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February 20, 2023

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

Via Email to [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (PCAOB’s or Board’s) Rulemaking Docket Matter No. 028, *Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*. We respectfully submit our comments and recommendations for the Board’s consideration.

We support the Board’s initiative to update and modernize AS 2310, *The Confirmation Process*, by clarifying the auditor’s responsibilities and addressing emerging areas, such as the use of electronic confirmations. Because there are currently other projects underway that may inform the appropriate direction of standard-setting in this area (for example, the Board’s midterm standard-setting project on fraud as well as its research project on emerging technology), we ask the Board to consider the timing of those projects within the context of the proposed standard on confirmations. We believe that the direction taken by the Board now with the confirmations project could possibly require adjustment or revision based on the outcome of those other projects.

We agree with the general direction of the proposed standard but have significant reservations as to the level of prescription with certain aspects of the proposal and its related operationality. We provide further detail and recommendations below that could help ensure that the standard, as adopted, is appropriately risk-based and fit for its stated purpose for the foreseeable future.

**Confirmation process**

We support the proposed objective of the standard and believe it is sufficiently clear. We also support retaining the long-held principles related to the confirmation process, including the auditor being responsible for designing the confirmations and maintaining control of the confirmation process.

### *Role of technology*

We appreciate the Board acknowledging the evolution of practice in this area with the use of electronic confirmations, such as email. We believe confirmations will continue to evolve as more efficient processes or technologies become available to the profession.

While we agree with specifically addressing electronic confirmations, we caution against being overly prescriptive in the proposed requirements, which might not allow the proposed standard to “age” effectively with time and innovation. Maintaining principles-based requirements and examples can enable flexibility for the future.

We are concerned that the examples provided in the note to proposed paragraph .25 could create onerous documentation for engagement teams in situations where plausible explanations are readily apparent and not necessarily indicative of inappropriate interception or alteration of the confirmation. For example, we are aware of instances where confirmation requests are emailed to a centralized mailbox at a vendor, which is monitored by multiple individuals. The completed response may be emailed back to the engagement team from a particular individual’s email address instead of the centralized mailbox, which may be reasonable and expected based on the engagement team’s understanding of the vendor’s process for responding to confirmation requests. We believe the principle of requiring the auditor to evaluate the reliability of the confirmation response would be sufficient to guide auditors, even as entities’ vendors, banks, and customers continue to innovate their approach to responding to confirmation requests to achieve greater efficiency and effectiveness.

Finally, we encourage the Board to consider the information gathered thus far from its emerging technology project to help inform areas where incorporating a more principles-based approach in this proposed standard could benefit audit quality.

### *Intermediaries*

We commend the Board for addressing the role of intermediaries in the proposed standard. It has become common practice for certain entities, such as banks, to respond to confirmation requests only if they are submitted through an intermediary. However, we have significant concerns with the requirements for intermediaries proposed in paragraph .24 and Appendix B. As discussed in PCAOB Release No. 2022-006, *A Firm’s System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*, a confirmation intermediary would be considered a third-party provider and would, therefore, be subject to firm-level quality controls, including the assessment of quality risks associated with third parties and the firm’s response to the identified risks. Such responses could include annual due diligence procedures and follow-up procedures if or when a significant change in the intermediary’s operations, or a change in how the firm uses that intermediary, is identified. Depending on the identified quality risks, such procedures need not align with the financial statement period-end of each audit engagement performed by the firm, as implied by paragraph .B2b and its related note.

The requirements laid out in paragraph .24 and Appendix B are procedures that we would expect firms to perform at a national level, and the firm concludes whether the intermediary is appropriate for engagement teams to use. We do not believe it is the

Board's intent, nor is it practical, to require each engagement team to separately perform these procedures at the engagement level, which is what is implied by the proposed requirements in AS 2310. Since the PCAOB quality control proposal is still in process, we strongly recommend that the Board remove the proposed requirements from the proposed standard on confirmations and address intermediaries through the principles that would be included in the final quality control standard. Each engagement team would then be responsible for complying with the firm's policies and procedures for the appropriate use of such intermediaries on their respective engagements.

