



February 20, 2023

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

RE: PCAOB Rulemaking Docket Matter No. 028

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the "Board") proposed auditing standard, *The Auditor's Use of Confirmation*, and other proposed amendments to PCAOB standards included in PCAOB Release No. 2022-009 ("the proposed standard" or "the proposing release"). We support the Board's updating of its standard on confirmations to consider the changing landscape and advancements in technology related to the confirmation process. We also appreciate the PCAOB's intent to expressly align the proposed standard with the risk assessment standards. We agree with the PCAOB's view that "[t]he auditor's assessment of the risk of material misstatement is an important consideration when designing audit procedures, including the use of confirmation."¹

We also are encouraged by the PCAOB's acknowledgement in the proposing release that auditing standards should allow for continued innovation by auditors in the ways they obtain audit evidence,² and that the standard should include more principles-based requirements that are designed to apply to all methods of confirmation,³ including new methods that may arise from technological changes in auditing in the future.

Notwithstanding this support, certain of the proposed requirements are prescriptive to the point that they may add unnecessary costs without commensurate benefits to audit quality. For example, certain requirements may require unnecessary incremental documentation or may create inefficiencies in the audit process, and may inhibit future auditor innovation, undermining the PCAOB's intent. The final standard should be more principles-based, and more risk-based, to allow for auditors to tailor the nature, timing, and extent of their audit procedures to appropriately address the assessed risk of material misstatement and to obtain sufficient appropriate evidence in relation to relevant assertions. We offer recommendations on how to enhance the proposed standard that we believe address these issues. Additional commentary on these and other matters that may be of interest to the Board are included in the appendix.

Acknowledging the increasing use of technology, including the involvement of intermediaries in the confirmation process

For operational or other reasons, many confirming parties, including many large financial institutions, will only participate in the confirmation process through an intermediary. In the absence of standard-setting, practice has already been evolving through discussions between firms and intermediaries to enable sound methods of confirmation when an intermediary is used. We therefore support the proposed standard,

¹ PCAOB Release No. 2022-009, page 58

² PCAOB Release No. 2022-009, page 13

³ PCAOB Release No. 2022-009, page 14



including specific requirements when the auditor or confirming party uses an intermediary in the confirmation process.

As discussed in the appendix, we are concerned, however, that practical challenges may arise as a result of how the requirements are drafted, and that intermediaries may need to make enhancements to their processes in order for auditors to comply with the proposed standard. While we are supportive of enhancements in the interest of continuous improvement, we are not aware of evidence that suggests that auditors should be precluded from continuing to use common intermediaries that have been viewed to have sufficient controls in the interim.

Need to acknowledge how technology can be used to obtain persuasive evidence

In issuing the proposed standard, the PCAOB decided not to define direct access to information in a third party's information system concerning the third party's transactions or balances with the company under audit as a confirmation procedure. This circumstance is addressed in the AICPA's confirmation standard, and we believe information obtained directly may become more prevalent as a source of relevant and reliable audit evidence from financial institutions and in certain industries. We recommend that the PCAOB consider aligning with the AICPA and acknowledge that the auditor's direct access to information held by a third party (the confirming party) may meet the definition of an external confirmation when, for example, the confirming party provides the auditor with the electronic access codes or information necessary to access a secure website where data that addresses the subject matter of the confirmation is held.⁴ At a minimum, we believe it is necessary to acknowledge that this direct access to information from third parties can provide audit evidence that is as persuasive as a confirmation, and consider how such evidence would be considered in accordance with AS 1105.⁵

The proposing release asks whether "the new proposed standard [is] sufficiently flexible to accommodate situations where an auditor chooses to confirm information about newer types of assets (e.g., existence, and rights and obligations of digital assets based on blockchain or similar technologies)?" Auditors may or may not be able to confirm information about digital assets, however, additional considerations may affect the auditor's judgment about how best to obtain sufficient appropriate evidence related to digital assets. For example, the auditor may be able to interrogate the blockchain rather than sending a confirmation request to a third party (as a confirming party may not be readily identifiable). Accordingly, we recommend that the PCAOB more holistically consider whether changes to PCAOB standards are necessary to address the auditing of digital assets. In this regard, the work of the AICPA's Digital Assets Working Group, including their practice aid, *Accounting for and auditing of digital assets*, may be relevant.

