

# Auditing Standards Update - Overview of ASB Activities

2025 AGACentral Ohio Chapter Conference

## Session Presenter

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- CPA on Staff for Coastal Peer Review
- Assurance practice member of SEK, CPAs
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# Disclaimer

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Views expressed by ASB Board members and AICPA employees are expressed for purposes of deliberation, providing member services and other purposes exclusive of practicing public accounting. The views expressed do not necessarily represent the official views of the AICPA unless otherwise noted. Official AICPA positions are determined through certain specific committee procedures, due process and deliberation.

# Agenda

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## ASB update

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1. Composition, mission, and strategy
2. ASB Workplan
3. Standards with recent and upcoming effective dates
4. Exposure Drafts

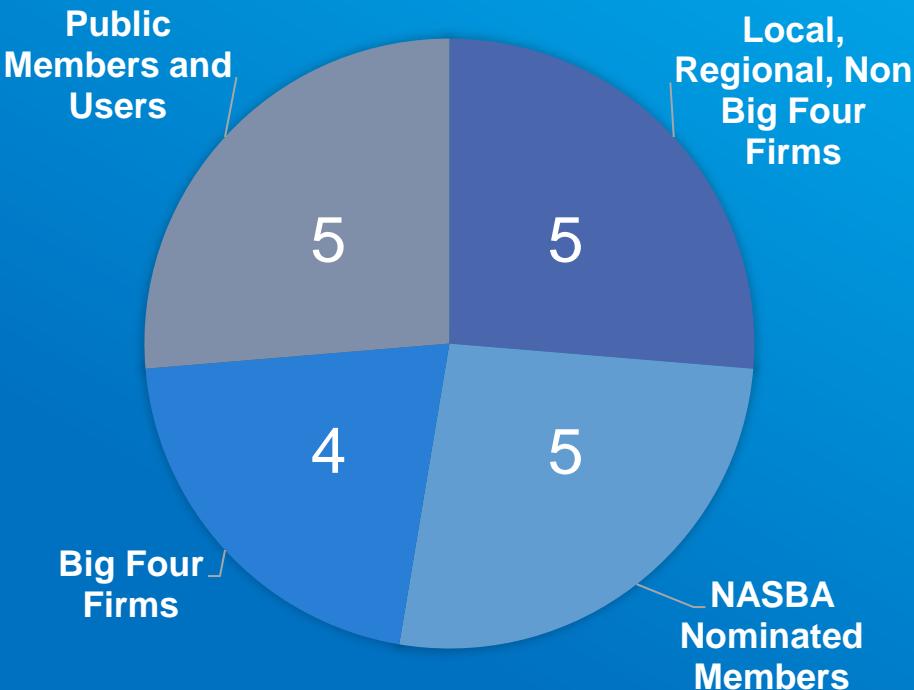
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# ASB Mission and Members

The ASB is the senior committee of the AICPA designated by Council to issue auditing and quality control standards and practice guidance for performing and reporting on audit engagements for non-issuers and attestation standards.

**19 ASB MEMBERS**



# ASB Strategic Plan

## ASB Strategic Initiatives:



**Initiative A:**  
Develop High-Quality Standards in the Public Interest



**Initiative B:**  
Enhance Communications With Our Stakeholders



**Initiative C:**  
Think and Operate More Strategically



**Initiative D:**  
Keep Our Standards Relevant in a Changing Environment



**Initiative E:**  
Support Effective Application of Our Standards

# ASB Strategic Plan - Enhance Communications



Input and feedback from our stakeholders are critical to setting our agenda and developing high-quality standards and guidance



Peer Reviewers and the Peer Review Committee are strategically important stakeholders



Direct outreach by ASB members with small and medium size firms, practitioners and Peer Reviewers

# Peer Review and ASB



These senior committees are part of a continuous feedback loop that looks for opportunities to enhance quality, identify areas of collaboration, and consider potential standard setting actions needed to address Peer Review findings or deficiencies



Staff and chairs from both committees meet regularly to discuss emerging opportunities and risks that could impact self-review (e.g., QC 1000, SEC climate rule)

- Recent joint activities and accomplishments:
  - Surveys
  - Journal of Accountancy article: "6 Ways to Improve the Peer Review Experience" (recommendations for reviewed firms and Peer Reviewers)
  - QMpractice aids