### **Confirmations as audit evidence**

We are concerned about the tone of the proposal related to the presumption that confirmations always provide the most persuasive evidence in responding to identified risks of material misstatement, including significant risks. We understand the Board's intention to require the use of confirmation procedures to address the risk of material misstatement, primarily due to fraud; however, we believe that the proposed standard over-relies on the use of such procedures to reduce that risk to an acceptable level. This overreliance reduces the auditor's ability to exercise appropriate professional judgment and skepticism.

In certain situations, confirmation procedures may not be the most effective or efficient procedure to respond to the assessed risk, even those deemed to be significant risks. We are concerned that the potential costs of complying with certain proposed requirements would outweigh their benefits. For example, paragraph .14 would require the auditor to determine whether performing other procedures without confirmation provides audit evidence that is "at least as persuasive" as the evidence the auditor might expect to obtain through confirmation, which may create a documentation exercise that would not yield a commensurate benefit to audit quality. This can increase the overall cost of an audit because time and effort must be invested on performing confirmation procedures in areas when alternative procedures may be more effective. We believe the more appropriate approach would be to align with the terms contained in AS 1105 and then to direct the auditor to obtain sufficient appropriate audit evidence relative to the identified risks of material misstatement.

#### *Alternative procedures*

Similar to the views expressed above, we are concerned that the language used in proposed paragraph .31 perpetuates an inappropriate presumption that confirmations are the best evidence auditors can obtain in response to any risk of material misstatement. We fully support and agree that confirmations are an important and necessary procedure that auditors should use, but only when a confirmation procedure responds to the related risk of material misstatement. There are myriad instances where relevant and reliable audit evidence can be, and is currently being, obtained through other means. Currently, an auditor may observe company personnel use their credentials to log in directly to the bank's website, for example. While we do not believe this procedure would constitute a confirmation, we do believe it could constitute sufficient appropriate audit evidence. Including this scenario as a practical example that would be acceptable as an alternative procedure could be beneficial to auditors. We encourage the Board to reconsider the perceived value that

confirmations provide in an audit relative to other audit evidence that could be obtained by the auditor over the course of the audit.

We agree that performing other audit procedures as an alternative to confirmations may be necessary, as discussed in proposed paragraph .31. However, we are concerned that the note to such paragraph could be misapplied in practice. We ask the Board to consider incorporating elements of the guidance provided in paragraph .A26 of AU-C Section 505, *External Confirmations*, to clarify what we believe is the intent of the proposed note:

The auditor may determine that it is not necessary to perform additional alternative audit procedures beyond the evaluation of the confirmation results if such evaluation indicates that relevant and reliable audit evidence has already been obtained. This may be the case when testing for overstatement of amounts and (a) the nonresponses in the aggregate, projected as 100 percent misstatements to the population and added to the sum of all other unadjusted differences, would not affect the auditor's decision about whether the financial statements are materially misstated and (b) the auditor has not identified unusual qualitative factors or systematic characteristics related to the nonresponses, such as that all nonresponses pertain to year-end transactions.

### **Confirming accounts or transactions**

#### *Receivables*

Presuming that an audit procedure should always be performed conflicts with the concept of identifying and responding to the assessed risks of material misstatement present in each audit. Nevertheless, we support retaining the presumptively mandatory responsibility to confirm receivables because such procedure is already common practice in obtaining persuasive audit evidence, considering historical events and experience.

However, we recommend adding to proposed paragraph .12 that this requirement applies when accounts receivable is a significant account or disclosure; as currently proposed, we feel this requirement does not clearly tie back to the proposed objective of the standard. Clarifying proposed paragraph .12 would appropriately focus auditors on confirming accounts receivable in response to a risk identified in a significant account or disclosure.

#### *Cash*

We do not believe the requirement to confirm cash is sufficiently risk-based, particularly when the proposed standard does not allow the auditor to overcome the presumption of performing confirmation procedures. We recommend adding to proposed paragraph .09 the stipulation that this requirement applies only when cash is a significant account or disclosure; as currently proposed, we feel this requirement does not clearly tie back to the proposed objective of the standard.

