Statement on Auditing Standards — *July 2026* — ***150***

Issued by the Auditing Standards Board

External Confirmations

(Amends:

- ***Statement 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:

- ***SAS No. 117,* Compliance Audits, *as amended [AICPA,* Professional Standards, *AU-C sec. 935]***
- ***Various other sections in SAS No. 122, as amended***
  - — ***Section 200,* Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards *[AICPA,* Professional Standards, *AU-C sec. 200]***
  - — ***Section 230,* Audit Documentation *[AICPA,* Professional Standards, *AU-C sec. 230]***
  - — ***Section 240,* Consideration of Fraud in a Financial Statement Audit *[AICPA,* Professional Standards, *AU-C sec. 240]***
  - — ***Section 260,* The Auditor's Communication With Those Charged With Governance *[AICPA,* Professional Standards, *AU-C sec. 260]***

— ***Section 402,* Audit Considerations Relating to an Entity Using a Service Organization *[AICPA,* Professional Standards, *AU-C sec. 402]***

— ***Section 501,* Audit Evidence — Specific Considerations for Selected Items *[AICPA,* Professional Standards, *AU-C sec. 501]***

— ***Section 510,* Opening Balances — Initial Audit Engagements, Including Reaudit Engagements *[AICPA,* Professional Standards, *AU-C sec. 510]***

— ***Section 530,* Audit Sampling *[AICPA,* Professional Standards, *AU-C sec. 530]***

— ***Section 550,* Related Parties *[AICPA,* Professional Standards, *AU-C sec. 550]***

- ***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. 136*, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA *[AICPA,* Professional Standards, *AU-C sec. 703]***
- ***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]*)**

Auditing Standards Board
(2025–2026)

Confirmations Task Force

AICPA Staff

Note*: Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the AICPA designated to issue pronouncements on auditing, attestation, and quality control matters. The "Compliance With Standards Rule" (ET sec. 1.310.001)*[1] *of the AICPA Code of Professional Conduct requires compliance with these standards when firms perform auditing and accounting services for a nonissuer.*

[1]All ET sections can be found in AICPA *Professional Standards*.

Statement on Auditing Standards (SAS) No. 150, *External Confirmations*

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

Amendment to SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification,* As Amended

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

1. The amendment to AU-C section 330 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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−.18.]

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***. ***Section 505*** [fn 2] ***requires the auditor to perform external confirmation procedures***

for accounts receivable and cash and cash equivalents held by third parties unless certain conditions exist. (Ref: par. .A53–.A58)

fn 2 ***Paragraphs .08–.09 of section 505,*** **External Confirmations.** [Subsequent footnotes renumbered.]

*[***.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.~~ **[Paragraph deleted by the issuance of SAS No. 150.]**

[No amendment to paragraphs .21–.31.]

*[***.32***]* ~~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.~~ **[Paragraph deleted by the issuance of SAS No. 150.]**

[No amendment to paragraphs .33–.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~~)

.A53 External confirmation procedures frequently may be ***used*** ~~relevant when addressing~~***to respond to the assessed risk of material misstatement for certain relevant*** assertions associated with ***significant classes of transactions,*** account balances***, or disclosures.*** ~~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. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a 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 situations in which external confirmation procedures may provide audit evidence to respond to assessed 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 (accuracy; completeness; existence; rights and obligations)***
- ***Information about the presence or absence of certain conditions, such as disclosed and undisclosed written or oral side agreements (completeness; existence)***
- Inventories held by third parties at bonded warehouses for processing or on consignment ***(accuracy; existence; rights and obligations)***
- Property title deeds held by lawyers or financiers for safe custody or as security ***(accuracy; rights and obligations)***
- Investments held for safekeeping by third parties or purchased from stockbrokers but not delivered at the balance sheet date ***(accuracy; existence; rights and obligations)***
- ***Digital assets held by third parties (for example, a custodian) other than those considered cash equivalents held by third parties (accuracy; existence; rights and obligations)***
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants ***(accuracy; completeness; rights and obligations)***
- Accounts payable balances and terms ***(accuracy; completeness; rights and obligations)***

.A54 ***External confirmation requests need not be restricted to classes of transactions, account balances, or disclosures. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties, particularly for complex or significant unusual transactions that are associated with significant risks. The external confirmation request may be designed to ask if any modifications have been made to the agreements or contracts and, if so, the relevant details.***

~~**.A54**~~*.A55* Although external confirmation~~s~~ ***responses*** may provide audit evidence relating to certain assertions, some assertions exist for which external confirmation~~s~~ ***responses*** provide less persuasive audit evidence, for example, external confirmation~~s~~ ***responses*** provide less persuasive audit evidence relating to the recoverability of accounts receivable balances than they do of their existence.

~~**.A55**~~*.A56* 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**~~*.A57* 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~~***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***n external*** 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 ***external*** 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.

~~**.A57**~~*[.A58]* ~~For purposes of this section, *accounts receivable* means~~

~~a. the entity's claims against customers that have arisen from the sale of goods or services in the normal course of business; and~~

~~b. a financial institution's loans.~~ **[Paragraph deleted by the issuance of SAS No. 150.]**

~~**.A58**~~*[.A59]* ~~External confirmation procedures may be ineffective when, based on prior years' audit experience or experience with similar entities~~

- ~~response rates to properly designed confirmation requests will be inadequate; or~~
- ~~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 confirmation process is performed, with the objective of increasing the response rates, or may consider obtaining audit evidence from other sources.~~ **[Paragraph deleted by the issuance of SAS No. 150.]**

[No amendment to former paragraphs .A59–.A60, renumbered as paragraphs .A60–.A61.]