# 2025–2026 ASB Workplan

Note: Dates are tentative and subject to change

Key: Info = Information gathering  
 ED = Exposure draft  
 CL = Comment letters  
 Final = Final standard/guidance  
 DD = Discussion draft  
 TBD = To be determined  
 DI = Discuss issues

	2025		2026			
	Q3	Q4	Q1	Q2	Q3	Q4
<b>1. Current Projects</b>						
<b>a. Standard Setting Projects</b>						
<b>Fraud</b>	ED		CL	Final		
<b>Attestation Standards – ESG/Sustainability</b>						
Narrow-Scope Amendment to AT-C Section 210	CL	Final				
Baseline Attestation Standards	DD	DD	ED		CL	Final
Sustainability Subject Matter Sections	DD	DD	ED		CL	Final
Conforming Amendments			DD	DD/ED		
<b>Confirmations</b>	CL	CL	Final			
<b>b. Active Projects Under Consideration</b>						
<b>Attestation Standards</b> Internal Control					DI	
<b>c. Other projects</b>						
<b>Leveraging Technology</b>	Monitoring ASEC AI project					
<b>2026 – 2030 Strategic Plan Consultation Paper</b>	CL	Final Plan				

# 2025–2026 ASB Workplan

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	2025		2026				
2. IAASB Monitoring	Q3	Q4	Q1	Q2	Q3	Q4	
<b><i>Faster Track for ASB Action/Priority</i></b>							
<b>ESG/Sustainability (repeated from prior slide)</b>	DD	DD	ED		CL	Final	<i>See previous slide</i>
<b>Fraud (repeated from prior slide)</b>	ED		CL	Final			<i>See previous slide</i>
<b><i>Slower Track for ASB Action/Priority (ASB has not yet considered a project plan on these topics)</i></b>							
<b>Audit Evidence/Risk Response/Technology</b>	TBD						
<b>Definition of Listed Entity and PIE</b> Track 1 – Transparency Track 2 – Definitions and Differential Guidelines	TBD						<i>Track 1 deferred until completion of Track 2</i>
<b>Going Concern</b>	TBD						
3. PCAOB Monitoring							
<b>Revisions to AS 1105 and AS 2301, and Conform AS 2501</b>							<i>PCAOB approved in Q3 2024; the ASB Audit Evidence/Risk Response Task Force will consider these revisions as part of that project</i>

# 2025–2026 ASB Workplan

## ASB Work Plan 2025 – 2026

Project	Project objective
Attestation standards (including narrow-scope amendment to AT-C section 210 and conforming amendments)	Consider revisions to the attestation standards to provide requirements and guidance for practitioners reporting on sustainability information, address emerging areas of assurance, and achieve consistency with other standards.
Audit Evidence/Risk Response/Technology	Monitor the IAASB project on ISA 500 and in relation to the auditor's risk response and use of technology to identify whether additional changes may be needed to AU-C section 500 and potentially other AU-C sections.
Confirmations	Consider whether the PCAOB's recently issued AS 2310, <i>The Auditor's Use of Confirmation, and Other Amendments to PCAOB Standards</i> , has additional requirements or guidance that, if brought into generally accepted auditing standards (GAAS), would enhance the quality of audits performed in accordance with GAAS.
Definition of listed entity and PIE	Monitor the IAASB project on the definition of listed and public interest entities and consider the implications on ASB standards.
Fraud	Consider revisions to AU-C section 240 and additional guidance or actions that might be taken to address issues and challenges relating to the auditor's responsibilities for fraud.
Going Concern	Consider additional guidance or actions that might be taken to address issues and challenges relating to addressing going concern in an audit of financial statements.
Leveraging Technology	Consider additional guidance or actions that might be taken to further encourage the effective and appropriate use of technology, including data analytics, to enhance audit quality.
2026 – 2030 Strategic Plan	Develop the ASB's forward-looking strategic initiatives and related strategic actions.

