

COMPARISON OF NEW PROPOSED STANDARD AS 2310 WITH ISA 505 AND AU-C SECTION 505

On December 20, 2022, the Public Company Accounting Oversight Board (“PCAOB” or “Board”) issued for public comment a new proposed auditing standard AS 2310, *The Auditor’s Use of Confirmation*, as reflected in *Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*, PCAOB Release No. 2022-009.

This document was prepared by staff of the Office of the Chief Auditor as a reference tool for the new proposed standard in Appendix 1 of the PCAOB release. This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The table below maps the proposed requirements with the analogous requirements¹ of the following standards issued by the International Auditing and Assurance Standards Board (“IAASB”) and the Auditing Standards Board (“ASB”) of the American Institute of CPAs:

- IAASB Standards – International Standard on Auditing 505, *External Confirmations* (“ISA 505”); and
- ASB Standards – AU-C Section 505, *External Confirmations* (“AU-C 505”).

The comparison may not reflect the views of the IAASB or ASB regarding the interpretation of their standards. Additionally, the IAASB and ASB requirements are accompanied by application and other explanatory materials that provide further guidance on those standards. Because these materials are not part of the requirements,² they are not included in the comparison. Where a paragraph from ISA 505 or AU-C 505 corresponds to more than one paragraph of the new proposed standard, the paragraph from

¹ The comparison does not include reference to ISA 505.4, .13 and .16 or to AU-C Section 505.04, .13 and .16 as the new proposed standard does not include analogous paragraphs.

² Paragraph A61 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, indicates that the application and other explanatory material section of the ISAs “does not in itself impose a requirement” but “is relevant to the proper application of the requirements of an ISA.” Paragraph .A64 of AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*, states that the guidance in application and other explanatory material “does not in itself impose a requirement” but “is relevant to the proper application of the requirements of an AU-C section.”

ISA 505 or AU-C 505 has been included, in full, once within the comparison with further references to the applicable paragraph included by notation only (e.g., “[*See above* paragraph 3 of ISA 505]”).

Introduction

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.01 This standard establishes requirements for the auditor’s use of confirmation.</p>	<p>Paragraph 1: This International Standard on Auditing (ISA) deals with the auditor’s use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330¹ and ISA 500². It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.³</p> <p>¹ ISA 330, “The Auditor’s Responses to Assessed Risks.”</p> <p>² ISA 500, “Audit Evidence.”</p> <p>³ ISA 501, “Audit Evidence – Specific Considerations for Selected Items.”</p>	<p>Paragraph .01: This section addresses the auditor’s use of external confirmation procedures to obtain audit evidence, in accordance with the requirements of section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, and section 500, <i>Audit Evidence</i>. It does not address inquiries regarding litigation, claims, and assessments, which are addressed in section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i>.</p>

Objective

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.02 The objective of the auditor in designing and executing the confirmation process is to obtain relevant and reliable audit evidence about one or more relevant financial statement assertions of a significant account or disclosure.¹</p> <p>¹ Terms defined in Appendix A, <i>Definitions</i>, are set in boldface type the first time they appear.</p>	<p>Paragraph 5: The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.</p>	<p>Paragraph .05: The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.</p>

Relationship of the Confirmation Process to the Auditor’s Identification and Assessment of and Response to the Risks of Material Misstatement

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.03 AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i>, establishes requirements regarding the process of identifying and assessing risks of material misstatement of the financial statements and provides that the auditor’s assessment of risks of material</p>		