~~**.A61**~~ *.A62* Audit evidence in the form of external confirmation~~s~~ ***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.

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

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

2. The amendment to AU-C section 505 is effective for audits of financial statements for periods ending on or after December 15, 2028.

Introduction

…

[No amendment to paragraph .01.]

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 ***reliability*** ~~audit evidence~~: [fn 2]

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

Accordingly, depending on the circumstances of the audit, audit evidence ***obtained from external confirmation procedures*** ~~in the form of external confirmations~~ ~~***responses***~~ ~~received directly by the auditor from confirming parties~~ may be more reliable than evidence ***obtained from information*** 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] [Footnote text omitted for purposes of this 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 for certain relevant assertions of***

significant classes of transactions, account balances, or disclosures. ~~and is required to use external confirmation procedures for~~

- ~~accounts receivable unless~~

- ~~the overall account balance is immaterial,~~

- ~~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]

- section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk. [fn 6] 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 7]

- ***section 330 indicates that external confirmation requests need not be restricted to classes of transactions, account balances, or disclosures. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties, particularly for complex or significant unusual transactions that are associated with significant risks. The external confirmation request may be designed to ask if any modifications have been made to the agreements or contracts and, if so, the relevant details. External confirmation procedures may also provide audit evidence about the presence or absence of certain conditions (for example, about the absence of a side agreement that may be relevant to an entity's revenue cut-off assertion).*** [fn 8]

- section 240, *Consideration of Fraud in a Financial Statement Audit*, indicates that the auditor may design ***external*** confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level. [fn ~~8~~***9***]

- ~~section 500 indicates that external confirmations 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 ~~9~~***10***]

[fn 3–4][Footnote text omitted for purposes of this SAS.]
[fn 5] ~~Paragraphs .19–.20 of section 330.~~ [Footnote deleted by the issuance of SAS No. 150.]

fn 6 [Footnote text omitted for purposes of this SAS.]
fn 7 Paragraph ~~.A58~~ ***.A61*** of section 330.
fn 8 Paragraph .A54 of section 330.
fn ~~8~~***9*** [Footnote text omitted for purposes of this SAS.]
[fn ~~9~~***10***] ~~Paragraph .A15 of section 500.~~ [Footnote renumbered and deleted by the issuance of SAS No. 150. Subsequent footnotes further 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:

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

~~**Exception.** A 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. ***Audit procedures that are designed and performed to obtain audit evidence about one or more assertions directly from a confirming party in the form of an external confirmation response. (Ref: par. .A1)***

External confirmation request. ***A request from the auditor to a confirming party regarding information about one or more particular classes of transactions, account balances, disclosures, or other items as a means of obtaining audit evidence about one or more assertions.***

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

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

Nonresponse. A failure of the confirming party to respond, ~~or fully respond,~~ ***in a written communication,*** to a positive confirmation request or a***n external*** confirmation request returned undelivered. ***(Ref: par. .A2)***

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

.07 ***For purposes of this section, the following terms have the meanings attributed as follows:***

Intermediary. ***A party, other than the auditor or the confirming party, who directly facilitates external confirmation procedures between the auditor and the confirming party.***

Exception. ***A difference between information that has been selected for confirmation and information provided by a confirming party.***

Requirements

Confirmation of Accounts Receivable and Cash and Cash Equivalents

.08 ***The auditor should perform external confirmation procedures for accounts receivable to respond to the assessed risks of material misstatement except when one or more of the following is applicable: (Ref: par. .A3–.A4, .A9–.A11)***

a. ***External confirmation procedures for accounts receivable would be ineffective. (Ref: par. .A5–.A6)***

b. ***The auditor's assessed risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.***

If the auditor is able to obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source, the auditor may do so to satisfy the requirement to perform external confirmation procedures for accounts receivable.

.09 ***The auditor should perform external confirmation procedures for cash and cash equivalents held by third parties (cash) to respond to the assessed risks of material misstatement except when one or more of the following is applicable: (Ref: par. .A3, .A9–.A11)***

a. ***External confirmation procedures for cash are impracticable. (Ref: par. .A6–.A8)***

b. ***The auditor's assessed risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.***

If the auditor is able to obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source, the auditor may do so to satisfy the requirement to perform external confirmation procedures for cash.

Directly Accessing Information Maintained by a Knowledgeable External Source

.10 ***If the auditor directly accesses information maintained by a knowledgeable external source, the auditor should apply the requirements in paragraphs .11–.18, .20–.21, and .23, adapted as necessary in the circumstances. (Ref: par. .A12–.A15)***

[No amendment to former paragraphs .08−.09, renumbered as paragraphs .11–.12.]

