



February 17, 2023

By email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards; PCAOB Rulemaking Docket Matter No. 028

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditor firm and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

General Support

The CAQ appreciates the opportunity to share our views and provide input on the Public Company Accounting Oversight Board’s (PCAOB or the Board) proposed Auditor’s Use of Confirmation standard and related amendments (the “proposed standard”). We agree that when properly designed and executed by the auditor the confirmation process may provide relevant, reliable third-party evidence that auditors obtain as part of an audit of a company’s financial statements as stated in the release text accompanying the proposed standard (the “Release”).¹

Auditors are committed to performing high-quality audits in accordance with professional standards, and external confirmations play an important role in many audits. We support the Board’s objective of updating its interim standard related to the confirmation process as the confirmation process has

¹ See Release page 4.



CENTER FOR AUDIT QUALITY
555 13th Street NW, Ste 425 E
Washington, DC 20004

(202) 609-8120
www.thecaq.org



continued to evolve since adoption. Throughout the Release and proposed standard, we have observed and appreciate the Board's consideration of public comments on both the 2009 Concept Release² and 2010 proposed standard,³ as well as ISA 505 (Revised and Redrafted), *External Confirmations*, finalized by the International Auditing and Assurance Standards Board (IAASB) in September 2008.⁴ For example, advances in information technology and the use of third-party intermediaries have had a significant impact on the confirmation process. We agree with the Board's view that the use of electronic confirmations and third-party intermediaries should be explicitly addressed in the proposed standard. The proposed standard excludes various presumptive requirements included in the 2010 proposal, such as the confirmation of other accounts like investments or significant risks that could be addressed by confirmations. We agree that these could be viewed as unduly prescriptive as stated in the Release and support the Board determination to exclude such requirements.

General Observations

We support the objectives of the proposal as set forth by the Board but have some concerns about specific proposed requirements that we encourage the Board to address in the final standard. Our specific concerns are highlighted in the responses to the questions below. Overarchingly, we are concerned about 1) the auditor's ability to apply professional judgment consistent with their risk assessment and response determinations and 2) the emphasis the proposed standard places on the persuasiveness of audit evidence obtained through confirmation procedures over other forms of audit evidence.

Risk Assessment and Auditor Judgment

In an audit performed in accordance with PCAOB standards, the auditor's risk assessment and planned audit response create the foundation for the entire audit process. Auditors are required to identify and assess audit risks and perform audit procedures to address those risks.⁵ Auditors apply professional judgment to determine which audit procedures will produce sufficient appropriate audit evidence to provide a reasonable basis for their audit opinions.⁶

The Release states that, "the new proposed standard would be more expressly integrated with the Board's risk assessment standards by incorporating certain risk-based considerations and emphasizing the auditor's responsibilities for obtaining relevant and reliable audit evidence through the confirmation process."⁷ We support the integration of the Board's risk assessment standards with the proposed standard. However, we are concerned that some portions of the proposed standard remove or limit the auditor's judgment to design and perform audit procedures in a manner that addresses the assessed risks of material misstatement. Instead, the proposed standard includes certain prescriptive requirements for the confirmation process, regardless of the assessed level of risk.

² See [Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations](#)

³ See [Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards](#)

⁴ See <https://www.iaasb.org/projects/external-confirmations>.

⁵ For example, see various provisions in AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

⁶ See paragraph .04 of AS 1105, *Audit Evidence*.

⁷ See page 4 of the Release.



Specifically, the proposed standard:

- Creates a new requirement for the auditor to confirm cash with no ability to overcome the presumption to confirm cash;
- Modifies the auditor’s ability to overcome the presumption to confirm accounts receivable to a much higher threshold (see discussion of *Persuasiveness of Audit Evidence* below); and
- Requires the auditor to consider confirming other financial relationships and the terms of certain transactions that have a significant risk of material misstatement and, if not confirming, document their conclusion.

Certain new proposed provisions could detract from the auditor’s ability to apply professional judgment to risk and response determinations. We believe a high-quality audit is not a predefined set of steps that are applied to every audit engagement, but instead includes a customized set of procedures designed to be responsive to the risks identified. Confirmation procedures are one of many procedures through which auditors can obtain sufficient appropriate audit evidence commensurate with the risks they have identified. Auditors develop and perform audit procedures based on their risk assessment given the facts and circumstances of each engagement. In certain circumstances, confirmation procedures may be appropriate to address risks associated with accounts and disclosures specified in the proposed standard, as well as other accounts and disclosures not specified. However, there are circumstances where an auditor may determine that confirmation procedures are not necessary or would be ineffective to address certain risks. In such circumstances, where reasonable, auditors should be able to overcome presumptions to confirm or consider confirming certain account balances or disclosures without undue effort or documentation burden that would not enhance audit quality.

Introducing prescriptive requirements to confirm certain account balances or disclosures, without permitting the ability to overcome the presumption to confirm or appropriately consider risk assessment, promotes a “checklist” mentality without an apparent corresponding increase to audit quality. This could result in unnecessary audit procedures and documentation in situations where an auditor would have determined that confirmation procedures were not appropriate or necessary.

Persuasiveness of Audit Evidence

Paragraph .09(a) of AS 2301 states, “[i]n designing the audit procedures to be performed, the auditor should obtain more persuasive audit evidence the higher the auditor's assessment of risk.” Paragraph .06 of the proposed standard states, “[a]udit evidence obtained through the confirmation process from an external knowledgeable source is generally more reliable than evidence obtained only from internal company sources.” When combined with other proposed provisions (e.g., proposed paragraphs .09 -.15), we are concerned that proposed paragraph .06 overemphasizes confirmation as the most persuasive audit procedure and prescribes the type of audit evidence to be obtained for certain accounts without allowing for auditor judgment regarding the assessed risks of material misstatement. This concept is reinforced by the Release text which states, “the Board is not aware of other types of substantive procedures that would provide audit evidence that is as persuasive as audit evidence obtained through confirmation of cash.”⁸

⁸ See Release page 21.



Pursuant to an auditor’s risk assessment (and in accordance with AS 2301 and .04 paragraph of AS 1105, *Audit Evidence*), as risk increases, so must the amount of audit evidence that the auditor obtains to address the risk. Accounts and disclosures with elevated risks due to error or fraud may warrant more persuasive audit evidence, which may include, but is not limited to, confirmations. In cases where the proposed standard includes requirements to confirm or consider confirming an account or disclosure, the provisions of the proposed standard unduly prescribe the nature of the audit procedures an auditor may perform to address risks of material misstatement by positioning confirmations as the most persuasive form of audit evidence, not allowing for other forms of external audit evidence, and increasing the level of documentation burden without a commensurate benefit to audit quality.

Paragraph .14 of the proposed standard provides that the auditor could overcome the presumption to confirm AR “when the auditor determines that performing other substantive procedures (without using confirmation) would provide audit evidence that is *at least as persuasive* as the evidence that the auditor might expect to obtain through performing confirmation procedures.” (*emphasis added*) Given the weight placed on the persuasiveness of audit evidence provided by confirmations in paragraph .06 of the proposed standard, the auditor may be challenged to identify other substantive procedures that would provide audit evidence at least as persuasive as that obtained from confirmations. This may be inconsistent with the foundational requirements set forth in paragraph .08 of AS 2301 that an auditor design and perform audit procedures that address the assessed risk of material misstatement as other audit procedures may be effective enough to address assessed risks given the circumstances. We are concerned with the premise that audit evidence obtained to overcome the presumption to confirm AR should be “as persuasive as” that which would otherwise be obtained through confirmation; such evidence should be sufficient and appropriate pursuant to the auditor’s risk assessment.

For example, in the audit of a utilities company, the risk of material misstatement of accounts receivable (“AR” in this example) related to usage may be assessed as low due to the effectiveness of controls over usage, low days sales outstanding, and high number of usage accounts with low balances, among other factors. Under extant AS 2310, *The Confirmation Process*, the auditor may be able to overcome the presumption to confirm AR to more efficiently obtain sufficient appropriate audit evidence. Under the proposed standard, if the auditor were to perform audit procedures to obtain audit evidence at least as persuasive as that obtained through a confirmation (as positioned by the proposed standard), we believe such procedures may go far beyond the requirements of AS 2301 and AS 1105 given the associated risk. Furthermore, confirmation response rates are declining.⁹ Therefore, if the auditor was not able to overcome the presumption to confirm AR (which may likely be the case given the high bar for persuasiveness), the auditor would be required to 1) send confirmations to customers, 2) send second confirmations for any incomplete responses or nonresponses, and 3) perform alternative procedures that provide sufficient appropriate audit evidence for AR (e.g., obtaining subsequent cash payments and vouching them to customer invoices). The auditor may have otherwise determined from the outset that these alternative procedures would have been appropriate to address the assessed risks of AR. It is not clear to us why such a high bar for audit evidence has been established by the proposed standard.

⁹ See Release page 54.



Other Matters

Fraud Identification

The Release also highlights various PCAOB and SEC enforcement cases alleging auditor failures to execute effective confirmation procedures to address fraud.¹⁰ We do not dispute the results of these proceedings; however, we are concerned that the Release may inadvertently set an unrealistic expectation that confirmation procedures would uncover most frauds. When appropriately designed and executed, confirmation procedures may adequately address certain risks of material misstatement, including those due to fraud; however, when third parties collude with auditees, detection of the fraud is much more difficult.¹¹ We believe the tone set by the proposed standard, in conjunction with the Release text, could lead to improper reliance on confirmation procedures when other audit procedures may be more appropriate to respond to an assessed risk of material misstatement due to fraud. It may also lead to a misunderstanding among stakeholders regarding the effectiveness of audit evidence obtained through confirmation procedures.

Innovation

Technologies used to perform audit procedures have evolved and will continue to evolve over time. In the final standard, we encourage the Board to consider that technological advancements will continue. Positioning audit evidence obtained through confirmation as the highest form of audit evidence anchors the confirmation process to present day when “auditing standards should allow for continued innovation by auditors in the ways they obtain audit evidence.”¹² For example, auditors continue to enhance the audit through the use of audit data analytics (ADAs). ADAs that are being developed to better incorporate the testing of internal data against external data sources and corroboration with multiple independent data sources (assuming they do not come from the same root source) can greatly enhance the persuasiveness of audit evidence.

With rising concerns around cybersecurity, the response rate and reliability of confirmations may continue to wane, making the availability to consider alternative forms of audit evidence key. We are concerned the proposed standard may stifle the innovation of new forms and ways of obtaining audit evidence by always requiring confirmation, or the consideration of confirmation, for certain accounts and transactions, particularly if there is not a clear and operable way to overcome the presumption.

Key Recommendations

Given the above, we highlight our key recommendations for the Board to consider in order to promote consistency in application and operability of the final standard.

¹⁰ See Release pages 11 and 12.

¹¹ See, e.g., Paul Caster, Randal J. Elder, and Diane J. Janvrin, A Summary of Research and Enforcement Release Evidence on Confirmation Use and Effectiveness, 27 *Auditing: A Journal of Practice & Theory*, 5 (2008).

¹² See Release page 13.



We recommend that the Board consider making the following revisions to the final standard:

- Retain the criteria to overcome the required confirmation of accounts receivable in extant AS 2310 (see further discussion in Q17 below);
- Include criteria to overcome the required confirmation of cash held by third parties similar to those included in paragraph .34 of extant 2310 for accounts receivable (see further discussion in Q10 below); and
- Indicate that an auditor "may consider" confirming other financial relationships and the terms of complex or significant unusual transactions connected to a significant risk (see further discussion in Q10 below).

See below for responses to specific questions outlined in the Release and further recommendations.

Specific Feedback

Q5. Does the new proposed standard provide for an appropriate amount of auditor judgment in determining whether to perform confirmation procedures in situations other than those specifically addressed in the new proposed standard?

We believe the proposed standard generally provides for an appropriate amount of auditor judgment in determining whether to perform confirmation procedures in situations other than those specifically addressed in the new proposed standard. As discussed in our General Observations above, it is critical that an auditor is able to apply professional judgment in determining whether the use of confirmations is appropriate and effective based on their risk assessment.

Q6. Are there accounts other than those addressed in the new proposed standard or financial statement assertions for which the auditor should be required to perform confirmation procedures? Why or why not?

We do not believe there are accounts other than those addressed in the new proposed standard or financial statement assertions for which the auditor should be required to perform confirmation procedures. The use of confirmation procedures to obtain audit evidence should be based on the auditor's risk assessment given the facts and circumstances of each audit.

Q7. As discussed above, the new proposed standard would not include a requirement to send confirmation requests in response to significant risks related to assertions that could be adequately addressed through confirmation. Is the proposed approach appropriate? Why or why not?

Yes. The proposed approach is appropriate as it is consistent with PCAOB standards on risk assessment and allows for the use of professional judgment in determining the most effective approach to obtain audit evidence in response to the assessed risk.



Q10. Are the requirements in the new proposed standard regarding confirming cash held by third parties, as well as other financial relationships, sufficiently clear and appropriate? If not, what changes should be considered?

We do not believe the requirements in the proposed standard regarding confirming cash held by third parties, as well as other financial relationships, are sufficiently clear and appropriate, as detailed in our response to this question and Q11, as well as our General Observations above. We encourage the Board to clarify certain proposed requirements which will enable the application of auditor judgment.

Cash and cash equivalents

Paragraph .02 of the proposed standard indicates that “the objective of the auditor in designing and executing the confirmation process is to obtain relevant and reliable audit evidence about one or more relevant financial statement assertions of a *significant account or disclosure*.” (*emphasis added*) Therefore, it appears that when cash is determined to be a significant account confirmation is required for at least a selection of cash items pursuant to proposed paragraphs .09 and .10. We do not believe this is appropriate in all cases where cash is determined to be a significant account, for example where an auditor determines that confirmations would not be effective due to the likelihood of receiving incomplete responses or nonresponses. Excluding a provision to overcome the confirmation of cash eliminates the auditor’s ability to use professional judgment in determining whether confirmations are an appropriate procedure based on the assessed level of risk and comes at a cost of time and effort without a commensurate benefit to audit quality.

We recommend the Board include criteria to overcome the required confirmation of cash held by third parties similar to those included in paragraph .34 of extant 2310 for accounts receivable.

Other financial relationships

Proposed paragraph .11 states that, “the auditor should consider sending confirmation requests about other financial relationships with the confirming party.”

Consistent with feedback in our General Observations, paragraph .11, read in conjunction with paragraph .06, intimates that confirmations are the most persuasive form of audit evidence that could be obtained in connection with responding to risks associated with other financial relationships. We believe this inherently limits an auditor’s judgment in developing audit responses for other financial relationships and the types of procedures they may seek to provide audit evidence. We acknowledge that confirmation procedures may be appropriate for certain financial relationships, but not all financial relationships in all circumstances. Auditors already consider these financial relationships during their risk assessment. Therefore, if an auditor determines, based on risk assessment, that they do not need to perform confirmation procedures for one or more other financial relationships with a confirming party (i.e., they can obtain the necessary audit evidence through other audit procedures), this proposed provision creates



an increase in required audit documentation (pursuant to PCAOB Rule 3101(a)(2))¹³ about the auditor's consideration for not sending a confirmation without a commensurate benefit to audit quality.

Furthermore, it is not clear if that is a consideration that an auditor should make as part of their risk assessment when determining which items to select in accordance with paragraph .10.

For example, a company has a Cash Account X which the auditor has determined to confirm. Cash Account X is held at a banking institution where the company also maintains a line of credit arrangement ("LOC Y"). Absent any requirements in the proposed standard, the auditor determined that LOC Y presented a remote risk of material misstatement in accordance with AS 2110 through procedures like materiality assessment, consideration of prior year audit results, historical knowledge of the company, review of contracts and agreements applicable to the current year audit, and review of committee minutes, among others. Paragraph .11 of the proposed standard appears to require that the auditor reconsider this risk assessment and then document why they did not perform confirmation procedures related to LOC Y. This circumvents the auditor's risk assessment and increases the level of audit documentation without an apparent benefit to audit quality. Furthermore, this is inconsistent with the principles-based requirements for identifying and assessing risks of material misstatement set forth in AS 2110. If LOC Y did present a risk of material misstatement, an auditor should be able to apply their own judgment based on the facts and circumstances of the engagement to determine the appropriate audit procedure(s), which may or may not include confirmation procedures.

We recommend that the Board revise proposed paragraph .11 to indicate that an auditor "may consider" confirming other financial relationships. Pursuant to PCAOB Rule 3101(a)(3),¹⁴ the auditor would have a responsibility to consider performing confirmation procedures over such terms and exercise professional judgment in the circumstances consistent with the objectives of the standard.

Q11. Are there substantive audit procedures other than confirmation that would provide audit evidence that is at least as persuasive as evidence the auditor might expect to obtain through confirming cash? If so, please describe these procedures.

We do not believe that audit evidence obtained in response to risks associated with cash needs to be "as persuasive as" that which would otherwise be obtained through confirmation. Audit evidence should be sufficient and appropriate in response to the assessed risk of material misstatement. Given the emphasis

¹³ PCAOB Rule 3101(a)(2) states, in part, "The word "should" indicates responsibilities that are presumptively mandatory. The auditor must comply with requirements of this type specified in the Board's standards unless the auditor demonstrates that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard."

¹⁴ PCAOB Rule 3101(a)(3) states, "The words "may," "might," "could," and other terms and phrases describe actions and procedures that auditors have a responsibility to consider. Matters described in this fashion require the auditor's attention and understanding. How and whether the auditor implements these matters in the audit will depend on the exercise of professional judgment in the circumstances consistent with the objectives of the standard."



placed on the reliability of confirmation procedures in proposed paragraph .06 (see our General Observations above), it does not appear that the proposed standard allows for other substantive audit procedures for cash items that provide less persuasive audit evidence than confirmations – even if they would be effective at addressing the associated risks. Further, if an auditor is not able to obtain a confirmation response for a cash item, it is not clear what alternative procedures would be deemed sufficient under the proposed standard.