# Standards With Upcoming and Recent Effective Dates

# Standards with Upcoming Effective Dates

Standard	Description	Effective date
SAs		Audits of financial statements for:
146	Quality Management for an Engagement Conducted in Accordance With GAAS	Periods beginning on or after December 15, 2025
149	Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)	Periods ending on or after December 15, 2026
SQMSs		See below:
SQMS 1	A Firm's System of Quality Management	December 15, 2025
SQMS 2	Engagement Quality Reviews	Audits or reviews of financial statements, or other engagements for periods beginning on or after December 15, 2025
SQMS 3	Amendments to SQMSs 1 & 2	See respective effective dates above
SSAEs		See below:
SSAE 23	Amendments to the Attestation Standards for Issuance of AICPA Standards on Quality Management	Engagements beginning on or after December 15, 2025

Note: Early implementation permitted.

# SAS No. 149: Audits of Group Financial Statements Overall Objective

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- Strengthen the auditor's approach to planning and performing a group audit
- Clarify that all applicable AU-C sections need to be applied in a group audit
- Clarify and emphasize the interactions between group engagement team and component auditors
- Includes all the paragraphs related to making reference together in one section within the SAS

# SAS No. 149: Audits of Group Financial Statements

- Provides considerations for group auditor when component auditors are involved in each section of the proposed standard
- Revises entry point into AU-C 600 by revising definitions of group financial statements and consolidation process
- Introduces a principles-based, risk-based approach when component auditors are involved that focuses on identifying, assessing, and responding to the risks of material misstatement
- Establishes a framework for planning and performing a group audit, including
  - Establishing the overall group audit strategy and group audit plan and involving component auditors throughout all phases of a group audit
  - Focuses the group auditor's attention on identifying, assessing, and responding to the risks of material misstatement of the group financial statements

*Group financial statements:* Financial statements that include the financial information of more than one entity or business unit through a consolidation process.

## SAS No. 149: Audits of Group Financial Statements

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- Emphasizes the importance of professional skepticism regarding direction, supervision and review of component auditor's work and evaluation of sufficient appropriate audit evidence
- Clarifies how to address restrictions on access to people and information
- Strengthens and clarifies
  - Communications between the group auditor and component auditors, emphasizing the importance of two-way communications.
  - Various aspects of the group auditor's interaction with component auditors

# QM Related Standards – Overall Objective

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- Establish the quality related requirements for firm accounting and auditing practices
- The stated objective in the new QM standards explains (consistent with QC standards):
  - Design, implement, and operate a system of quality management for engagements performed in a firm's A&A practice that provides the firm with reasonable assurance that:
    - a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
    - b) Engagement reports issued by the firm are appropriate in the circumstances
- Adherence is:
  - Required through the Code of Professional Conduct
  - Evaluated through Peer Review, firm monitoring and evaluation, and the performance of engagement quality reviews (as applicable)

# QM Related Standards

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- Issued, June 2022:
  - SQMS No. 1, A Firm's System of Quality Management
  - SQMS No. 2, Engagement Quality Reviews
  - SAS No. 146, Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards
  - SSARS No. 26, Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services
- Issued March 2023:
  - SQMS No. 3, Amendments to QM Sections 10, A Firm's System of Quality Management, and 20, Engagement Quality Reviews
- Issued June 2024:
  - SSAE No. 23, Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management

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***Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARSSs.***

# SQMSs 1-3

## Key Changes from Current QC Standards

1. New risk-based approach focused on quality management tailored to the firm's circumstances
2. Revised components of the system of quality management, including information and communication
3. More robust leadership and governance requirements
4. Enhanced monitoring and remediation process
5. New! Requirements for networks and service providers

# Relationship between SQMS 1 and SQMS 2

## SQMS 1:



Specified responses to risks identified include EQ reviews:

- Required by law/regulation
- Engagements firm determines that EQ review is an appropriate response to address one or more quality risk(s)

**EQ review incorporated as a risk response?**

## SQMS 2:



SQMS 2 does not apply

SQMS 2 applies, including:

- Appointment and eligibility of EQ reviewer (“cooling-off”)
- Performance and dating of EQ review
- Documentation of EQ review

# SAS No. 146, Quality Management for an Engagement Conducted in Accordance with GAAS



Evolving use of varying audit delivery models



Engagement team may be located together or across different geographic regions



Revised definition of engagement team that includes partner, staff and any other individuals who perform audit procedures on the engagement, including those engaged by a network firm



Requirements have been enhanced to recognize the use of technological resources in the audit