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<p>misstatement, including fraud risks, should continue throughout the audit. When the auditor obtains audit evidence during the course of the audit (including through the confirmation process) that contradicts the audit evidence on which the auditor originally based the risk assessment, the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in respect to the revised risk assessments.²</p> <p>² See AS 2110.74; see also paragraphs .02 and .29 of AS 1105, <i>Audit Evidence</i>.</p>		
<p>.04 AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i>, requires the auditor to design and implement appropriate responses that address risks of material misstatement. This may include using confirmation to address the assessed risks of material misstatement for certain relevant assertions of significant accounts and disclosures.</p> <p>Note: If different components in a significant account or disclosure are subject to significantly differing risks of material misstatement, the auditor's responses should include procedures that are responsive to the differing risks of material misstatement.</p>	<p>Paragraph 3: Other ISAs recognize the importance of external confirmations as audit evidence, for example:</p> <ul style="list-style-type: none"> ISA 330 discusses the auditor's responsibility to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and 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 assertion level.⁶ In addition, ISA 330 requires that, irrespective of the assessed risks of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure. The auditor is also required to consider whether external confirmation procedures are to be performed as substantive audit procedures.⁷ ISA 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁸ 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 	<p>Paragraph .03: Other AU-C sections recognize the importance of external confirmations as audit evidence; for example</p> <ul style="list-style-type: none"> 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.³ In addition, section 330 requires that, irrespective of the assessed risks of material misstatement, the auditor design and perform substantive procedures for all relevant assertions related to each material class of transactions, account balance, and disclosure.⁴ The auditor is required to consider whether external confirmation procedures are to be performed as substantive audit procedures and is required to use external confirmation procedures for accounts receivable unless <ul style="list-style-type: none"> - the overall account balance is immaterial, - external confirmation procedures would be ineffective, or

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	<p>from a number of independent sources. ISA 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.⁹</p> <ul style="list-style-type: none"> ISA 240 indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.¹⁰ ISA 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management.¹¹ <p>⁶ ISA 330, paragraphs 5-6.</p> <p>⁷ ISA 330, paragraphs 18-19.</p> <p>⁸ ISA 330, paragraph 7(b).</p> <p>⁹ ISA 330, paragraph A53.</p> <p>¹⁰ ISA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements,” paragraph A37.</p> <p>¹¹ ISA 500, paragraphs A8-A9.</p>	<p>- 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.⁵</p> <ul style="list-style-type: none"> section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor’s assessment of risk.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.⁷ section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.⁸ section 500 indicates that corroborating information obtained from a source independent of the entity (such as external confirmations) may increase the assurance the auditor obtains from evidence existing within the accounting records or representations made by management.⁹ <p>³ Paragraphs .05-.06 of section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>.</p> <p>⁴ Paragraph .18 of section 330.</p> <p>⁵ Paragraph .19-.20 of section 330.</p>

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		<p>⁶ Paragraph .07b of section 330.</p> <p>⁷ Paragraph .A58 of section 330.</p> <p>⁸ Paragraph .A43 of section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>.</p> <p>⁹ Paragraph .A8 of section 500.</p>
<p>.05 AS 2301 provides that as the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by substantive procedures depends upon the mix of the nature, timing, and extent of those procedures.</p> <p>Note: AS 2110.68 provides that the auditor should presume that there is a fraud risk involving improper revenue recognition. According to paragraph .54 of AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i>, examples of audit procedures that might be performed in response to this risk include confirming with customers certain relevant contract terms and the absence of side agreements.</p>	<p>[See above paragraph 3 of ISA 505]</p>	<p>[See above paragraph .03 of AU-C 505]</p>
<p>.06 Audit evidence obtained through the confirmation process from an external knowledgeable source is generally more reliable than evidence obtained only from internal company sources.³ The following are examples of financial statement assertions for which the confirmation process, when properly designed and executed, can provide relevant and reliable audit evidence:</p> <ul style="list-style-type: none"> • Existence (e.g., cash, accounts receivable, investments) • Occurrence (e.g., revenue transactions) • Completeness (e.g., accounts payable, debt) 	<p>Paragraph 2: ISA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.⁴ That ISA also includes the following generalizations applicable to audit evidence:⁵</p> <ul style="list-style-type: none"> • Audit evidence is more reliable when it is obtained from independent sources outside the entity. • Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. 	<p>Paragraph .02: Section 500 indicates that the reliability of audit evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained.¹ Section 500 also includes the following generalizations applicable to audit evidence:²</p> <ul style="list-style-type: none"> • Audit evidence is more reliable when it is obtained from independent sources outside the entity. • Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.