…

External Confirmation Procedures

.~~07~~*.13* When ~~using~~ ***performing*** 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. .A10, .A19***)

b. selecting the items to be confirmed or requested;

~~*b*~~***c****.* selecting the appropriate confirming party; (Ref: ~~par. A3~~ ***par. .A20–.A22***)

~~*c*~~***d****.* designing the ***external*** confirmation requests, including determining that ***external confirmation*** requests are properly directed to the appropriate confirming party and ~~provide~~ ***providing*** for ***the confirming party*** ~~being responded~~ to ***respond*** directly to the auditor; ~~and~~ (Ref: par. ~~.A4-A7~~ ***.A23–.A26***)

~~*d*~~***e****.* sending the ***external confirmation*** requests, including follow-up ***external confirmation*** requests, when applicable, ***directly*** to the confirming party***; and***~~.~~ (Ref: par. ~~.A8~~ ***.A27 and .A37***)

f. obtaining external confirmation responses directly from the confirming parties.

.14 ***When performing external confirmation procedures, the auditor should evaluate the information obtained from each external confirmation response and address nonresponses, when applicable.***

~~**Results of the External Confirmation Procedures**~~

Using an Intermediary

.15 ***When determining whether to use an intermediary, the auditor should evaluate the implications on the reliability of external confirmation procedures. (Ref: par. .A28–.A30, .A35)***

.16 ***If, based on the auditor's evaluation in paragraph .15, the auditor determines that an intermediary should not be used, the auditor should send external confirmation requests without using the intermediary. If the auditor is unable to do so, the auditor should perform other audit procedures.***

Reliability of Responses to External Confirmation Requests

~~.10~~*.17* If the auditor identifies factors that give rise to doubts about the reliability of the ***external confirmation*** response to a***n external*** confirmation request, the auditor should obtain further audit evidence to resolve those doubts. (Ref: par. ~~A14–.A26~~ ***.A28–.A43)***

~~.11~~*.18* If the auditor determines that a***n external confirmation*** response to a***n external*** 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. ***.A44*** ~~.A23~~)

[No amendment to former paragraph .12, renumbered as paragraph .19.]

…

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

~~.13~~*.20* If the auditor has determined that a***n*** ~~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***~~ ***.A49–.A50***)

[No amendment to former paragraph .14, renumbered as paragraph .21.]

Negative Confirmations

~~.15~~*.22* Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor should not use negative confirmation requests ~~as the sole substantive audit procedure~~ to address an assessed risk of material misstatement at the assertion level, unless all of the following are present: ***(Ref: par. .A53–.A54)***

a. ***Either***

i. ***the auditor performs one or more other substantive procedures; or***

ii. ***t***~~T~~he auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion.

b. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions, or conditions.

c. ***The auditor expects a***~~A~~ very low exception rate ~~is expected~~ ***in response to negative confirmation requests and has a reasonable basis for this expectation***. ***(Ref: par. .A55)***

d. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests. (Ref: par. ~~.A32~~***.A56–.A58***)

[No amendment to former paragraph .16, renumbered as paragraph .23.]

Documentation

.24 ***The auditor should include in the audit documentation the basis for any determination to apply the exceptions in paragraphs .08 and .09.***

Application and Other Explanatory Material

Definitions

External Confirmation Procedures (Ref: par. .06)

.A1 ***Audit evidence obtained directly from the confirming party may be facilitated by an intermediary.***

Nonresponse (Ref: par. .06)

.A2 ***There may be information missing from an external confirmation response. Whether an external confirmation response that is missing information is considered a nonresponse is a matter of the auditor's professional judgment.***

Confirmation of Accounts Receivable and Cash and Cash Equivalents ~~***External Confirmation Response (Ref: par. .06)***~~

.A3 ***If the auditor meets one or more of the exceptions provided in paragraphs .08 and .09, other substantive procedures are required to be designed and performed in accordance with section 330.*** *[fn 10]*

[fn 10] ***Paragraph .18 of section 330.*** [Subsequent footnotes renumbered.]

.A4 ***For purposes of this section,*** **accounts receivable** ***means***

a. ***the entity's claims against customers that have arisen from the sale of goods or services in the normal course of business; and***

b. ***a financial institution's loans.***

.A5 ***External confirmation procedures for accounts receivable may be ineffective when, based on the auditor's experience, including prior years' audit experience or experience with similar entities, the auditor knows or expects that***

- ***external confirmation response rates to properly designed external confirmation requests will be inadequate;***
- ***external confirmation responses will be unreliable; or***
- ***external confirmation procedures will be impracticable.***

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

.A6 ***External confirmation procedures are not required for accounts receivable when those procedures would be ineffective. External confirmation procedures are not required for cash when those procedures are impracticable. External confirmation procedures are impracticable when they cannot be performed in the circumstances. For example, if no confirming party can be identified, the auditor is unable to perform the external confirmation procedures. External confirmation procedures are ineffective, but not impracticable, when such procedures can be performed but are not expected to achieve the intended purpose. For example, a confirming party can be identified, but the auditor expects that a response is unlikely.***

.A7 ***Depending on the nature of the circumstances, the inability to identify a confirming party may raise questions about the nature, source, or reliability of the information to be confirmed. In such circumstances, there may be other effects on the audit engagement.***

.A8 ***The auditor may conclude that external confirmation procedures are impracticable due to law or regulation, for example, when the confirming party requires the use of an intermediary and law or regulation precludes their use.***

.A9 ***The performance of other substantive procedures in addition to the use of external confirmation procedures for cash and accounts receivable may be necessary to reduce the assessed risks of material misstatement to an acceptably low level.***

.A10 ***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 accounts receivable, the substance of the entity's arrangements and transactions with third parties and the nature of items that comprise the account balances***
- ***For cash, the entity's cash management and treasury function and the substance of the entity's arrangements and transactions with third parties***

.A11 ***Section 330*** *fn 11* ***requires the auditor to determine the means of selecting items for testing that are effective in meeting the purpose of the audit procedure. The means available to the auditor for selecting items for testing are***

a. ***selecting all items (100 percent examination),***
b. ***selecting specific items, and***
c. ***audit sampling.***

The application of any one or combination of these means may be appropriate depending on the particular circumstances (for example, the risks of material misstatement related to the assertion being tested and the practicality and efficiency of the different means). *fn 12*

fn 11 ***Paragraph .25 of section 330.***
fn 12 ***Paragraphs .A68–.A69 of section 330.*** [Subsequent footnotes renumbered.]

