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By email: comments@pcaobus.org

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

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

To the Office of the Secretary:

Crowe LLP appreciates the opportunity to comment on the Proposed Auditing Standard, *The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* ("the proposed standard"), as per PCAOB Release No. 2022-009 ("the Release") dated December 20, 2022.

We agree with the Public Company Accounting Oversight Board ("PCAOB" or the "Board") that AS 2310, *The Confirmation Process*, is an important standard for audit quality and investor protection and that a revised standard is appropriate to strengthen and modernize the requirements for the confirmation process. We support the elements of the proposal which reflect advances in information technology and the use of electronic confirmations, as well as the increased use of intermediaries as part of the confirmation process. We believe that it is important that the issued standard is future proof to support the longevity of the standard while allowing for methods for confirmation and forms of audit evidence that are yet to emerge.

We appreciate the considerations given by the Board to public comments provided on PCAOB Release No. 2010-003. We also agree that it's critical that confirmations are properly designed and that confirmation responses are appropriately evaluated, especially when there are confirmation exceptions or concerns about reliability.

General Observations

Risk Assessment and Auditor Judgment

We agree that confirmation can be a very effective audit procedure. However, we believe that the proposed standard should include operational provisions whereby a requirement to perform confirmation procedures can be overcome. AS 2110, *Identifying and Assessing Risks of Material Misstatement*, ("AS 2110") and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, ("AS 2301") are cornerstone to the successful execution of an audit. We believe that revisions to the proposed standard can be made to remove certain prescriptive requirements that are inconsistent with the foundational requirements established in AS 2110 and AS 2301, without compromising audit quality.

We believe the standards should allow the auditor to utilize professional judgment to determine audit responses that are sufficient and appropriate for identified risks of material misstatement. There are specific elements of the proposed standard that impose requirements that either reduce or remove the ability of the auditor to determine the appropriate audit response for a particular account. For example, paragraph 2310.09 requires the auditor to confirm cash and cash equivalents held by third parties, with no ability to overcome this requirement. Paragraph 2310.11 in the proposed standard states the auditor “should consider sending confirmation requests about other financial relationships with the confirming party”. Paragraph 2310.15 in the proposed standard indicates that “For significant risks of material misstatement associated with either a complex transaction or a significant unusual transaction, the auditor should consider confirming terms of the transaction with the counterparty to the transaction.” We don’t believe it is necessary for the proposed standard to introduce prescriptive requirements that go beyond the requirements in AS 2110 and AS 2301.

Further, paragraph 2310.14 retains the ability for the auditor to overcome the presumption to confirm accounts receivable. However, the revised language results in a much higher threshold which seems to restrict the ability of the auditor to determine an appropriate audit response that is commensurate with the assessed risk (see our response to Question 17 below).

Confirmation as an Audit Procedure

A confirmation response represents a particular form of audit evidence obtained from a third party. As stated in the Release, “confirmation can be an important source of evidence obtained as part of an audit of a company’s financial statements, and has long been used by auditors”, and “confirmation is one of the specific audit procedures described in PCAOB standards that an auditor could perform when addressing a risk of material misstatement.” We agree that confirmation is an important audit procedure and that a response to a properly designed confirmation can be an important source of audit evidence.

The Release states that “In many situations, confirmation could provide audit evidence that is more persuasive than evidence obtained solely through other substantive procedures.” The Release indicates this may occur, for example, in situations involving fraud risks and significant unusual transactions, or situations where the auditor has determined not to test company controls or has found controls to be ineffective. The Release also states that “we continue to believe that confirmation procedures would generally provide more persuasive audit evidence than other procedures (without confirmation) for cash and accounts receivable.”

However, as stated in AS 1105: *Audit Evidence*, paragraph .04, “the auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.” Sufficiency of audit evidence is a measure of quantity and is affected by the quality of evidence obtained and the related risk of material misstatement. To be appropriate, audit evidence must be both relevant and reliable. In accordance with AS 2301, the auditor should obtain more persuasive evidence the higher the auditor’s assessment of risk. Thus, the persuasiveness of audit evidence needed and the determination of audit procedures to be performed are subject to auditor judgment based on the related risk assessment. We are concerned with the requirement to perform confirmation procedures, even in situations where the auditor does not believe that obtaining confirmation from an external source is necessary to obtain sufficient appropriate audit evidence. Based on the risk assessment, the auditor may determine that reliable audit evidence that is sufficient and appropriate can be obtained via the performance of another audit procedure or a combination of other audit procedures, without confirmation.

