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Auditing Standards Board
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, New York 10036

Via online survey

Re: Exposure Draft, *Proposed Statement on Auditing Standards, External Confirmations*, AICPA Auditing Standards Board – February 27, 2025

RSM US LLP (RSM) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board's (ASB's) February 27, 2025, exposure draft, *Proposed Statement on Auditing Standards, External Confirmations* (the Exposure Draft). RSM is the leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

We support the ASB's objective to drive increased consistency in practice regarding external confirmation procedures, clarify definitions related to external confirmation procedures and enhance audit quality for audits of financial statements of nonissuers. We believe these amendments will also modernize the auditing standards pertaining to external confirmations.

However, we believe directly accessing information held by a confirming party should be separated from the definition of external confirmation procedures because the nature of the procedures performed and medium of accessing and receiving the information from the confirming party are sufficiently different. We agree that directly accessing information held by a confirming party can be considered a form of confirmation that provides an equivalent quality of audit evidence to external confirmation procedures and is appropriately included in AU-C section 505, *External Confirmations* (AU-C section 505). We have detailed recommendations to accomplish this separation in our responses to the specific questions.

We have provided comments below on the specific aspects of the proposed interpretations and revisions upon which the ASB is seeking feedback.

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Effective date

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| 1. Do respondents believe that the proposed effective date is appropriate and provides adequate time for implementation? If not, respondents are asked to state their reasons and an alternate effective date. |
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Agree, with no further comments

Amendment to AU-C Section 330

New requirement to confirm cash and cash equivalents

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| 2. Do respondents agree with adding a presumptively mandatory requirement to confirm cash as shown in proposed paragraph .21 of AU-C section 330? If not, respondents are asked to state their reasons. |
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Agree, with comments

We agree with adding a presumptively mandatory requirement to confirm cash as shown in proposed paragraph .21 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AU-C section 330). We also believe there may be circumstances where it may be unclear whether the requirement applies, such as situations where there may be cash or cash equivalents within an investment portfolio that may not be considered cash and cash equivalents in the financial statements. Examples may include cash and cash equivalents held within an endowment fund or for investment in an employee benefit plan.

Accordingly, we propose adding an application paragraph to proposed paragraph .21 of AU-C section 330 to describe when cash and cash equivalents would be within the scope of this requirement. An example of such an application paragraph is as follows:

.A58A The applicable financial reporting framework and the reporting entity's accounting and reporting policies may assist the auditor in determining whether an asset would be considered cash and cash equivalents on which the auditor would be required to perform external confirmation procedures in accordance with paragraph .21 of this section. For example, certain cash or cash equivalents held for investment purposes may not be classified as cash and cash equivalents in accordance with the applicable financial reporting framework or the entity's accounting and reporting policies. In such circumstances, the auditor may determine that external confirmation procedures may not be required by paragraph .21 of this section.

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| 3. Do respondents believe that the exceptions provided in proposed paragraph .21 of AU-C section 330 are appropriate and understandable? |
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Agree, with comments

Although we believe that the exceptions provided in proposed paragraph .21 of AU-C section 330 are appropriate and understandable, we believe it may be helpful to auditors to clarify (most likely in an application paragraph to proposed paragraph .21(b)) how an auditor may distinguish between a situation where a notice by a potential confirming party that they will not respond to a confirmation request may be considered "a matter of policy or practice" in accordance with proposed paragraph .21(b) and where it may be considered "information that calls into question the potential confirming party's motivation, ability, or willingness to respond" in accordance with proposed paragraph .A19 of AU-C section 505.

An example of such an application paragraph is as follows:

.A58B Factors that may assist the auditor in determining whether the confirming party will not respond to confirmation requests as a matter of policy or practice include the following:

- The confirming party makes the policy known, such as including it on its website, in an agreement with the entity or in terms and conditions provided to the entity.
- The confirming party consistently applies the policy or practice to certain accounts, activities, industries, products or all confirmation requests.
- The confirming party provides the reason for the policy or practice, which the auditor corroborates.
- There are legal or regulatory restrictions on the confirming party providing the information to be confirmed.
- [Other factors determined by the ASB.]

4. Do respondents believe that there are other circumstances in which the auditor may be unable to or should not be required to confirm cash?