Directly Accessing Information Maintained by a Knowledgeable External Source

.A12 ***Although the auditor is not required to obtain audit evidence by directly accessing information maintained by a knowledgeable external source, the auditor may do so in place of performing external confirmation procedures. For example, the auditor may directly access information maintained by a knowledgeable external source in place of external confirmation procedures for accounts receivable and cash to respond to the assessed risks of material misstatement as required by paragraphs .08 and .09.***

.A13 ***When the auditor directly accesses information maintained by a knowledgeable external source, the auditor adapts paragraphs .11–.18, .20–.21, and .23, as appropriate. For example, it may be appropriate to replace the term*** **confirming party** ***with "knowledgeable external source" or, when the terms*** **external confirmation procedures, external confirmation request,** ***or*** **external confirmation responses** ***are used, to consider the requirements in the context of directly accessing information maintained by a knowledgeable external source.***

~~**.A1**~~*.A14* The auditor's ***ability to directly access information maintained by a knowledgeable external source exists*** ~~direct access to information held by the confirming party may meets the definition of an external confirmation~~ when, for example, ***the knowledgeable external source provides*** the auditor ~~is provided by the~~ ~~confirming party~~ with the electronic access codes or information necessary to ***directly*** access a secure ~~website~~ ***portal*** 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 a***n*** ~~third-party~~ ***intermediary***~~service provider~~.

.A15 ***The following are examples of when obtaining audit evidence would not be considered directly accessing information maintained by a knowledgeable external source:***

- When ***information is obtained electronically from an external information source and the auditor's***~~access codes or information necessary to~~ access ***to*** the ~~confirming party's~~ data is provided ***by management*** ~~to the auditor by management, evidence obtained by the auditor from access to such information does not meet the definition of an external confirmation.~~
- ***When visual information is obtained through observation (for example, when the auditor observes information that appears on-screen of management or employees of the entity)***
- ***When documents are obtained in electronic documentary form (for example, records maintained on a distributed ledger or published information for general public use)***

Such procedures may be considered an alternative audit procedure to the performance of external confirmation procedures, subject to relevance and reliability considerations in accordance with section 500.

Management's Refusal to Allow the Auditor to Perform External Confirmation Procedures

Reasonableness of Management's Refusal (Ref: par. ~~.08a~~**.11a**)

~~**.A9**~~*.A16* A refusal by management to allow the auditor to perform external confirmation procedures is a limitation on the audit evidence the auditor seeks to obtain; therefore, the auditor is required to inquire about the reasons for the limitation. A common reason offered by management is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely ***external*** confirmation ***request***. The auditor is required to seek audit evidence about the validity and reasonableness of the reasons for management's refusal because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

[Former paragraphs .A10−.A11 are moved and renumbered as paragraphs .A17–.A18 with no amendment. Former paragraph .A2 is renumbered as paragraph .A19 with no amendment.]

…

External Confirmation Procedures

…

Selecting the Appropriate Confirming Party (Ref: par. ~~.07b~~**.13c**)

~~**.A3**~~*.A20* ***External confirmation r***~~R~~esponses to ***external*** confirmation requests ***may*** provide more relevant and reliable audit evidence when ***external*** confirmation requests are sent to a confirming party who the auditor believes is knowledgeable about the information to be confirmed. ***For example,***~~A~~ ***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.

.A21 ***Selecting an appropriate confirming party depends on the facts and circumstances of the engagement. For example, when auditing amounts held in a pooled vehicle, the auditor may determine that a recordkeeper may be knowledgeable about the information to be confirmed when they maintain the information of how much of a pooled vehicle belongs to each separate account, and the custodian may be knowledgeable about the overall balance of the pooled vehicle. In these circumstances, the auditor may determine it is appropriate to send an external confirmation request to both the recordkeeper and the custodian of the pooled vehicle as both may be appropriate confirming parties.***

Considerations Specific to Governmental Entities

.A22 ***When auditing governmental entities that have public funds maintained in accounts with financial institutions that a governmental agency accumulates and verifies in accordance with law or regulation, the auditor may determine it is appropriate to send an external confirmation request to the governmental agency rather than a financial institution.***

Designing External Confirmation Requests (Ref: par. ~~.07e~~.13d***)***

~~**.A4**~~*.A23* The design of a***n external*** confirmation request may directly affect the ***external*** confirmation response rate and the reliability and nature of the audit evidence obtained from ***external confirmation*** responses.