# The engagement partner's overall responsibility

## Sufficient and appropriate involvement throughout the engagement

<u>Leadership responsibility</u>  EP is responsible for achieving quality at the engagement level	<u>Stand back</u>  EP should be satisfied that involvement is sufficient and appropriate to provide basis for taking overall responsibility	<u>Direction, supervision, and review</u>  EP is responsible for nature, timing, and extent in view of engagement circumstances
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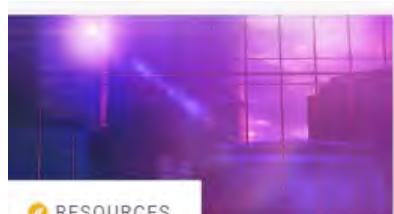
# SSAE No. 23, Amendments to the Attestation Standards for Issuance of AICPA Standards on Quality Management

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- Primarily amends AT-C section 105, Concepts Common to All Attestation Engagements
  - Changes to conform with SQMS No. 1
- Additional revisions with respect to the use of other practitioners
  - Deletion of the defined term other practitioner and replaced with 2 new terms – participating practitioner and referred-to practitioner.
  - Differentiates the requirements related to other practitioners who are part of the engagement team (participating practitioner) and those that are not part of the engagement team (referred-to practitioner)
  - The performance and reporting requirements are also revised to differentiate between the types of other practitioner

# Quality Management Resources

<https://www.aicpa-cima.com/auditqm>



RESOURCES

ASB project: quality management

May 25, 2022

AICPA



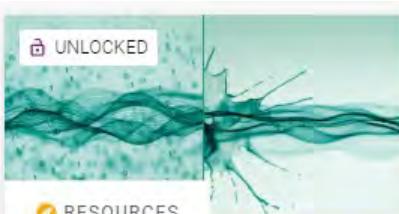
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RESOURCES

Crosswalk between SQMS No. 1 and SQCS No. 8, as amended

Jun 01, 2022

560.8 KB



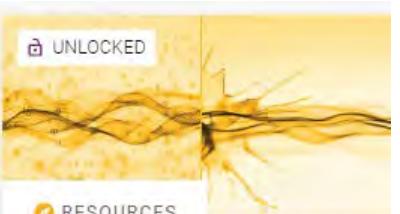
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RESOURCES

Executive summary of SQMS Nos. 1 – 2 and SAS No. 146

Jun 01, 2022

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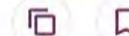
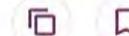
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RESOURCES

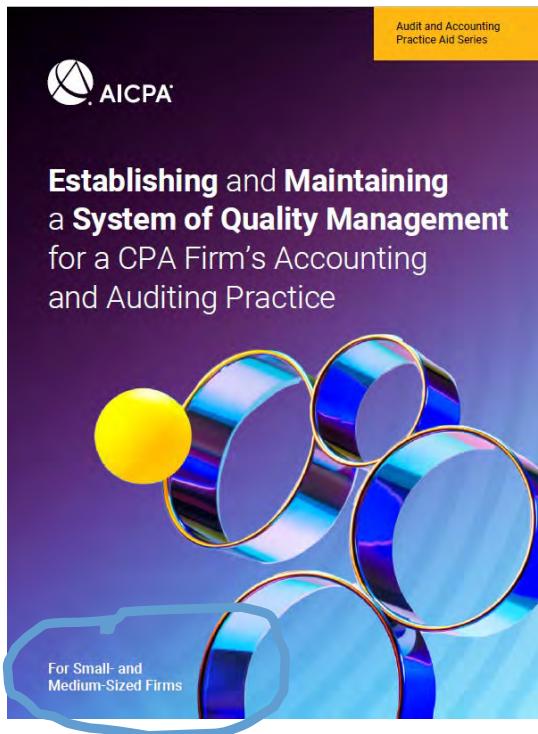
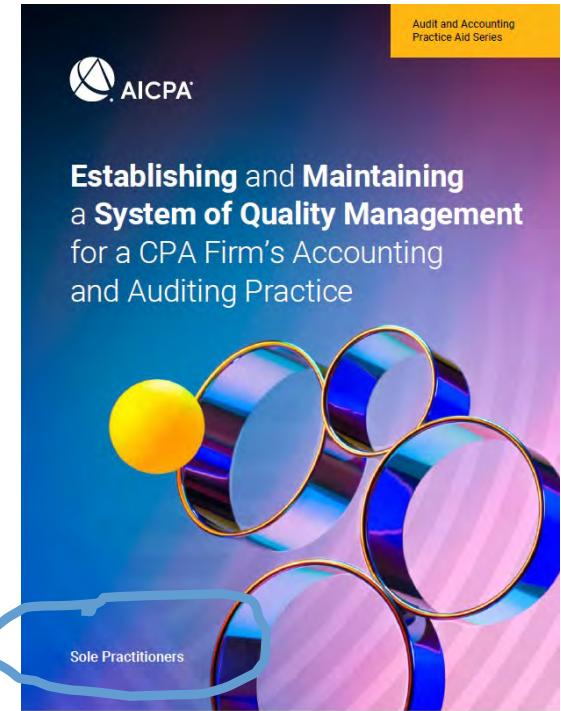
SQMS Nos. 1 – 2, SAS No. 146, and SSARS No. 26 At a Glance

