation, in accordance with section 240.^{fn 17¹⁶}

^{fn 15 16} [Footnote omitted for purposes of this proposed SAS.]

^{fn 16 17} [Footnote omitted for purposes of this proposed SAS.]

Nonresponses and Oral Responses (Ref: par. ~~12~~ .14)

~~A24~~.A32 The nature and extent of alternative procedures are affected by the account and assertion in question. Examples of alternative audit procedures the auditor may perform include the following:

- *For cash items, verifying information about the entity's cash account maintained in a financial institution's information system by viewing this information directly on a secure website of the financial institution when access is provided by management*
- For accounts receivable balances, examining specific subsequent cash receipts (including matching such receipts with the actual items being paid), shipping documentation, or other client documentation providing evidence for the existence assertion
- For accounts payable balances, examining subsequent cash disbursements or correspondence from third parties and other records, such as receiving reports and statements that the client receives from vendors providing evidence for the completeness assertion

~~A25~~.A33 A nonresponse to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level and modify planned audit procedures, in accordance with section 315.^{fn 1817} For example, a fewer or greater number of *external confirmation* responses to confirmation requests than anticipated may indicate a previously unidentified fraud risk factor that requires evaluation, in accordance with section 240.^{fn 1918}

^{fn 1718} [Footnote omitted for purposes of this proposed SAS.]

^{fn 1819} [Footnote omitted for purposes of this proposed SAS.]

[No amendment to paragraph .A26, which is renumbered as paragraph .A34.]

~~A27~~.A35 An oral response to a confirmation request does not meet the definition of an *external confirmation response* because it is not a direct written ~~response~~ *communication* to the auditor. Provided that the auditor has not concluded that a direct written ~~response~~ *communication* to a positive confirmation *request* is necessary to obtain sufficient appropriate audit evidence, the auditor may take the receipt of an oral response to a confirmation request into consideration when determining the nature and extent of alternative audit procedures required to be performed for nonresponses, in accordance with paragraph ~~12.14~~. The auditor may perform additional procedures to address the reliability of the evidence provided by the oral response, such as initiating a call to the respondent using a telephone number that the auditor has independently verified as being associated with the entity. For example, the auditor might call the main telephone number obtained from a reliable source and ask to be directed to the named respondent instead of calling a direct extension provided by the client or included in the statement or other correspondence received by the entity. The auditor may determine that the additional evidence provided by contacting the respondent directly, together with the evidence upon which the original confirmation request is based (for example, a statement or other correspondence received by the

entity), is sufficient appropriate audit evidence. In appropriately documenting the oral response, the auditor may include specific details, such as the identity of the person from whom the response was received, his or her position, and the date and time of the conversation.

When an ~~Written~~ External Confirmation Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence (Ref: par. ~~A3~~.15)

~~A28~~.A36 In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which an ***external confirmation*** response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include the following:

- The information available to corroborate management's assertion(s) is only available outside the entity.
- Specific fraud risk factors, such as the risk of management override of controls or the risk of collusion, which can involve employee(s) or management, or both, prevent the auditor from relying on evidence from the entity.

~~A29~~.A37 When the auditor has determined that an ~~an-written~~ ***external confirmation*** response is necessary to obtain sufficient appropriate audit evidence and the auditor has obtained only an oral response to a confirmation request, the auditor may request the confirming party to respond in writing directly to the auditor. If no such ***external confirmation*** response is received, in accordance with paragraph ~~A3~~.15, alternative audit procedures will not provide the audit evidence the auditor requires, and the auditor is required to determine the implications for the audit and the auditor's opinion, in accordance with section 705.

Exceptions (Ref: par. ~~A4~~.16)

~~A30~~.A38 Exceptions noted in ***external confirmation*** responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the auditor is required by section 240 to evaluate whether such misstatement is indicative of fraud.^{fn 2019} Exceptions may provide a guide to the quality of ***external confirmation*** responses from similar confirming parties or for similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.

^{fn 2019} [Footnote omitted for purposes of this proposed SAS.]

~~A31~~.A39 Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in ***external confirmation*** responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

Negative Confirmations (Ref: par. ~~A5~~.17)

~~A32~~.A40 The failure to receive an ***external confirmation*** response to a negative confirmation request does not indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the ***confirmation*** request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly

less persuasive audit evidence than does an *external confirmation* response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favor but less likely to respond otherwise. For example, holders of bank deposit accounts may be more likely to respond if they believe that the balance in their account is understated in the confirmation request but less likely to respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

Evaluating the Evidence Obtained (Ref: par. ~~A16~~ .18)

~~A33~~.A41 When evaluating the results of individual ~~external~~ confirmation requests, the auditor may categorize such results as follows:

- a. An *external confirmation* response by the appropriate confirming party indicating agreement with the information provided in the confirmation request or providing requested information without exception
- b. An *external confirmation* response deemed unreliable
- c. A nonresponse
- d. An *external confirmation* response indicating an exception

[No amendment to paragraph .A34, which is renumbered as .A42. No further amendment to AU-C section 505.]

Amendment to SAS No. 142, Audit Evidence, as Amended (AICPA, Professional Standards, AU-C sec. 500)

Amendment to AU-C Section 500, *Audit Evidence*

(Boldface italics denotes new language. Deleted text is shown in ~~strikethrough~~.)

5. AU-C section 500, *Audit Evidence*, explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence. This amendment adds application material that the ASB believes will enhance the quality of audits of financial statements of nonissuers. Paragraph .A15 explains that confirmation requests need not be restricted to classes of transactions, account balances, or disclosures. The additional application material provides examples of when such confirmation requests may be appropriate. Amendments also include conforming changes to align with the changes to the definitions in AU-C section 505.
6. This amendment would be effective for audits of financial statements for periods ending no earlier than December 15, 2027. Early implementation would be permitted.

[No amendment to paragraphs .01–.A10.]

Application and Other Explanatory Material

...

Evaluating Information to Be Used as Audit Evidence (Ref: par. .07–.08)

.A11 Information to be used as audit evidence may take different forms, which influences the nature of audit procedures that may be necessary to obtain or evaluate the information. Different forms of information, individually or in combination, include

- *oral information* obtained through a verbal response to an inquiry of management or external information sources (for example, oral inquiries made during the course of the audit).
- *visual information* obtained through observation (for example, a message that appears on-screen for a control restricting access to an IT) system or observed by the auditor using remote observation tools).
- *paper documents*, which are obtained in documentary form (for example, an original executed sales contract or a written ***external*** confirmation ***response***).
- *electronic information*, which includes

- *documents* obtained in electronic documentary form (for example, a scanned version of an executed sales contract or an electronic **external confirmation response**).
- *data* stored in the entity's IT system or obtained electronically from an external information source. Such data may be manually input into the system or may be electronically generated (for example, an electronic data interface between the entity and a service organization).

Relevance and Reliability of the Information, Including Its Source (Ref: par. .07a)

Sources of Information to Be Used as Audit Evidence

.A12 The source of the information to be used as audit evidence often affects the consideration of its relevance and reliability. Information to be used as audit evidence may be obtained directly or derived individually or in combination from different sources, including the following:

- a. *Management.* Management may provide the auditor with information obtained from the financial reporting process used to prepare the financial statements, including disclosures (for example, the entity's accounting records) as well as information obtained from outside of the general and subsidiary ledgers (for example, from the entity's risk management system or sales functions). This information may be stored by the entity within its IT systems or in a remote server. Management may also employ or engage a specialist who may provide information to be used as audit evidence.^{fn 19}
- b. *External information sources and other external parties.* Management or the auditor may use information obtained from external information sources and other external parties (for example, information used as inputs to forecasts or models used to prepare accounting estimates or accumulated by an auditor to analyze industry trends). The auditor may obtain external confirmation **responses** or make inquiries of external parties to corroborate management's assertions. See appendix A, "Considerations Regarding the Use of External Information Sources," for the auditor's considerations when using external information sources.
- c. *Auditor.* The auditor may develop information to be used as audit evidence. For example, an auditor may accumulate and analyze industry trends to be used in the audits of entities in that industry. The auditor may also employ or engage a specialist to assist the auditor in developing audit evidence, which could include developing an independent expectation to evaluate the reasonableness of an accounting estimate. The auditor may also use automated tools and techniques to analyze information provided by management or external parties, resulting in audit evidence.

^{fn 19} [Footnote omitted for purposes of this proposed SAS.]

[No amendment to paragraphs .A13–.A14.]

.A15 External confirmation procedures may provide relevant information to be used as audit evidence when addressing assertions associated with certain account balances and their elements.

However, ~~external~~ confirmation **requests** need not be restricted to classes of transactions, account balances, or disclosures. For example, the auditor may request confirmation of the terms of **agreements, contracts, or transactions between an entity and other parties, particularly for complex agreements or significant unusual transactions that are associated with a significant risk.**~~;~~~~the~~ The confirmation request may be designed to ask if any modifications have been made to ~~the agreement~~ **agreements or contracts** and, if so, the relevant details. External confirmation procedures are also used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).

[No amendment to paragraphs .A16–.A37.]

.A38 Contradictory information is not considered in isolation but, rather, as part of the auditor’s consideration with respect to that management assertion taken as a whole. In such cases, professional skepticism and judgment is necessary to evaluate the persuasiveness of the audit evidence taken as a whole, rather than focusing on an individual piece of audit evidence. For example, the auditor may be aware of information on social media suggesting a company’s product has major quality issues and that all buyers would be returning the product. The auditor may have obtained external confirmation **responses** regarding product sales and outstanding accounts receivable that do not indicate quality or return issues and may have scanned the sales returns subsidiary ledger, which contained only an immaterial amount of returns subsequent to year-end. In light of that, the auditor may conclude that the contradictory information does not suggest a reasonable possibility of a risk of material misstatement and that further audit procedures are not necessary.

[No amendment to paragraphs .A39–.A54.]

Audit Procedures as a Basis for Concluding on the Sufficiency and Appropriateness of Audit Evidence (Ref: par. .09)

...

Audit Procedures as a Basis for Concluding on the Sufficiency and Appropriateness of Audit Evidence (Ref: par. .09)

...

Confirmation

.A55 An external confirmation **response** is defined as audit evidence obtained as a direct written ~~response~~ **communication** to the auditor from a ~~third party (the confirming party)~~, either in paper form or by electronic or other medium (for example, through the auditor’s direct access to information ~~held by a third party~~ **provided by the confirming party**) **in response to a confirmation request**. See section 505, *External Confirmations*, for further guidance.

[No amendment to paragraphs .A56–.A63.]

...

Inquiry

...

.A64 Inquiries of knowledgeable persons outside the entity do not meet the definition of *external confirmation responses* in accordance with section 505. However, the responses to inquiries of persons outside of the entity are considered in accordance with this section and may constitute reliable information to be used as audit evidence.

Inconsistencies in, or Doubts About the Reliability of, Audit Evidence (Ref: par. .10)

.A65 Information obtained from different sources may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, an external confirmation *response* is inconsistent with the terms of a debt obligation. Section 230, *Audit Documentation*, includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant finding or issue. ^{fn 28}

^{fn 28} [Footnote omitted for purposes of this proposed SAS.]

[No further amendment to AU-C section 500.]

Appendix A — Amendments to Other Statements on Auditing Standards, as Amended, and to Various Other Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

Amendment to SAS No. 117, *Compliance Audits*, as Amended (AICPA, *Professional Standards*, AU-C sec. 935)

7. This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

AU-C section 935, *Compliance Audits*

[No amendment to paragraphs .01–.A44.]

...

Application and Other Explanatory Material

...

Appendix – AU-C Sections That Are Not Applicable to Compliance Audits

.A45 The following AU-C sections and individually enumerated requirement paragraphs of specific AU-C sections are not applicable to a compliance audit performed under this section either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in this section. Where the table in this appendix specifies individual requirement paragraphs rather than an entire AU-C section, the application and other explanatory material paragraphs related to such requirement paragraphs also do not apply. However, an auditor may apply these AU-C sections and paragraphs if the auditor believes doing so will provide appropriate audit evidence in the specific circumstances to support the auditor's opinion on compliance.

