



March 2, 2023

By email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Ms. Phoebe W. Brown  
Office of the Secretary, PCAOB  
1666 K Street, NW  
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 028, *Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*

Dear Secretary Brown:

CohnReznick LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (PCAOB or Board) Release No. 2022-009, *Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* (the new proposed standard).

CohnReznick is the 15<sup>th</sup> largest accounting firm in the US, with origins dating back to 1919. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our feedback will provide perspectives on the impact that the proposed standard might have on audits of small and medium-sized entities.

In addition to our overall observations below, we respond to some of the specific questions on which the PCAOB is seeking comment in the Appendix to this letter.

## **OVERALL RESPONSE**

### **General Support**

We support the development of the proposed PCAOB Strategic Plan 2022-2026 (“Strategic Plan”) and believe that it will, overall, subject to our comments below and in the Appendix serve the public interest.

### **Need for Collaboration with Other Standard Setters, Including AICPA and IAASB**

We recommend the PCAOB consider that the dual standard setter structure in the United States creates two issues that could erode audit quality:

- The difficulties encountered and resources used by firms in complying with PCAOB standards, American Institute of Certified Public Accountants (AICPA) AU-Cs, and International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISAs). By having to maintain different or overlapping methodologies, the resources of firms, from staff through partner level, both at the engagement team and in national office level, are pulled away from the pure concept of performing high quality audits.

- The lack of robust collaboration between standard setters (the PCAOB and the AICPA Auditing Standards Board (ASB)) prevents brainstorming and information sharing that would benefit audit quality. Many of the same risks of material misstatement in private companies affect public companies and vice versa.

In order to serve the public interest, we recommend the PCAOB consider:

- 1) converging PCAOB standards with ISA/US GAAS, or even reimplementing updated US GAAS as promulgated by the ASB for the audits of public companies, and
- 2) seeking a board seat on the ASB to maintain appropriate continuing involvement in standard setting and continue serving the public interest by contributing its knowledge and observations to standard setting

### Benefits of a Reimplementation of US GAAS for Public Company Audits

Audit quality and the public interest are served by the reimplementation of US GAAS for public company audits for multiple reasons:

In particular, audit quality and the public interest will be served by:

- Robust and focused PCAOB involvement in the AICPA's activities. The PCAOB's involvement as a board member of the ASB would help further prioritize efforts aimed at facilitating audit quality. This approach would result in having additional resources focused on research, analysis, and other data-driven audit quality-oriented matters. This would help alleviate the resource-related challenges that arise from having to develop and maintain different sets of standards, many of which have common overarching objectives and principles.
- A universal set of updated and fit-for-purpose standards. Public company audits would gain the benefit of one robust set of updated standards geared for both a US and international environment at a time of growing globalization and cross border financial reporting. We believe that the provisions in US GAAS are generally "fit-for-purpose" for audits of public entities. As such, we suggest that these standards be used as a baseline for auditing and that the rationale for incremental requirements be expressly highlighted.
- Increased time and focus on audit quality. Reducing the amount of time and effort that firms of all sizes spend addressing the nuanced, and non-substantive, differences between PCAOB and US GAAS will free up resources to focus on the more substantive and complex audit matters that are relevant to achieving high-quality audits.
- Increase in talent mobility. Minimizing the differences in the standards that apply to audits of financial statements of companies in the US and around the world will drive more consistent application of the standards across firms. This will help accommodate inter-firm mobility and address resource constraints and pressures, particularly during a period where CPAs numbers at all levels are dwindling.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at [steven.morrison@cohnreznick.com](mailto:steven.morrison@cohnreznick.com) or Diane Jules, Director, Audit Quality Group, at [diane.jules@cohnreznick.com](mailto:diane.jules@cohnreznick.com).

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

CohnReznick LLP

## **APPENDIX – SPECIFIC RESPONSES TO SELECT QUESTIONS**

### **2. Would investors find it useful in making investment decisions to have more information about the auditor’s use of confirmation in the audit of an issuer’s financial statements? If so, what type of information would be useful to investors and how might it be provided?**

The PCAOB may want to consider that providing extensive information on confirmation procedures in the auditor’s report may give undue prominence to areas subject to confirmation at the expense of other accounts that may be more subjective. Also, depending on the nature of information disclosed about the auditor’s use of confirmations, such may imply greater-than-reasonable or even near-absolute level of assurance or, conversely, cast doubt on the effectiveness of confirmations. Further, there is a risk that providing information about specific auditor procedures undertaken (e.g., use of confirmations in the audit) may be distracting/confusing to investors who may not have the appropriate context to draw meaningful conclusions. We believe that the auditor’s report should focus on providing transparency about the outcome of the audit instead of including details about audit procedures and processes which over time could become boilerplate in nature and clutter the auditor’s report.