Jun 01, 2022

173.3 KB



# Quality Management Practice Aid



- QM Practice aid is available in two versions:
  - Sole practitioners
  - Small- and medium-sized firms
- Each version contains:
  - How to use this practice aid
  - Overview of SQMS No. 1
  - Overview of risk assessment requirements
  - Library of quality objectives, potential risks, and potential responses
  - Monitoring and remediation process
- Works in tandem with the Example QM Risk Assessment template, which provides a starting point

# SAS 143, Auditing Accounting Estimates and Related Disclosures

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Issued July 2020

Effective for audits of financial statements for periods ending on or after December 15, 2023

- Supersedes AU-C section 540
- Converges with ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures
- Addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.

Effective for periods ending on or after December 15, 2023

# Accounting Estimates

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- An accounting estimate is a monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty. It can be related to an account balance, a class of transactions or a disclosure. A fair value measurement is an accounting estimate.
- Estimation uncertainty is the susceptibility to an inherent lack of precision in measurement. The degree of estimation uncertainty can vary significantly and is a critical concept to both management and the auditor.

## Risk Assessment- Estimates

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- When assessing the risk of material misstatement at the relevant assertion level, the auditor must assess inherent risk and internal control separately.
- Inherent risk factors include the degree of complexity, subjectivity, and estimation uncertainty, and the interrelationship between them.
- Need to consider the requirements of the applicable financial reporting framework related to accounting estimates, including recognition criteria, measurement bases and presentation and disclosure requirements.
- Need to consider regulatory frameworks and factors, if applicable.

## Risk Assessment- Estimates

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- The auditor should review the outcome of previous accounting estimates to assist in identifying and assessing the risks of material misstatement in the current period.
- Key factors in assessing inherent risk are the degree to which the estimate is subject to estimation uncertainty, and the degree to which the methods, assumptions and data are affected by complexity and subjectivity.
- If the risk related to a relevant assertion is considered a significant risk, the auditor should understand the internal control activities relevant to that risk and evaluate if they have been suitably designed and implemented.

## Further Audit Procedures Responsive to Assessed RMM at Assertion Level- Estimates

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- Obtain audit evidence from events occurring up to the date of the auditor's report.
- Test how management made the accounting estimate.
- Develop an auditor's point estimate or range.
- The higher the assessed level of RMM, the more persuasive the audit evidence needs to be.
- Auditors should design and perform audit procedures that are not biased toward obtaining evidence that is corroborative or toward excluding evidence that may be contradictory.

# Fraud and Accounting Estimates

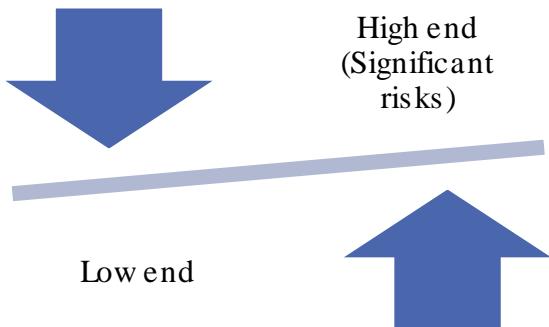
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- AU-C Section 240 procedures include reviewing accounting estimates for biases and evaluating whether the circumstances producing bias represents a risk of material misstatement due to fraud.
- Even if individually reasonable, do the overall judgements and decisions made by management in making accounting estimates indicate a possible bias that may be an indicator of fraud.
- Perform a retrospective review of management's judgements and assumptions related to significant estimates in prior year.