Agree, with comments

We believe there may be other circumstances in which the auditor may be unable to or should not be required to confirm cash, including:

1. As mentioned in our response to question 2, there may be instances where cash or cash equivalents are held for investment purposes that a reporting entity may not classify as cash and cash equivalents for reporting purposes under the applicable financial reporting framework or its accounting and reporting policies. This could be addressed in the form of application guidance clarifying the scope of proposed paragraph .21 of AU-C section 330, as proposed in our response to question 2.
2. We believe an explicit exception to confirm cash should be made for cash included as part of an employee benefit plan's assets held for investments that are certified by a qualified institution where management elects to have an audit performed pursuant to ERISA Section 103(a)(3)(C) (hereinafter referred to as an ERISA Section 103(a)(3)(C) audit) subject to the same guidance on certified investment information in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (AU-C section 703). We would support including this exception in either AU-C section 703 (possibly as part of paragraph .08 where it describes the effect of the ERISA Section 103(a)(3)(C) audit being elected) or proposed paragraph .21 of AU-C section 330.
3. The confirming party is a service organization, and the user entity does not maintain independent records of balances and transactions from such service organization. This is because "information obtained in confirmations from the service organization is merely a statement of what is reflected in the records maintained by the service organization. Therefore, such confirmation does 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."¹

¹ See paragraph .A28(c) of AU-C section 402: Audit Considerations Relating to an Entity Using a Service Organization

Documentation

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

Agree, with no further comments

6. Do respondents agree with the revisions to document the basis for any determination not to use external confirmation procedures for accounts receivable in accordance with paragraph .20?

Agree, with no further comments

Other changes

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

Agree, with no further comments

Amendment to AU-C Section 505

Definitions

8. Respondents are asked whether

- the proposed definitions in paragraph .06 and new paragraph .07 and the related conforming amendments for consistency of terminology in AU-C section 330, AU-C section 500, and AU-C section 505 are appropriate;
- the proposed amendments to other AU-C sections as shown in appendix A are appropriate; and
- there are other sections of AICPA *Professional Standards* that might need to reflect the terminology of this proposed SAS

Neither agree nor disagree, with comments

- We agree with the proposed definitions in paragraph .06 and new paragraph .07, and we agree that the related conforming amendments for consistency of terminology in AU-C section 330; AU-C section 500, *Audit Evidence* (AU-C section 500); and AU-C section 505 are appropriate **except** for the following definitions:

- **Confirmation request.**

- We believe using “external confirmation request” as the defined term rather than just “confirmation request” may be less confusing. The definition of “confirmation request” includes a request “to a confirming party,” and the definition of “confirming party” includes “a third party.” Therefore, “confirmation request” would be equivalent to “external confirmation request.” However, we believe it is conceivable that auditors may believe that “confirmation requests” may include more than external (i.e., third-party) confirmation requests because other related defined terms include the word “external” (e.g., external confirmation procedures and external confirmation response). To mitigate this, we suggest changing the defined term to “external confirmation request.”

- Auditing standards generally accepted in the United States of America (GAAS) generally refer to “classes of transactions, account balances, disclosures” or other related information, rather than “accounts, balances, transactions, or other items” when describing the information on which audit procedures are being performed. We recommend changing the definition to use the more common phrasing.
- The proposed definition says, “obtaining audit evidence about one or more **financial statement** assertions” (**emphasis** added). This is inconsistent with the proposed definition of “external confirmation procedures” which says, “obtain audit evidence about one or more **relevant** assertions” (**emphasis** added). Because two different terms are used, we believe it is conceivable that an auditor may interpret this to mean different things. For example, an auditor may interpret “financial statement assertions” to mean any applicable assertion where “relevant assertions” would be assertions that have an identified risk of material misstatement.² We recommend using consistent terms in these definitions.

In addition, paragraph .06 of AU-C section 330 requires the auditor 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**” (**emphasis** added). Thus, audit evidence is generally obtained for relevant assertions since the relevant assertions have a risk of material misstatement.³ Both proposed definitions refer to “obtaining audit evidence” about assertions. Accordingly, we believe the proposed definition of “confirmation request” should refer to “relevant assertions” to be consistent with the proposed definition of “external confirmation procedures.”

- Notwithstanding our response to question 9, we also recommend adding a reference to application paragraph .A1-.A2 of proposed AU-C section 505 to explain when directly accessing information held by a confirming party may meet the definition of a confirmation request. See our response to question 10 for our comments on proposed paragraphs .A1-.A2 of section AU-C section 505.
- Based on these comments, we propose the following revisions to the definition of “confirmation request” (marked from the proposed definition per the Exposure Draft).

