Statement on Auditing Standards No. 150, *External Confirmations*

Executive Summary

Overview

The Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 150, *External Confirmations.*

SAS No. 150 amends

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification,* as amended,
  - — section 330*, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AU-C section 330);[1]
  - — section 505, *External Confirmations* (AU-C section 505); and
- SAS No. 142, *Audit Evidence*, as amended (AU-C section 500).

SAS No. 150 also amends

- SAS No. 117, *Compliance Audits*, as amended (AU-C sec. 935);
- various other sections in SAS No. 122, as amended (AU-C secs. 200, 230, 240, 260, 402, 501, 510, 530, and 550);
- SAS No. 128, *Using the Work of Internal Auditors*, as amended (AU-C sec. 610);
- SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended (AU-C sec. 570);
- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended,
  - — section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AU-C sec. 705);
- SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (AU-C sec. 703); and

[1] All AU-C sections can be found in AICPA *Professional Standards*.

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

The most significant change introduced by SAS No. 150 is a new requirement for the auditor to perform external confirmation procedures for cash and cash equivalents held by third parties (cash) to respond to the assessed risks of material misstatement unless certain conditions exist. Within the language of the new requirement, SAS No. 150 acknowledges direct access to information maintained by a knowledgeable external source as way to satisfy requirements related to external confirmation procedures and provides related guidance. SAS No. 150 also includes amendments to reflect the increasingly widespread use of intermediaries in external confirmation procedures. SAS No. 150 requires certain new conditions to be met when using negative confirmation requests to address an assessed risk of material misstatement at the assertion level.

Effective Date

SAS No. 150 is effective for audits of financial statements for periods ending on or after December 15, 2028.

Introduction

This executive summary provides an overview of SAS No. 150. This document aims to highlight changes that are viewed to be of most interest but is not inclusive of all changes.

Background

In making changes to extant AU-C sections 330, 505, 500, and other AU-C sections, the ASB considered the revisions in the PCAOB's new standard AS 2310, *The Auditor's Use of Confirmation*,[2] and whether similar changes to generally accepted auditing standards in the United States of America (GAAS) would be appropriate and in the public interest.

The PCAOB adopted the new AS 2310 standard in September 2023, superseding AS 2310, *The Confirmation Process*, and made conforming amendments to certain related PCAOB auditing standards. AS 2310 was designed to improve the quality of audits when confirmations are used by the auditor and to reflect changes in communication methods and business practice since the prior standard was issued.

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

[2] PCAOB auditing standards can be found in AICPA *PCAOB Standards and Related Rules*.

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Fundamental Aspects of SAS No. 150

The following summarizes what the ASB believes are the fundamental aspects of SAS No. 150 and the changes it introduces.

Scope and Applicability of the Standard

SAS No. 150 is applicable when the auditor uses external confirmation procedures to obtain audit evidence.

Requirements for Accounts Receivable and Cash

SAS No. 150 introduces a requirement to perform external confirmation procedures for cash to respond to the assessed risks of material misstatement, except when external confirmation procedures are impracticable or the assessed risk of material misstatement at the relevant assertion level is low and the other planned substantive procedures address the assessed risk. SAS No. 150 also moves the requirement to perform external confirmation procedures for accounts receivable to AU-C section 505 (from AU-C section 330) and eliminates the exception to the requirement when the overall account balance is immaterial. The ASB believes the materiality exception was not needed in the requirement to use external confirmation procedures for accounts receivable because the requirement is based on the auditor's response to risk assessment procedures. If the auditor is able to obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source, the auditor may do so to satisfy the confirmation requirements for cash or accounts receivable; guidance is then also provided regarding direct access. SAS No. 150 also adds guidance to AU-C section 703 that, in an ERISA Section 103(a)(3)(C) audit, cash that has been properly certified by a qualified institution need not be confirmed.

New Terms and Definitions

SAS No. 150 introduces new terms and revises the definitions of certain terms in AU-C section 505. Specifically, new and revised definitions include the following:

- Replaces the term *external confirmation* with *external confirmation response* and revises the definition to refer to evidence received "either in paper or electronic form in response to an external confirmation request" rather than "in paper form, or by electronic or other medium (for example, through the auditor's direct access to information held by a third party)." The reference to direct access as a medium by which the auditor obtains an external confirmation response was removed because the ASB believes obtaining direct access is a distinct process rather than a type of external confirmation procedure.

- Introduces the term *external confirmation procedures* and defines it as audit procedures that are designed and performed to obtain audit evidence about one or more assertions directly from a confirming party in the form of an external confirmation response.

- Introduces the term *external confirmation request* and defines it as a request from the auditor to a confirming party regarding information about one or more particular classes of transactions, account balances, disclosures, or other items as a means of obtaining audit evidence about one or more assertions. The ASB included this definition to align more closely with terminology used in the PCAOB's auditing standards.

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- Introduces the term *confirming party* and defines it as a third party, whether an individual or an organization, to which the auditor sends a confirmation request. The definition indicates that an intermediary is not a confirming party. To further clarify the distinction between a confirming party and an intermediary, the term *intermediary* is also defined for purposes of AU-C section 505 as a party, other than the auditor or the confirming party, who directly facilitates external confirmation procedures between the auditor and the confirming party. The ASB included both definitions to align more closely with terminology used in the PCAOB's auditing standards.

- Revises the term *exception* used in extant AU-C section 505 to be defined for purposes of section 505 rather than for GAAS. SAS No. 150 defines *exception* as a difference between information that has been selected for confirmation and information provided by a confirming party.

- Revises the term *nonresponse* to replace the phrase "or fully respond" with "in a written communication" because
  - incomplete responses only provide audit evidence over the items included in the response, particularly with the widespread use of intermediaries with boilerplate requests, and
  - a response to a positive confirmation request must be written.

Directly Accessing Information

Although the term *direct access* was removed from the definition of *external confirmation*, SAS No. 150 includes reference to *direct access* as a way the auditor may satisfy the requirement to perform external confirmation procedures for accounts receivable or cash, as previously discussed. Because direct access was previously covered under the broader definition of *external confirmation*, extant requirements applied when using direct access. To retain the applicable requirements when using direct access, the ASB included a new requirement that, if the auditor directly accesses information maintained by a knowledgeable external source, the auditor should apply the requirements in paragraphs .11–.18, .20–.21, and .23 of AU-C section 505, adapted as necessary in the circumstances. The ASB excluded paragraphs .19 and .22 because the auditor cannot receive a nonresponse to direct access, nor can negative confirmation concepts be applied.

SAS No. 150 also includes guidance regarding

- circumstances in which obtaining audit evidence would not be considered directly accessing information maintained by a knowledgeable external source.
- adapting paragraphs .11–.18, .20–.21, and .23 if the auditor directly accesses information maintained by a knowledgeable external source.

Using an Intermediary

SAS No. 150 includes requirements when using an intermediary. When determining whether to use an intermediary, SAS No. 150 requires the auditor to evaluate the implications on the reliability of external confirmation procedures (and in some situations, the auditor may need to read and evaluate the SOC report for the intermediary in order to determine the reliability of information received through the intermediary). If, based on the auditor's evaluation of the implications on the reliability

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of external confirmation procedures, the auditor determines that an intermediary should not be used, SAS No. 150 requires the auditor to send external confirmation requests without using an intermediary. If the auditor is unable to do so, the auditor is required to perform other audit procedures. SAS No. 150 also includes guidance regarding the following:

- Additional procedures the auditor may perform when evaluating the implications of using an intermediary on the reliability of external confirmation requests and external confirmation responses
- Attestation reports on controls over an intermediary's system or process that may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls with respect to that system or process
- Additional procedures the auditor may perform to determine whether the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively at an interim date

Negative Confirmation Requests

SAS No. 150 retains the concept that, because negative confirmation requests provide less persuasive evidence than positive confirmation requests, they should not be used unless certain conditions exist. SAS No. 150 modifies the conditions for using negative confirmation as follows:

- Either
  - — the auditor performs one or more other substantive procedures; or
  - — 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.
- The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions, or conditions.
- The auditor expects a very low exception rate in response to negative confirmation requests and has a reasonable basis for this expectation.
- The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

SAS No. 150 also includes additional guidance regarding circumstances or conditions that may cause the confirming party not to respond to confirmation requests and considerations that may assist auditors in obtaining such responses.

Documentation Requirements

SAS No. 150 includes a requirement in AU-C section 505 to document the basis for any determination to apply the exceptions to the requirements to use external confirmation procedures for accounts receivable and cash. This changes the extant documentation requirement for accounts receivable (previously included in AU-C section 330) by removing the exception that allowed auditors to forgo documentation when the account balance was immaterial. This change also aligns the documentation requirement with the removal of the immateriality exception for using external confirmation procedures for accounts receivable.

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