Concerns with how the concept of evidence being "at least as persuasive" is articulated

We agree with the PCAOB's view that, when properly designed and executed, the confirmation process can be an effective and efficient way of obtaining relevant and reliable evidence about certain financial statement assertions. However, confirmations are often used *in combination with* other substantive procedures, as well as tests of controls, to provide sufficient appropriate evidence to respond to the assessed risk of material misstatement relating to a significant account or disclosure. Accordingly, we recommend that the Board take care to ensure that the proposed standard is not interpreted as removing the auditor's ability to determine what is the most effective response to the assessed risk of material misstatement.

⁴ AU-C section 505, *External Confirmations*

⁵ AS 1105, *Audit Evidence*



For example, the proposing release describes how, in many situations, confirmation could provide audit evidence that is more persuasive than evidence obtained solely through other substantive procedures.⁶ Because the proposed standard and proposing release therefore may be read as positioning confirmation responses as the preferred form of audit evidence, we are concerned that there could be unintended consequences that could negatively affect audit quality if certain language (described further in the appendix) is not revisited, including the following:

- Auditors may default to performing confirmation procedures when other procedures would be *more* effective, including procedures that are technology-enabled. This consequence may be exacerbated if auditors believe their professional judgment would be unnecessarily questioned, including, for example, as a result of proposed new reporting to audit committees when the auditor seeks to overcome the presumption to confirm accounts receivable.
- Auditors may unduly limit their efforts to confirmations, where other procedures may also be necessary or appropriate in the circumstances to respond to assessed risks of material misstatement.
- The expectation gap could be exacerbated in relation to fraud. For example, the proposing release states that “an audit confirmation process designed and executed under the new proposed standard should benefit investors and other users of a company’s financial statements by *reducing the likelihood that the financial statements are materially misstated, whether due to fraud or error*” (emphasis added). When appropriately designed and executed, confirmation procedures may adequately address certain risks of material misstatement due to fraud; however, when third parties collude with auditees, detection of the fraud is much more difficult.⁷

Finally, consistent with AS 2301, we believe the proposed standard should focus on requiring the auditor to design and perform procedures to address the assessed risk of material misstatement. However, we do not believe it is appropriate for the standard to suggest auditors are able to, or need to, comparatively measure the nature, timing, and extent of other substantive procedures against the evidence provided by confirmation in order to be able to conclude on a level of persuasiveness. Rather than requiring auditors to determine (and possibly document) whether evidence from other substantive procedures would be *as persuasive as* evidence from confirmation procedures, we believe the PCAOB should either:

- Revert to the construct in paragraph .34 of extant AS 2310 that set out factors for the auditor to consider in determining whether the presumption to confirm accounts receivable could be overcome, as this language is more clear and appropriate. Additional factors could be articulated in relation to overcoming the presumption to confirm cash; or
- Use an alternative construct of requiring auditors *to consider whether to confirm cash and accounts receivable*, similar to the requirements in paragraphs .11 and .15.

Either of these approaches would give appropriate emphasis to the potential for confirmations to be a persuasive source of audit evidence, while allowing for appropriate auditor judgment if other types of procedures are sufficient, and potentially more effective, to respond to the assessed risks of material misstatement.

⁶ PCAOB Release No. 2022-009, page 18

⁷ 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).



Effective date

The proposed standard introduces requirements that, if finalized, are likely to require changes to firms' methodologies, tools, and guidance, as well as incremental training. In addition, intermediaries will need time to adequately assess the impact of new requirements on their controls and processes, as well as potential deliverables (e.g., SOC reports) and implement any needed changes. Assuming the SEC approves the final standard before early 2024, we recommend a final standard be effective for audits of financial statements for periods beginning on or after December 15, 2024.

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We appreciate the opportunity to provide input and would be pleased to continue a dialogue with the Board and its staff. Please contact Brian Croteau at brian.t.croteau@pwc.com regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP



Appendix

Concerns with the presumption to confirm accounts receivable and cash

As noted in the cover letter, we are concerned that certain of the proposed requirements are prescriptive to the point that they may add unnecessary costs without commensurate benefits to audit quality. We support the Board's intent to strengthen and clarify certain requirements related to the confirmation process. However, the final standard should be more principles-based and more risk-based to allow for auditors to develop an audit response that is efficient and effective - tailoring the nature, timing, and extent of their audit procedures to appropriately address the assessed risks of material misstatement and obtain sufficient appropriate evidence in relation to relevant assertions.

AS 2310 requires the auditor, in designing the audit procedures to be performed, to obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁸ This is in the context of the overarching requirement in paragraph .08 of AS 2310 for the auditor to design and perform audit procedures in a manner that *addresses the assessed risk of material misstatements* for each relevant assertion of each significant account and disclosure.

While paragraph .05 of the proposed standard aligns with paragraph .37 of AS 2301, it does not include the concept articulated in the last sentence of that paragraph, underlined below:

As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.

Suggesting that audit evidence obtained from confirmation is the most persuasive evidence, and therefore presuming confirmations should ordinarily be obtained in relation to cash and accounts receivable, may detract from audit quality, result in increased costs without commensurate benefits, and limit innovation or "date" the standard as both the environment in which audits are conducted and the data and technology available to auditors continues to evolve.

Concerns specific to accounts receivable

Our concerns related to accounts receivable relate to (1) the changes in how the presumption to confirm accounts receivable can be overcome and (2) the new requirement to communicate with the audit committee when the auditor decides not to confirm accounts receivable.

The PCAOB states that the changes to the requirement on overcoming the presumption to confirm accounts receivable "would allow for the use or development of more sophisticated and effective audit procedures, which might include the use of technology-based auditing tools, subject to the requirement that they provide the same or increased level of audit evidence about the relevant financial statement assertion. Accordingly, this change could potentially improve the efficiency and effectiveness of the audit."⁹ We continue to agree that auditors should be permitted to overcome the presumption to confirm accounts receivable. However, we do not support the requirement that an auditor may only overcome the presumptively mandatory responsibility regarding confirming accounts receivable if the auditor

⁸ AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph .09(a)

⁹ PCAOB Release No. 2022-009, page 61



determines that other procedures performed in lieu of confirmation would provide audit evidence that is “at least as persuasive” as the evidence the auditor might expect to obtain through confirmation. For example, in some situations auditors might reasonably determine confirmation not to be an effective audit procedure. This may occur when the auditor has an expectation of inadequate response rates (which is not within the auditor’s control). Or the auditor may believe other substantive procedures, including those that are technology-enabled, represent a more effective and efficient audit approach.

We believe the construct in paragraph .34 of extant AS 2310 that set out factors for the auditor to consider in doing so is more clear and appropriate than paragraph .14 of the proposed standard. Neither existing PCAOB standards nor the proposed standard explain how the auditor could measure the persuasiveness of evidence obtained from other substantive procedures against the evidence provided by confirmation. Under existing standards, the auditor performs the risk assessment and considers the results of that risk assessment when designing audit procedures to be performed to respond to the assessed risk - a foundational principle that we believe must be retained. For example, the proposing release notes “the auditor may determine that to obtain audit evidence that is *at least as persuasive as evidence from confirmation*, the auditor may need to apply the other procedures to a greater number of items than the auditor would otherwise address through confirmation”¹⁰ (emphasis added). In practice, the amount of items selected for testing when executing a sampling approach is the outcome of a formula derived with consideration of the assessed levels of inherent risk, control risk, and detection risk for a particular account. The proposing release notes that more items may need to be tested if confirmations are not performed in order to meet the bar of “at least as persuasive;” however, since this is not tied to the level of risk, this is not contemplated in the way that sample sizes are calculated today based on the concepts in AS 2315.¹¹

As written, it is not clear if the words “at least as persuasive as the evidence the auditor might expect to obtain through confirmation” refers to the level of persuasiveness expected from a confirmation returned with no exceptions, or to the level of persuasiveness expected after considering the facts and circumstances unique to a particular account. For example, if the auditor knows from prior experience that a counterparty is unlikely to respond to a confirmation request due to company policy, and therefore confirmations might be determined to be an ineffective strategy, it is unclear if this can be considered in the auditor’s determination of the level of persuasiveness expected to be obtained from confirmation. In other words, in this scenario, the auditor already has a view that confirmations would not be expected to provide persuasive evidence due to the likely ineffectiveness and would decide it would be more appropriate to plan and perform other procedures to respond to the assessed risks of material misstatement.