External confirmation request. A request from the auditor to a confirming party regarding information about one or more particular ~~accounts, balances, classes of transactions, account balances, disclosures or other items~~ information as a means of obtaining audit evidence about one or more relevant financial statement assertions. [(Ref: .A1-.A2)]⁴

² See the definition of “relevant assertions” in paragraph .12 of AU-C section 315, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, (AU-C section 315).

³ See the definition of “relevant assertions” in paragraph .12 of AU-C section 315.

⁴ If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then the reference to paragraph .A1 of AU-C section 505 should not be included with the proposed definition of “confirmation request.”

- **External confirmation procedures.**

- We do not believe that listing the procedures included with “external confirmation procedures” is necessary within the proposed definition. There are also different procedures listed in proposed paragraph .10 of AU-C section 505. If procedures are listed in the definition, we believe it may limit what may be considered external confirmation procedures, including how evolving technology may be used in external confirmation procedures.

Rather than listing the procedures in the definition, we suggest moving the procedures from the definition to the list of procedures in paragraph .10 of AU-C section 505 and including the more comprehensive phrase, “Audit procedures that are designed and performed...” in the definition. Throughout GAAS, audit procedures are generally described as either designing or performing. We believe it would be clearer to use similar language in the proposed definition of “external confirmation procedures.”

To be consistent with this proposed change to the definition of external confirmation procedures, we suggest revising the introductory phrase in paragraph .10 of AU-C section 505 as follows: “When using performing external confirmation procedures....” We also recommend updating paragraph .10 of AU-C section 505 to incorporate the procedures removed from the definition of external confirmation procedures by:

1. Adding the phrase “and making the selection of items” to procedure “a.”
 2. Adding a new procedure “e.” that includes the following: “obtaining an external confirmation response directly from the confirming party; and”
 3. Adding a new procedure “f.” that includes the following: “evaluating the information obtained, addressing nonresponses (when applicable) and considering whether the information can be used as audit evidence.”
- As described more fully in question 9, we believe the nature of the procedures for directly accessing information held by a confirming party are different than the nature of the procedures for external confirmation procedures; therefore, we believe directly accessing information held by a confirming party should not be included in the definition of external confirmation procedures. Rather, we believe it should be separate from the definition of external confirmation procedures while indicating it provides the same level of reliable audit evidence as external confirmation procedures, as long as the access to information was provided directly by the confirming party.⁵
 - Notwithstanding our response to question 9, we also recommend adding a reference to application paragraphs .A1-.A2 of AU-C section 505 to explain when directly accessing information held by a confirming party may meet the definition of a confirmation request. See our response to question 10 for our comments on proposed paragraphs .A1-.A2 of AU-C section 505.

⁵ See proposed paragraph .A2 of AU-C section 505.

- Based on these comments, we propose the following revisions to the definition of “External confirmation procedures” (marked from the proposed definition per the Exposure Draft).

External confirmation procedures. Audit Procedures that are involve selecting one or more items to be confirmed, sending a confirmation request directly to a confirming party (or otherwise directly accessing the information held by a confirming party), and evaluating the information received and addressing nonresponses designed and performed to obtain audit evidence about one or more relevant assertions directly from a confirming party in the form of an external confirmation response. (Ref: .A1-.A2)⁶

We would like to note that we added “in the form of an external confirmation response,” as it is needed to limit what an auditor may otherwise consider an external confirmation procedure, for example, a verbal inquiry directly with the confirming party and obtaining evidence from management to corroborate the inquiry of the confirming party.

- We suggest revising the requirement on external confirmation procedures as follows (marked from the proposed paragraph in the Exposure Draft):

External Confirmation Procedures

.10 When ~~using~~ performing external confirmation procedures, the auditor should maintain control over [external]⁷ confirmation requests to minimize the likelihood that information exchanged between the auditor and the confirming party is intercepted or altered. ~~by~~External confirmation procedures include:

- a. determining the information and making the selection of items to be confirmed or requested; (Ref: par. .A6–.A7)
- b. selecting the appropriate confirming party; (Ref: par. .A8–.A9)
- c. designing the [external]⁸ confirmation requests, including determining that the [external]⁹ confirmation requests ~~are~~ is properly directed to the appropriate confirming party and providing for the confirming party to being responded to directly to the auditor; ~~and~~ (Ref: par. .A10–.A13)⁴

⁶ If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then the reference to paragraph .A1 of AU-C section 505 should not be included with the proposed definition of “confirmation request.”

⁷ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

⁸ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

⁹ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

- d. sending the [external]¹⁰ confirmation requests, including follow-up [external]¹¹ confirmation requests, when applicable, to the confirming party; (Ref: par. .A14 and .A24)
- e. obtaining an external confirmation response directly from the confirming party; and
- f. evaluating the information obtained, addressing nonresponses, when applicable, and considering whether the information can be used as audit evidence.

We acknowledge that the ASB may still consider directly accessing information held by a confirming party to be external confirmation procedures. Notwithstanding our response to question 9, we suggest revising the requirement on external confirmation procedures as follows if the ASB determines to include directly accessing information held by a confirming party to be part of external confirmation procedures (marked from the proposed paragraph in the Exposure Draft):

External Confirmation Procedures

.10 When ~~using~~ performing external confirmation procedures, the auditor should maintain control over [external]¹² confirmation requests to minimize the likelihood that information exchanged between the auditor and the confirming party is intercepted or altered. ~~by~~External confirmation procedures include:

- a. determining the information and making the selection of items to be confirmed or requested; (Ref: par. .A6–.A7)
- b. selecting the appropriate confirming party; (Ref: par. .A8–.A9)
- c. designing the [external]¹³ confirmation requests, including determining that the [external]¹⁴ confirmation requests ~~are is~~ properly directed to the appropriate confirming party and providing for the confirming party to be responded to directly to the auditor; ~~and~~ (Ref: par. .A10–.A13¹⁵)
- d. sending the [external]¹⁵ confirmation requests, including follow-up [external]¹⁶ confirmation requests, when applicable, to the confirming party; or use access information obtained to directly

¹⁰ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹¹ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹² If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹³ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹⁴ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹⁵ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

¹⁶ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

access the information that is held by the confirming party; (Ref: par. .A14 and .A24)

e. obtaining an external confirmation response directly from the confirming party; and

f. evaluating the information obtained, addressing nonresponses, when applicable, and considering whether the information can be used as audit evidence.

- **External confirmation response.**

- As described more fully in our response to question 9, we believe the nature of the procedures for directly accessing information held by a confirming party are different than the nature of the procedures for external confirmation procedures and should not be included in the definition of external confirmation procedures. Accordingly, we believe that “(for example, through the auditor’s direct access to information provided by the confirming party)” should be removed from the definition of “external confirmation response.”
- We believe that the form of direct written communication should be clarified. “Paper form” describes the form of the communication (for example, the communication is in paper form). “Electronic or other medium” does not necessarily describe the form of a communication, but rather how the communication was received (for example, the communication was received via electronic or other medium). Electronic could also refer to a form of communication. To ensure all possible forms of written communication are included, we suggest replacing “medium” with “form.”

In addition, we believe the term “method of communication” is unclear as it may refer to the form of communication (i.e., paper or electronic form) or how the communication is delivered. Therefore, we suggest replacing “method of communication” with “form of communication” in proposed paragraph .A11 of AU-C section 505.

- Based on these comments, we propose the following revisions to the definition of “confirmation request” (marked from the proposed definition per the Exposure Draft).

External confirmation response. Audit evidence obtained as a direct written communication by ~~to~~ the auditor directly from a confirming party, either in paper, electronic or other form, ~~or by electronic or other medium~~ in response to a[n] [external] confirmation request¹⁷.

We acknowledge that the ASB may still consider directly accessing information held by a confirming party to be external confirmation procedures. Notwithstanding our response to question 9, we suggest revising the definition of “external confirmation response” as follows if the ASB determines to include directly accessing information held by a confirming party to be part of external confirmation procedures (marked from the proposed paragraph in the Exposure Draft):

¹⁷ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “a confirmation request” should be changed to “an external confirmation request.”

