



February 16, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803
By email: comments@pcaobus.org

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or "the Board") Docket 028: *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards* (The Proposal). We value and support the PCAOB's critical role and mission to protect investors and further the public interest.

US capital markets operate at a higher level of efficiency because of dedicated work by the PCAOB and the many public accounting firms auditing PCAOB issuer financial statements, and we commend and seek to support those efforts.

We strongly concur with the Board's intended benefits of the Proposal, including improving the quality of audit evidence and increasing the auditor's likelihood of identifying potential financial statement fraud.

As the Board and regulators globally are well-aware, material financial statement fraud occurs rarely and can be difficult to detect on a timely basis, but its impact can be immense and far reaching in terms of investor losses and erosion of public confidence.

We believe that high quality technology-enabled confirmation tools provide the profession with a confirmation process that is uniquely efficient and secure, making it reasonable for the Board to require independent third-party confirmation more extensively in all audit engagements, expanding fraud detection opportunities and furthering the public interest without imposing undue burden on audit firms or audited companies.

About Thomson Reuters

Thomson Reuters is one of the world's most trusted providers of answers, helping professionals make confident decisions. Our customers operate in complex arenas that move society forward, including law, auditing, accounting, tax, government, and media. Thomson Reuters Confirmation® is the digital solution and global network trusted by audit firms, banks, law firms, and other businesses to quickly and securely verify financial data.

Confirmation® invented electronic confirmations over 20 years ago, and our focus from the beginning has been on reducing the risk of fraud in the confirmation process. We have built an extensive network of over 4,000 validated financial institutions, helping ensure that audit

confirmations get to the appropriate individuals within responding organizations, all within a highly secure environment designed specifically to prevent unscrupulous players from undermining the integrity of the audit confirmation process. We work closely with audit firms and confirming parties to continually maintain and evolve a high-quality confirmation process that is efficient, secure, and designed specifically to minimize fraud opportunities.

Confirming Cash and Cash Equivalents Held by Third Parties – Question 10, pg. 22 of the Proposal

We believe that the guideline provided in paragraph .10 of the proposed new standard (stating that the selection of individual items of cash to confirm should be based on ‘the auditor’s understanding of the company’s cash management and treasury function’) is overly vague and may lead to unintended variability in practice.

Given that existing PCAOB standards (both at paragraph .06 of the proposed new standard and, as noted there, in AS 1105.08) acknowledge that “audit evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources” we believe that the profession should display a strong bias toward obtaining audit evidence from sources independent of the company whenever feasible and cost-effective.

Through the use of high quality technology-enabled confirmation tools, the confirmation process can be both highly efficient and secure. In addition, data indicates that while overall usage of electronic cash confirmations is increasing, a noticeable percentage of firms are confirming fewer cash accounts on each audit engagement.

For these reasons as well as the importance and unique power of independent confirmation as a tool for highest-quality audit evidence, early fraud detection, and investor protection, we suggest that paragraphs .09 and .10 of the proposed standard be revised to require confirmation with all financial institutions with which the company had significant activity during the period under audit, or for which there is reason to believe material assets or liabilities are held by the company.

As an example, one of several potential ways of wording this is to revise paragraph .10 to read “In selecting the individual items of cash to confirm, the auditor should include all financial institutions with which the company had significant activity during the period under audit, or for which there is reason to believe material assets or liabilities are held, based on the auditor’s understanding of the company’s cash management and treasury function, and the substance of the company’s arrangements and transactions with third parties.”

Confirming Other Financial Relationships– Question 12, pg. 23 of the Proposal

For reasons similar to those noted above for confirming cash, we believe that the guideline provided in paragraph .11 of the proposed new standard (stating that the auditor “should consider” sending confirmation requests about other financial relationships) is overly vague and may lead to significant variability in practice.

High quality technology-enabled confirmation tools include capabilities and controls making it feasible and practical to direct confirmation requests to knowledgeable individuals and specific parties within confirming organizations.

Undisclosed financial relationships, including off-balance sheet relationships, can take many forms. This could include undisclosed lines of credit, indebtedness, compensating balance requirements, liens, encumbrances, contingent liabilities, or guarantees; any of which would represent a significant fraud risk factor (similar to AS 2410.16 regarding fraud considerations if undisclosed related party transactions are discovered).

Confirming financial relationships represents a uniquely powerful opportunity for auditors to test their initial fraud risk assessment. Paragraph .03 of the proposed new standard would come into play here if the auditor obtains evidence during the course of the audit (including through the confirmation process) that contradicts the original risk assessment.

For these reasons, we suggest that overcoming the presumption for confirming other financial relationships be available only in circumstances where the financial entity with which the company does business simply does not offer services that would give rise to the financial relationships. This is referred to on p. 22 of the Proposal and represents a reasonable guideline in light of the confirmation’s uniquely critical role in fraud detection and investor protection.

Confirming other financial relationships under these guidelines would be consistent with the auditor’s required exercise of professional skepticism and other procedures designed to avoid confirmation bias, as noted on pg. 18 of the Proposal.

Relationship of the Confirmation Process to the Auditor’s Identification and Assessment of and Response to the Risks of Material Misstatement – Question 7, pg. 19 of the Proposal

We recognize that the Board has elected to not include a requirement that confirmation procedures be applied wherever and whenever they can address significant risks related to relevant assertions, and we agree that this requirement would be too broad as stated on p. 69 of the Proposal.