Forms of audit evidence and audit procedures continue to evolve in ways appropriately responsive to assessed risks. For example, some auditors are employing new auditing techniques that involve obtaining direct view-only access to client banking information. An auditor may (1) assess the risk of material misstatement as low, (2) test the design and operating effectiveness of relevant controls, and (3) test bank reconciliations and inspect bank statements through direct access to this external information. While we agree these are not confirmation procedures, they may provide the auditor with sufficient appropriate audit evidence that is persuasive, reliable, and responsive to assessed risks of material misstatement.

As we discussed in our General Observations above, requiring the confirmation of cash, with no ability to overcome the presumption to confirm, limits the auditor’s ability to effectively and efficiently obtain alternative forms of audit evidence that would be sufficient and appropriate. This may impact the longevity of the final standard and hinder innovation in auditing techniques.

Q12. For other financial relationships with the confirming party, is the requirement in the new proposed standard that the auditor should consider confirmation sufficiently clear and appropriate?

See our response to Q10 above.

Q13. Are the requirements in the new proposed standard sufficiently risk-based to enable the auditor to use professional judgment in selecting which cash accounts and other relationships would be subject to confirmation?

See our response to Q10 above. We believe it is important that auditors can apply professional judgment in the selection of cash accounts and other financial relationships through a risk-based approach.

Q14. Is the continued requirement to confirm accounts receivable sufficiently clear and appropriate? Are there other approaches that we should consider instead?

Yes. The continued requirement to confirm accounts receivable is sufficiently clear and appropriate for the reasons stated in the Release. We have highlighted some concerns related to the auditor’s ability to overcome the presumption to confirm accounts receivable in our General Observations and response to Q17 below. We also highlight that auditors have observed the trend in declining confirmation response rates referenced in the Release. Factors like increased skepticism related to cybersecurity may escalate



that trend, which makes it essential that auditors are able to perform procedures other than confirmation to obtain audit evidence for accounts receivable and other accounts or disclosures.

Q15. Are the provisions of the new proposed standard sufficiently principles-based to allow auditors to use professional judgment to determine the extent of confirmation of accounts receivable?

Yes. The language included in proposed paragraph .13 allows for the auditor to make judgments regarding which accounts to select pursuant to their understanding of the company's arrangements and transactions with third parties and the nature of items that make up the account balances. This is consistent with the auditor judgment promulgated in the risk assessment standard. No two audits are exactly alike. Therefore, auditors must be able to apply professional judgment based on the facts and circumstances of the audit in order to appropriately identify risks and procedures that address those risks.

As discussed in our General Observations, we are concerned about the provision in paragraph .14 of the proposed standard to overcome the confirmation of accounts receivable. See our response to Q17 below.

Q16. Is the description of accounts receivable sufficiently clear? Is there any reason to broaden the description to include other types of receivables, and if so, which ones?

Yes. The description of accounts receivable is sufficiently clear for the reasons stated in the Release. We do not believe there is any reason to broaden the description to include other types of receivables, as other types of receivables are likely to be contemplated in the auditor's risk assessment, allowing the auditor to design further audit procedures related to those receivables based on the facts and circumstances that gave risk to such receivable, if necessary.

Q17. Is the ability to overcome the presumption to confirm accounts receivable when another substantive audit procedure would provide evidence that is at least as persuasive as performing confirmation procedures sufficiently clear and appropriate?

When overcoming the presumption to confirm accounts receivable, we do not believe that audit evidence obtained in response to the related risks must be "as persuasive as" that which would otherwise be obtained through confirmation; it should be sufficient and appropriate to respond to the assessed risk of material misstatement. As written, it is unclear how an auditor would be able to obtain evidence that is at least as persuasive as performing confirmation procedures under the proposed standard given the proposed standard appears to state that there is no evidence as reliable as confirmations. Thus, while the standard includes a provision to overcome the presumption to confirm accounts receivable, it does not appear to be an actionable opportunity given the high bar of evidence to overcome.

Paragraph 34 of extant AS 2310, includes a presumption that the auditor confirms accounts receivable and allows the auditor to exercise professional judgment in determining whether the use of confirmations



would be effective. In situations, for example, where an auditor determines that confirmations would not be effective or the auditor’s combined level of control and inherent risk are at a sufficiently low level (combined with other evidence obtained as part of the audit), existing PCAOB standards do not require the auditor to request confirmations. We believe that the proposed standard, which establishes a significantly higher threshold to overcome the confirmation of accounts receivable, will significantly reduce the auditor’s ability to use their professional judgment in determining whether confirmations are an appropriate procedure based on the assessed level of risk. Auditors should design audit procedures that will provide audit evidence commensurate with addressing the risks identified. This should contemplate the auditor’s expectation of response rate, because performing procedures that will not produce relevant, reliable audit evidence comes at a cost of time and effort without a commensurate benefit to audit quality.