External confirmation response. Audit evidence obtained as a ~~direct~~ written communication by ~~to~~ the auditor directly from a confirming party, either in paper, electronic or other form, ~~or~~ by electronic or other medium (for example, through the auditor's direct access to information provided by the confirming party) in response to a[n] [external] confirmation request¹⁸. (Ref: par. .A1–.A2)

- **Nonresponse.**

- We believe it would be helpful if the Exposure Draft described what is meant by "fully respond." We do not believe it is intended for either irrelevant information or information that is included in a standard template, but not necessarily required audit evidence to be the reason for a confirmation to be considered a nonresponse. We suggest adding a related application paragraph to describe the intent of "fully respond." An example of such application paragraph is as follows:

Nonresponse (Ref: par. .06)

.A2C. Fully respond for purposes of the definition of nonresponse refers to each piece of information requested on a[n] [external]¹⁹ confirmation request. For example, the auditor requests three pieces of information from a confirming party on one [external] confirmation request. If the confirming party responds to two of the three pieces of information, the auditor may use the information confirmed for those two pieces of information as audit evidence and perform alternative procedures to obtain audit evidence for the third piece of information to which the confirming party did not respond.

- b. We believe the proposed amendments to other AU-C sections as shown in Appendix A are appropriate.
- c. Other sections of AICPA Professional Standards that may need to reflect the terminology of this proposed SAS include the following:
 - **Paragraph .A28(c) of AU-C section 402.** ~~Obtaining~~ Performing external confirmations ~~of procedures [or external direct access procedures]~~²⁰ on balances and transactions from the service organization. When the user entity maintains independent records of balances and transactions, performing external confirmation procedures [or external direct access procedures]²¹ on balances and transactions 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

¹⁸ If the ASB accepts our suggestion to change the defined term "confirmation request" to "external confirmation request," "a confirmation request" should be changed to "an external confirmation request."

¹⁹ If the ASB accepts our suggestion to change the defined term "confirmation request" to "external confirmation request," "a confirmation request" should be changed to "an external confirmation request."

²⁰ If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then "or external direct access procedures" (shown in brackets) should be included.

²¹ If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then "or external direct access procedures" (shown in brackets) should be included.

balances with these organizations 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 confirmations procedures~~ [or external direct access procedures]²² 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 responses [or information obtained from external direct access procedures]²³ 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.

- **Paragraph .A60 of AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items (AU-C section 501)*.** We believe the use of the word “confirmation” may be unclear due to the changes to the definition of “external confirmation” and addition of two additional terms containing the word “confirmation” to AU-C section 505 (i.e., confirmation request and external confirmation procedures). Common practice may be to obtain this representation in a form similar to an external confirmation response, but it is not required to do so in that form. Accordingly, we propose the following revision to paragraph .A60 of AU-C section 501:

.A60 Although the auditor would consider the inability to review information that could have a significant bearing on the audit as a scope limitation, in recognition of the public interest in protecting the confidentiality of lawyer-client communications, such inability is not intended to require an auditor to examine documents that the client identifies as subject to the lawyer-client privilege. In the event of questions concerning the applicability of this privilege, the auditor may request ~~confirmation~~ representation¹ from the entity's legal counsel that the information is subject to that privilege and that the information was considered by the legal counsel in responding to the letter of inquiry or, if the matters are being handled by another legal counsel, an identification of such legal counsel for the purpose of sending a letter of inquiry.

¹ The representation by the entity's legal counsel may be in a form similar to an external confirmation response or other appropriate form.

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

Neither agree nor disagree, with comments

Direct access to information held by a confirming party separate from external confirmation procedures

We believe that the concept of direct access to information held by a confirming party is a form of confirmation as it involves obtaining information to be used as audit evidence directly from the confirming party. However, we believe directly accessing information held by a confirming party should not be included in the proposed definition of external confirmation procedures.

²² If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then “or external direct access procedures” (shown in brackets) should be included.

²³ If the ASB does not consider directly accessing information held by a confirming party to be part of external confirmation procedures as we propose in our response to question 9, then “information obtained from external direct access procedures” (shown in brackets) should be included.

Although the information obtained and the quality of evidence may be equivalent when directly accessing information held by a confirming party, we believe the nature of the procedures performed and medium of accessing and receiving the information from the confirming party are sufficiently different to warrant separating it from external confirmation procedures. External confirmation procedures include deciding what to request, sending the confirmation request and following up on and receiving confirmation requests. Direct access to information held by a confirming party includes obtaining access to information from the confirming party—if the auditor does not already have direct access provided by the confirming party—accessing the information and finding the necessary information. In other words, we believe that certain concepts of a confirmation request and an external confirmation response referred to in the proposed definition of external confirmation procedures and the procedures in proposed subparagraph(s) 10(c) and 10(d) of AU-C section 505 regarding designing and sending the confirmation requests do not apply when the auditor is directly accessing information held by a confirming party. Thus, we question how an auditor would perform the procedures included in the proposed definition of external confirmation procedures or comply with the requirements in proposed subparagraph(s) 10(c) and 10(d) of AU-C section 505 if the auditor directly accesses information held by a confirming party. Given these concerns, we propose adding the following definition to the proposed standard:

External direct access procedures. Audit procedures that are designed and performed to obtain audit evidence about one or more relevant assertions by directly obtaining access from and accessing information held by a confirming party. (Ref: .A1-.A2B)

A2A. An auditor may be able to use access information obtained directly from a confirming party in a previous engagement if the information to be accessed is relevant to the current engagement.