Additionally, we believe proposed paragraphs .09 and .10 are fraud-oriented and assume that there is always a heightened risk of fraud related to cash accounts in all audit engagements. We believe this assumption is further perpetuated by the proposed amendment to AS 2605.22, which edits out "cash" as an example of an

assertion that might have a low risk of material misstatement. However, we note that there may be circumstances in which the auditor appropriately assesses risk as low and can perform other more effective and efficient audit procedures, such as directly accessing or observing the company's bank account information via the bank's website. The prescription of the proposed requirements does not appear consistent with the Board's existing risk assessment standards. We recommend that the Board include the notion of assessed risks of material misstatement to proposed paragraphs .10 and .13, which discuss what the auditor takes into account when selecting the individual items of cash and receivables, respectively, to confirm. We also recommend that the Board reinstate cash as an example in paragraph .22 of AS 2605.

#### *Additional observation*

We found the proposed requirement in paragraph .17 to be confusing. In selecting items to confirm, we believe the risk is that the population is not complete, and not whether the population is accurate. Rather, in many cases, accuracy is addressed or tested through the confirmations themselves. Therefore, we ask the Board to reconsider the wording in paragraph .17 to focus instead on the risk or issue that this requirement is intended to address, which we believe is ensuring that the auditor is selecting items to confirm from a complete population.

### **Other topics**

#### *Definitions*

Generally, we believe that the definitions in the proposed standard are sufficiently clear and reasonable.

#### *Use of internal audit*

The premise of AS 2605 is that if the auditor determines that the internal audit is sufficiently independent and objective, the auditor has the ability to use the work of internal audit or use internal audit to provide direct assistance to the auditor. While we don't disagree with the auditor maintaining control of the confirmation process, we are concerned about the implications of proposed paragraph .32, which is prescriptive in a manner that could imply that the principles provided in AS 2605 are not sufficient to enable auditors to arrive at the right approach in using internal audit. We believe internal audit can be a valuable resource to auditors and can assist in activities such as investigating exceptions or performing alternative procedures. We encourage the Board to clarify and reinforce how or where internal audit can provide direct assistance to the auditor relative to the confirmation process.

#### *Audit committee communications*

The requirements of AS 1301, *Communications with Audit Committees*, provide principles-based requirements that promote an appropriate level of communication of audit-related matters to an entity's audit committee. Since its implementation, AS 1301 has enhanced the two-way communication that takes place between auditors and audit committees and has effectively focused communications on the information that is most necessary for the audit committee to fulfill its duties in overseeing the audit and the company's financial reporting.

We do not believe that the proposed requirement in paragraph .14 aligns with the principles of AS 1301. We are unaware of issues in practice that imply auditors are inappropriately overcoming the presumption to confirm accounts receivable that would necessitate an audit committee communication as prescriptive as the requirement proposed in paragraph .14. If relevant or significant enough, the auditor's decision not to send confirmations would fall under AS 1301.09. We are concerned that by making this a mandatory communication requirement, the Board is implying that confirming accounts receivable is a vital audit procedure, rather than a presumed audit procedure, in every audit to which the communication is relevant. Instead of enhancing auditor accountability with regard to overcoming the presumption to send confirmations, this requirement might set a precedent that would mire audit committees in the minutiae of audit procedures instead of focusing on audit matters that are most relevant to their oversight responsibilities. Therefore, we ask the Board to remove this proposed requirement and allow the principles of AS 1301 to govern the level of detail about the audit strategy that the auditor communicates.

#### **Amendments**

Other than our concerns with the proposed amendments to AS 2605 outlined earlier in our letter, we do not have any additional concerns with the proposed amendments to the other auditing standards.

#### **Effective date**

Although confirmation procedures are generally performed at or near a company's year-end, engagement teams design those confirmation procedures as part of the planning and risk assessment process. While we believe audit firms currently are addressing the use of intermediaries in their systems of quality control, the proposed requirements related to intermediaries could have implications on those systems of quality control, which might require time to assess and respond appropriately. Therefore, we believe firms would benefit from additional time beyond what the Board proposes in order to appropriately implement the proposed standard. We recommend an effective date that is no sooner than fiscal years beginning two years after the year of SEC approval.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or [Jeff.Hughes@us.gt.com](mailto:Jeff.Hughes@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP