



National Association of State Boards of Accountancy

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Auditing Standards Board
American Institute of Certified Public Accountants (AICPA)
1345 Avenue of the Americas
New York, NY 10105

Via e-mail: commentletters@aicpa-cima.com

Re: Exposure Draft: Proposed Statement on Auditing Standards – *External Confirmations*

Dear Members and Staff of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, **Proposed Statement on Auditing Standards – *External Confirmations*** (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

General Comments

NASBA commends the ASB in this initiative, particularly in its approach in considering the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard 2310, *The Auditor's Use of Confirmation* (AS 2310). NASBA supports the criteria outlined in the explanatory memorandum in determining whether to propose changes to generally accepted auditing standards (GAAS) based on the PCAOB standard. Harmonization among standard-setters is in the public interest as it promotes consistency in application and avoids confusion for practitioners and users of financial statements.

Comments on Specific Requests from the Exposure Draft

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.

If issued as final, the proposed amendments would be effective for audits of financial statements for periods ending no earlier than December 15, 2027. Early implementation would be permitted. NASBA believes that the proposed effective date is appropriate.

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.

NASBA agrees with adding the presumptively mandatory requirement to confirm cash as shown in proposed paragraph .21 of AU-C section 330.

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

While NASBA believes that the exceptions provided in proposed paragraph .21 of AU-C section 330 are appropriate and understandable we believe that they may be unintentionally misleading. We understand that, based on the definition of confirming party, an intermediary is not considered to be a confirming party. Financial institutions have increasingly chosen to outsource their confirmation response processes to intermediaries for economic reasons. Their redirection of confirmation requests to intermediaries does not represent a refusal to confirm balances that they hold. We believe that the language in paragraph .21 should be tempered to better reflect the role of intermediaries in the confirmation process and eliminate any possible negative connotations associated with their use.

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?

NASBA is not aware of other circumstances in which the auditor may be unable to or should not be required 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.

NASBA agrees with adding the requirement to document the basis for any determination not to use external confirmation procedures for cash in accordance with the proposed paragraph .21.

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?

NASBA agrees with the revisions to document the basis for any determination not to use external confirmation procedures for accounts receivable in accordance with paragraph .20.

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.

NASBA believes that the proposed amendment to paragraphs .01, .19, and .A53 are appropriate.

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;***

NASBA believes that the proposed definitions in paragraph .06 and new paragraph .07 and related conforming amendments are appropriate.

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

NASBA believes that the proposed amendments to other AU-C sections as shown in appendix A are appropriate.

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

NASBA supports a review of other standards for conforming amendments but has not conducted such a review.

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.

NASBA believes 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.

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.

NASBA believes that the proposed requirement in paragraph .11 proposed revisions to renumbered paragraph .A22 and the introduction of new paragraphs .A15-.A18 are appropriate.

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

An external confirmation response is met if the auditor is provided by the confirming party with access codes or information necessary to directly access a secure website, where the data that addresses the subject matter of the confirmation is held. However, if the auditor directly accesses the confirming party's secure website but uses the access credentials provided by management, that is not an external confirmation but can be used as an alternative procedure to a nonresponse or unreliable response to an external confirmation request. It seems as if the auditor's direct access to the information from the confirming party's website using management's login credentials is as persuasive as receiving a signed letter back from the confirming party because the auditor is actually seeing the information in the confirming party's system. Without supporting evidence from inspections that creation of fictitious website and login credentials are pervasive issues, it is unclear as to the differentiation in the persuasiveness of evidence in paragraphs .A1 and .A2.

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.

NASBA believes that the proposed revisions to renumbered paragraph .A8 and addition of paragraph .A9 are appropriate. The last sentence of paragraph .A8 states "...there may be instances in which government regulatory bodies are knowledgeable about the information to be confirmed and are an appropriate confirming party." NASBA recommends including examples of those instances as NASBA believes those instances may not be commonly known.

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

NASBA believes that the proposed paragraph .A8 and proposed revisions in renumbered paragraphs .A19-.A20 are appropriate.

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.

NASBA believes that the proposed revisions to AU-C section 500 are appropriate. NASBA is not aware of any other revisions that should be considered.

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?

NASBA believes that AU-C section 505 should require that negative confirmation requests be used only in combination with the performance of other substantive audit procedures.

NASBA believes that the AU-C 505 should conform to the PCAOB's AS 2310. It is not clear why considerations for negative confirmations would be different for nonissuers. NASBA believes that 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.

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.

It does not appear that AS 2310 includes an exception such that the auditor is not required to confirm accounts receivable when the overall account balance for accounts receivable is immaterial. It is not clear why there should be a difference for issuers and nonissuers in this regard. NASBA does not believe the exception is needed and recommends convergence with the PCAOB AS 2310 with respect to this matter.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Maria E. Caldwell

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NASBA Chair

Daniel J. Dustin

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