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<ul style="list-style-type: none"> Rights and obligations (e.g., cash, assets pledged as collateral) <p>³ See AS 1105.08.</p>	<ul style="list-style-type: none"> Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium. <p>Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.</p> <p>⁴ ISA 500, paragraph A5.</p> <p>⁵ ISA 500, paragraph A31.</p>	<ul style="list-style-type: none"> Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium. <p>Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This section is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.</p> <p>¹ Paragraph .A5 of section 500, <i>Audit Evidence</i>.</p> <p>² Paragraph .A32 of section 500.</p>
<p>.07 In situations involving fraud risks and significant unusual transactions, audit evidence obtained through the confirmation process generally is more persuasive than audit evidence obtained solely through other procedures.</p>	<p>[See above paragraph 3 of ISA 505]</p>	<p>[See above paragraph .03 of AU-C 505]</p>
<p>.08 This standard describes the auditor’s responsibilities related to the confirmation process, as follows:</p> <ul style="list-style-type: none"> Paragraphs .09-.15 discuss confirming certain accounts and terms of transactions. Paragraphs .16-.21 discuss designing the confirmation request. Paragraphs .22-.24 discuss maintaining control over the confirmation process. Paragraphs .25-.30 discuss confirmation responses, confirmation exceptions and nonresponses. Paragraph .31 discusses alternative procedures. Paragraph .32 discusses using internal audit in the confirmation process. 	<p>[See above paragraph 1 of ISA 505]</p>	<p>[See above paragraph .01 of AU-C 505]</p>

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>Other PCAOB standards also address auditor responsibilities relevant to the auditor’s use of confirmation.⁴ This standard does not address matters described in AS 2505, <i>Inquiry of a Client’s Lawyer Concerning Litigation, Claims, and Assessments</i>.</p> <p>⁴ See, e.g., AS 2301 (regarding the nature, timing, and extent of audit procedures); and AS 2315, <i>Audit Sampling</i> (regarding planning, performing, and evaluating audit samples).</p>		

Confirming Certain Accounts and Terms of Transactions

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.09 For cash and cash equivalents held by third parties (“cash”), the auditor should perform confirmation procedures.</p>		
<p>.10 In selecting the individual items of cash to confirm, the auditor should take into account the auditor’s understanding of the company’s cash management and treasury function, and the substance of the company’s arrangements and transactions with third parties.</p>		
<p>.11 When confirming cash, the auditor should consider sending confirmation requests about other financial relationships with the confirming party. Examples of other financial relationships are lines of credit, other indebtedness, compensating balance arrangements, or contingent liabilities, including guarantees.</p>		
<p>.12 For accounts receivable that arise from the transfer of goods or services to a customer or a financial institution’s loans (“accounts receivable”), the auditor should perform confirmation procedures.</p>		[See above paragraph .03 of AU-C 505]
<p>.13 In selecting the individual accounts receivable to confirm, the auditor should take into account the auditor’s understanding of the substance of the</p>		

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<p>company's arrangements and transactions with third parties and the nature of items that make up account balances.</p>		
<p>.14 The presumption to confirm accounts receivable in paragraph .12 may be overcome when the auditor determines that performing other substantive procedures (without using confirmation) would provide audit evidence that is at least as persuasive as the evidence that the auditor might expect to obtain through performing confirmation procedures. The auditor should communicate to the audit committee instances in which the auditor has determined that the presumption to confirm accounts receivable has been overcome and the basis for the auditor's determination. The communications to the audit committee should be made and documented in accordance with paragraphs .25 and .26 of AS 1301, <i>Communications with Audit Committees</i>.⁵</p> <p>⁵The term "audit committee," as used in this standard, has the same meaning as defined in Appendix A of AS 1301.</p>		<p>[See above paragraph .03 of AU-C 505]</p>
<p>.15 For significant risks of material misstatement associated with either a complex transaction or a significant unusual transaction, the auditor should consider confirming terms of the transaction with the counterparty to the transaction.</p>		

