U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

June 30, 2025

Ms. Jennifer Burns
Chief Auditor
Professional Standards and Services
American Institute of Certified Public Accountants

GAO's Response to the American Institute of Certified Public Accountants Auditing Standards Board's Exposure Draft, *Proposed Statement on Auditing Standards (SAS) External Confirmations*, February 2025

Dear Ms. Burns:

This letter provides GAO's comments on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board's (ASB) proposed Statement on Auditing Standards (SAS), *External Confirmations*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the AICPA's efforts to update the SAS related to external confirmations (AU-C Section 505, *External Confirmations*). Evolving technology, increased reliance on electronic communications, and growing complexity in financial reporting make it appropriate to consider revising previously issued auditing standards. We believe that these updates strengthen audit quality by clarifying definitions, reinforcing the reliability of audit evidence, and addressing practical considerations, resulting in greater consistency and responsiveness in the audit process.

Finally, we recommend that the AICPA consider developing additional application guidance pertaining to external confirmations for the public sector by providing clarifying language and examples of additional situations when external confirmations may be used.

Our responses to the AICPA's 15 specific questions are included in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please contact me at dalkinj@gao.gov.

Sincerely yours,

//SIGNED//

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Responses to Questions on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board's Exposure Draft, *Proposed Statement on Auditing Standards (SAS) External Confirmations*

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.

GAO believes that the proposed effective date of the AICPA's amendments on external confirmations is appropriate and provides adequate time for implementation. The effective date of audits for periods ending on or after December 15, 2027, provides sufficient time for implementation and aligns with typical government audit cycles.

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.

GAO supports adding a presumptively mandatory requirement to confirm cash, with certain exceptions, as discussed in proposed paragraph .21 of AU-C section 330. GAO believes that the inclusion of specific guidance for the public sector to address situations when confirming cash and cash equivalents accounts may be restricted would improve applicability and adoption for the public sector.

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

While recognizing the need for more clarity for the public sector, GAO believes the exceptions provided in proposed paragraph .21 of AU-C section 330 are appropriate and understandable

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

GAO has not identified other circumstances that would justify additional exceptions to the proposed presumptively mandatory requirement to confirm cash.

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.

GAO supports adding a requirement that would require auditors to document a rationale for not using external confirmation procedures for cash in accordance with proposed paragraph .21. The inclusion of this requirement would be consistent with the requirements for confirmations of accounts receivable.

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?

GAO supports the AICPA's revisions to document the basis for any determination not to use external confirmation procedures for accounts receivable in accordance with paragraph .20. Given the operational environment of the public sector, GAO believes that removing the "materiality" qualifier allows public sector auditors to exercise their professional judgment in determining whether external confirmation procedures for accounts receivable balances are appropriate in scenarios when immaterial accounts receivable balances may carry compliance risks.

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

GAO believes the clarifications help focus confirmation procedures on areas with risk of material misstatement. The added examples enhance auditors' judgment, which is essential in the often complex and regulated government environment.

However, we suggest deleting the word "certain" from paragraph .19, as it implies that the auditor does not need to consider whether external confirmation procedures are to be performed as substantive procedures for other, undefined "relevant assertions."

Further, we propose the following edit to apply to the first sentences of both AU-C section 330 paragraph .A53 and AU-C section 500 paragraph .A15:

> "External confirmation procedures frequently may be relevant when addressing assertions associated with significant classes of transactions, account balances, or disclosures but need not be restricted to these items."

8. Respondents are asked whether

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

a. GAO believes the proposed definitions in paragraph .06 and new paragraph .07 and the related conforming amendments are appropriate and provide consistency in AU-C section 330, AU-C section 500, and AU-C section 505.

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

b. GAO believes the proposed amendments to other AU-C sections, as shown in appendix A, are appropriate and improve the usability and application of the standards across audit types.

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

c. GAO supports a comprehensive review of all AICPA standards to identify additional areas where updated terminology may enhance consistency with the new external confirmation framework. GAO has not identified any other sections that need to reflect the terminology of this proposed SAS.

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

GAO supports retaining the concept that direct access to information held by a confirming party is a form of confirmation. In addition, we identified inconsistency in the exposure draft edits in clarifying that direct access to information **provided by** a confirming party is a form of external confirmation, while direct access to the confirming party's data **provided by management** to the auditor is not. In many cases, "direct access to information held by a confirming party" (or similar wording) was replaced with "direct access provided by a confirming party" (or similar wording), and distinguished from access provided by management. However, there are several instances where this was not done such as in AU-C Section 330, paragraph .21 (pg. 18-19 of the PDF) and AU-C Section 505, Definitions (pg. 25-26 of the PDF). This can be confusing to auditors. Also, we noted that the standard also uses "held by" to refer to assets held by the confirming party. The term "held by" implies continuous control or ownership of information, while "provided by" implies the lack of ownership of information. These terms hold different meanings and thus, leading to inconsistency in the application of the standard. We propose that ASB review the draft for consistency.

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.

GAO believes that it may be appropriate, in some cases, for auditors to use an intermediary to confirm account balances. Therefore, GAO supports the proposed requirement in paragraph .11, proposed revisions to renumbered paragraph .A22 (formerly paragraph .A14), and the introduction of new paragraphs .A15 through .A18. Additional application guidance that provides examples of circumstances in which it may be appropriate to use an intermediary could assist auditors in applying the revised AU-C section 505.

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

GAO supports the proposed revisions in paragraphs .A1 and .A2, which clarify that information accessed by the auditor solely through management does not meet the standard of external confirmation and that such a procedure may be considered an alternative audit procedure, subject to relevance and reliability considerations in accordance with section 500.

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.

GAO supports the proposed revisions to renumbered paragraph .A8 and the addition of paragraph .A9. Public auditors often rely on regulatory or government bodies as confirming parties. However, we propose removing the language from paragraph .A9 that suggests that the auditor would revise the assessment of relevant risks of material misstatement if the auditor is unable to conduct a potential response to assessed risks. Instead, we believe the auditor would only modify the nature, timing, and extent of other substantive procedures as risk of material misstatement is determined prior to the audit. As such, we believe that paragraph .A9 should read as follows:

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

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.

GAO believes the proposed addition of paragraph .A7 and proposed revisions in renumbered paragraphs .A19 and .A20 are appropriate, as they enhance auditor guidance on determining the information to be confirmed and evaluating the reliability of external confirmation responses.. Factors such as sender identity, response route, and potential bias are critical in determining external confirmation response reliability.

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.

GAO believes that the proposed revisions to AU-C section 500 are appropriate, though we note the earlier suggested edit we provided for paragraph .A15. The expanded application material supports using professional judgment in confirmations by not restricting confirmation requests to classes of transactions, account balances, and disclosures. Furthermore, we propose the inclusion of additional examples of areas where confirmations may be used; for example, when confirming property custody with external entities or verifying financial information maintained by pension or benefit plan custodians.

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?

GAO believes that it is still appropriate for auditors to use negative confirmations as the sole substantive audit procedure under the conditions specified by AU-C section 505.

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