### **3. 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?**

There is a pervasive use of technology in today’s business environment, with an increased use of automated tools, data analytic techniques and other technology-based tools by auditors. We encourage the PCAOB to further modernize the proposed standard and incorporate the use of technology into the auditor’s objective to obtain sufficient appropriate audit evidence similar to how the AICPA did in revising its Statement on Auditing Standards (SAS) 142, *Audit Evidence*. We believe the focus of the auditor should remain on obtaining sufficient appropriate audit evidence.

Regarding the concept of more explicitly addressing the use of technology, including situations where the use of technology might improve the quality of evidence obtained through the confirmation process, we have concerns about referring to specific means by which information should be confirmed in the proposed standard (e.g., fax/facsimile). Given the ever-evolving nature of technology, what is available and effective now, may become dated over time. At best, such examples may just be outdated and unhelpful, at worst, the example might be unintentionally misleading to auditors as technologies evolve as what was once considered persuasive evidence may no longer be so.

### **4. Is the objective of the new proposed standard clear? If not, how should it be clarified?**

We believe the objective of the new proposed standard is clear.

### **5. 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 new proposed standard 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.

**6. 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?**

No. We believe confirmation should not be required for additional accounts or assertions. We believe the auditor should determine the nature, timing, and extent of further audit procedures (including confirmations) necessary to obtain sufficient appropriate audit evidence. Prescriptive requirements about which accounts or financial statement assertions an auditor should be required to perform confirmation procedures on may detract from audit quality by unnecessarily focusing the auditor on check-the-box audit approach which might achieve compliance as opposed to designing a risk-based audit and obtaining sufficient appropriate audit evidence.

**7. 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?**

We believe not including such a requirement in the new proposed standard, is appropriate. We believe the auditor should determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. A requirement to send confirmation requests in response to significant risks related to assertions that could be adequately addressed through confirmation will likely not improve audit quality. The auditor still has to obtain sufficient appropriate audit evidence and confirmations may not contribute to such in responding to significant risks. Plus, the determination of whether or not a significant risk “could be adequately addressed through confirmation” is overly subjective and will create inspection findings and related responses that may not necessarily contribute to audit quality.

**8. Is the new proposed standard 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)? If not, what changes or additions should we consider to address confirmation of newer types of assets?**

We believe the new proposed standard is sufficiently flexible to accommodate situations where an auditor chooses to confirm information about newer types of assets and recommend the PCAOB remain alert for circumstances in the future indicating the new proposed standard, if implemented, is not sufficiently flexible. Refer also to our response to Question 3.

**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?**

We believe such requirements in the new proposed standard are sufficiently clear and appropriate, except for regarding “third parties.” We believe, as currently proposed, that “third parties” may be interpreted by a number of auditors as “financial institutions” only. We believe adding guidance such as what is underlined below will be helpful to auditors. The underlined wording below is adapted from D(1)(i) on page 21 of PCAOB Release 2022-009.

.09 For cash and cash equivalents held by third parties (“cash”), the auditor should perform confirmation procedures.

Note: The term “third parties” is not limited to financial institutions, but can include others such as money transfer providers.

**12. For other financial relationships with the confirming party, is the requirement in the new proposed standard that the auditor should consider confirmation sufficiently clear and appropriate?**

We believe such a requirement in the new proposed standard is sufficiently clear and appropriate.

**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?**

We have concerns that the way the new proposed standard is drafted may be interpreted as all cash accounts should be confirmed in all instances. We are proposing that the PCAOB include wording such as that below to expand on the requirement in paragraph .10. Our suggested wording (underlined below) is adapted from D(1)(i) on pages 20 and 21 of PCAOB Release 2022-009.

.09 For cash and cash equivalents held by third parties (“cash”), the auditor should perform confirmation procedures.