A2B. External direct access procedures is an alternative that is equivalent to using external confirmation procedures, and information obtained using external direct access procedures is equivalent to an external confirmation response and evaluated accordingly.

In addition, we propose the following requirement and related application paragraphs to the proposed standard to address the requirement for external direct access procedures:

External Direct Access Procedures

.10A External direct access procedures include:

- a. Determining the information and making the selection of items to be confirmed; (Ref: .A6-.A7)
- b. Selecting the appropriate confirming party; (Ref: .A8-.A9)
- c. Determining that direct access is being obtained from the appropriate confirming party and providing for the confirming party to send the access information directly to the auditor; (Ref: par. A2A and .A13)
- d. Using the access information obtained to directly access the information that is held by the confirming party; and
- e. Evaluating the information obtained and considering whether the information can be used as audit evidence.

In addition, “external confirmation procedures” would generally need to be replaced by “external confirmation procedures or external direct access procedures” throughout GAAS.

We would like to emphasize that we do not intend to change any actual performance when performing external direct access procedures. Rather, the intent is to clarify in the standards the proper use of external direct access procedures and external confirmation procedures.

If direct access to information held by a confirming party is included as part of external confirmation procedures

We acknowledge that the ASB may still consider directly accessing information held by a confirming party to be external confirmation procedures. If the ASB decides to include external direct access procedures (as referred to in the previous section) within external confirmation procedures, we recommend clarifying how the requirements in proposed subparagraph(s) .10(c) and .10(d) of AU-C section 505 would be performed when directly accessing information held by a confirming party, such as including the complementary procedure when directly accessing information held by a confirming party with the related external confirmation procedure, as illustrated in our response to question 8 regarding the definition of “external confirmation procedures” (see proposed revisions proposed paragraph .10 of AU-C section 505).

Use of an intermediary

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

Agree, with comments

We suggest adding the example of controls related to validating the addresses of confirming parties as part of obtaining an understanding of the intermediary’s controls that address the risk of interception and alteration of the confirmation requests²⁴ to clarify this point. For example, if the auditor determines that the intermediary’s controls that address the risk of interception and alteration do not include controls related to validating the addresses of confirming parties, the auditor may need to perform other procedures to comply with the requirements of the proposed guidance. Accordingly, we suggest the following revision to proposed paragraph .A15 of AU-C section 505 (marked from the proposed paragraph in the Exposure Draft):

.A15 In evaluating the implications on the reliability of [external]²⁵ confirmation requests and external confirmation responses when using an intermediary, the auditor may

- a. obtain an understanding of the intermediary’s controls that address the risk of interception and alteration of the [external]²⁶ confirmation requests and external confirmation responses. Examples include controls over data transmission and storage, network security, ~~and~~ authentication and authorization of the users of the intermediary system and validating the addresses of confirming parties.

...

²⁴ Clarified in Section III.D.2 of PCAOB Release No. 2023-008, *The Auditor’s Use of Confirmation, and Other Amendments to PCAOB Standards*.

²⁵ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “confirmation requests” should be changed to “external confirmation requests.”

²⁶ If the ASB accepts our suggestion to change the defined term “confirmation request” to “external confirmation request,” “confirmation requests” should be changed to “external confirmation requests.”

Direct access

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

Neither agree nor disagree, with comments

Direct access to information held by a confirming party separate from external confirmation procedures

As discussed in our response to question 9, we believe that directly accessing information held by a confirming party should not necessarily be considered a part of external confirmation procedures, which means that directly accessing information held by a confirming party would also not be considered an external confirmation response. We agree with the concepts, but we believe they should be application material for the definition of direct access procedures (see our response to question 9) rather than external confirmation response (and confirmation request and external confirmation procedures, as discussed in our response to question 8).