AU-C Section	Paragraphs Not Applicable to Compliance Audits
210, <i>Terms of Engagement</i>	Paragraphs .06a and .08a
240, <i>Consideration of Fraud in a Financial Statement Audit</i>	Paragraphs .26 and .32b
250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	All
315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	Paragraphs .19b, .20, .27a, .32–.38, .40, and .42d
330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>	Paragraphs .13–.15, .18– .22 .23, .26 .27, and .31–.32 .32–.33
501, <i>Audit Evidence — Specific Considerations for Selected Items</i>	All except paragraph .27 [‡]
505, <i>External Confirmations</i>	All

AU-C Section	Paragraphs Not Applicable to Compliance Audits
510, <i>Opening Balances — Initial Audit Engagements, Including Reaudit Engagements</i>	Paragraphs .06, .08–.13, and .15–.17
540, <i>Auditing Accounting Estimates and Related Disclosures</i>	All
550, <i>Related Parties</i>	All
560, <i>Subsequent Events and Subsequently Discovered Facts</i>	Paragraphs .09–.11 and .19–.20
570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>	All
600A, <i>Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	Paragraphs .26, .39, .41c, .41d, .55, and .56c
700, <i>Forming an Opinion and Reporting on Financial Statements</i>	Paragraphs .13–.17, .21–.44, and .45–.61
701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	All
703, <i>Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA</i>	All
705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>	Paragraphs .18–.20
706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report</i>	Paragraphs .06–.07
708, <i>Consistency of Financial Statements</i>	All
720, <i>The Auditor's Responsibilities Relating to Other Information Included in Annual Reports</i>	All
725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>	All
730, <i>Required Supplementary Information</i>	All
800, <i>Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>	All
805, <i>Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>	All
806, <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</i>	All
810, <i>Engagements to Report on Summary Financial Statements</i>	All

AU-C Section	Paragraphs Not Applicable to Compliance Audits
910, <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i>	All
915, <i>Reports on Application of Requirements of an Applicable Financial Reporting Framework</i>	All
920, <i>Letters for Underwriters and Certain Other Requesting Parties</i>	All
925, <i>Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933</i>	All
930, <i>Interim Financial Information</i>	All
940, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i>	All
945, <i>Auditor Involvement With Exempt Offering Documents</i>	All
* SAS No. 142, <i>Audit Evidence</i> (sec. 500), amended section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i>, to add paragraph .27 to section 501. That amendment is effective for audits of financial statements for periods ending on or after December 15, 2022. Consequently, the amendment relating to section 501 in this appendix becomes effective for compliance audits for fiscal periods ending on or after December 15, 2022, to align with the effective date of SAS No. 142. All other revisions to this appendix become effective for compliance audits for fiscal periods ending on or after December 15, 2023.	

[No further amendment to AU-C section 935.]

Amendment to Various Sections in SAS No. 122, as Amended (AICPA, *Professional Standards*, AU-C sec. 200, 402, 501, 510, and 530)

8. This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

Amendment to AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With GAAS*

[No amendment to paragraphs .01–.A25.]

...

Application and Other Explanatory Material

...

Professional Skepticism (Ref: par. .17)

...

.A26 The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.^{fn 10} In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a

document may not be authentic or that terms in a document may have been falsified), GAAS require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter. ^{fn 11}

^{fn 10} [Footnote omitted for purposes of this proposed SAS.]

^{fn 11} Paragraph .10 of section 500 and paragraphs ~~.10–.11~~ **.12–.13** and ~~.16~~ **.18** of section 505, *External Confirmations*. [Footnote renumbered by the issuance of SAS No. 142, July 2020.]

Amendment to AU-C Section 402, *Audit Considerations Relating to an Entity Using a Service Organization*

[No amendment to paragraphs .01–.A27.]

...

Application and Other Explanatory Material

...

Responding to the Assessed Risks of Material Misstatement (Ref: par. .15)

...

.A28 In determining the nature and extent of audit evidence to be obtained for financial statement balances representing assets held or transactions processed by a service organization for a user entity, the following procedures may be considered by the user auditor:

- a. *Inspecting records and documents held by the user entity.* The reliability of this source of evidence is determined by the nature and extent of the accounting records and supporting documentation retained by the user entity. In some cases, the user entity may not maintain independent detailed records or documentation of specific transactions undertaken on its behalf.
- b. *Inspecting records and documents held by the service organization.* The user auditor's access to the records of the service organization may be established as part of the contractual arrangements between the user entity and the service organization. The user auditor may also use another auditor, on its behalf, to gain access to the user entity's records maintained by the service organization, or ask the service organization through the user entity for access to the user entity's records maintained by the service organization.
- c. *Obtaining **external** confirmations **responses** of balances and transactions from the service organization.* When the user entity maintains independent records of balances and transactions, **external** confirmation **response** from the service organization corroborating those records usually constitutes reliable audit evidence concerning the existence of the transactions and assets concerned. For example, when multiple service organizations are used, such as an investment manager and a custodian, and these service organizations maintain independent records, the user auditor may confirm balances with these organizations in order to compare this information with the independent records of the user entity. If the user entity does not maintain independent records, information obtained in confirmations from the service organization is merely a statement of what is reflected in the records maintained by the service organization. Therefore, such confirmations do not, taken alone, constitute reliable audit evidence. In these circumstances, the user auditor may consider whether an alternative source of independent evidence can be identified.

- d. *Performing analytical procedures on the records maintained by the user entity or on the reports received from the service organization.* The effectiveness of analytical procedures is likely to vary by assertion and will be affected by the extent and detail of information available.

[No further amendment to AU-C section 402.]

Amendment to AU-C Section 501, *Audit Evidence — Specific Considerations for Selected Items*

[No amendment to paragraphs .01–.15.]

...

Requirements

Investments in Securities and Derivative Instruments (Ref: par. .A1–.A4)

...

Inventory

...

.16 If inventory under the custody and control of a third party is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

- a. Request *external* confirmation *response* from the third party regarding the quantities and condition of inventory held on behalf of the entity (Ref: par. .A38)
- b. Perform inspection or other audit procedures appropriate in the circumstances (Ref: par. .A39)

[No amendment to paragraphs .17–.A3.]

...

Application and Other Explanatory Material

Investments in Securities and Derivative Instruments (Ref: par. .05–.06)

...

Investments in Securities When Valuations Are Based on Cost

.A4 Procedures to obtain evidence about the valuation of securities that are recorded at cost may include inspection of documentation of the purchase price, *external* confirmation *procedures* with the issuer or holder of those securities, and testing discount or premium amortization either by recomputation or through the use of analytical procedures.

[No amendment to paragraphs .A5–.A38.]

Inventory

...

Inventory Under the Custody and Control of a Third Party

...

Other Audit Procedures (Ref: par. .16b)

.A39 Depending on the circumstances (for example, when information is obtained that raises doubt about the integrity and objectivity of the third party), the auditor may consider it appropriate to perform other audit procedures instead of, or in addition to, *external* confirmation *procedures* with the third party. Examples of other audit procedures include the following:

- Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable
- Obtaining another auditor's report on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded
- Inspecting documentation regarding inventory held by third parties (for example, warehouse receipts)
- Requesting *external* confirmation *responses* from other parties when inventory has been pledged as collateral

[No further amendment to AU-C section 501.]

Amendment to AU-C Section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*

[No amendment to paragraphs .01–.A13.]

...

Application and Other Explanatory Material

...

Audit Procedures (Ref: par. .07)

...

Opening Balances (Ref: par. .08c)

...

.A14 For noncurrent assets and liabilities, such as property, plant, and equipment; investments; and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through *external* confirmation *procedures* with third parties (for example, for long-term debt and investments). In other cases, the auditor may need to carry out additional audit procedures.

[No further amendment to AU-C section 510.]

Amendment to AU-C Section 530, *Audit Sampling*

[No amendment to paragraphs .01–.A8.]

...

Application and Other Explanatory Material

...

Sample Design, Size, and Selection of Items for Testing

Sample Design

...

.A9 The auditor's consideration of the purpose of the audit procedure, as required by paragraph .06, includes a clear understanding of what constitutes a deviation or misstatement so that all, and only, those conditions that are relevant to the assertions are included in the evaluation of deviations or projection of misstatements. For example, in a test of details relating to the existence of accounts receivable, such as *external* confirmation *procedures*, payments made by the customer before the confirmation date but received shortly after that date by the client are not considered a

misstatement. Also, an incorrect posting between customer accounts does not affect the total accounts receivable balance. Therefore, it may not be appropriate to consider this a misstatement in relation to the relevant assertion even though it may have an important effect on other areas of the audit, such as the assessment of the risk of fraud or the adequacy of the allowance for doubtful accounts.

[No further amendment to AU-C section 530.]

Amendment to SAS No. 128, *Using the Work of Internal Auditors* (AICPA, *Professional Standards*, AU-C sec. 610)

9. This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

Amendment to AU-C Section 610, *Using the Work of Internal Auditors*

[No amendment to paragraphs .01–.A19.]

...

Application and Other Explanatory Material

...

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used in Obtaining Audit Evidence

...

