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February 21, 2023

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

**GAO's Comments on the PCAOB Rulemaking Docket Matter No. 028: PCAOB Release No. 2022-009, *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards*, December 2022**

This letter provides GAO's comments on the Public Company Accounting Oversight Board's (PCAOB) exposure draft, *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards*. The PCAOB seeks comment on 49 specific questions. We are providing a high-level response; the overarching nature of our comments makes them applicable to multiple questions.

GAO provides standards for performing high-quality audits of government organizations, programs, activities, and functions and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations with competence, integrity, objectivity, and independence.<sup>1</sup> These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. For financial audits, GAGAS incorporates by reference the AICPA's Statements on Auditing Standards.

We appreciate the PCAOB's efforts to establish auditing standards on audit confirmations for registered companies and agree that confirmation procedures can be an important means of obtaining audit evidence. However, we encourage the PCAOB to harmonize its standards with those of other standard setters to the extent possible. We believe the proposed standard should allow for greater use of auditor professional judgment around alternative procedures to confirmations.

**We encourage the PCAOB to Harmonize its Standards with Other Standard Setters to the Extent Possible and Clarify the Expected Result From Any Differences That Are Considered Necessary**

We commend the PCAOB for developing supplemental materials to help users recognize differences between the requirements of this proposed standard and analogous standards of the International Auditing and Assurance Standards Board (IAASB) and the AICPA Auditing Standards Board (ASB). However, while the comparison of the new proposed standard identifies certain significant differences among the various standards, it does not adequately explain the reasons for all significant differences or the changes in practice that are expected to result from these differences.

We urge the PCAOB to consider whether its planned revisions to the standards will create unnecessary differences between its auditing standards and standard setters for non-issuers.

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<sup>1</sup>GAO, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](#) (Washington, D.C.: July 2018).

For those areas where the PCAOB believes that differences are necessary, we urge PCAOB to clearly explain the changes in practice that are expected to result from these differences.

**The Proposed Standard Should Allow for Greater Use of Auditor Professional Judgment around Alternative Procedures to Confirmations, as Long as Evidentiary Requirements Are Met**

GAO does not dispute the premise that confirmation procedures can provide adequate and reliable evidence, but (1) such procedures may not provide the most adequate and reliable evidence to support management's assertions in every situation and (2) such requirements could reduce the use of auditor professional judgment when determining the proper combination of procedures for obtaining adequate and reliable evidence to support management's assertions, based on audit risk and materiality.

The proposed standard could lead to overreliance on confirmation procedures. In addition, it could cause auditors to spend time on confirmations when other audit procedures may be more appropriate, especially in unique situations. For instance, confirmations may not be the most effective audit procedure for immaterial cash balances. For accounts receivable, as described in AICPA's AU-C Section 330, external confirmation procedures may be ineffective in certain circumstances such as when the confirming party lacks objectivity or responses are expected to be unreliable. Additionally, when the auditor's assessed level of risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk, other audit procedures may be more effective.

A more effective approach for obtaining evidence to support the entity's assertions is to apply provisions of the audit risk and evidence standards to determine whether audit confirmation procedures would be most effective. These standards and the related guidance provide sufficient principles-based direction for auditors in determining when to use confirmation procedures.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).



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