Page 25 of the Release states, “[t]he new proposed standard would not carry forward the provisions addressing materiality or a combination of risk assessments that are currently available to overcome the presumption to confirm accounts receivable, as these matters would be considered by the auditor as part of identifying and assessing the risks of material misstatement and designing and implementing an audit response under PCAOB risk assessment standards.” Therefore, we do not believe it is the intent of the Board that, for example, the auditor would be required to confirm accounts receivable when the combined level of control and inherent risk are at a sufficiently low level (combined with other evidence obtained as part of the audit). However, we do not find the text of the proposed standard accurately reflects this notion.

To improve the clarity and operability of the final standard, we recommend the Board retain the criteria to overcome the required confirmation of accounts receivable in extant AS 2310, even if it views that some aspects (like consideration for materiality and risk assessment) are contemplated by other PCAOB standards.

Q18. Are there certain factors that should be present when determining that other substantive audit procedures would provide audit evidence that is at least as persuasive as the evidence that the auditor might expect to obtain through performing confirmation procedures for accounts receivable? If so, what are those factors?

As discussed in our General Observations and in various questions above, we do not agree that the ability for an auditor to overcome the presumption to confirm accounts receivable should be dependent on obtaining audit evidence that is at least as persuasive as the evidence that which the auditor might expect to obtain through performing confirmation procedures. Audit evidence obtained by an auditor should be sufficient and appropriate in responding to the assessed risk associated with a given account or disclosure.



Q19. Is the requirement for the auditor to communicate to the audit committee instances in which the auditor has determined that the presumption to confirm accounts receivable has been overcome and the basis for the auditor's determination sufficiently clear and appropriate? Why or why not?

We do not believe the requirement for the auditor to communicate to the audit committee instances in which the auditor has determined that the presumption to confirm accounts receivable has been overcome is appropriate in all cases. It may not provide a benefit to audit quality and investor protection commensurate with costs and time required to prepare and make such communications. Such a requirement may also direct the audit committee's attention away from other more significant issues that the auditor is communicating to them.

Existing auditing standards related to information communicated to the audit committee sufficiently address circumstances in which the auditor should communicate overcoming the confirmation of accounts receivable.

According to paragraph .03 of AS 1301, *Communications with Audit Committees*, the objectives of the auditor's communication to the audit committee include, in part:

- "c. Communicate to the audit committee an overview of the overall audit strategy and timing of the audit; and
- d. Provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process."

We acknowledge these objectives could include the auditor's determination to overcome the confirmation of accounts receivable in some circumstances – for example, when accounts receivable presents a significant risk of material misstatement or fraud risk, impacting the auditor's overall strategy. However, we do not believe that such communication is relevant in all instances. An auditor may assess a lower risk of material misstatement associated with accounts receivable and overcome the presumption to confirm it. In this case, it is not clear what benefit communicating this to the audit committee provides to audit quality as it elevates the communication of low-risk accounts receivable over other, perhaps higher risk, accounts not required to be communicated to the audit committee.

Requirements within PCAOB auditing standards focus audit committee communications on key judgments made throughout the audit and other matters that may be relevant to their oversight responsibilities. In some cases, the auditor's determination to overcome the confirmation of accounts receivable may be insignificant in the context of the overall audit (e.g., in lower risks). Existing standards already address instances where audit committee communication would be appropriate.

Q20. Are the provisions of the new proposed standard related to confirming the terms of certain transactions that have a significant risk of material misstatement sufficiently clear and appropriate?



We believe the provisions of the new proposed standard related to confirming the terms of certain transactions that have a significant risk of material misstatement require additional clarity to ensure the proposed provisions are operational.

Under paragraph .15 of the proposed standard, an auditor would either need to perform confirmation procedures for all significant risks of material misstatement associated with a complex or significant unusual transaction or document their consideration (pursuant to PCAOB Rule 3101(a)(2)) for why they did not perform such procedures.

The Release acknowledges the new proposed provision is intended to be similar to that in extant AS 2310.¹⁵ In and of themselves, the extant and proposed provisions appear similar. However, in the context of preceding provisions in the proposed standard (e.g., the emphasis on persuasiveness of audit evidence provided by confirmations), the new proposed provision appears to add an increased burden of documentation in instances where an auditor may conclude that confirmation procedures are not necessary to obtain sufficient appropriate audit evidence to address a significant risk of material misstatement associated with either a complex transaction or a significant unusual transaction.

For example, an auditor may assess a significant risk over the existence assertion of a significant contract entered into in Q1 of a reporting year and design and perform a combination of procedures, not including confirmation procedures, to address that risk including, but not limited to, obtaining and reviewing the original executed contract and independently validating aspects of the terms being executed over the period. Under extant AS 2310, the auditor would document their professional judgment for not performing confirmation procedures. Under the proposed standard, the auditor would document that same judgment, but under the presumption that confirmation responses are a superior form of audit evidence relative to all other types of audit evidence. This documentation hurdle may be challenging to clear, the burden of which we do not see enhancing audit quality.