# SAS 145: Summary of significant changes

Major areas of revision are:

- Clarified work effort related to understanding each of the components of internal control, including enhanced guidance on information technology (IT)
- Concept of spectrum of risk



- Amended definition of significant risks

Significant risk:

An identified risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other AU-C sections.

# SAS 145: Summary of significant changes

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## Major areas of revision (cont'd)

- 5 new inherent risk factors: subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud.
- Requiring separate assessments of inherent and control risk
  - If no tests of controls are performed,  $\text{RoMM} = \text{IR}$
- Requiring for “sufficient, appropriate” evidence as basis for risk assessment
- Stand-back requirement for material COTABDs not assessed as significant

- New Risk Assessment Auditing Guide with focus on smaller, less complex entities.
- New Technology Practice Aid with example of how to use technology in performing risk assessment.

# Current Projects

# Recent and Upcoming EDs

## Fraud

- Update AU-C Section 240, Consideration of Fraud in a Financial Statement Audit to converge with the IAASB's fraud project to the greatest extent appropriate in the US
- Objective: Clarify and enhance the auditor's responsibilities relating to fraud in an audit of financial statements
- ED approved: May 2025; 90 day comment period from date of publication

## Attestation/ESG/Sustainability

- Revise baseline attestation standards and develop new sustainability subject matter section to address practice issues in performing attestation/ESG engagements and consider convergence with ISSA5000
- Expected ED vote: November 2025

# Q1 Exposure Drafts/Consultation Paper

## Proposed SSAE Scope Limitations in a Review Engagement

- Part of Attestation project; exposed now for public comment to be responsive to a potential practice issue related to recent regulations for sustainability reporting and the performance of review engagements over such reporting
- Would amend AT-C section 210 to permit issuance of a qualified or disclaimer of conclusion in a review engagement when a scope limitation exists
- Comment letter due date: May 30, 2025

## ASB Strategic Plan 2026-2030 Consultation Paper

- Request for input on the ASB's strategic plan
- Comment letter due date: June 13, 2025

## Proposed SAS External Confirmations

- Proposes amendments to AU-C sec. 330, 500 and 505
- Amendments based on consideration of AS 2310, The Auditor's Use of Confirmation
- Comment letter due date: June 30, 2025

# Proposed SAS

The Auditor's Responsibilities Relating to  
Fraud in an Audit of Financial Statements

# High Level Summary

## Key Changes in Proposed SAS

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- Revisions to clarify the role and responsibilities of the auditor
- More robust requirements to promote consistent behavior and facilitate effective responses to identified risks of material misstatement due to fraud
- Enhanced emphasis on the importance, throughout the audit, of the appropriate exercise of professional skepticism in fraud-related audit procedures
- Enhanced transparency on fraud-related procedures when appropriate, including strengthening communications with those charged with governance
- Enhanced risk identification and assessment as it relates to fraud or suspected fraud as well as links to other AU-C sections

# I. Overview and Background

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- The proposed SAS:
- Addresses the auditor's responsibilities relating to fraud in an audit of financial statements
- Incorporates results from ASB outreach
- Considers convergence with IAASB's ISA240 (Revised), as appropriate
- Drives auditors to better exercise professional judgment and maintain professional skepticism
- Refers to, or expands upon, the application of other relevant AU-C sections, in particular AU-C sec. 315
- Helps auditors perform appropriate procedures when fraud or suspected fraud is identified

# ASB Research

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- The ASB began conducting outreach and research related to fraud in March 2022. This included:
  - Research Synthesis Project
    - Academic Studies between 2017-2022 in order to learn about the latest academic findings on the identification, assessment, and response to fraud risks
    - Survey and Interviews of Financial Statement Users and Preparers in the U.S. to obtain perspectives on the content of the auditor's report and transparency related to fraud in the auditor's report
      - 134 responses collected
      - Interviewed 26 individuals
    - Interviews with forensic specialists to help identify best practices relating to fraud in a financial statement audit