Accordingly, we propose the following revisions to paragraphs .A1–.A2

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

.A2 When access to the confirming party's data is provided by management to the auditor, information obtained by the auditor through such access does not meet the definition of a ~~external direct access procedure confirmation response~~. However, such procedure may be considered an alternative audit procedure subject to relevance and reliability considerations in accordance with section 500.

If direct access to information held by a confirming party is included as part of external confirmation procedures

We acknowledge that the ASB may still consider directly accessing information held by a confirming party to be external confirmation procedures. Notwithstanding our response to question 9, we believe the related application material in proposed paragraph .A1 of AU-C section 505 should be clarified to clearly explain how directly accessing information held by a confirming party meets the various aspects of external confirmation procedures (marked from the proposed paragraphs in the Exposure Draft):

.A1 External confirmation procedures may include when the auditor directly accesses the information held by a confirming party. When the auditor accesses information held by a confirming party, the access meets the definition of a confirmation request when the entity authorizes the confirming party to provide access to the auditor, and the confirming party provides directly to the auditor the electronic access codes or information necessary to directly access a secure website where data that addresses the subject matter of the confirmation is held. In this instance, the auditor's access to resulting information obtained directly by the auditor held by the confirming party, meets the definition of an external confirmation response when, for example, the auditor is provided by the confirming party with the electronic access codes or information necessary to directly access a secure website where data that addresses the subject matter of the confirmation is held. The auditor's direct access to information held by the confirming party may also be facilitated by an intermediary provider.

Selecting a confirming party

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

Agree, with comments

We believe that the revisions to proposed paragraphs .A8–.A9 are appropriate. We would like the ASB to consider clarifying who the appropriate confirming party(ies) would be in the following situations as additional examples in paragraph .A8 of AU-C section 505:

- There may be instances where there may be a custodian and a separate recordkeeper for the information being confirmed.
- There may be instances where the custodian commingles accounts into a pooled fund, and there may be a separate recordkeeper who keeps the balances of how much of those funds is for each separate account.

It may also be beneficial to clarify if the confirming party can be a party other than the custodian and if there are any additional procedures or issues that may be considered.

In addition, it may be beneficial to list the examples in bullet format and add an example to address these additional situations to paragraph .A8 of AU-C section 505, such as the following (marked from the proposed paragraph in the Exposure Draft):

.A8 External confirmation responses to external confirmation requests 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 Examples~~ include the following:-

- ~~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.
- There may be instances in which government regulatory bodies are knowledgeable about the information to be confirmed and are an appropriate confirming party.
- There may be instances where the appropriate confirming party may not be the custodian of the assets to be confirmed. For example, a custodian may commingle accounts into a pooled fund, and there may be a separate recordkeeper who keeps the balances of how much of the pooled fund belongs to each separate account. The separate recordkeeper may be the appropriate confirming party, since they are knowledgeable about the information to be confirmed. The auditor may also consider if the custodian of the pooled fund may be an appropriate confirming party as an input to evaluate the reliability of the recordkeeper's response and obtain audit evidence about the actual assets held.²⁷

²⁷ Based on the principles in paragraph .A28(c) of AU-C section 402.

Other changes

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

Agree, with no further comments

Amendment to AU-C Section 500

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

Agree, with no further comments

Explanation of changes considered and not made

Use of negative confirmations

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

Agree, with no further comments

Exception for immaterial accounts when confirming accounts receivable

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

Agree, with no further comments

Other suggestions

AU-C Section 505: Consistency of AU-C Section 505 with AU-C Section 330

In the second sentence of the first bullet of proposed paragraph .03 of AU-C section 505, we propose the following revisions to be consistent with the proposed wording in paragraph .19 of AU-C section 330, which will also reiterate that the external confirmation does not need cover all relevant assertions (marked from the proposed paragraph in the Exposure Draft):

.03 ...

- The auditor is required to consider whether external confirmation procedures are to be performed as substantive 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 or external direct access procedures for

...

AU-C Section 330: Editorial change to AU-C Section 330 in the Exposure Draft

We believe the following editorial change be made after proposed paragraph .01 of AU-C section 330, since the next paragraph that is amended is paragraph .19.

[No amendment to paragraphs .02-.189]

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions you may have about our comments. Please direct any questions regarding this letter to Lauren Horneff, Senior Manager—National Professional Standards Group, at 202.629.5171 or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

RSM US LLP