~~**.A5**~~*.A24* Factors ***the auditor may***~~to~~ consider when designing ***external*** confirmation requests include the following:

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

~~.A6~~*.A25* 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. A***n 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 ***external*** 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 ***external*** 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" ***external*** 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~~*.A26* Determining that ***external 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 ***external*** confirmation requests before they are sent out, regardless of the confirmation method used. When a***n external*** confirmation request is sent by ***email***~~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 ***email***~~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 ***external*** confirmation ***request*** addressed in a manner that appears easier to falsify) may necessitate different or more extensive procedures to determine that the ***external confirmation*** request is directed to the intended recipient. See further guidance in paragraph~~s .A14–.A15~~***.A35***.

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

~~.A8~~*.A27* The auditor may send an additional ***external*** confirmation request when a reply to a previous ***external 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 ***external confirmation*** request.

~~**Results of the External Confirmation Procedures**~~

Using an Intermediary (Ref: par. .15–.16)

.A28 ***The auditor or the confirming party may engage an intermediary. When evaluating the implications of using an intermediary on the reliability of external confirmation requests and external confirmation responses, the auditor may perform a variety of procedures, such as one or more of the following:***

a. ***Obtain an understanding of how the intermediary would be used and the account balance, transaction, or matter for which external confirmation procedures are being applied.***

b. ***Obtain an understanding of the intermediary's controls that address the risk of interception and alteration of the external confirmation requests and external confirmation responses. Examples include controls over data transmission and storage, network security, authentication and authorization of the users of the intermediary system, and validation of the addresses of confirming parties. This understanding may be obtained at the firm level, for example, when an intermediary is used on one or more of the firm's engagements.***

c. ***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, for example, when the intermediary is used on one or more of the firm's engagements.***

d. ***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 external confirmation requests and external confirmation responses (for example, through financial, ownership, or other business relationships, contractual rights, or otherwise).***

.A29 ***If an intermediary is used, 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 report may address the procedures and risks described in paragraphs .A28 and .A35. These reports may also address different types of controls that may be relevant. If these risks are not adequately addressed in such a report, the auditor may perform additional procedures to address those risks.***

.A30 ***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 during which the auditor uses the intermediary to facilitate direct electronic transmission of external 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.***

Reliability of Responses to External Confirmation Requests (Ref: par. ~~.10–.11~~.17–.18*)*

.~~A12~~*.A31* 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 ~~13~~15] ***If the auditor becomes aware of information that calls into question the 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 confirming party has incentives or pressures to provide external confirmation responses that are inaccurate or otherwise misleading.

fn ~~13~~***15*** [Footnote omitted for purposes of this SAS.]

.A32 ***Incomplete responses only provide audit evidence over the items included in the external confirmation response. The auditor may need to follow up with the confirming party or perform alternative procedures on the missing information to obtain relevant and reliable evidence to respond to the assessed risk of material misstatement. Additionally, the auditor may need to consider whether the nature of an incomplete response could undermine the reliability of the response as a whole.***

.A33 All ***external confirmation*** responses carry some risk of interception, alteration, or fraud. Such risk exists regardless of whether a***n external confirmation*** response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of a***n 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 external 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 external confirmation request, email chain, or any other information indicating that the confirming party is responding to the auditor's external confirmation request.***

~~*.A13*~~*.A34* The auditor's consideration of the reliability of the information obtained through the confirmation process to be used as audit evidence ***may*** include~~s~~ 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**~~*.A35* ***External confirmation*** ~~R~~*r*esponses***, including those*** received electronically (for example, by ~~fax or e-mail~~***email*)*,** 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 ***or performing procedures*** that validate~~s~~ the respondent ***(for example, determining whether the email address, including domain, is from the expected confirming party)*** 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 ***Follow***ing ***Up on External Confirmation Requests (Ref: par.*** ~~***.07d***~~.13e***)***

[.A36]~~**.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.~~ **[Paragraph deleted by the issuance of SAS No. 150.]**

~~**.A16**~~*.A37* 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 ~~14~~***16***] The auditor may choose to verify the source and contents of a***n external confirmation*** response to a***n external*** confirmation request by contacting the confirming party (for example, as described in paragraph ***.A34***~~.A14~~). When a***n 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 ~~14~~***16***] [Footnote omitted for purposes of this SAS.]

Disclaimers and Other Restrictions in External ***Confirmation Responses***

~~.A17~~*.A38* A***n external confirmation*** response to a***n external*** 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 former paragraph .A18, renumbered as paragraph .A39.]

~~.A19~~*.A40* Other restrictive language also may not affect the reliability of a***n 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 ***external*** confirmation request is to obtain audit evidence regarding whether the investments exist.

~~.A20~~*.A41* 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~~*.A42* 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~~***.17***, 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~~*.A43* If the auditor is unable to resolve the doubts about the reliability of a***n external confirmation*** response as a result of restrictive language, then, in accordance with paragraph ~~.11~~ ***.18***, the auditor is required to 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. 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~~.18)

~~.A23~~*.A44* When the auditor concludes that a***n 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 ~~15~~*17*] For example, an unreliable ***external confirmation*** response may indicate a fraud risk factor that requires evaluation, in accordance with section 240. [fn ~~16~~***18***]

[fn ~~15~~*17*] [Footnote omitted for purposes of this SAS.]
[fn ~~16~~***18***] [Footnote omitted for purposes of this SAS.]

