

## The Auditor's Use of Confirmation, and Other Amendments to PCAOB Standards

Amendments to PCAOB Auditing Standards: Comparison to Existing Standards (PCAOB Release No. 2023-008, Appendix 2)

*On September 28, 2023, the Public Company Accounting Oversight Board adopted amendments to its standards, as reflected in "The Auditor's Use of Confirmation, and Other Amendments to PCAOB Standards," PCAOB Release No. 2023-008. The amendments have been approved by the Securities and Exchange Commission, see SEC Release No. 34-99060 (December 1, 2023), and will be effective for audits of financial statements for fiscal years ending on or after June 15, 2025.*

*This comparison document was prepared by staff of the Office of the Chief Auditor as a reference tool for the amendments presented in Appendix 2 of the PCAOB release. It shows changes from the existing standards, with added text underscored and deleted text ~~stricken through~~.*

*Amendments for the following PCAOB standards are included in this document:*

- AS 1105, *Audit Evidence*
- AS 1301, *Communications with Audit Committees*
- AS 2401, *Consideration of Fraud in a Financial Statement Audit*
- AS 2510, *Auditing Inventories*
- AS 2605, *Consideration of the Internal Audit Function*

### APPENDIX 2 – AMENDMENTS TO RELATED PCAOB AUDITING STANDARDS

- I. AS 1105 is amended by revising paragraph .18 and footnote 10 to paragraph .18, such that revised AS 1105.18 reads as follows:

.18 A confirmation response ~~represents a particular form of audit evidence obtained by the auditor~~ is information obtained as a direct written communication (in paper or electronic form) to the auditor from a third confirming party in response to a confirmation request in accordance with PCAOB standards.<sup>10</sup>

<sup>10</sup> See AS 2310, *The Auditor's Use of Confirmation Process*. The terms "confirmation response," "confirmation request," and "confirming party," as used in this standard, have the same meaning as defined in Appendix A of AS 2310.

II. AS 1301 is amended by adding a bullet at the end of Appendix B to read as follows:

- AS 2310, The Auditor's Use of Confirmation, paragraph .28

III. AS 2401 is amended by revising footnote 21 to paragraph .54 to read as follows:

<sup>21</sup> AS 2310, The Auditor's Use of Confirmation~~Process~~, establishes requirements regarding the use of confirmation process in audits of financial statements.

IV. AS 2401 is amended by revising the note to paragraphs .66A to read as follows:

Note: AS 2301.11A requires the auditor to take into account the types of potential misstatements that could result from significant unusual transactions in designing and performing further audit procedures. Additionally, AS 2310.30 states that for significant risks of material misstatement associated with either a complex transaction or a significant unusual transaction, the auditor should consider confirming those terms of the transaction that are associated with a significant risk of material misstatement, including a fraud risk. Examples of such terms may include terms related to: (i) oral side agreements, or undisclosed written or oral side agreements, where the auditor has reason to believe that such agreements may exist, (ii) bill and hold sales, and (iii) supplier discounts or concessions.

V. AS 2510 is amended by adding footnote 1 to paragraph .14, such that revised AS 2510.14 reads as follows:

.14 If inventories are in the hands of public warehouses or other outside custodians, the auditor ordinarily would obtain direct confirmation in writing from the custodian.<sup>1</sup> If such inventories represent a significant proportion of current or total assets, to obtain reasonable assurance with respect to their existence, the auditor should apply one or more of the following procedures as he considers necessary in the circumstances.

- a. Test the owner's procedures for investigating the warehouseman and evaluating the warehouseman's performance.
- b. Obtain an independent accountant's report on the warehouseman's control procedures relevant to custody of goods and, if applicable, pledging of receipts, or apply alternative procedures at the warehouse to gain reasonable assurance that information received from the warehouseman is reliable.
- c. Observe physical counts of the goods, if practicable and reasonable.
- d. If warehouse receipts have been pledged as collateral, confirm with lenders pertinent details of the pledged receipts (on a test basis, if appropriate).

<sup>1</sup> See AS 2310, *The Auditor's Use of Confirmation*, which establishes requirements regarding obtaining audit evidence from a knowledgeable external source through the auditor's use of confirmation.

VI. AS 2605 is amended by revising paragraph .22 to read as follows:

.22 On the other hand, for certain assertions related to less material financial statement amounts where the risk of material misstatement or the degree of subjectivity involved in the evaluation of the audit evidence is low, the auditor may decide, after considering the circumstances and the results of work (either tests of controls or substantive tests) performed by internal auditors on those particular assertions, that audit risk has been reduced to an acceptable level and that testing of the assertions directly by the auditor may not be necessary. Assertions about the existence of ~~cash~~, prepaid assets and fixed-asset additions are examples of assertions that might have a low risk of material misstatement or involve a low degree of subjectivity in the evaluation of audit evidence.

Note: When performing an integrated audit of financial statements and internal control over financial reporting, refer to AS 2201.18-.19, regarding assessing the interrelationship of the nature of the controls and the competence and objectivity of those who performed the work.

VII. AS 2605 is amended by revising paragraph .27 and adding footnote 7A to paragraph .27, such that revised AS 2605.27 reads as follows:

.27 In performing the audit, the auditor may request direct assistance from the internal auditors, except when PCAOB standards require procedures to be performed by the auditor.<sup>7A</sup> This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise,<sup>8</sup> review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention.

<sup>7A</sup> See, e.g., paragraph .15 of AS 2310, *The Auditor's Use of Confirmation*, which states that the auditor should (i) select the items to be confirmed, (ii) send confirmation requests, and (iii) receive confirmation responses.

<sup>8</sup> See AS 1201, *Supervision of the Audit Engagement*, for the type of supervisory procedures to apply.