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Interpretation of AU Section 330, *The Confirmation Process*

1. Use of Electronic Confirmations

.01 *Question*—AU 330.29 (*The Confirmation Process*) states (italicized portions are for emphasis):

There may be situations in which the respondent, because of timeliness or other considerations, responds to a confirmation request *other than in a written communication mailed* to the auditor. When such responses are received, additional evidence may be required to support their validity. For example, facsimile responses involve risks because of the difficulty of ascertaining the sources of the responses. To restrict the risks associated with facsimile responses and treat the confirmations as valid audit evidence, the auditor should consider taking certain precautions, such as verifying the source and contents of a facsimile response in a telephone call to the purported sender. In addition, the auditor should consider requesting the purported sender to mail the *original* confirmation directly to the auditor...

This paragraph uses phrases such as “written communication” and “mail the original confirmation” when describing the confirmation process. Can an electronic confirmation be considered to be reliable audit evidence?

.02 *Interpretation*—Yes, properly controlled electronic confirmations may be considered to be reliable audit evidence. The acceptance of electronic confirmations or the use of an electronic confirmation process is not precluded by the examples in AU section 330.

.03 No confirmation process with a third party is without some risk of interception, alteration, or fraud. Risks associated with paper confirmations and use of the mail includes the risk that the confirmation respondent will not be a bona fide and authorized respondent. An electronic confirmation process that creates a secure confirmation environment may mitigate the risks of human intervention and misdirection. The key lies in the process or mechanism used by the auditor and the respondent to minimize the possibility that the results will be compromised because of interception, alteration, or fraud with respect to the confirmation.

.04 Pursuant to paragraph 9 of Statement on Auditing Standards No. 106, *Audit Evidence*, the auditor should consider the reliability of the information to be used as audit evidence. In relation to the electronic confirmation process, the auditor's consideration of the reliability of the information should include consideration of the risk that:

- The confirmation response might not be from the proper source.
- A respondent might not be authorized to respond.
- The integrity of the transmission might have been compromised.

.05 If a system or process that facilitates electronic confirmation between the auditor and the confirmation respondent is in place, and the auditor plans to rely on such a system or process, an assurance trust services report (for example, Systrust) or another auditor's report on that process may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls with respect to that process. Such a report would usually address the three risks previously stated. If these risks are not addressed in the report, the auditor may perform additional procedures to address those risks.

.06 If the auditor is satisfied that the electronic confirmation process is secure and properly controlled and the confirmation is directly from a third party who is a bona fide authorized respondent, electronic confirmations may be considered as sufficient, valid confirmation responses. Various means might be used to validate the sender of electronic information and the respondent's authorization to confirm the requested information. For example, the use of encryption,¹ electronic digital signatures,² and procedures to verify Web site authenticity³ may improve the security of the electronic confirmation process.

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¹ Encryption is the process of encoding electronic data in such a way that it cannot be read without the second party employing a matching encryption "key." Use of encryption reduces the risk of unintended intervention in a communication.

² Digital signatures may use the encryption of codes or text or other means to ensure that only the claimed signer of the document could have affixed the symbol. The signature and its characteristics are uniquely linked to the signer. Digital signature routines allow for the creation of the signature and the checking of the signature at a later date for authenticity.

³ Web site authenticity routines may use various means including mathematical algorithms to monitor data or a Web site to ensure that its content has not been altered without authorization. Webtrust or VeriSign certifications may be earned and affixed to a Web site, indicating an active program of protecting the underlying content of the information.