We would contrast this, however, with our suggestions above regarding confirmation of cash balances and other financial relationships. Establishing that level of requirement for cash and other financial relationships is not overly broad, but instead is focused and pertains to using confirmation as a uniquely powerful fraud risk detection procedure which will inform the auditors fraud risk assessment.

Identifying Confirming Parties for Confirmation Requests – Question 24, pg. 32 of the Proposal

We agree that, as noted on p. 30 of the Proposal, identifying a knowledgeable individual within a confirming party's organization and sending the confirmation request directly to that individual could increase the reliability of audit evidence obtained through the confirmation process.

We point out that the Thomson Reuters Confirmation® ecosystem includes controls related to validation of banks and bank users for all network banks, enabling efficient communication between auditors and confirming banks and making it feasible and practical to direct confirmations of cash and other financial relationships to knowledgeable individuals and specific parties within the confirming organization.

For this reason, we believe it would be reasonable for the Board to establish a presumption that confirmation requests be sent to specific individuals unless clearly not feasible, rather than reserving this as only 'a response to fraud risk' as noted in paragraph .18 of the proposed new standard. Establishing such a presumption reduces the risk that confirmed information is incomplete due to the responding party not being sufficiently knowledgeable.

Using an Intermediary to Facilitate Direct Electronic Transmission of Confirmation Requests and Responses – Question 26, pg. 36 of the Proposal

We strongly support standardizing the procedures that auditors perform to support their use of intermediaries to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party. This will help ensure that all third-party confirmation service providers are held to this same level of security and timeliness and will increase the quality of the confirmation process across the profession.

Thomson Reuters Confirmation® maintains robust and industry-standard security controls to protect customer, company and confirming party data. We undergo annual SOC 1, SOC 2 and ISO 27001 examinations using premiere service providers, and controls are documented accordingly.

Also, the Board's March 2022 *Spotlight: Observations and Reminders on the Use of a Service Provider in the Confirmation* has, as intended, caused firms and service providers to seek clarity with regard to two key questions: a) how frequently do confirmation service providers need to have SOC (or equivalent) examinations performed – annually or semi-annually and b) what is an acceptable window of time to be covered by bridge letters. This relates to the Note following paragraph .B2,b. of the new proposed standard regarding interim testing.

It would be of benefit to the profession for the Board or PCAOB staff to provide guidance on these two issues. This will ensure that all confirmation service providers are operating to the same level of security and timeliness and will promote a consistent standard of quality across the profession. Without such guidance, we could see variation across various firms and various intermediaries.

In addition, the considerations listed in paragraph .B2 of the new proposal are stated in the negative and relate to risks when using an intermediary. "Implications" of using an intermediary can be potentially negative or potentially positive, depending on the intermediary. We believe that this

section fails to recognize the proven benefits of using well-qualified intermediaries. The tone of this section could have the unintended effect of discouraging use of intermediaries and lead firms to fall back to outdated and higher risk confirmation processes. We suggest that the Board add a bullet to this paragraph requiring the auditor to consider the benefits of using an intermediary in relation to other alternatives. Such a bullet might, as an example, be worded as follows –

- Considering the extent to which the intermediary’s infrastructure and controls enhance the value of the confirmation process and quality of audit evidence by, for example, enabling confirmations to be directed to knowledgeable individuals and specific parties within the confirming organization.

Other Matters/Direct Access – pg. 46 of the Proposal as well as Question 3, pg. 16 of the Proposal

It is our understanding that some providers of technology-enabled confirmation tools rely on providing direct access to a client’s cash balances and transactional information through the audit client’s open banking portal. This use of open banking portals in their current state would meet the Board’s definition of Direct Access and thus would not constitute a confirmation procedure “. . . because it does not involve sending a confirmation request and receiving a confirmation response.”

To maintain the value and quality of the confirmation process, we believe it is important that the Board retain its stated position regarding Direct Access and clearly state that open banking in its current state does not constitute a confirmation procedure. Otherwise, there is a risk that until open banking capabilities evolve and mature, the cash confirmation process will quickly devolve to a perfunctory check of cash balances, which significantly diminishes the Board’s intended value of the confirmation process.

Also, because open banking portals currently do not support confirmation of other financial relationships, audit firms relying on these solutions would be less likely to confirm other financial relationships, which in our opinion, furthers the view that the confirmation process consists only of a perfunctory check of cash balances and diminishes the value of the confirmation process. Said another way, the confirmation process is more likely to be viewed as being of little value if it is allowed to be reduced to a procedure that truly is of limited value.

In addition, technology holds the promise of enabling efficient ingestion of comprehensive transactional data from a client’s financial institutions, and various vendors and firms are exploring technology solutions to utilize such data in efficient testing procedures (e.g., automatically testing bank reconciliations or automatically validating all cash journal entries). As these technologies evolve and auditors rely more heavily on utilizing intermediaries to ingest transactional data from clients’ financial institutions, it will become ever more critical that controls are in place to ensure that such transactional data is *confirmed* and has not been intercepted or altered by management. For this reason, it is important that the Board make clear that evaluation of controls is a critical procedure not only when intermediaries are used to confirm cash and other financial relationships, but also when intermediaries are used to ingest financial institution transactional data for substantive testing purposes. This issue would be relevant both to the Proposal and to AS 1105.10: *Audit Evidence*.

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We appreciate the opportunity to provide input on the Board's proposal and would be pleased to discuss our comments with you or your staff at your convenience. Please contact Scott Spradling at scott.spradling@thomsonreuters.com regarding our submission.

Sincerely,



Elizabeth S. Beastron
President, Thomson Reuters Tax & Accounting Professionals