

February 20, 2023

Sent via e-mail: 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:

Plante & Moran, PLLC ("PM," "the Firm," or "we") 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 are committed to performing high-quality audits in accordance with professional standards, and 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

We support the Board's objective of updating its interim standard related to the confirmation process as the confirmation process has continued to evolve since adoption. We 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).⁴

General Observations

We generally support the objectives of the proposal as set forth by the Board. However, we have some concerns about specific proposed requirements that we encourage the Board to address in the final standard. Our specific concerns are included in the responses to the questions below. Specifically, 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.

¹ See Release page 4.

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>.

Risk Assessment and Auditor Judgment

In an audit performed in accordance with PCAOB standards, the auditor's risk assessment is the basis for designing and implementing responses to the risks of material misstatement. 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

We support the integration of the Board's risk assessment standards with the proposed standard through incorporating certain risk-based considerations. 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 for a particular audit engagement. Instead, the proposed standard includes certain prescriptive requirements for the confirmation process, regardless of the assessed level of risk.

Specifically, the proposed standard:

- Continues to require the auditor to use confirmations regardless of the assessed risk of material misstatement, which is inconsistent with the Board's risk assessment standard;
- Creates a new requirement for the auditor to confirm cash with no ability to overcome the presumption to confirm cash; and
- 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).

Certain new proposed provisions may hinder the auditor's ability to apply professional judgment to risk and response determinations. 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, but they can also be appropriate responses for other accounts and disclosures not specified in the proposed standard. Further, confirmations may be more appropriate to use when relevant accounts and assertions have a higher risk, rather than required to be used regardless of the risk assessment, which may promote a checklist mentality that does not contribute to audit quality and an audit approach that may be less efficient and effective. Further, we believe auditors may view this as counterproductive to the spirit of the risk assessment standard, which builds the foundation of the audit approach. To truly execute a risk-based audit approach that promotes audit quality, as well as an effective and efficient audit, the standard should allow auditors to make the determination of when and how confirmations should be used in an audit.

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."

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*.

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.” While the proposed standard itself does not explicitly state that confirmations are the most persuasive form of audit evidence, discussions in the Release imply this may be the Board’s view. Persuasiveness of audit evidence should be commensurate with the risks identified. For example, in situations where inherent risk is high, fraud risks exist, and control risk is at maximum, confirmations may be warranted along with other appropriate procedures. However, the proposed standard does not contemplate situations where inherent risk may be less than high and controls are operating effectively, which reduces the risk of material misstatement and the need for the most persuasive audit evidence. Pursuant to an auditor’s risk assessment (and in accordance with AS 2301 and paragraphs .04 - .06 of AS 1105, *Audit Evidence*), as risk increases, so must the amount of audit evidence that the auditor obtains to address the risk. Conversely, accounts and assertions with lower risk require less persuasive evidence. Requirements to use confirmations for these lower risk accounts and assertions increase the level of effort and documentation required without a corresponding benefit to audit quality. Further, confirmations, in some cases may not provide the most persuasive audit evidence as further described below.

As discussed above, we believe the final standard should be risk based and allow for auditor judgment in determining the appropriate audit response. However, given that the proposed standard contemplates including a provision for the auditor to overcome the presumption to confirm accounts receivable, we have additional concerns with the statement “...would provide audit evidence that is at least as persuasive as...” in paragraph .14 of the proposed standard. Given the emphasis 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. Further, if there are procedures that are “as persuasive as” confirmations, then this statement may imply that confirmations are not the most persuasive audit evidence. In either case, this statement may result in obtaining more evidence than necessary. Further clarification may be necessary to understand the Board’s intent for this requirement. We believe there are various sources of audit evidence that in combination may provide sufficient audit evidence to address the risks identified. Further, with increasing concerns around cybersecurity which has affected confirmation response rates and raised concerns as to the reliability of confirmations, other forms and sources of audit evidence driven by technological advancements may become more important and achievable. We ask that the Board consider this in determining whether confirmations are, in fact, the most persuasive form of audit evidence.

Fraud Identification

The Release also highlights various PCAOB and SEC enforcement cases alleging auditor failures to execute effective confirmation procedures to address fraud.⁷ 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 or that confirmations are an appropriate audit response to fraud risks. When appropriately designed and

⁷ See Release pages 11 and 12.

executed, confirmation procedures may adequately address certain risks of material misstatement, including those due to fraud; however, we also believe other procedures could accomplish the same objective or may be more appropriate to address risk of material misstatement due to fraud. Further, when third parties collude with auditees, detection of the fraud, under any circumstance, is much more difficult.⁸

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.

We recommend that the Board revise the final standard to:

- Eliminate the presumption to confirm cash and accounts receivable to align the proposed standard with the Board's risk assessment standards.
- If elimination of the presumption is not feasible, then:
 - Include criteria to overcome the required confirmation of cash, and
 - Consider the implications of promoting confirmations as the most persuasive form of audit evidence. Specifically, the implication on the auditor's inability to identify sufficient alternative procedures to overcome the presumption and the inconsistency with the ability to perform other procedures, as suggested in paragraph .31, that suggest there are alternative procedures that would be acceptable in place of a confirmation under certain circumstances described in paragraphs .20 (inability to identify a confirming party), .26 (unreliable response), and .30 (nonresponse or incomplete response).

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, we believe it is important for an auditor to apply professional judgment in determining whether the use of confirmations is appropriate and effective based on their risk assessment for each audit.

⁸ 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).

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, as it relates to this matter, 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.

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?

Yes. We believe the Board should consider eliminating the requirement to confirm cash and presumption to confirm accounts receivable and rather allow auditors to determine an appropriate response to address risks identified. Paragraph .09 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, states that "in designing the audit procedures to be performed, the auditor should obtain more persuasive evidence the higher the auditor's assessment of risk". The proposed standard requires auditors to confirm cash and accounts receivable regardless of the assessed risk of material misstatement and places the burden on auditors to rebut the presumption (relative to accounts receivable). We believe this is inherently included in the risk assessment process and would more effectively identify appropriate procedures and audit evidence commensurate with the risks identified for the relevant account and assertion. As it relates to cash, there is no ability to overcome such presumption, which could result in performing confirmations and obtaining the most persuasive evidence for risks that are less than high. This could result in expending unnecessary time and effort to either rebut the presumption or address issues identified later in the audit as a result of non-responses and exceptions. Further, we believe by requiring confirmations regardless of assessed risk, the messaging is inconsistent with the spirit of the risk assessment standard and could promote a checklist mentality.

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. First and foremost, we encourage the Board to consider eliminating the requirement to confirm

cash. Second, we have concerns with regard to certain proposed requirements and suggest the Board provide further clarification to enable the application of auditor judgment.

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 assessed levels of risks are less than high or confirmations would not be effective due to the likelihood of receiving incomplete responses or nonresponses. Auditors should have the ability to use professional judgment in determining whether confirmations are an appropriate procedure based on the assessed level of risk. If the Board decides that eliminating the presumption to confirm cash is not feasible, we suggest the Board at least add the ability to overcome the presumption to confirm cash as well as consideration of AS 1105, *Audit Evidence*, in determining how to overcome such presumption.

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.

Yes. A combination of audit procedures, including test of controls in some cases, could provide evidence as persuasive as confirmations. Further, audit evidence should be sufficient and appropriate in response to the assessed risk of material misstatement. In instances where risk is high and there is no controls reliance, the highest level of evidence may be necessary. In other instances, the combination of various audit procedures could provide both internal and external audit evidence to address the identified risks sufficiently and appropriately.

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?

Although the proposed standard appears to allow for judgment in selecting which accounts should be confirmed, we encourage the Board to consider allowing auditors judgment in determining the extent of confirmations used as well as other procedures over cash accounts based on the assessed level of risk.

