

## **An Empirical Investigation of the Effectiveness of Balance and Invoice Confirmations**

**Robert D. Allen\*<sup>1</sup> and Randal J. Elder<sup>2</sup>**

<sup>1</sup>University of Utah, Salt Lake City, UT USA

<sup>2</sup>Syracuse University, Syracuse, NY USA

---

Since 1938, confirmation of accounts receivable has been required by generally accepted auditing standards (GAAS) in part because confirmations are believed to be a deterrent to fraud. Recent changes in U.S. and international auditing standards reduce the emphasis on accounts receivable confirmations. The International Federation of Accountants recently issued an International Standard on Auditing that will make accounts receivable confirmations optional. The U.S. auditing standards (SAS No. 67) also provide the option of not using confirmations in certain circumstances.

The purpose of our study is to examine the use of confirmations in practice and offer recommendations that we believe will make confirmations more effective. We investigate the use of positive accounts receivable confirmations for 53 audits of medium-size companies performed by three large audit firms. Although the option for not sending confirmations exists under U.S. auditing standards, the audit firms in our sample used confirmations on nearly all audits. Although confirmations are used, the response rates are not high. The average confirmation response rate was approximately 50 percent, suggesting the possibility that low response rates could be used as justification for not sending confirmations for many audits.

Our sample included both audits for which balance confirmations were used, and audits for which invoice confirmations were used. We compare the confirmation results for invoice confirmations with balance confirmations. Response rates for invoice confirmations were not higher than the response rates for balance confirmations. Balance confirmations result in the testing of a greater portion of the dollars in accounts receivable, with higher error rates and larger error projections. These differences suggest that balance and invoice confirmations have different characteristics that should be considered in determining the sample size and type of confirmation used. In addition, the descriptive data from this study provides a basis for recommendations that may improve the effectiveness of accounts receivable confirmations, thereby reducing the likelihood of fraud.

---