Nonresponses and Oral Responses (Ref: par. ~~.12~~.19)

~~**.A24**~~*.A45* 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 ***entity***~~client~~ receives from vendors providing evidence for the completeness assertion

~~**.A25**~~*.A46* A nonresponse to a***n external*** 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 ~~17~~***19***] For example, a fewer or greater number of ***external confirmation*** responses to ***external*** confirmation requests than anticipated may indicate a previously unidentified fraud risk factor that requires evaluation, in accordance with section 240.[fn ~~18~~***20***]

[fn ~~17~~***19***] [Footnote omitted for purposes of this SAS.]
[fn ~~18~~***20***] [Footnote omitted for purposes of this SAS.]

[No amendment to former paragraph .A26, which is renumbered as paragraph .A47.]

~~**.A27**~~*.A48* An oral response to a***n external*** confirmation request does not meet the definition of an *external confirmation* **response** because it is not a ~~direct~~ written ~~response~~ ***communication directly*** 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***n external*** 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~~***.19***. 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~~***respondent***. 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 ***entity***~~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 ***external*** 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~~***their*** 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.*** ~~***.13***~~.20***)***

~~**.A28**~~*.A49* In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a***n 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**~~*.A50* When the auditor has determined that a***n*** ~~***-written***~~ ***external confirmation*** response is necessary to obtain sufficient appropriate audit evidence and the auditor has obtained only an oral response to a***n external*** 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 ~~.13~~***.20***, 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. ~~***.14***~~.21***)***

~~**.A30**~~*.A51* Exceptions noted in ***external confirmation*** responses to ***external*** 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 ~~19~~***21***] 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 ~~19~~***21***] [Footnote omitted for purposes of this SAS.]

~~**.A31**~~*.A52* Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in ***external confirmation*** responses to ***external*** confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

Negative Confirmations (Ref: par. ~~.15~~*.22*)

.A53 ***If the auditor has determined that an assessed risk of material misstatement at the relevant assertion level is a significant risk, section 330*** [*fn 22*] ***requires the auditor to perform substantive procedures that are specifically responsive to that risk. Because negative confirmations provide less persuasive audit evidence than positive confirmations, audit evidence in the form of negative confirmations alone does not provide sufficient appropriate audit evidence to respond to significant risks of material misstatement. In these circumstances, the auditor typically performs other tests of details or sends positive confirmation requests instead.***

[*fn 22*] ***Paragraph .22 of section 330.*** [Subsequent footnotes renumbered.]

.A54 ***Negative confirmation requests may be used with other substantive procedures (for example, to assist in the evaluation of the reliability of information or to introduce an element of unpredictability).***

.A55 ***To establish a basis for expecting a very low exception rate, the auditor may, for example, consider past exception rates from the use of positive confirmation requests, alternate sending positive confirmation requests and negative confirmation requests from one audit to the next, or send a combination of positive and negative confirmation requests across a population.***

~~**.A32**~~*.A56* The failure to receive a***n external confirmation*** response to a negative confirmation request does not indicate receipt by the intended confirming party of the ***external*** confirmation request or verification of the accuracy of the information contained in the ***external confirmation*** request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a***n external confirmation*** response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a***n external*** 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 ***external*** 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 ***provide persuasive audit evidence*** ~~be effective~~ if the auditor is seeking evidence regarding overstatement.

.A57 ***There may be circumstances or conditions that further increase the likelihood that a confirming party may not respond even if the information is not correct, such as the use of electronic communication filtering or heightened awareness of phishing attempts.***

.A58 ***Confirming parties may be more likely to respond when they are aware of the incoming external confirmation request. Requesting that the entity notify potential confirming parties that they may receive an external confirmation request, and including the auditor on such communications, may help alleviate concerns that the confirming party will disregard the external confirmation request.***

Evaluating the Evidence Obtained (Ref: par. ~~.16~~*.23*)

~~.A33~~*.A59* When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

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

[No amendment to former paragraph .A34, renumbered as .A60.]

[No further amendment to AU-C section 505.]

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

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

3. The amendment to AU-C section 500 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[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. .07*a*)

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~~s~~ ***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 SAS.]

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

.A15 External confirmation [fn 20] procedures may ***be used*** ~~provide relevant information to be used as audit evidence~~ when addressing assertions associated with ***significant classes of transactions,***

account balances, or disclosures but need not be restricted to these items. Section 505[fn 21] ***requires the auditor to perform external confirmation procedures for accounts receivable and cash and cash equivalents held by third parties unless certain conditions exist. Section 330***[fn 22] ***provides additional situations in which external confirmation procedures may provide audit evidence to respond to the assessed risks of material misstatement at the assertion level.*** ~~certain account balances and their elements. However, external confirmations 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 20] [Footnote text omitted for purposed of this SAS.]
[fn 21] Paragraphs .08–.09 of section 505.
[fn 22] Paragraph .A54 of section 330. [Subsequent footnotes renumbered.]

[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~~ ***are*** 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~~s~~ ***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 ***directly*** from a~~ third party (the~~ confirming party~~)~~, either in paper ***or electronic*** form ~~or by electronic or other medium (for example, through the auditor's direct access to information held by a third party)~~ ***in response to an external 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 confirmations* ~~s~~ **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~~***30***]

[fn ~~28~~***30***] [Footnote omitted for purposes of this SAS.]

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

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

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

1. The amendment to AU-C section 935 is effective for compliance audits for fiscal periods ending on or after December 15, 2028.