Accordingly, deciding whether or not to confirm accounts receivable (and cash, as discussed below) should be tied to the auditor’s assessment of risk for that account and allow for consideration of what procedures would address the risk, rather than an assessment of the level of persuasiveness of those procedures when compared to confirmations. Should the PCAOB decide not to revert to paragraph .34 of extant AS 2310, we believe an alternative construct of requiring auditors *to consider whether to confirm accounts receivable* would give appropriate emphasis to the potential to obtain confirmations as audit evidence, while allowing for appropriate auditor judgment if other types of procedures are likely to be more effective to respond to the assessed risks of material misstatement.

¹⁰ PCAOB Release No. 2022-009, page 24

¹¹ AS 2315, *Audit Sampling*



Required communication to audit committees

AS 1301¹² provides a framework for required communications to the audit committee about the overall audit strategy and significant risks. AS 1301 also requires the auditor to communicate other matters arising from the audit that are significant to the oversight of the company's financial reporting process. Matters in relation to accounts receivable may - or may not - warrant a discussion with audit committees. For example, when accounts receivable has been identified as a significant risk of material misstatement or fraud risk or the auditing of accounts receivable (or related accounts and disclosures) was considered as a potential critical audit matter, discussion with the audit committee would already be required. In other circumstances, the discussion proposed to be required by the standard may not be relevant to the audit committee given the size of the account, the risks associated with it (i.e., if there is not an elevated risk of material misstatement), when compared to other engagement-specific matters (including other significant accounts with higher identified risks of material misstatement).

We therefore question whether the new requirement to communicate with the audit committee in paragraph .14 of the proposed standard is appropriate. We are concerned that a required communication about one specific element of the auditor's overall audit strategy could detract from more important matters relevant to the audit committee's oversight. In addition, as the presumption to confirm accounts receivable is often overcome year after year when engagement circumstances have not changed, this may result in boilerplate communications with no incremental information presented to the audit committee.

The proposing release notes "there may be some expectation by audit committees that the auditor would use confirmation as part of a planned audit response."¹³ We encourage the Board to perform outreach with audit committees on this matter to understand whether this expectation is widespread and determine whether the proposed communication requirement would always be relevant and meaningful.

Lack of ability to overcome the presumption to confirm cash and cash equivalents and the need for the auditor to perform alternative procedures

We generally support the Board's proposal to require the auditor to confirm cash and cash equivalents when cash is determined to be a significant account. However, in our experience, there are circumstances when auditors have a reasonable basis to conclude that confirmations will not be effective (e.g., based on prior experience and inquiries performed, the auditor may be aware that counterparties have a pre-established policy not to respond to confirmation requests). Without any provision that allows the auditor to initially overcome the presumption to confirm cash, auditors may be required to send confirmation requests that will ultimately be ineffective - and will also need to perform other audit procedures to obtain sufficient appropriate evidence.

Auditors may also be able to obtain persuasive evidence through other audit procedures more efficiently and effectively. For example, some auditors are employing auditing techniques that involve obtaining direct view-only access to client banking information. An auditor may (1) assess the risk of material misstatement related to cash 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. Regardless of whether the PCAOB believes this meets the definition of a confirmation, such procedures provide the auditor with evidence that is responsive to the assessed risks of material misstatement.

Similar to accounts receivable, we believe either setting out factors for the auditor to consider in determining that the presumption to confirm cash can be overcome or an alternative construct of

¹² AS 1301, *Communications with Audit Committees*

¹³ PCAOB Release No. 2022-009, page 25



requiring auditors *to consider whether to confirm cash* would give appropriate emphasis to the potential to obtain confirmations as audit evidence, while allowing for appropriate auditor judgment if other types of procedures are likely to be more effective to respond to the assessed risks of material misstatement.

Further, the proposed standard does not provide examples of alternative procedures that may be performed for cash and cash equivalents (unlike other areas described in paragraph .34). The proposing release also notes 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.¹⁴ Taken together, this could create an untenable situation in which auditors send confirmations but receive no response, and therefore may view the proposed standard as implying the auditor has no path forward but to determine there is a limitation on the scope of the audit.