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

No. We believe the proposed standard should align more closely to the risk assessment standards and allow for auditor judgment in determining whether confirmations are the most appropriate audit response. See response to Q9 above. If the Board decides that eliminating the presumption to confirm accounts receivable is not feasible, we suggest the Board at least consider incorporating more of the concepts included in AS 1105, *Audit Evidence*, in determining how to overcome such presumption, rather than highlighting certain paragraphs that may imply a higher bar for determining what procedures would be “as persuasive as” confirmations. 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. Further, we note 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 important that auditors are able to perform procedures other than confirmation to obtain audit evidence for accounts receivable and other accounts or disclosures.

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?

No. 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. While the proposed standard itself does not explicitly state that confirmations are the most persuasive form of audit evidence, discussions in the Release imply this may be the Board's view. 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.

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 believe this is reflected in the proposed standard and should be clarified. Similarly, we believe the process of identifying risks and designing responses includes consideration of whether confirmations are an effective procedure, which supports eliminating the presumption to confirm accounts.

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 suggest eliminating the presumption to confirm accounts receivable and focus on risk assessment procedures and designing appropriate audit responses. However, if such a presumption is required, 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. Further, confirmations may not be reliable or otherwise effective, such as in instances where there is a higher risk of errors in the responses or where historically low response rates have been observed. 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. Auditors may communicate the determination to overcome the confirmation of accounts receivable when it presents a significant risk of material misstatement or a fraud risk. However, it may not be beneficial for auditors to communicate that the presumption has been overcome when accounts receivable was assessed as a lower risk.

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 .09 and .12 of the proposed standard, it is clear that an auditor is required to perform confirmation procedures over cash and accounts receivable, however, additional clarification is needed to understand the Board's expectations for "should consider confirming" as it relates to complex or significant unusual transactions under paragraph .15. Although the Release states the new proposed standard does not require the auditor to send confirmation requests in response to significant risks and allows for the exercise of professional judgment by the auditor, "should consider" implies the auditor would be required to document their consideration for why they did not perform such procedures. Further, when taken in context of the 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.

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 audit evidence.⁹ 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 agree 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.

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. Clarification is required as to the definition of “indicators,” which can be different than a deficiency in relevant controls. Such indicators may warrant additional investigation, which may result in identification of compensating controls, or a means to overcome the “indicator” or conclude no impact to the reliability of the intermediary.

For operational or other reasons, many confirming parties will only participate in the confirmation process through an intermediary, such as in the financial services industry. 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

⁹ See Release page 29.

profession perform confirmation procedures. Further, the proposed standard does not provide an opportunity to overcome the presumption to confirm cash, even in situations where the ability to confirm is out of their control. Additional clarity is needed to understand alternatives under circumstances such as these.

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?

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, however, it is uncertain whether the procedures the Board describes in paragraph .31 in the proposed standard as being acceptable alternative procedures when the auditor is unable to obtain relevant and reliable audit evidence through confirmation would also be considered acceptable procedures to use which would provide evidence “as persuasive as” confirmations when overcoming the presumption to confirm.

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.

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.

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. Based on the responses provided above, the final standard would significantly affect firm methodologies, related tools, and guidance, which will need to be fully updated prior to the beginning of the audit year in which the final standard becomes effective. We 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, and effectively implement them so they are prepared by the time the final standard becomes effective. A longer implementation period will enable the firms, intermediaries, and staff/Board to discuss potential implementation issues and inform additional guidance.

In order for firms and intermediaries to sufficiently prepare, we strongly recommend that the final standard be effective for audits of fiscal years beginning on or after December 15, 2024.

We appreciate the opportunity to comment on the proposed auditor's use of confirmations standard and related amendments. 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 Steve Neiheisel (steve.neiheisel@plantemoran.com) or Bora Brock (bora.brock@plantemoran.com).

Sincerely,



Plante & Moran, PLLC



Plante Moran, P.C.

cc: **PCAOB**

Erica Y. Williams, Chair
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