



ILLINOIS CPA SOCIETY

January 31, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

Re: PCAOB Rulemaking Docket No. 028

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the PCAOB’s proposed auditing standard for *The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* and amendments to other PCAOB auditing standards. (Docket Matter No. 028), dated December 20, 2022. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated, or the ICPAS Board.

GENERAL COMMENTS:

As a Committee, we agree with efforts made by the PCAOB and believe the proposed standard and replacement of extant AS 2310 are examples of the PCAOB’s continued efforts to modernize and revisit existing auditing standards as a means of driving audit quality. We believe the proposal scope, objective, and guidance is generally clear and reflects an appropriate perspective of both current practice and industry trends. We also feel that it is sufficiently responsive to recent changes in audit technology and incorporates certain practical enhancements such as recognizing the use of intermediaries and providing additional guidance in those situations. As such, we believe the proposed standard is appropriate and explains the use of a risk-based approach in planning and performing audit confirmations. Our direct response is limited to the following questions.

PCAOB QUESTIONS AND COMMITTEE RESPONSES:

Question 10: 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?

Response: Yes, we believe that the general messaging surrounding the requirement to confirm cash and cash equivalents, as well as other financial relationships, is clear. However, the Committee questions the appropriateness of mandating cash confirmations in all cases. The Committee acknowledges that while confirmations represent a persuasive form of audit evidence, there are instances whereby an auditor may be able to obtain sufficient appropriate audit evidence over the accuracy and existence of lower risk cash and cash equivalents accounts without the need for a confirmation. For example, an auditor may be able to observe individuals from the company who have appropriate access to a financial institution’s online portal login to access or download the bank statements for the requested date or period. Please also refer to the



ILLINOIS CPA SOCIETY

Committee's response to Questions 13 relating to the risk-based approach as currently written in the proposed standard.

In explicitly identifying cash and cash equivalents as a financial statement account where an auditor should confirm the balances directly, the Committee questioned why such guidance does not extend to other financial statement accounts typically confirmed by auditors. For instance, external debt is often confirmed by the auditor to address risks of material misstatement identified to assess the existence, accuracy and completeness assertions.

Question 13: 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?

Response: The proposed standard is clear in that the auditor should obtain an understanding of the entity's cash accounts and that should drive the nature, timing, and extent of confirmation procedures over cash accounts and other relationships. However, it would be beneficial for the PCAOB to provide guidance regarding how an auditor could use the results of its risk assessment over cash from paragraph .10 in the auditor's implementation and application of the provisions. It is not clear to the Committee how the auditor may make its selections when not testing 100% of cash and cash equivalents. For example, if the auditor is allowed to use sampling or scoping in its selection process, or if the auditor may use its judgment in determining that there are certain classes of cash or cash equivalents that would not require confirmation based on risks relative to other cash and cash equivalent accounts. It is not uncommon for companies to have multiple operating accounts with the same financial institution that are used for different purposes (receipts, disbursements, operating, payroll, sundry expenses, foreign, subsidiary / branches, etc.) that are swept nightly into one account. While the volume and nature of transactions in each account may differ, the internal control environment is often similar, such that it is not clear how auditors would be able to make informed risk assessment decisions for which accounts within cash and cash equivalents are required to be selected under the proposed standard. The background on page 21 describes certain examples of how the auditor may use its understandings in designing its confirmation procedures, and we feel that the proposed standard would benefit from incorporating that into the primary provisions or the explanatory material/appendices.

We acknowledge that such additional application guidance does not exist for accounts receivable in the extant and proposed standard, and that auditors have been able to apply the guidance and sample accounts receivable for many years. However, with the addition of a requirement for cash that may be new for auditors, we suggest that similar examples be included for accounts receivable. These could be unique to accounts receivable or could be generalized to address both cash and accounts receivable.

Question 17: 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?

Response: The ability to overcome the presumption to confirm accounts receivable is clear and appropriate, but the Committee questions why such a similar provision does not exist for cash and cash equivalents. The Discussion of the Proposed Standard notes that the PCAOB did not identify any other substantive audit procedures as persuasive as direct confirmation. In practice, we have encountered situations where the



ILLINOIS CPA SOCIETY

auditor is able to sit with the client and observe them logging directly into an online banking portal to show balances and recent activity to an auditor. We feel that such a substantive procedure may be just as effective (persuasive) in addressing the assessed risks of material misstatements and may be more efficient for certain cash and cash equivalent accounts, and that the presence of such a procedure should be considered when concluding that a presumption cannot be overcome for cash and cash equivalents.

If the PCAOB does not change the standard, the Committee seeks additional guidance on what may constitute appropriate alternative procedures for cash, similar to examples provided for other types of accounts and transactions in paragraph 31.

Question 19: 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?

The Committee finds a direct requirement as part of proposed AS 2310 to be unnecessary. AS 1301 exists and contains provisions for the communication of other audit matters (paragraph .24) that would address this. We believe that auditors should be able to use judgment in determining if the decision to not send confirmations warrants communication to those charged with governance as opposed to being rules based, and such judgment would be captured in AS 1301.24.

Further, AS 3101 discusses critical audit matters, which is yet another form of communication between the audit committee and users over areas of the audit that are particularly challenging, subjective, or subject to complex auditor judgment. Should accounts receivable fall into that category, we feel that is an appropriate means of communication. The Committee also noted that auditors are currently not required to communicate when they overcome the presumption of fraudulent revenue recognition as a significant risk of material misstatement, and question why the accounts receivable confirmations are any different, particularly when the accounts receivable may not represent a significant risk of material misstatement. We propose that the PCAOB, at a minimum, consider requiring disclosure only in the event that the accounts receivable not subject to confirmation represent a significant risk.

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Michael Ploskonka, CPA

Chair, Audit and Assurance Services Committee

Amber Sarb, CPA

Vice Chair, Audit and Assurance Services Committee



ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2022 – 2023

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Scott Cosentine, CPA
Timothy Delany, CPA
Michael R. Hartley, CPA
Emily Hoaglund, CPA
James R. Javorcic, CPA
Michael Potoczak, CPA
Jon Roberts, CPA
Amber Sarb, CPA

Ashland Partners & Company LLP
RSM US LLP
Crowe LLP
KPMG LLP
Mayer Hoffman McCann P.C.
Marcum LLP
BDO USA, LLP
RSM US LLP

Regional:

Elda Arriola, CPA
Genevra D. Knight, CPA
Matthew Osiol, CPA
Michael Ploskonka, CPA

Roth & Co., LLP
Porte Brown LLC
Topel Forman LLC
Selden Fox, Ltd.

Local:

Arthur Gunn, CPA
Lorena C. Engelman, CPA
Mary Laidman, CPA
Carmen F. Mugnolo, CPA
Jodi Seelye, CPA

Arthur S. Gunn, Ltd.
CJBS LLC
DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Mugnolo & Associates, Ltd.
Mueller & Company LLP

Industry/Consulting:

Sean Kruskol, CPA

Cornerstone Research

Educators:

Meghann Cefaratti, PhD

Northern Illinois University

Staff Representative:

Heather Lindquist, CPA

Illinois CPA Society