.10 In selecting the individual items of cash to confirm, the auditor should take into account the auditor’s understanding of the company’s cash management and treasury function, and the substance of the company’s arrangements and transactions with third parties.

NOTE: An auditor might select bank accounts with balances over a certain amount, accounts with a high volume of transactions, accounts opened or closed during the period under audit, or accounts the auditor identifies as particularly risk-prone. Alternatively, the auditor might determine it is appropriate to confirm all cash accounts. The auditor would also follow the direction in PCAOB standards when determining whether performing procedures in addition to confirmation is necessary to address the assessed risk of material misstatement relating to cash.

We do encourage the PCAOB to ensure the expectations on what is appropriate for auditors to perform (confirm all year-end cash accounts, accounts opened and/or closed, etc.) and document in this regard is specifically articulated in the standard itself and not through the inspection process.

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

We believe the continued requirement to confirm accounts receivable is sufficiently clear and appropriate.

**15. 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?**

We believe such provisions are sufficiently principles based.

**16. 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?**

We believe the description of accounts receivable is sufficiently clear.

**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?**

We believe the description of the ability to overcome the presumption to confirm accounts receivable is not sufficiently clear and appropriate. As drafted, the proposed standard indicates the presumption to confirm accounts receivable may be overcome when the auditor determines that performing other substantive procedures (without using confirmation) would provide audit evidence at least as persuasive as the evidence that the auditor might expect to obtain through performing confirmation procedures. We believe this wording is vague and might lead to auditor confusion and inconsistent application in practice. We recommend the PCAOB consider adopting the requirements in AU-C 505 which provides more specific and clearer guidance to assist auditors determine when the presumption to confirm accounts receivable may be overcome. This includes:

- the overall account balance is immaterial,
- external confirmation procedures would be ineffective, or
- 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.

**18. 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?**

Yes, see our response to Question 17

**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?**

We believe the proposed requirement is sufficiently clear but is not appropriate. We believe the proposed communication of the "basis for the auditor's determination" is overly prescriptive and granular and potentially compromises the effectiveness of the audit by making the auditor's procedures too predictable.

**20. 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 standard would be clearer and more appropriate if "significant unusual transactions" was removed. We believe sufficient appropriate audit evidence may be obtained with the requirement focused on risks of material misstatement. Also, we believe the consideration of significant unusual transactions, if there is a reasonable possibility of a

material misstatement, is included in a focused requirement on “significant risks of material misstatement.” Our proposed change to paragraph 15 is below with a strikethrough:

~~.15 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.~~

**21. Is the new proposed standard sufficiently clear that an auditor’s use of confirmation is not limited to the circumstances discussed in paragraphs .09 through .15 of the new proposed standard? If not, how should it be clarified?**

We believe the new proposed standard is sufficiently clear in this regard.

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

We do not believe the provisions of the new proposed standard are sufficiently clear and appropriate. We have the following concerns:

1. The proposed note to paragraph 16 appears to infer that “blank form” confirmations should be used. We recommend the underlined wording below, from AU-C 505.A6, be added to provide the appropriate context to assist auditors.
2. We believe the requirement to test the accuracy and completeness of information produced by the company will result in duplicative audit procedures. For example, for a listing of cash accounts, the confirmations themselves contribute to the mix of evidence for the auditor to conclude. Also, the relevant requirement regarding information produced by the company already exists in AS 1105.10.

We therefore suggest that the Board consider making the following edits to paragraph 16 of the proposed standard:

~~.16 The auditor should identify the information related to the relevant assertions that the auditor plans to verify with confirming parties or (when using a blank form) obtain from confirming parties.~~

Note: Some forms of **positive confirmation requests** ask the confirming party to indicate whether the confirming party agrees with the information stated on the request. Other forms of positive confirmation requests, referred to as blank forms, do not state the amount (or other information) to be confirmed, but request the confirming party to fill in the balance or furnish other information. ~~Using a blank form confirmation request may provide more reliable audit evidence than using a confirmation request that includes information the auditor is seeking to confirm (e.g., customer account balance).~~

A risk exists, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request and that ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required from the confirming parties to provide the requested information.