# Key Changes and Key Concepts Retained: The Auditor's Responsibilities Relating to Fraud

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- Proposed SAS retains foundational concepts from extant AU-C 240
  - Primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance
- Placement of Content
  - Focus of standard should be on the roles and responsibilities of the auditor – therefore placed auditor's responsibilities before those of management and those charged with governance
- Responsibilities of the auditor placed before inherent limitations of the audit
  - To make the auditor's responsibilities more succinct and unencumbered by language that may be construed as diminishing the auditor's responsibilities related to fraud in an audit of financial statements
- Non-Material Fraud
  - The auditor is concerned with a material misstatement of the financial statements due to fraud

## Key Changes: Relationship with AU-C section 250

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- Explains that fraud ordinarily constitutes an instance of non-compliance with laws and regulations
- Includes an explicit reference to AU-C section 250 for when the auditor identifies fraud or suspected fraud that also constitutes an instance of non-compliance with laws and regulations

# Key Concepts Retained: Definition of Fraud

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- Retains extant definition of fraud
  - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit
- Different from IAASB's ISA240 (Revised) definition
  - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

## Key Changes: Scalability

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- Contains scalability considerations as nature and extent of fraud-related audit procedures may vary based on the nature and circumstances of the engagement

# Key Changes: Whistleblower Program

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- The proposed SAS includes new and enhanced requirements and focuses on the auditor's understanding of components of the entity's system of internal control
- Includes obtaining an understanding of the entity's whistleblower program or other program to report fraud, if such a program exists, including how management addresses allegations of fraud made through the program

## Key Changes: Information From Other Sources

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- Enhances the requirement from extant AU-C section 240 to require the auditor to consider whether information from other sources obtained by the auditor indicates that one or more fraud risk factors are present

## Key Changes:

### Retrospective Review of the Outcome of Previous Accounting Estimates

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- Extends the requirement from extant AU-C section 240 for the auditor to perform a retrospective review of management judgments and assumptions related to accounting estimates reflected in financial statements of the prior year, not just those of significant accounting estimates

## Key Changes: Engagement Team Discussion

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- Enhances the requirements relating to the engagement team discussion while retaining requirements from extant AU-C section 240 to help focus the auditor's considerations of fraud throughout the audit

# Key Concepts Retained: Identifying and Assessing the Risks of Material Misstatement Due to Fraud

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- The proposed SAS retains the requirement in paragraph .27 of extant AU-C section 240 to treat all assessed risks of material misstatement due to fraud as significant risks

# Key Changes and Key Concepts Retained: If the Auditor Identifies Fraud or Suspected Fraud

Requires the auditor to obtain an understanding of the nature and circumstances of the fraud or suspected fraud by doing the following:

- Make inquiries about the nature and circumstances of the matters with the appropriate level of management
- If the entity has a process to investigate the matters, evaluate whether it is appropriate in the circumstances
- If the entity has implemented remedial actions to respond to the matters, evaluate whether they are appropriate in the circumstances

New proposed requirements to clarify the auditor's response when fraud or suspected fraud is identified

Except for when the fraud or suspected fraud is determined by the auditor to be clearly inconsequential, the engagement partner is required to determine whether:

- To perform additional risk assessment procedures
- To design and perform further audit procedures to respond to the risks of material misstatement
- There are additional responsibilities for the auditor under law, regulation, or relevant ethical requirements

See  
Paragraphs  
55-58

Requirements for when  
1) The auditor identifies a misstatement due to fraud  
2) The auditor identifies a material misstatement due to fraud

- Similar to the requirements in paragraphs .35-.37 of extant AU-C section 240

## Key Changes: Stand-back Provision

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- Paragraph 59 of the proposed SAS includes a stand-back provision that states that in applying AU-C section 330, the auditor should evaluate, based on the audit procedures performed and audit evidence obtained, whether (a) the assessments of the risks of material misstatement due to fraud remain appropriate and (b) sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud
- Reinforces the requirements in paragraphs 27-28 of AU-C section 330
- Reflects the importance of the audit work performed relating to fraud

# Proposed SAS

## External Confirmations

## Key Changes in Proposed SAS, External Confirmations

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1. New requirements to use external confirmation procedures for cash and cash equivalents held by third parties (cash)
2. Revised requirement to document the basis for determination not to use external confirmation procedures for both accounts receivable and cash
3. New and revised definitions to provide clarification throughout GAAS
4. More robust requirement to evaluate the implications on the reliability of confirmation requests and external confirmation responses when determining whether to use an intermediary
5. Enhanced application material

QUESTIONS ?

AGA Central Ohio  
Chapter

Thank You