Designing Confirmation Requests

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>Identifying Information to Confirm</p> <p>.16 The auditor should identify the information related to the relevant assertions that the auditor plans to verify with confirming parties or (when using a blank form) obtain from confirming parties.</p>	<p>Paragraph 7: When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p>	<p>Paragraph .07: When using external confirmation procedures, the auditor should maintain control over external confirmation requests, including</p>

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>Note: Some forms of positive confirmation requests ask the confirming party to indicate whether the confirming party agrees with the information stated on the request. Other forms of positive confirmation requests, referred to as blank forms, do not state the amount (or other information) to be confirmed, but request the confirming party to fill in the balance or furnish other information. Using a blank form confirmation request may provide more reliable audit evidence than using a confirmation request that includes information the auditor is seeking to confirm (e.g., customer account balance).</p>	<p>(a) Determining the information to be confirmed or requested; (Ref: Para. A1)</p> <p>(b) Selecting the appropriate confirming party; (Ref: Para. A2)</p> <p>(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3–A6)</p> <p>(d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7)</p>	<p>a. determining the information to be confirmed or requested; (Ref: par. A2)</p> <p>b. selecting the appropriate confirming party; (Ref: par. A3)</p> <p>c. designing the confirmation requests, including determining that requests are properly directed to the appropriate confirming party and provide for being responded to directly to the auditor; and (Ref: par. .A4–.A7)</p> <p>d. sending the requests, including follow-up requests, when applicable, to the confirming party. (Ref: par. .A8)</p>
<p>.17 The auditor should test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm.⁶</p> <p>⁶ See AS 1105.10.</p>		
<p>Identifying Confirming Parties for Confirmation Requests</p> <p>.18 The auditor should direct confirmation requests to confirming parties (individuals or organizations) who are knowledgeable about the information to be confirmed and determine that the confirmation requests are properly addressed.</p> <p>Note: AS 2401.53 provides that when the auditor has assessed a fraud risk, sending confirmation requests to a specific party within an organization is an example of an audit response to the risk.</p>	<p>[See above paragraph 7 of ISA 505]</p>	<p>[See above paragraph .07 of AU-C 505]</p>
<p>.19 If the auditor is aware of information about a potential confirming party’s (i) motivation, ability, or willingness to respond, or (ii) objectivity and freedom from bias with respect to the audited entity,⁷ the auditor should consider this information, including its source, in selecting the confirming parties.</p>		

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>Note: Such information may indicate that the potential confirming party has incentives or pressures to provide responses that are inaccurate or otherwise misleading.</p> <p>⁷ AS 2410, <i>Related Parties</i>, requires the auditor to perform procedures to obtain an understanding of the company's relationships and transactions with related parties.</p>		
<p>.20 If the auditor is unable to identify a confirming party who, in response to a confirmation request, would provide relevant and reliable audit evidence about the selected item, the auditor should perform alternative procedures as discussed in paragraph .31.</p>		
<p>Using Negative Confirmation Requests</p> <p>.21 Generally, the auditor obtains significantly less audit evidence when using negative confirmation requests than when using positive confirmation requests because the auditor typically does not receive from the confirming party a confirmation response to a negative confirmation request unless the confirming party disagrees with the information provided in the request. Therefore, the use of negative confirmation requests alone does not provide sufficient appropriate audit evidence for addressing the risk of material misstatement to a financial statement assertion.</p> <p>Note: Appendix B discusses examples of situations where the use of negative confirmation requests in combination with the performance of other substantive audit procedures may provide sufficient appropriate audit evidence.</p>	<p>Paragraph 15: Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall 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: Para. A23)</p> <p>(a) The 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;</p> <p>(b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions or conditions;</p> <p>(c) A very low exception rate is expected; and</p> <p>(d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.</p>	<p>Paragraph .15: 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:</p> <p>a. The 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.</p> <p>b. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions, or conditions.</p> <p>c. A very low exception rate is expected.</p> <p>d. The auditor is not aware of circumstances or conditions that would cause recipients of negative</p>

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		confirmation requests to disregard such requests. (Ref: par. .A32)