Paragraph 2310.06 in the proposed standard states that “audit evidence obtained through the confirmation process from an external knowledgeable source is generally more reliable than evidence obtained only from internal company sources.” While existing standards acknowledge that evidence obtained from independent sources is more reliable than evidence obtained from the company, it’s not clear why the Release would emphasize audit evidence obtained from an external knowledgeable source specifically “through the confirmation process” over audit evidence obtained from sources independent of the company by the performance of other audit procedures.

As stated in the Release, “we also believe that our auditing standards should allow for continued innovation by auditors in the ways they obtain audit evidence.” This concept manifests in the proposed standard specifically related to allowing room for methods of confirmation that are yet to emerge. While we agree with this approach, we maintain that confirmation is not the only way to obtain sufficient appropriate audit evidence; thus we believe the auditing standards should be written to support types of audit evidence and ways to obtain audit evidence that may be available in the future.

Specific Areas of Comment

Overall

Q3: *Should the new proposed standard more explicitly address the use of technology, including situations where the use of technology might improve the quality of evidence obtained through the confirmation process? If so, how?*

A: No. We believe the proposed standard should allow room for advances in technology; however, there is no need for additional specific or prescriptive language or examples.

Relationship of the Confirmation Process to the Auditor’s Identification and Assessment of and Response to the Risks of Material Misstatement

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?*

A: No. We believe the standard should allow auditors to apply judgment related to risk assessment and determination of the appropriate audit response.

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?*

A: Yes. As discussed in our general observations, we believe it is appropriate to allow auditors to apply professional judgment related to risk assessment and determination of the appropriate audit response, including for areas of significant risk.

Q9: *Are there ways in which the new proposed standard should be changed to further align with the PCAOB’s risk assessment standards? If so, how should the new proposed standard be changed?*

A: Yes. As noted in our general observations and in various other responses below, we believe that certain aspects of the proposed standard are too prescriptive and inhibit the auditor’s ability to apply professional judgment based on risk assessments performed in accordance with AS 2110.

Confirming Certain Accounts and Terms of Transactions

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?*

A: No, the requirements in the new proposed standard regarding confirming cash held by third parties, as well as other financial relationships, are not sufficiently clear and appropriate.

Cash and cash equivalents: As stated in our general observations, AS 2110 requires the auditor to perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures. This begins at the financial statement level and with the auditor's overall understanding of the company and its environment and works down to the significant accounts and disclosures and their relevant assertions.

Based on the proposed standard, once the auditor determines that cash is a significant account, the auditor should confirm at least a selection of cash and cash equivalent accounts in accordance with paragraphs 2310.09 and .10. While we do not object to the requirement to perform confirmation procedures for cash and cash equivalents held by third parties, we are concerned that the requirement to confirm cash and cash equivalents is a mandate regardless of the related risk assessment. We believe the standard should include the ability for the auditor to overcome the presumption to confirm cash and cash equivalents, such as when the use of confirmations would be ineffective, or the auditor's combined assessed level of inherent and control risk is low (such that other audit procedures are sufficient to address the audit risk). Please see our response to Question 17 below related to the ability to overcome the presumption to confirm accounts receivable.

Other financial relationships: The Release states that "the requirement in the new proposed standard to consider confirming other financial relationships is designed to allow the auditor to tailor the confirmation procedures based on the auditor's understanding of the company." Paragraph 2310.11 in the proposed standard states "When confirming cash, the auditor should consider sending confirmation requests about other financial relationships with the confirming party." As a presumptive requirement to consider ("should consider"), the auditor would have to document their considerations any time they did not include other financial relationships with the confirming party in the confirmation request, whether or not such financial relationships were assessed by the auditor to present risk of material misstatement. We don't believe it is necessary for the proposed standard to introduce a requirement that goes beyond the principles-based requirements in AS 2110 and AS 2301. We recommend paragraph 2310.11 in the proposed standard be revised from "should consider" to "may consider".