Like all other significant accounts and disclosures, the auditor should be able to exercise professional judgment in determining what (alternative) procedures appropriately respond to the assessed risks of material misstatement related to cash and cash equivalents. The following represent procedures the PCAOB could provide as examples that may provide relevant and reliable audit evidence:

- Agreeing the bank balance per the reconciliation to the bank statement
- Testing the design and operating effectiveness of controls relating to the treasury function, including the opening and closing of bank accounts, authorization levels, access to online banking facilities, approval of new facilities, capturing all facilities and arrangements, and monitoring of compliance with terms and arrangements
- Observing authorized personnel access online banking and assessing completeness and accuracy of recorded bank balances and arrangements with details shown online
- Performing inquiries with individuals responsible for banking relationships to identify changes in banking arrangements during the period and to assist with assessment of completeness of facilities and arrangements
- Reviewing reconciling items in the bank reconciliation to identify facilities and other arrangements
- In addition to a combination of the above procedures, obtaining representations specific to banking facilities from management in the representation letter to corroborate conclusions reached through the alternative procedures performed

Considering whether to confirm other financial relationships

We appreciate the PCAOB's emphasis on the need to consider confirming other financial relationships. Our approach to confirming cash is part of a broader focus on understanding the company's banking relationships and considering them in our risk assessment, including considering risks of material misstatement related to liabilities such as lines of credit, other indebtedness, compensating balance arrangements, or contingent liabilities, including guarantees. In practice, we often find it necessary to confirm facilities and other banking arrangements separately from cash and cash equivalents balances, as the party to which the confirmation is addressed for cash may not be the most knowledgeable person at the confirming party with regard to other financial relationships.

¹⁴ PCAOB Release No. 2022-009, page 21



We recommend that the Board revise proposed paragraph .11 to indicate that an auditor "may consider" confirming other financial relationships when confirming cash. Pursuant to PCAOB Rule 3101(a)(3),¹⁵ 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. This would allow auditors to exercise appropriate judgment in determining an appropriate audit response, without a burden of additional documentation.

Acknowledging the increasing use of technology, including the involvement of intermediaries in the confirmation process

Implications of using an intermediary

We support the intent of the requirements in paragraph .B2 relating to the auditor obtaining an understanding of the intermediary's controls that address the risk of interception and alteration of the confirmation requests and responses, and determining that the controls used by the intermediary to address these risks are designed and operating effectively. In practice, obtaining and reviewing System and Organization Controls (SOC) reports may often be necessary in order to evaluate the reliability of evidence obtained through an intermediary, and firms may establish central processes to obtain and evaluate these reports, rather than having individual engagement teams make such an evaluation.

In accordance with paragraph .B2(c), engagement teams would also need to perform procedures to assess the relationship of the intermediary with the company being audited. We question whether this requirement would be necessary in all cases, as the company's engagement with the intermediary is ordinarily limited to providing authorization to the intermediary. Rather than establishing a requirement for the auditor to "assess" the relationship of the intermediary with the company, we recommend that the proposed standard require auditors to consider any information of which they become aware that may suggest there is a reasonable possibility that the company being audited has the ability to override the intermediary's controls that address the risk of interception and alteration of the confirmation requests and responses.

Considering when it is not appropriate to use an intermediary

Appendix .B3 of the proposed standard states that an auditor should not use an intermediary to send confirmation requests or receive confirmation responses if certain indicators are present, including indicators that the necessary controls at the intermediary are not designed or operating effectively. Indicators, in and of themselves, do not necessarily reflect that an intermediary is not fit for use. Depending on the circumstances, an auditor (or the firm, on behalf of engagement teams) can perform additional procedures to evaluate the implications on the reliability of confirmation requests and responses. For example, an auditor (or the firm) may be able to obtain an understanding of how a specific control failure impacts (or does not impact) the confirmation process and perform additional procedures to overcome the issue. Accordingly, it may be possible for auditors to conclude there is a remote risk of interception and alteration, such that the intermediary can still be used to facilitate direct electronic transmission of confirmation request and responses.

¹⁵ 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."



We recommend revising the requirement in paragraph .B3 to enable auditors to exercise judgment to determine if the intermediary's controls and processes are appropriate for the auditor's purposes, taking into account the auditor's judgment about the risk of interception and alteration as follows:

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.

Anecdotally, we have observed a concentration of intermediaries used in the marketplace. If an intermediary receives a qualified SOC report with a negative indicator about its controls, and the proposed standard does not permit auditors to perform additional procedures to address the negative indicator, this could have severe and pervasive effects on the ability of auditors to perform confirmation procedures in accordance with the proposed standard.