Maintaining Control over the Confirmation Process

New Proposed Standard AS 2310	ISA 505	AU-C 505
.22 The auditor should maintain control over the confirmation process to minimize the likelihood that information exchanged between the auditor and the confirming party is intercepted or altered.	[See above paragraph 7 of ISA 505]	[See above paragraph .07 of AU-C 505]
.23 The auditor should send the confirmation request directly to the confirming party and obtain the confirmation response directly from the confirming party.	[See above paragraph 7 of ISA 505]	[See above paragraph .07 of AU-C 505]
.24 The auditor or the confirming party can engage another party as an intermediary to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party. When using an intermediary for this purpose, the auditor should evaluate the implications on the reliability of confirmation requests and responses as discussed in Appendix B.		

Evaluating Confirmation Responses and Confirmation Exceptions, and Addressing Nonresponses and Incomplete Responses

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>Evaluating Reliability of Confirmation Responses</p> <p>.25 The auditor should evaluate the reliability of confirmation responses, taking into account any information about events, conditions, or other information that the auditor becomes aware of that (i) contradicts the information used when selecting the confirming party pursuant to paragraphs .18 and .19 or (ii) indicates that the confirmation request or</p>	<p>Paragraph 10: If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (Ref: Para. A11–A16)</p>	<p>Paragraph .10: If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor should obtain further audit evidence to resolve those doubts. (Ref: par. .A12–.A22)</p>

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>confirmation response may have been intercepted and altered.⁸</p> <p>Note: The following are examples of indicators that a confirmation response may have been intercepted or altered:</p> <ul style="list-style-type: none"> a. The confirmation response comes from a physical or electronic address other than the address on the confirmation request. b. The confirmation response does not include a signature of the confirming party or otherwise identify the confirming party. c. The confirmation response does not include a copy of the original confirmation request, e-mail chain, or any other information indicating that the confirming party is responding to the auditor’s confirmation request. <p>⁸A note to AS 1105.08 also describes the auditor’s responsibilities to evaluate third-party evidence provided to the auditor subject to restrictions, limitations, or disclaimers.</p>		
<p>.26 If the auditor is unable to determine that the confirmation response is reliable, the auditor should perform alternative procedures as discussed in paragraph .31.</p>	<p>Paragraph 11: If the auditor determines that a response to a confirmation request is not reliable, the auditor shall 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: Para. A17)</p>	<p>Paragraph .11: If the auditor determines that a response to a confirmation request is not reliable, the auditor should evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing, and extent of other audit procedures. (Ref: par. .A23)</p>
<p>Evaluating Confirmation Exceptions</p> <p>.27 The auditor should evaluate confirmation exceptions and determine whether the confirmation exceptions individually or in the aggregate indicate (i) a deficiency in the company’s internal control over</p>	<p>Paragraph 14: The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements. (Ref: Para. A21–A22)</p>	<p>Paragraph .14: The auditor should investigate exceptions to determine whether they are indicative of misstatements. (Ref: par. .A30–.A31)</p>

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<p>financial reporting,⁹ (ii) a misstatement that should be evaluated in accordance with AS 2810, <i>Evaluating Audit Results</i>, or both.</p> <p>⁹ In an integrated audit of financial statements and internal control over financial reporting, the auditor should perform the evaluation in accordance with AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>. In an audit of financial statements, the auditor should follow the direction of AS 2201.62-.70, as stated in paragraph .03 of AS 1305, <i>Communications About Control Deficiencies in an Audit of Financial Statements</i>.</p>		
<p>Addressing Nonresponses and Incomplete Responses</p> <p>.28 If the auditor does not receive a confirmation response to a positive confirmation request, the auditor should send a second positive confirmation request to the confirming party unless the auditor has become aware of information that indicates that the confirming party would be unlikely to respond to the auditor. The auditor should evaluate any response to a second confirmation request according to paragraphs .25-.27.</p>		
<p>.29 If a confirmation response is returned by the confirming party to anyone other than the auditor, the auditor should contact the confirming party and request that the response be re-sent directly to the auditor. If the auditor does not subsequently receive a confirmation response from the intended confirming party, the auditor should treat the situation as a nonresponse.</p>		
<p>.30 In the case of a nonresponse or an incomplete response, the auditor should perform alternative procedures as discussed in paragraph .31.</p>	<p>Paragraph 12: In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para A18–A19)</p>	<p>Paragraph .12: In the case of each nonresponse, the auditor should perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: par. .A24–.A27)</p>