We recommend that the Board revise proposed paragraph .15 to indicate that an auditor "may consider" confirming terms of complex or significant unusual transactions connected to a significant risk. Pursuant to PCAOB Rule 3101(a)(3), the auditor would have a responsibility to consider performing confirmation procedures over such terms and exercise professional judgment in the circumstances consistent with the objectives of the standard.

Q22. Are the provisions of the new proposed standard related to identifying information to confirm sufficiently clear and appropriate?

We believe that modification of the proposed requirements related to identifying information to confirm will aid auditor execution of the new proposed standard.

Based on the Release text, it appears that the intent of proposed paragraph 17 is that the auditor should test the accuracy and completeness of information produced by the company that the auditor uses as

¹⁵ See Release page 28.



audit evidence.¹⁶ However, the text of the proposed provision requires an auditor “test the accuracy and completeness of information produced by the company that *the auditor uses in selecting items to confirm.*” (*emphasis added*) We believe this proposed provision could be interpreted to require that an auditor test that information for accuracy and completeness before selecting items for confirmation. We acknowledge that making selections from a complete and accurate population is important. However, in many cases, confirmations may be designed to address the risk of accuracy for a given account balance or disclosure (and sometimes completeness). As such, we believe that requiring the auditor to test information produced by the company for accuracy (or completeness) before selecting items for confirmation may be duplicative if the confirmation is designed to test that assertion. We believe that paragraph 10 of AS 1105 appropriately addresses this concept and that proposed paragraph 17 is not necessary.

Furthermore, the footnote to proposed paragraph 17 references paragraph 10 of AS 1105 which permits auditors to test the accuracy and completeness of the information produced by the company as audit evidence, or the *controls over the accuracy and completeness of that information*. However, proposed paragraph 17 appears to limit the auditor’s ability to test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm to just that information, not the controls over that information. We believe that, if proposed paragraph 17 is retained, it should explicitly state that the auditor may also test the controls over the accuracy and completeness of the information produced by the company that the auditor uses in selecting the items to confirm.

Q26. Are the requirements in the new proposed standard to evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses (including as set forth in paragraph .B2 of the new proposed standard) sufficiently clear and appropriate? Are there other requirements or considerations that the auditor should perform or take into account when using an intermediary in the confirmation process?

We believe that the requirements in the new proposed standard to evaluate the use of an intermediary to facilitate direct electronic transmission of confirmation requests and responses are appropriate; however, additional clarity may be required to ensure the proposed provisions are operational.

Appendix .B3 of the proposed standard states that an auditor should not use an intermediary to send confirmation requests or receive confirmation responses if there are indicators the necessary controls at the intermediary are not designed or operating effectively, among other indicators. Indicators, in and of themselves, do not necessarily reflect that an intermediary is not fit for use. In many circumstances, an auditor can perform additional procedures to overcome negative indicators about the intermediary’s reliability. For example, an auditor may be able to obtain an understanding of how a specific control failure impacts (or does not impact) the confirmation process and perform additional tests of controls or other procedures at the intermediary to overcome the issue.

¹⁶ See Release page 29.



We have included suggested text to consider in revising Appendix .B3 of the proposed standard (language that is proposed to be added is underlined):

“If information obtained by the auditor indicates that (i) the intermediary has not implemented controls that are necessary to address the risk of interception and alteration of the confirmation requests and responses, (ii) the necessary controls are not designed or operating effectively, or (iii) circumstances exist that give the company the ability to override the intermediary’s controls, the auditor may consider performing additional audit procedures to address these indicators. If, after performing additional audit procedures, the auditor concludes that the indicators cannot be resolved, the auditor should not use the intermediary to send confirmation requests or receive confirmation responses.

For operational or other reasons, many confirming parties will only participate in the confirmation process through an intermediary. Anecdotally, we have observed there has been a concentration of such intermediaries used in the marketplace (for example, confirming with certain financial institutions). If a highly concentrated intermediary received a qualified SOC report with a negative indicator regarding its reliability, and the standard did not permit auditors to perform additional procedures to address the negative indicator, this could have severe and pervasive effects on how auditors across the profession to perform confirmation procedures.