How confirmations are used to respond to assessed risks of material misstatement due to fraud

We are concerned that the proposed standard could exacerbate the expectation gap in relation to fraud. For example, the proposing release states that "an audit confirmation process designed and executed under the new proposed standard should benefit investors and other users of a company's financial statements by *reducing the likelihood that the financial statements are materially misstated, whether due to fraud or error*" (emphasis added). The proposing release also highlights various PCAOB and SEC enforcement cases alleging auditor failures to execute effective confirmation procedures to address fraud.¹⁶ Finally, paragraph .07 of the proposed standard states that, "[i]n situations involving fraud risks and significant unusual transactions, audit evidence obtained through the confirmation process generally is more persuasive than audit evidence obtained solely through other procedures."

Confirmations may be one type of procedure, often used in combination with other procedures, to respond to certain elevated risks of material misstatement due to fraud, depending on the nature of the fraud risk. However, the proposing release, whether intended or inadvertent, may set an unrealistic expectation that performing confirmation procedures consistent with the proposed standard could prevent frauds from going undetected. When appropriately designed and executed, confirmation procedures may adequately address certain risks of material misstatement due to fraud; however, when third parties collude with auditees, detection of the fraud is much more difficult.¹⁷

We agree (in line with AS 1105) that evidence obtained from a knowledgeable source independent of the company is *generally* more reliable than evidence obtained only from internal company sources. However, we are concerned that the suggestion that confirmations should be used as the primary way of addressing fraud risks may undermine the need for professional judgment in designing and performing audit procedures to address the assessed risk and result in auditors defaulting to confirmations in situations when confirmations may not be effective or efficient.

¹⁶ PCAOB Release No. 2022-009, pages 11-12

¹⁷ 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).



We note that the PCAOB has a project on its standard-setting agenda to consider how AS 2401¹⁸ should be revised to better align an auditor's responsibilities for addressing intentional acts that result in material misstatements in financial statements with the auditor's risk assessment, including addressing matters that may arise from developments in the use of technology. That project would provide the PCAOB with a better opportunity to more holistically consider how confirmations, as well as other procedures (including those that are technology-enabled), may be an appropriate response to certain fraud risks. Accordingly, we recommend that the PCAOB remove the language in paragraph .07 of the proposed standard, and consider whether it is appropriate to develop additional requirements or guidance in relation to confirmations in the context of its fraud project.

Practical challenges related to how certain proposed requirements are drafted

We are concerned that certain of the proposed requirements could create practical challenges in implementation as follows.

Identifying information to confirm and designing confirmation requests

Paragraph .17 of the proposed standard notes that the auditor should test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm, and refers to paragraph .10 of AS 1105. However, AS 1105 requires auditors to test *either* 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. We believe paragraph .17 should be amended to align with AS 1105 and enable auditors to also test controls over the accuracy and completeness of information produced by the company.

Additionally, as it relates to designing confirmation requests more broadly, we recommend that the Board retain a requirement similar to paragraph .23 in extant AS 2310 that allows for consideration of prior experience when designing confirmations. In practice, auditors often consider prior experience when designing their audit strategy and determining the expected efficiency and effectiveness of confirmation procedures, such as past response rates.

Lastly, we suggest the Board add the following language from extant AS 2310 in the note to proposed paragraph 16:

“However, blank forms might result in lower response rates because additional effort may be required of the recipients; consequently, the auditor may have to perform more alternative procedures.”

We believe that this is an important consideration when designing effective confirmations.

Addressing nonresponses

Paragraph .28 of the proposed standard would require auditors to send a second positive confirmation request to the confirming party if the auditor does not receive a response, unless the auditor has become aware of information that indicates that the confirming party would be unlikely to respond to the auditor. While we believe that following up is an important part of the confirmation process, requiring the auditor to send a second request is unduly prescriptive, and may result in an unnecessary and potentially ineffective administrative effort or put pressure on resources that may ultimately need to perform alternative procedures. We recommend the Board revert to language similar to paragraph .30 of extant AS 2310.30 that “the auditor should generally follow up with a second and sometimes a third

¹⁸ AS 2401, *Consideration of Fraud in a Financial Statement Audit*



request to those parties from whom replies have not been received.” This follow up may not involve sending a second request, but rather contacting the confirming party to request a response to the initial confirmation request.