Performing Alternative Procedures

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.31 Performing other audit procedures as an alternative to confirmation may be necessary when the auditor is unable to obtain relevant and reliable audit evidence about the selected item through confirmation. Paragraphs .20 (inability to identify a confirming party), .26 (unreliable response), and .30 (nonresponse or incomplete response) discuss certain situations in which the auditor should perform alternative procedures.¹⁰ The following are examples of alternative procedures that individually or in combination may provide relevant and reliable audit evidence:</p> <ul style="list-style-type: none"> a. For terms of a transaction or agreement, inspecting the original signed contract and amendments thereto, comparing contractual terms to industry norms, and discussing and corroborating significant information with other parties involved in the transaction or agreement. b. For accounts receivable, examining one or more of the following: (i) subsequent cash receipts, including comparing the receipts with the amounts of the respective invoices being paid, (ii) shipping documents, or (iii) other supporting documentation (e.g., purchase orders or signed contracts and amendments thereto). c. For accounts payable, examining one or more of the following: (i) subsequent cash disbursements, (ii) correspondence from vendors and suppliers, or (iii) other supporting documentation. <p>Note: Performing alternative procedures may not be necessary if the inclusion of the items for which</p>		

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<p>the auditor was not able to complete the audit procedures in the auditor’s evaluation of the effect of uncorrected misstatements,¹¹ would not change the outcome of the evaluation.</p> <p>¹⁰ If the auditor is unable to obtain sufficient appropriate audit evidence about a relevant assertion, the auditor considers the impact on the audit opinion in accordance with AS 3105, <i>Departures from Unqualified Opinions and Other Reporting Circumstances</i>.</p> <p>¹¹ AS 2810.17 describes the auditor’s responsibility to evaluate the effect of uncorrected misstatements.</p>		

Using Internal Audit in the Confirmation Process

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.32 The auditor may use internal auditors to provide direct assistance to the auditor in the confirmation process in accordance with AS 2605, <i>Consideration of the Internal Audit Function</i>, except that an internal auditor should not (i) select the items to be confirmed, (ii) send confirmation requests, or (iii) receive confirmation responses.¹²</p> <p>¹² AS 2605 establishes requirements for using internal auditors to provide direct assistance to the auditor including supervising, reviewing, evaluating and testing the work performed by internal auditors.</p>		

APPENDIX A – Definitions

New Proposed Standard AS 2310	ISA 505	AU-C 505
<p>.A1 For purposes of this standard, the terms listed below are defined as follows:</p>	<p>Paragraph 6: For purposes of the ISAs, the following terms have the meanings attributed below:</p> <p>(a) External confirmation – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.</p> <p>(b) Positive confirmation request – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.</p> <p>(c) Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.</p> <p>(d) Non-response – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.</p> <p>(e) 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.</p>	<p>Paragraph .06: For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:</p> <p>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.</p> <p>External confirmation. Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor’s direct access to information held by a third party). (Ref: par. .A1)</p> <p>Negative confirmation request. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.</p> <p>Nonresponse. A failure of the confirming party to respond, or fully respond, to a positive confirmation request or a confirmation request returned undelivered.</p> <p>Positive confirmation request. A request that the confirming party respond directly to the auditor by providing the requested information or indicating whether the confirming party agrees or disagrees with the information in the request.</p>
<p>.A2 Confirmation exception – Information in a confirmation response that differs from information the auditor obtained from the company.</p>	<p>[See above paragraph 6 of ISA 505]</p>	<p>[See above paragraph .06 of AU-C 505]</p>
<p>.A3 Confirmation process – The process that involves sending a confirmation request directly to a confirming</p>		

