

February 17, 2023

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

Re: PCAOB Rulemaking Docket Matter No. 028

Deloitte & Touche LLP (“D&T,” “we,” or “our”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its Interim Analysis No. 2022-009, *The Auditors Use of Confirmation and Other Proposed Amendments to PCAOB Standards* (the “proposed standard” or “the Release”).

When properly designed and executed by the auditor, confirmations provide important audit evidence. We support the Board’s efforts to address the execution of audits when confirmation is a selected audit procedure and to update its existing confirmations standard to reflect changes in business practices, technology advances, and changes in communication methods since its original issuance. These changes include the increased use of electronic communications and use of third-party intermediaries by both companies (e.g., companies outsourcing treasury function activities) and by auditors.

Overall, we believe revisions to AS 2310, *The Confirmation Process*, should align with other PCAOB standards’ risk-based principles, maintain the concept of auditor judgment (specifically related to determining the appropriate responses to identified risks of material misstatement), and be written to evolve with future technologies (i.e., to “future proof” such that the standard will not need to be continually re-opened for data access and other technological advancements). In those respects, we have the following overall suggestions:

Audit Evidence

Auditors plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for their opinion, considering the identified and assessed risks of material misstatement (ROMM) and the quality (i.e., relevance and reliability) and quantity of the audit evidence necessary to appropriately respond to those ROMMs. The Release (e.g., pages 13, 18, 19 and 25 of Section III, and paragraphs 9 and 12 of the proposed standard) seems to infer that confirmation procedures would generally provide more persuasive audit evidence than any other procedure, even if the other procedure would involve obtaining and testing external (third-party) information. PCAOB standards, including AS 1105, *Audit Evidence*, indicate that evidence obtained needs to be sufficient and appropriate for the purpose for which it is intended, which is a significant judgement involving the evaluation of relevance, reliability, and other factors. Accordingly, different risk assessment conclusions reached for different account balances within an audit may lead the auditor to appropriately seek audit evidence with varying degrees of persuasiveness, however still sufficient and appropriate for its purposes.

Due to the facts and circumstances of every audit and the variety of sources of relevant and reliable evidence that are, or may be, available to the auditor, we do not believe a general conclusion can be reached in terms of the relative persuasiveness of audit evidence. We are therefore concerned that designating confirmations, as defined, as more persuasive, may inappropriately bias the auditor when other sources of audit evidence exist that may be more appropriate as well as sufficient for the circumstances, including evidence obtained from third parties using procedures other than confirmation.

Risk-Based Approach and Technology Considerations

We believe that the objective of the proposed standard should be to provide requirements and guidance when the auditor determines (through appropriate risk assessment procedures) that confirmation procedures provide an appropriate response to one or more assertions related to an identified risk of material misstatement. While a confirmation may in many circumstances provide high-quality evidence, what constitutes evidence that is sufficient and appropriate for the circumstances may include evidence obtained through other audit procedures contained in the PCAOB's standards, such as tests of controls, and other types of substantive procedures such as inspection, inquiry, observation, or analytical procedures, with information used in such procedures obtained from external or internal sources as appropriate.

It was unclear from the Release whether the Board feels that confirmations should be contemplated any time they can be used as evidence given the statements about persuasiveness (e.g. the various account balances, transactions, and risks discussed in paragraphs .06 and .07 of the proposed standard), or whether the Board's focus is on confirming cash and accounts receivable, with greater judgement available for other account balances and classes of transactions. We request the Board to clarify its position in the final standard if it is the Board's presumption or intention that auditors send confirmations, as defined, on any and all information that can be confirmed by external parties, as we are concerned this would lead to unnecessary cost and potential timing issues if confirmations were not received and alternative procedures sought. Further we are not sure there would be a commensurate benefit to audit quality. Additionally, it would not give consideration to current or future audit procedures, enabled by technological advancements, that allow for evidence to be obtained from external parties using procedures other than confirmation as defined. If it is not the Board's intent for auditors to always presume to send confirmations for those matters included in paragraphs .06 and .07, we recommend the removal of those paragraphs.

When auditing cash and accounts receivable, we believe auditors should be able to determine the audit procedure that they believe will be effective in providing relevant and reliable audit evidence without a default requirement to confirm in all cases when other evidence may be appropriately persuasive for the circumstances:

- As it relates to cash, auditors currently use audit procedures other than confirmations to obtain audit evidence, including obtaining evidence from third-party organizations to which banks have outsourced treasury functions or gaining direct access to the external information of a financial institution. Other innovations in obtaining access to information, such as obtaining direct feeds of information from a bank or lender, are currently being developed as reliable and appropriate alternatives to performing confirmation procedures, while still resulting in evidence being obtained from a third-party. As technology continues to evolve, we can expect that the ways that auditors can access reliable external information regarding cash balances that do not meet the definition of confirmation will continue to expand, consistent with the PCAOB's stated views in the Release that "...auditing standards should allow for continued innovation by auditors in the ways they obtain audit evidence". While the relative persuasiveness between alternative sources of relevant external evidence can be debated, strong arguments can be made that audit procedures such as direct access to third party banking information is more persuasive than confirming a cash balance, as defined in the proposed standard.
- For accounts receivable auditors have noted deteriorating trends in response rates to confirmation requests sent to customers, vendors, and other third parties in recent times. In some cases, confirming entities have instituted policies that they will not respond to confirmation requests. We have also observed increased trends by confirmation recipients to ignore requests due to suspicions of phishing and identity theft schemes. While we agree with the Board that receipt of an accounts receivable confirmation reply may be high-quality audit evidence, confirmation procedures may be ineffective due to expected high nonresponse rates, resulting in the need for alternative procedures to be planned and performed but only after the effort has been expended, unsuccessfully, in seeking to receive confirmation replies including sending multiple requests. Requiring, or adopting a presumptive requirement to confirm accounts receivable rather than enabling the auditor to use professional judgment in considering other relevant and reliable alternatives, for example, evidence of cash receipts subsequent to year end, may increase the cost of the audit without a substantial change in audit quality.

Therefore, we believe the final standard should not include prescriptive requirements (i.e., those in paragraphs 9 and 12 of the proposed standard) to perform confirmation procedures that would limit the auditor's judgment to assess and respond to risks or otherwise supersede the auditor's conclusion as to what constitutes sufficient and

appropriate evidence necessary in the circumstances having considered, among other matters, the assessed risk and expectations on the effectiveness of audit procedures. With the receipt of responses to accounts receivable confirmation continuing to decline leading to ineffective results, and the expanding technological options that allow direct access to banking information, confirmation should not be the presumed default and best audit procedure for cash and accounts receivable going forward.

If the Board proceeds with a prescriptive requirement to confirm cash, we ask that the Board expand paragraph .31 of the proposed standard to make it clear that alternative procedures can be performed for cash confirmations, provided the audit evidence obtained is sufficient and appropriate for its purposes (e.g., tests of controls, evaluation of service auditor's reports and other procedures related to service organizations to whom treasury function activities have been outsourced).

If the Board proceeds with a prescriptive requirement to confirm accounts receivable, we ask that the Board revise the criteria proposed that must be met when not sending confirmations for accounts receivables to be grounded in the concept of whether the confirmation process is expected to be effective in obtaining evidence.

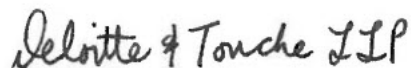
Communications with the Audit Committee

Absent the auditor identifying a significant risk related to accounts receivable, we do not believe that informing the Audit Committee when the auditor determines that an alternative to performing confirmation procedures is planned is relevant to the objectives described in paragraph .03 of AS 1301, *Communications with Audit Committees*. We believe that imposing such a requirement may cause unfounded concern by Audit Committee members because ordinarily the auditor is able to design and execute alternative audit procedures resulting in sufficient appropriate audit evidence, consistent with those procedures typically performed when confirmation replies are not returned. Therefore, we recommend that the Board modify the additional communication requirement in paragraph 14 from the proposed standard, to apply only when accounts receivable is a significant risk as the auditor would communicate to the Audit Committee the nature of the planned audit procedures.

We have also included more detailed observations and suggestions in the attached Appendix.

We would welcome the opportunity to engage with the Board in dialogue about these issues to provide deeper context about impacts and implications. If you have any questions, please contact Jennifer Haskell at 203-761-3394 or Dora Burzenski at 206-716-7881.

Yours sincerely,



Deloitte & Touche LLP

Appendix – Other Matters and Editorial Recommendations

The editorial recommendations are highlighted as follows: Additions are noted in **bold underline** and deletions are noted in ~~strikethrough~~ text. The markup of the paragraphs follows the same numerical sequence or ordering of sections as structured in the proposed standard.

Proposed AS 2310

Paragraph .06

We believe AS 1105, *Audit Evidence*, paragraph .08 adequately and appropriately draws a comparison between the relative reliability of evidence obtained from a knowledgeable source that is independent of the company, regardless of the means by which it was obtained, and that of evidence obtained only from internal sources. The inclusion of the language “through the confirmation process” in paragraph 6 does not recognize procedures that involve evidence obtained from knowledgeable, independent sources through means other than confirmations as defined in the standard, and is therefore unnecessarily limiting. We recommend deleting such phrase, as follows:

.06 Audit evidence obtained ~~through the confirmation process~~ from an external knowledgeable source is generally more reliable than evidence obtained only from internal company sources. The following are examples of financial statement assertions for which the confirmation process, when properly designed and executed, can provide relevant and reliable audit evidence:

- Existence (e.g., cash, accounts receivable, investments)
- Occurrence (e.g., revenue transactions)
- Completeness (e.g., accounts payable, debt)
- Rights and obligations (e.g., cash, assets pledged as collateral)

Paragraph .15

We believe the considerations included in Extant AS 2310, *The Confirmation Process*, paragraph 27 regarding heightened professional skepticism are important to maintain in the standard. This guidance allows auditors to make appropriate judgments in determining whether facts and circumstances indicate that confirmation procedures may not produce sufficient appropriate evidence to address the assessed risks. Therefore, we suggest the following additional wording:

.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. **In making this determination, the auditor should exercise a heightened degree of professional skepticism relative to the respondent, pursuant to paragraphs .18, .19, and .20. In these circumstances, the auditor should consider whether there is sufficient basis for concluding that the confirmation request is being sent to a respondent who is expected to be knowledgeable about the information to be confirmed and from whom the auditor can expect the response will provide relevant and reliable audit evidence.**

Paragraph .16 Note

There are a number of items the auditor considers when designing an effective confirmation process, including whether to use blank confirmation requests. As stated in Extant AS 2310 paragraph 19, blank confirmations may result in lower response rates because additional effort may be required of the recipient, which we think remains an important consideration; therefore we suggest the following:

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). **However, blank confirmations may result in lower response rates because additional effort may be required of the recipient to respond.**

Paragraph .17

We suggest the following additions to paragraph .17 to be consistent with the text in AS 1105, *Audit Evidence*, paragraph 10:

.17 The auditor should **perform procedures to** test the accuracy and completeness ~~of information produced by the company,~~ **or test the controls over the accuracy and completeness, of information produced by the company** that the auditor uses in selecting the items to confirm.

Paragraph .18

We suggest the follow revisions to clarify that an appropriate confirming party is one that the auditor reasonably believes, based on the information available, should be expected to be knowledgeable about the information to be confirmed.

.18 The auditor should direct confirmation requests to confirming parties (individuals or organizations) who are **expected to be** knowledgeable about the information to be confirmed and determine that the confirmation requests are properly addressed.

Paragraph .24 and Appendix B paragraph .B2

In situations in which the evaluation of intermediaries is necessary, as described in certain paragraphs, we would expect these considerations would most often be evaluated at the firm level for intermediaries that are most commonly used for the auditor's confirmation procedures (including as part of processes and controls related to quality control). We therefore suggest the Board clarify (either in the Release or in paragraphs 24 and B2 of the proposal) that the evaluation may be performed and the documentation may be retained centrally as part of the firm's quality control system as opposed to a requirement that the auditor must include documentation of this assessment with their audit files. ____

Paragraph .26

We believe that the concepts in paragraph .26 are appropriate to link back to paragraph .25, and provide clarity that, presuming the confirmations were designed and performed appropriately with respect to evaluation of the appropriate confirming party, the auditor is not required to do an exhaustive search to obtain additional evidence that the confirmation response is reliable. Therefore, we suggest the following change:

.26 If the auditor **becomes aware of any factors pursuant to paragraph .25 and** is unable **to overcome these factors** to determine that the confirmation response is reliable, the auditor should perform alternative procedures as discussed in paragraph .31.

Paragraph .27

We suggest the following revisions to sequence the auditor's considerations, as confirmation exceptions would generally first be evaluated to determine if they are indicative of one or more misstatements, and, if so, the auditor would then determine whether there is a deficiency in internal control:

.27 The auditor should evaluate confirmation exceptions and determine whether the confirmation exceptions individually or in the aggregate indicate ~~(i) a deficiency in the company's internal control over financial reporting,~~ ⁹ ~~(ii)~~ (i) a misstatement that should be evaluated in accordance with AS 2810, *Evaluating Audit Results*, ~~or both.~~ **or (ii) a deficiency in the company's internal control over financial reporting.**

Proposed AS 2310, Appendix A

We suggest the following revisions to the definitions in Appendix A for improved clarity.

.A2 Confirmation exception – Information in a confirmation response that differs from information the auditor obtained from the company **and is seeking to confirm**.

.A3 Confirmation process – The process that involves sending (**which may include transmitting in electronic form through technological means**) a confirmation request directly to a confirming party, evaluating the information received, and addressing nonresponses and incomplete responses to obtain audit evidence about one or more financial statement assertions.

.A7 Negative confirmation request – A confirmation request in which the auditor requests a confirmation response only if the confirming party disagrees with the information provided in the **confirmation** request.

.A8 Nonresponse – A situation in which (i) after sending a confirmation request(s), the request is returned undelivered; (ii) the auditor does not receive a confirmation response to a positive confirmation request **directly** from the intended confirming party; (iii) the auditor receives correspondence from the intended confirming party indicating that the confirming party is unable or unwilling to respond to the confirmation request; or (iv) the auditor receives an oral response only.

Proposed AS 2310, Appendix B

We suggest the following revision to paragraph .B3 to conform the language to paragraphs .B1 and .B2, and to acknowledge that an indicator alone should not result in the inability for an auditor to use an intermediary, as there may be ways to overcome the indicator:

~~.B3 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~~ **confirmation requests and responses facilitated by the intermediary may not be reliable, the auditor should determine whether additional audit procedures may be performed that would result in reliable confirmation requests being sent and reliable confirmation responses being received by the auditor through the intermediary. If the auditor concludes that confirmation requests and responses would not be reliable,** the auditor should not use the intermediary to send confirmation requests or receive confirmation responses.