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, *Terms of Engagement*	Paragraphs .06*a* and .08*a*
240, *Consideration of Fraud in a Financial Statement Audit*	Paragraphs .26 and .32*b*
250, *Consideration of Laws and Regulations in an Audit of Financial Statements*	All
315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*	Paragraphs .19*b*, .20, .27*a*, .32–.38, .40, and .42*d*

AU-C Section	Paragraphs Not Applicable to Compliance Audits
330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*	Paragraphs .13–.15, .18–.22, .26, and .31–.32
501, *Audit Evidence — Specific Considerations for Selected Items*	All except paragraph .27*
505, *External Confirmations*	All
510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*	Paragraphs .06, .08–.13, and .15–.17
540, *Auditing Accounting Estimates and Related Disclosures*	All
550, *Related Parties*	All
560, *Subsequent Events and Subsequently Discovered Facts*	Paragraphs .09–.11 and .19–.20
570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*	All
600A, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*	Paragraphs .26, .39, .41*c*, .41*d*, .55, and .56*c*
700, *Forming an Opinion and Reporting on Financial Statements*	Paragraphs .13–.17, .21–.44, and .45–.61
701, *Communicating Key Audit Matters in the Independent Auditor's Report*	All
703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*	All
705, *Modifications to the Opinion in the Independent Auditor's Report*	Paragraphs .18–.20
706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*	Paragraphs .06–.07
708, *Consistency of Financial Statements*	All
720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*	All
725, *Supplementary Information in Relation to the Financial Statements as a Whole*	All
730, *Required Supplementary Information*	All

AU-C Section	Paragraphs Not Applicable to Compliance Audits
800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*	All
805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*	All
806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*	All
810, *Engagements to Report on Summary Financial Statements*	All
910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*	All
915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*	All
920, *Letters for Underwriters and Certain Other Requesting Parties*	All
925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*	All
930, *Interim Financial Information*	All
940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*	All
945, *Auditor Involvement With Exempt Offering Documents*	All
~~* SAS No. 142, *Audit Evidence* (sec. 500), amended section 501, *Audit Evidence — Specific Considerations for Selected Items*, 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 (AU-C sec. 200, 260, 402, 501, 510, and 530)

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

2. The amendment to AU-C section 200 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[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 SAS.]
[fn 11] Paragraph .10 of section 500 and paragraphs ~~.10–.11 and .16~~***.19–.21*** of section 505, *External Confirmations*.

[No further amendment to AU-C section 200.]

Amendment to AU-C Section 230, *Audit Documentation*

3. The amendment to AU-C section 230 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[No amendment to paragraphs .01–.A11.]

…

Application and Other Explanatory Material

…

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content, and Extent of Audit Documentation (Ref: par. .08)
…

*Documentation of Significant Findings or Issues and Related Significant Professional Judgments (Ref: par. .08*c*)*
…

.A12 Some examples of circumstances in which, in accordance with paragraph .08, it is appropriate to prepare audit documentation relating to the exercise of professional judgment include, when the findings, issues, and judgments are significant,
…

- …
- the basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of a specialist or of ***external*** confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- …

[No further amendment to AU-C section 230.]

AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*

4. The amendment to AU-C section 240 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[No amendment to paragraphs .01–.A42.]

…

Application and Other Explanatory Material
…

Responses to the Assessed Risks of Material Misstatement Due to Fraud
…

Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level (Ref: par. .30)

.A43 The auditor's responses to address the assessed risks of material misstatement due to fraud at the assertion level may include changing the nature, timing, and extent of audit procedures in the following ways:

- The nature of audit procedures to be performed may need to be changed to obtain audit evidence that is more reliable and relevant or to obtain additional corroborative information. This may affect both the type of audit procedures to be performed and their combination. For example:

- — …
- — The auditor may design procedures to obtain additional corroborative information. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a related risk that management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery. In these circumstances, the auditor may, for example, design external confirmation ***requests*** 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 might find it effective to supplement such external confirmations with inquiries of nonfinancial personnel in the entity regarding any changes in sales agreements and delivery terms.

[No amendment to paragraphs .A44–.A76.]

…

Appendix B — Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud (Ref: par. .22 and .A46)

.A77
The following are examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets. Although these procedures cover a broad range of situations, they are only examples and, accordingly, they may not be the most appropriate nor necessary in each circumstance. Also the order of the procedures provided is not intended to reflect their relative importance.

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures, and assertions they may affect.

The following are specific examples of responses:
….

- …
- Altering the audit approach in the current year (for example, contacting major customers and suppliers orally in addition to sending written confirmation, sending ***external***

confirmation requests to a specific ~~party within an organization~~ ***individual at the confirming party***, or seeking more or different information)

…

Appendix C — Examples of Circumstances That Indicate the Possibility of Fraud (Ref: par. .11, .A11, and .A57)

.A78

The following are examples of circumstances that may indicate the possibility that the financial statements may contain a material misstatement resulting from fraud.
…

Conflicting or missing evidence, including the following:

- …
- Unusual discrepancies between the entity's records and ***external*** confirmation ***responses***
- …
- Fewer responses to ***external*** confirmation ***requests*** than anticipated or a greater number of responses than anticipated

…

[No further amendment to AU-C section 240.]