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party, evaluating the information received, and addressing nonresponses and incomplete responses to obtain audit evidence about one or more financial statement assertions.		
.A4 Confirmation request – A request from the auditor to a confirming party regarding information about one or more particular accounts, balances, transactions, or other items as a means of obtaining audit evidence about one or more financial statement assertions.		
.A5 Confirmation response – Information obtained as a direct written communication (in paper or electronic form) to the auditor from a confirming party in response to a confirmation request.	[See above paragraph 6 of ISA 505]	[See above paragraph .06 of AU-C 505]
.A6 Confirming party – A third party, whether an individual or an organization, from which the auditor sends a confirmation request.		
.A7 Negative confirmation request – A confirmation request in which the auditor requests a confirmation response only if the confirming party disagrees with the information provided in the request.	[See above paragraph 6 of ISA 505]	[See above paragraph .06 of AU-C 505]
.A8 Nonresponse – A situation in which (i) after sending a confirmation request(s), the request is returned undelivered; (ii) the auditor does not receive a confirmation response to a positive confirmation request from the intended confirming party; (iii) the auditor receives correspondence from the intended confirming party indicating that the confirming party is unable or unwilling to respond to the confirmation request; or (iv) the auditor receives an oral response only.	[See above paragraph 6 of ISA 505]	[See above paragraph .06 of AU-C 505]
.A9 Positive confirmation request – A confirmation request in which the auditor requests a confirmation response.	[See above paragraph 6 of ISA 505]	[See above paragraph .06 of AU-C 505]

APPENDIX B - Additional Auditor Responsibilities

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<p>Considering Negative Confirmation Requests</p> <p>.B1 The following are examples of situations in which the use of negative confirmation requests, in combination with the performance of other substantive audit procedures, may provide sufficient appropriate audit evidence:</p> <ul style="list-style-type: none"> a. The auditor has (i) assessed the risk of material misstatement for the relevant assertions as low, and (ii) obtained sufficient appropriate audit evidence regarding the design and operating effectiveness of controls.¹³ b. The population of items within the account balance or class of transactions for which the auditor considers sending negative confirmation requests is composed of many small, homogeneous items. c. The auditor expects a low exception rate in response to negative confirmation requests and has a reasonable basis for this expectation. <p>¹³ See also AS 2301.16-.18 for a discussion of tests of controls.</p>	<p>[See above paragraph 15 of ISA 505]</p>	<p>[See above paragraph .15 of AU-C 505]</p>
<p>Evaluating the Implications of Using an Intermediary to Facilitate Direct Electronic Transmission of Confirmation Requests and Responses</p> <p>.B2 Paragraph .24 requires that the auditor evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party on the reliability of confirmation requests and</p>		

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<p>responses. In performing the evaluation, the auditor should:</p> <ul style="list-style-type: none"> a. Obtain an understanding of the intermediary's controls that address the risk of interception and alteration of the confirmation requests and responses. b. Determine that the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively. <p>Note: If the auditor performs procedures to determine that the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively at an interim date, the auditor should evaluate whether the results of the interim procedures can be used at period end or whether they need to be updated. In performing the evaluation, the auditor should consider the length of time between the date of the interim procedures and period end, and whether the process used by the intermediary has changed during that time.</p> <ul style="list-style-type: none"> c. Assess the relationship of the intermediary with the company - specifically, whether circumstances exist that give the company the ability to override the intermediary's controls that address the risk of interception and alteration of the confirmation requests and responses (e.g., through financial, ownership, or other business relationships, contractual rights, or otherwise). 		
<p>.B3 If information obtained by the auditor indicates that (i) the intermediary has not implemented controls that are necessary to address the risk of interception</p>		

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<p>and alteration of the confirmation requests and responses, (ii) the necessary controls are not designed or operating effectively, or (iii) circumstances exist that give the company the ability to override the intermediary's controls, the auditor should not use the intermediary to send confirmation requests or receive confirmation responses.</p>		