We also highlight a need for clarity relative to the use of third-party intermediaries in the confirmation process. An auditor may become aware of an issue at a third-party intermediary that they are unable to resolve through additional procedures. If the confirming party only allows for cash confirmation through said third-party intermediary, the proposed standard does not provide an opportunity to overcome the presumption to confirm cash. This could put the auditor in a position of not being able to comply with certain provisions of the proposed standard (e.g., aspects of sending confirmations and receiving confirmations responses) due to circumstances outside their control. If this circumstance arose with respect to accounts receivable, the standard is also not clear if the auditor could overcome the confirmation of accounts receivable due to circumstances outside of their control.

Q28. Are the provisions of the new proposed standard related to evaluating the reliability of confirmation responses sufficiently clear and appropriate?

Yes. The provisions of the new proposed standard related to evaluating the reliability of confirmation responses are sufficiently clear and appropriate for the reasons stated in the Release.

Q31. Are the proposed circumstances in the new proposed standard under which the auditor generally would be required to perform alternative procedures sufficiently clear and appropriate?

In general, we believe the proposed circumstances in the new proposed standard under which the auditor generally would be required to perform alternative procedures are sufficiently clear and appropriate. It is



also beneficial that the proposed standard includes examples of alternative procedures for accounts receivable and transaction terms, as they are presumed items to confirm or consider confirming. Given that cash is a presumed account to confirm, we believe that the final standard should include examples of alternative procedures that either individually or in combination would provide sufficient appropriate audit evidence for cash items. These may include examples we referenced in Q11.

Q33. Are the requirements in the new proposed standard to exclude the internal auditor from selecting items to be confirmed, sending confirmation requests, and receiving confirmation responses sufficiently clear and appropriate? If not, what changes should be considered?

Yes. The requirements in the new proposed standard to exclude the internal auditor from selecting items to be confirmed, sending confirmation requests, and receiving confirmation responses are sufficiently clear and appropriate. These provisions ensure auditors maintain control over the confirmation process without limiting their professional judgment in determining to use internal audit for other aspects of testing accounts on which confirmation procedures are being performed. As we stated in our comment letter response¹⁷ to the initial proposal in 2010, we believe that internal audit can assist in many aspects of an auditor's confirmation process and that such assistance, when appropriately supervised, increases audit quality by allowing the auditor to focus their efforts on the areas of higher risk, which is consistent with extant PCAOB guidance (e.g., AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*). The auditor should be able to use the framework provided in AS 2605, *The Auditor's Consideration of the Internal Audit Function*, in determining the appropriate manner to use the work of internal auditors, except as prohibited by paragraph .32 of the proposed standard.

Q35. In the event of a management request not to confirm a certain item, are there procedures that the auditor should perform which are not currently required by other PCAOB standards? If so, what other procedures should be required?

We do not believe that there are procedures that the auditor should perform in the event of a management request not to confirm a certain item which are not currently required by other PCAOB standards as discussed on pages 44 and 45 of the Release.

Q48. How much time following SEC approval would audit firms need to implement the proposed requirements?

See response to Q49 below.

¹⁷ See [CAQ September 2010 Comment Letter](#).



Q49. Would requiring compliance for fiscal years beginning after the year of SEC approval present challenges for auditors? If so, what are those challenges, and how should they be addressed?

Yes. We believe that requiring compliance for fiscal years beginning after the year of SEC approval would present challenges for auditors if the final standard is relatively consistent with what is currently reflected in the proposed standard. Considering the feedback we've provided above – particularly related to the confirmation of certain accounts and transaction terms, audit committee communication, and increased documentation – along with the fact that confirmations will be performed for all audits at various points throughout the audit, the final standard will have a significant impact on audits as soon as it is effective (e.g., in the planning stage). Firm methodologies, related tools, and guidance will therefore need to be fully updated prior to the beginning of the audit year in which the final standard becomes effective. Audit firms will also need to develop and implement training and effective quality control processes and procedures to support and facilitate effective implementation of the final standard.

Additionally, the confirmation process often involves intermediaries that will need time to evaluate the impact of the standard on their operations with respect to the confirmation process, update their processes and controls, if necessary, and effectively implement them so they are prepared by the time the final standard becomes effective. A longer implementation period will enable the firms and staff/Board to discuss potential implementation issues and inform additional guidance.

In order for firms and intermediaries to sufficiently prepare, if the SEC approves the final standard before Q1 2024, we strongly recommend that the final standard be effective no earlier than for audits with fiscal years beginning on or after December 15, 2024.

CAQ

The CAQ appreciates the opportunity to comment on the proposed auditor's use of confirmations standard and related amendments, and we look forward to future engagement. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org), Taylor Harris (tharris@thecaq.org), or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,



Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB

Erica Y. Williams, Chair
Duane M. DesParte, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Chief Auditor

SEC

Paul Munter, Chief Accountant
Diana Stoltzfus, Deputy Chief Accountant