~~.17 The auditor should test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm.~~



**23. Are the provisions of the new proposed standard related to identifying confirming parties sufficiently clear and appropriate?**

We believe the provisions are clear and appropriate and commend the PCAOB for incorporating the concept of bias as the AICPA ASB has done in AU-C 500.

**24. 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?**

We believe 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, is sufficiently clear and appropriate. We do not believe the new proposed standard should contain specific procedures for the auditor to test information about the confirming party (e.g., the address) as we believe it could encourage a checklist mentality and may not be effective in all audits due to the facts and circumstances in an individual engagement now or in the future as technology evolves. We also recommend that the PCAOB withdraw subparagraph (c) in the note to paragraph 25 of the proposed standard. because it appears to create a de facto requirement that if the original confirmation is not returned that the confirmation response is not valid.

**Evaluating Reliability of Confirmation Responses**

.25 The auditor should evaluate the reliability of confirmation responses, taking into account any information about events, conditions, or other information that the auditor becomes aware of that (i) contradicts the information used when selecting the confirming party pursuant to paragraphs .18 and .19 or (ii) indicates that the confirmation request or confirmation response may have been intercepted and altered.<sup>8</sup>

Note: The following are examples of indicators that a confirmation response may have been intercepted or altered:

- a. The confirmation response comes from a physical or electronic address other than the address on the confirmation request.
- b. The confirmation response does not include a signature of the confirming party or otherwise identify the confirming party.
- ~~c. The confirmation response does not include a copy of the original confirmation request, e-mail chain, or any other information indicating that the confirming party is responding to the auditor's confirmation request.~~

**25. Are the provisions of the new proposed standard related to the auditor's use of negative confirmation requests sufficiently clear and appropriate?**

We believe such provisions of the new proposed standard are sufficiently clear and appropriate.

**26. 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 such provisions of the new proposed standard are sufficiently clear and appropriate. We acknowledge that as a result of the increase in use of services such as Confirmation.com, such guidance is appropriate. We do encourage the PCAOB to ensure its expectations about what is appropriate for auditors to perform and document in this regard be expressly articulated in the final confirmation standard. Doing so will help drive consistency in terms of how the new confirmation standard is implemented across firms and might reduce the likelihood of the Board needing to provide clarifications through the inspection process.

**27. Is the potential interaction between using an intermediary in the new proposed standard and the proposed requirements in QC 1000 related to third-party providers sufficiently clear?**

We believe the potential interaction in the new proposed standard is sufficiently clear in the proposal, but not in the standard itself.

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

We believe such provisions of the new proposed standard are sufficiently clear and appropriate.

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

We believe such provisions of the new proposed standard are sufficiently clear and appropriate.

**30. 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?**

We believe such provisions of the new proposed standard are sufficiently clear and appropriate.

**31. 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 such provisions of the new proposed standard are sufficiently clear and appropriate.

**32. Are there any additional examples of alternative procedures that we should consider for inclusion as examples in the new proposed standard?**

We believe such provisions of the new proposed standard are sufficiently clear and appropriate.

**35. 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?**

Management may have legitimate reasons for requesting the auditor not to confirm. We do believe an auditor should be required to consider whether such a request is indicative of a risk of material misstatement. Accordingly, we recommend the PCAOB consider adding a requirement such as the following:

If management requests an auditor not to confirm a certain item, the auditor should request management to indicate the reason for such request. As appropriate, the auditor should consider whether such a request is indicative of a risk of material misstatement.

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

We believe the definitions included in the new proposed standard are sufficiently clear but question whether having different wording than what is in AU-C 505, such as for “exception” and positive and negative “confirmation request” is necessary and in the public interest.

**44. We request comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release adequate? Are there additional potential unintended consequences that we should consider? If so, what responses should be considered?**

Please see our Overall Response.

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

Given that auditors sometimes send confirmations at interim periods, to allow for a proper implementation of the standard, we recommend that compliance be not for fiscal years beginning after the year of SEC approval, but the following year.

**49. 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?**

Depending on timing of SEC approval, we do believe that requiring compliance for fiscal years beginning after the year of SEC approval may present implementation challenges. Auditors sometimes request confirmations at interim dates and the timing of the SEC approval might be of such that only months will have passed before an auditor is sending confirmations. To allow for a proper implementation of the standard, we recommend that compliance be for fiscal years beginning after the year of SEC approval, but the following year.