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.*

A: As stated in our general observations, the persuasiveness of audit evidence needed, and the determination of audit procedures to be performed, is subject to auditor judgment based on the related risk assessment for an account or assertion. Also, auditors assess the persuasiveness of audit evidence obtained based on the totality of audit procedures performed, not only one audit procedure. We also believe the final standard should be flexible to support innovation in audit procedures in the future.

Audit evidence for the existence of cash: We believe a more appropriate question is "Are there substantive audit procedures other than confirmation that may provide audit evidence that is sufficient and appropriate to address the risk of material misstatement related to cash and cash equivalents?" We believe the answer to this question is yes; as a result, we believe the final standard should include the ability for the auditor to overcome the presumption to confirm cash.

Other procedures the auditor might perform include control testing related to cash management, obtaining original bank statements, auditing bank reconciliations, and obtaining other evidence from the third party holding the cash and cash equivalents. This might include obtaining direct access to the records of the holder of the cash accounts. We don't object to direct access not being characterized as a "confirmation procedure" in the proposed standard; however, we believe it can, when properly executed, be a valid procedure to obtain evidence related to cash existence. As noted in our general observations, audit evidence obtained from sources independent of the company via performance of audit procedures other than confirmation can be reliable and persuasive. The appropriate audit procedures should be determined by the auditor based on the assessed risk of material misstatement. The auditor would apply judgment to determine if the collective audit evidence obtained, based on the suite of audit procedures performed, is sufficiently persuasive to address the assessed risk of material misstatement.

We believe the ability to perform alternative procedures for cash is also critical in the case where the auditor performs confirmation procedures for cash and cash equivalents but is not able to obtain a reliable confirmation response. This could occur related to a nonresponse (even to the required second request) or a situation where the auditor is required to utilize an intermediary for the confirmation (by the confirming party), and there are concerns about the controls of the intermediary that the auditor is not able to satisfactorily resolve (see our response to Question 26 below).

Future proofing the standard to allow for innovation and advances in technology: The Release states that "in general, 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." The Release also notes that "we also believe that our auditing standards should allow for continued innovation by auditors in the ways they obtain audit evidence." The requirement to confirm cash and cash equivalents, with no ability to overcome the presumption, appears to discount the possibility that there could be other types of audit procedures that could be performed or other forms of audit evidence that could be obtained, which would be sufficiently persuasive to address the risk of material misstatement related to cash existence. We believe the final standard should include requirements that support the intents of the Board as stated in the Release to allow for auditor innovation and provide room for advances in technology.

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

A: Yes, we believe that the continued requirement to confirm accounts receivable is sufficiently clear and appropriate. Please refer to our response to Question 17 below for our concerns related to the auditor's ability to overcome the presumption to confirm accounts receivable.

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?*

A: Yes, the provisions of the new proposed standard are sufficiently principles-based to allow auditors to use professional judgment to determine the extent of confirmation of accounts receivable, based on the auditor's risk assessment performed in accordance with AS 2110.

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?*

A: Yes, the description of accounts receivable is sufficiently clear, and it need not be broadened.

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?*

A: No, 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 is not sufficiently clear or appropriate.

As stated in the response to Question 14, we believe that the continued requirement to confirm accounts receivable is appropriate. However, we also observe that various factors related to the current environment have resulted in the confirmation of accounts receivable being less effective. As stated in the Release, “In recent years, however, there has been an increased wariness about phishing attempts and some customers might not understand or trust an unsolicited confirmation request from an auditor.” For this reason, we believe it is more important than ever for an auditor to be able to apply professional judgment to determine that performing alternative procedures (to confirmation) is sufficient to address the risk of material misstatement related to accounts receivable.

Paragraph .34 in the extant standard indicates that the presumption to confirm accounts receivable can be overcome if one of the following is true: accounts receivable are immaterial to the financial statements, the use of confirmations would be ineffective, or the auditor’s combined assessed level of inherent and control risk is low (such that other audit procedures are sufficient to address the audit risk). The requirement in proposed standard paragraph 2310.14 is that “The presumption to confirm accounts receivable in paragraph .12 may be overcome 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.” The Release clarifies that the intended comparison is with “*effective* confirmation procedures”. Further, the Release states that “an auditor may have determined... that sending ... confirmation requests... has not resulted in obtaining relevant and reliable audit evidence, because of poor rates of response... Accordingly, ... the auditor may design and implement an audit approach that does not involve the use of confirmation.”

Paragraph 2310.14, as written, appears to create a higher bar for the auditor to determine it is appropriate to perform alternative procedures (versus confirmation) than the above statement from the Release. One way to resolve this inconsistency is a revision to proposed standard paragraph 2310.14, such as “evidence that the auditor might expect to obtain from confirmation responses obtained from the performance of effective through performing confirmation procedures.”

Even with this clarification to paragraph 2310.14, we don’t believe the ability to overcome the presumption to confirm accounts receivable only when *another substantive audit procedure would provide evidence that is at least as persuasive as performing confirmation procedures* is appropriate. As stated in our general observations and in our response to Question 11, the persuasiveness of audit evidence needed, and the determination of audit procedures to be performed, is subject to auditor judgment based on the related risk assessment for an account or assertion. Therefore, we don’t believe it is necessary that alternative procedures provide evidence that is *at least as persuasive as* an accounts receivable confirmation response, as long as the audit evidence obtained is sufficient and appropriate to address the assessed risks of material misstatement. We agree with providing the auditor with the ability to overcome the presumption to confirm accounts receivable; however, we don’t believe the revisions in the proposed standard are operational in this regard.

The Release states that “The 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.” Consistent with our response to Question 10, we are concerned by the removal of the risk assessment and materiality criteria to overcome the presumption to confirm accounts receivable. If the Board’s intent is that the requirement to confirm accounts receivable in paragraph 2310.12 presumes the auditor has already assessed a risk of material misstatement related to the existence of accounts receivable, revisions are necessary in the proposed standard to make this clear. Alternatively, paragraph .14 could be modified to provide the auditor the ability to overcome the presumption to confirm accounts receivable based on risk assessment (similar to the existing standard).

We believe it would also be appropriate to revise paragraph .14 to reflect the conditions for an auditor to overcome the presumption to confirm accounts receivable as included in existing paragraph 2310.34.

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?*

A: As discussed throughout this letter, we don’t believe the ability of the auditor to perform alternative procedures should be restricted only because the audit evidence obtained via those alternative procedures may not be as persuasive as audit evidence that may be obtained through confirmation procedures. The auditor should obtain audit evidence that is sufficiently persuasive in response to the assessed risk for any significant 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?*

A: No, we do not believe the separate 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 is appropriate. Existing auditing standard AS 1301, *Communications with Audit Committees*, (AS 1301) requires the auditor to communicate to the audit committee an overview of the overall audit strategy and timing of the audit. Further, the auditor is required to communicate matters arising from the audit that are significant to the financial reporting process. Via these requirements, the audit committee will be informed of decisions related to accounts receivable confirmation or the results of the confirmation procedures when they are a meaningful part of the overall audit strategy or significant to the financial reporting process. If the decision not to confirm accounts receivable is *not* meaningful or significant enough to meet existing requirements for communication to the audit committee, this communication will add to the volume of information provided to the audit committee and may detract from the most important issues about which the auditor needs to communicate with the audit committee.

Further, in accordance with AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, the auditor must assess if matters arising from the audit of the financial statements that were communicated or required to be communicated to the audit committee are critical audit matters. There will be an additional cost to this communication requirement, as the auditor would need to evaluate the communication as a possible critical audit matter.

Finally, as stated elsewhere in this letter, we believe the auditor should apply their professional judgment to determine the appropriate audit responses in accordance with AS 2301, based on a risk assessment performed in accordance with AS 2110.

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?*

A: No, the provisions of the new proposed standard related to confirming the terms of certain transactions that have a significant risk of material misstatement are not sufficiently clear and appropriate. Paragraph 2310.15 in the proposed standard indicates that “For significant risks of material misstatement associated with either a complex transaction or a significant unusual transaction, the auditor *should consider* confirming terms of the transaction with the counterparty to the transaction.” (italicized for emphasis). Consistent with our general observations, we believe the auditor should utilize judgment to determine audit responses that are sufficient and appropriate for the risks assessed related to such transactions. We recommend paragraph 2310.15 in the proposed standard be revised from “should consider” to “may consider”.

Designing Confirmation Requests

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

A: No. While we believe that paragraph 2310.16 in the proposed standard is sufficiently clear and appropriate related to identifying information to confirm, we do not believe the inclusion of paragraph 2310.17 in the proposed standard is necessary. Requiring the auditor to “test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm” is redundant with the requirements in AS 1105, *Audit Evidence*. We are not clear what the Board’s intent is with repeating a procedure that is already required by another auditing standard. We are not aware of anything which makes the information produced by the company that is used in preparing a confirmation request different from other information produced by the company, as it relates to the auditor evaluating whether the information is appropriate for the purpose.

Q24: *Is the requirement in the new proposed standard to send a confirmation request directly to the confirming party, and determine that the request is properly addressed, sufficiently clear and appropriate? Should the new proposed standard contain specific procedures for the auditor to test information about the confirming party such as the address?*

A: Yes, the requirement is sufficiently clear and appropriate. We do not believe there is need for any specific required procedures.

Maintaining Control over the Confirmation Process

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?*

A: No, we don’t believe that the requirements in the proposed standard to evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses are sufficiently clear. We believe that paragraphs .B2 and .B3 require edits to be operational for auditors.

As noted in our response to Question 31 below, we believe that there could be situations where the auditor is unable to obtain a reliable confirmation response related to cash and cash equivalents selected to confirm. In such circumstances, we believe the proposed standard should acknowledge the ability of the auditor to perform alternative procedures. This may be particularly relevant in situations where the party to which the confirmation is sent will only respond to confirmation requests via an intermediary.

As stated in the Release, “Some auditors have used an Independent Service Auditor’s Report on Service Organization Controls (“SOC report”) to evaluate the design and operating effectiveness of the intermediary’s controls relevant to sending and receiving confirmations.” There could be situations where a key confirmation intermediary has qualifications in their SOC report which impact the ability of an auditor to conclude that the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively, as required by paragraph .B2b. Alternatively, the intermediary may not have implemented appropriate controls or, there may not be a SOC report covering the appropriate period for the intermediary.

Paragraph .B3 in the proposed standard states that “If information obtained by the auditor *indicates* that” the controls used by the intermediary to address the risk of interception and alteration are not implemented or designed and operating effectively, “the auditor *should not use* the intermediary to send confirmation requests or receive confirmation responses” (italics added for emphasis). We believe that the proposed standard should acknowledge the ability of the auditor to investigate and resolve such indications. This could be by performing additional tests of controls over the intermediary, for example. We recommend that the wording in paragraph .B3 be modified as follows “~~If information obtained by the auditor indicates~~ The auditor may obtain information that indicates (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 the auditor determines that the risk of interception or alteration has not been sufficiently addressed, the auditor should not use the intermediary to send confirmation requests or receive confirmation responses.”

Paragraph 2310.24 in the proposed standard states that “The auditor or the confirming party can engage another party as an intermediary to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party.” In order to avoid confusion, we suggest the word “engage” in this sentence be replaced with another term, such as “utilize”.

Evaluating Confirmation Responses and Confirmation Exceptions, and Addressing Nonresponses and Incomplete Responses

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

A: Generally, we believe the provisions of the new proposed standard related to evaluating the reliability of confirmation responses are sufficiently clear. However, we recommend that the wording in paragraph 2310.25 in the proposed standard be revised as follows: “The auditor should evaluate the reliability of confirmation responses, ~~considering taking into account~~ any information about events, conditions, or other information that the auditor becomes aware of...”. We believe this change is consistent with the intent of the Board.

Q29: *Are the provisions of the new proposed standard related to confirmation exceptions and nonresponses sufficiently clear and appropriate?*

A: No; we do not believe the requirements in the proposed standard related to confirmation exceptions is sufficiently clear. As defined in proposed standard 2310.A2, a confirmation exception is information in a confirmation response that differs from information the auditor obtained from the company. We believe that in many cases, the auditor may be able to obtain audit evidence to determine that a difference in information received from a confirmation does not reflect a misstatement or potential misstatement. As noted in the Release, “For various reasons, information in a confirmation response received by the auditor could differ from other information in the company’s records obtained by the auditor.” If it is determined that the confirmation difference was a result of a clerical error or caused by a timing difference, for example, it does not seem necessary to evaluate such items as potential control deficiencies, as required by AS 2310.27 in the proposed standard.

Q30: *Are the provisions about when the auditor should send a second positive confirmation request sufficiently clear and appropriate? Would this provision be a change from current practice?*

A: No, the provisions about sending a second positive confirmation request are not sufficiently clear and appropriate. Paragraph 2310.28 in the proposed standard indicates that “the auditor should send a second positive confirmation request to the confirming party *unless the auditor has become aware of information that indicates that the confirming party would be unlikely to respond to the auditor*” (italics added for emphasis). It is not clear what documentation would sufficiently support an auditor’s determination that the confirming party would be unlikely to respond, specifically when the confirmation procedure is explicitly required by the proposed standard. Accordingly, we believe that the proposed standard should allow auditor judgment in the determination of sending a second positive confirmation request. Therefore, we recommend that paragraph 28 be revised as follows: “the auditor should consider sending a second positive confirmation request to the confirming party”.

Performing Alternative Procedures

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?*

A: We believe the proposed standard is clear related to circumstances where the auditor would be required to perform alternative procedures. However, we observe that the proposed standard excludes discussion about or examples of alternative procedures that may be acceptable to obtain evidence of the existence of cash. We understand that the proposed standard requires the auditor to perform confirmation procedures for cash and cash equivalents held by third parties (please see our response to Question 10). There could be situations where the auditor is unable to obtain a reliable confirmation response. Similar to accounts receivable, we believe the final standard should acknowledge the ability of the auditor to perform alternative procedures to verify the existence of cash, in such circumstances, and include examples of alternative procedures that may provide sufficient audit evidence either individually or collectively (please see our response to Question 11).

Using Internal Audit in the Confirmation Process

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?*

A: Yes, we believe the requirements in the 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.

Other Matters

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?*

A: No, we do not believe that there are other procedures that the auditor should perform in the event of a management request not to confirm a certain item; procedures required by other PCAOB standards are sufficient.

Q37: *Are the definitions included in the new proposed standard sufficiently clear and appropriate? If not, what changes should be made to the definitions?*

A: Yes, generally the definitions included in the proposed standard are sufficiently clear and appropriate; however, please refer to our response to Question 29 related to confirmation exceptions.

Effective Date

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

A: In order for firms and confirmation intermediaries to have sufficient time to prepare for implementation, we recommend that the final standard be effective for audits of fiscal years beginning no sooner than two years after approval by the SEC (or for audits of fiscal years beginning three years after the year of SEC approval if that approval occurs in the third or fourth calendar quarter). See our response to Question 49 below.

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?*

A: Yes, based on the proposed standard, yes, requiring compliance for fiscal years beginning after the year of SEC approval would present challenges for auditors as well as for confirmation intermediaries. For firms, several elements of the proposed standard need to be implemented in the planning stages of an audit. Therefore, firms need to be prepared for full implementation prior to the start of the audit engagements. This includes methodology changes, related training, and the implementation of any related quality control procedures.

In many cases, the auditor chooses to use or is required to use confirmation intermediaries. Based on the requirements in the proposed standard, intermediaries may need to make changes to processes and controls related to the risk of interception and alteration of the confirmation requests and responses. Once changes are implemented, determination needs to be made as to whether those controls are designed and operating effectively. These matters need to be completed prior to the effective date of the requirement to comply with the proposed standard.

We would be pleased to respond to any questions regarding our observations noted within this letter. If there are any other questions regarding this subject, please contact Kyle Owens at 630.575.4265 or kyle.owens@crowe.com or Linda Poeschel at 630.586.5268 or linda.poeschel@crowe.com.

Sincerely,



Crowe LLP