Amendment to AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*

5. The amendment to AU-C section 260 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[No amendment to paragraphs .01–.A20.]
…

Application and Other Explanatory Material
…

Matters to Be Communicated
…

Planned Scope and Timing of the Audit (Ref: par. .11)
…

.A21 Other matters regarding the planned scope and timing of the audit may include the following:

- …
- ***When the auditor has identified accounts receivable or cash as a significant class of transactions, account balance, or disclosure and the auditor has determined to apply the exceptions in section 505,*** **External Confirmations.** [fn 6]

[fn 6] ***Paragraphs .08 and .09 of section 505,*** **External Confirmations.** [Subsequent footnotes renumbered.]

[No further amendment to AU-C section 260.]

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

6. The amendment to AU-C section 402 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[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. **Performing**~~*Obtaining*~~ **external** *confirmations* ~~**responses**~~ **procedures on** ~~*of*~~ *balances and transactions from the service organization.* When the user entity maintains independent records of balances and transactions, ***performing external*** confirmation ***procedures on balances and transactions*** ~~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~~ ***from performing external*** confirmation~~s~~ ***procedures on balances and transactions*** from the service organization is merely a statement of what is reflected in the records maintained by the service organization. Therefore, such ***external*** confirmation~~s~~ ***responses*** 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***

7. The amendment to AU-C section 501 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[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 ***an 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, ***requesting an external*** confirmation ***response from***~~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. .16*b*)*

.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*

8. The amendment to AU-C section 510 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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

Application and Other Explanatory Material

…

Audit Procedures (Ref: par. .07)

…

Opening Balances (Ref: par. .08*c*)

…

.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*

9. The amendment to AU-C section 530 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[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 AU-C Section 550, *Related Parties*

10. The amendment to AU-C section 550 is effective for audits of financial statements for periods ending on or after December 15, 2028.

[No amendment to paragraphs .01–.16.]

…

Requirements

Risk Assessment Procedures and Related Activities

…

Remaining Alert for Related Party Information When Reviewing Records or Documents

.17 During the audit, the auditor should remain alert when inspecting records or documents for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. In particular, the auditor should inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor: (Ref: par. .A23–.A25)

a. ~~Bank~~ ***External confirmation responses from banks*** and legal ***counsel's response to an auditor's letter of inquiry*** ~~confirmation~~ obtained as part of the auditor's procedures

b. …

[No amendment to paragraphs .18–.A22.]

…

Application and Other Explanatory Material

…

Risk Assessment Procedures and Related Activities

…

Remaining Alert for Related Party Information When Reviewing Records or Documents

Records or Documents That the Auditor May Inspect (Ref: par. .17)

.A23 During the audit, the auditor may inspect records or documents that indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. Examples of those records or documents include the following:

- ***External*** ~~Third party~~ confirmation~~s~~ ***responses*** obtained by the auditor (in addition to ~~bank and~~ legal ***counsel's response to an auditor's letter of inquiry***~~confirmations~~)
- …

[No further amendment to AU-C section 550.]

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

11. The amendment to AU-C section 610 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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 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*, as Amended (AU-C sec. 570)

12. The amendment to AU-C section 570 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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–.A31.]

…

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~~ **External** *Confirmation~~s~~* **Responses**

.A32 The auditor's evaluation of the support letter (as further described in paragraph .A33) or ~~written~~ ***external*** confirmation ***response*** includes consideration of the terms and conditions of the commitment and may include, as applicable, considerations of the legality and enforceability of the commitments.

.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~~***c***onfirmation ***procedures*** may be necessary if management only has oral evidence of such financial support.

[No amendment to paragraph .34.]

Obtaining ~~Written~~ **External** *Confirmation~~s~~* **Responses**

.A35 If the auditor obtains a support letter as described in paragraph .A33*a*, the auditor may still request a***n*** ~~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, a***n*** ~~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 amendment to paragraph .A36.]
…

Illustration of the Third-Party Support Letter
…

.A37 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. [fn 31] Accordingly, in order to cover the assessment period required by the applicable financial reporting framework, the support letter or the ~~written~~ confirmation defines a specific date through which the supporting party intends to provide support. For example, for financial statements prepared in accordance with FASB ASC, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter or ~~written~~ ***external*** confirmation ***response*** that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter or ~~written~~ ***external*** confirmation ***response*** may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section.

[fn 31][Footnote omitted for purposes of this SAS.]

[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,* as Amended, Section 705, *Modification to the Opinion in the Independent Auditor's Report* (AU-C sec. 705)

13. The amendment to AU-C section 705 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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. .07*b*)

…

.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. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,* as Amended (AU-C sec. 703)

14. The amendment to AU-C section 703 is effective for audits of financial statements for periods ending on or after December 15, 2028.

Amendment to AU-C Section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

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

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.12)
…

.A11 ***Section 505,*** **External Confirmations,**[fn 20] ***requires the auditor to perform external confirmation procedures on cash and cash equivalents held by third parties. The requirement to confirm cash and cash equivalents held by third parties need not extend to the certified information if cash has been properly certified by a qualified institution when management elects an ERISA Section 103(a)(3)(C) audit.***

[fn 20] ***Paragraph .09 of section 505,*** **External Confirmations.** [Subsequent footnotes renumbered.]

[Subsequent paragraphs renumbered. No further amendment to AU-C section 703.]

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

15. The amendment to AU-C section 315 is effective for audits of financial statements for periods ending on or after December 15, 2028.

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 Control 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.]