Determining the Nature and Extent of Work of the Internal Audit Function That Can Be Used in Obtaining Audit Evidence

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function That Can Be Used (Ref: par. .15–.18)

...

.A20 In accordance with section 330, the external auditor is required to design and perform further audit procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement at the relevant assertion level.^{fn 9} Further audit procedures comprise tests of controls and substantive procedures. Procedures planned or performed by the internal audit function may be the same as, or be similar to, the further audit procedures that the external auditor would design and perform. Accordingly, subject to the requirements of this section, the external auditor may determine that it is appropriate to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of further audit procedures to be performed directly by the external auditor. The internal audit function may have performed, or may be planning to perform

- tests of relevant controls upon which the external auditor intends to rely in determining the nature, timing, and extent of substantive procedures. For example, the work of the internal audit function may include tests of relevant controls that address the risks of material misstatement related to the completeness of accounts payable. The results of the internal audit function's tests may provide evidence about the effectiveness of controls and, accordingly, the external auditor may be able to use such tests of controls performed by the internal audit function to modify the nature or timing, or reduce the extent of, testing of controls the external auditor would otherwise have performed directly.
- substantive procedures. For example, the internal audit function, as part of its work, may confirm certain accounts receivable and observe certain physical inventories. By using such

work of the internal audit function in obtaining audit evidence, the external auditor may be able to change the timing of the **external** confirmation procedures, the number of accounts receivable to be confirmed, or the number of locations of physical inventories to be observed.

^{fn 9} [Footnote omitted for purposes of this proposed SAS.]

[No further amendment to AU-C section 610.]

Amendment to SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, Professional Standards, AU-C sec. 570)

10. This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

Amendment to AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

[No amendment to paragraphs .01–.A32.]

...

Application and Other Explanatory Material

...

Additional Audit Procedures When Events or Conditions Are Identified (Ref: par. .16)

...

Financial Support by Third Parties or the Entity's Owner-Manager

Support Letters or Written Confirmations

...

.A33 The intent of supporting parties to provide the necessary financial support may be evidenced by either of the following:

- a. Obtaining from management written evidence of a commitment from the supporting party to provide or maintain the necessary financial support (sometimes referred to as a "support letter").
- b. Confirming directly with the supporting parties (as described in paragraph .A35) the existence of commitments to provide or maintain the necessary financial support. **External** ~~C~~confirmation **procedures** may be necessary if management only has oral evidence of such financial support.

[No amendment to paragraph .34.]

Obtaining Written Confirmations

.A35 If the auditor obtains a support letter as described in paragraph .A33a, the auditor may still request ~~an written~~ **external** confirmation **response** in accordance with section 505, *External Confirmations*, from the supporting parties regarding the contents of the support letter. For example, such ~~written~~ **external** confirmation **response** may be requested when, in the auditor's professional judgment, ~~an written~~ **external** confirmation **response** is necessary to determine the validity of the support letter as well as the accuracy and completeness of the related terms and conditions.

[No further amendment to AU-C section 570.]

Amendment to SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, section 705, *Modification to the Opinion in the Independent Auditor's Report* (AICPA, Professional Standards, AU-C sec. 705)

- 11.** This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

Amendment to AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report*

[No amendment to paragraphs .01–.A12.]

...

Application and Other Explanatory Material

...

Circumstances in Which a Modification to the Auditor's Opinion Is Required

...

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: par. .07b)

...

.A13 Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include the following:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from ~~requesting~~ **performing** external confirmation ~~procedures of~~ **on** specific account balances

[No further amendment to AU-C section 705.]

Amendment to SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, Professional Standards, AU-C sec. 315)

- 12.** This amendment would become effective for audits of financial statements for periods ending no earlier than December 15, 2027.

Amendment to AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

[No amendment to paragraphs .01–.A209.]

...

Application and Other Explanatory Material

...

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework, and the Entity's System of Internal Control (Ref: par. .19–.31)

...

Control Activities (Ref: par. .26–.31)

...

Evaluating the Design and Determining Implementation of Identified Controls in the Controls Activities Component (Ref: par. .30)

...

.A210 In addition, when identified controls are designed effectively and implemented, risk assessment procedures may influence the auditor's determination of the nature and timing of substantive procedures to be performed (for example, the auditor may determine to perform inspection, rather than external confirmation *procedures* or to perform procedures at an interim date, rather than at period end).

[No further amendment to AU-C section 315.]