

February 20, 2023

Ms. Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

Dear Secretary Brown and PCAOB Board Members:

Johnson Global Accountancy is pleased to submit its comments on the new proposed standard AS 2310, *The Auditor's Use of Confirmations*.

Johnson Global Accountancy's mission is to be the most innovative and technically excellent advisory firm at the intersection of companies, auditors, and regulators, that improves investor decision-making confidence. We serve a diverse group of audit firms ranging from single office firms to more complex regional firms and the top 20 firms. We help firms interpret, respond, and comply with global auditing and financial reporting standards and regulatory requirements, including those standards set by the PCAOB. Our team of financial reporting quality advisors help prepare firms to perform high quality audits using innovative tools with a shared commitment to implement effective policies, procedures, and controls. We also provide firms with integrated software and service solutions to help them comply with audit quality standards.

Overall, we support the PCAOB's objective to strengthen and modernize the requirements for the confirmation process. Reflecting changes in business practices since the standard was initially issued and clarifying the auditor's responsibilities would enhance the performance of quality engagements and overall firm audit quality.

The proposal's scope and guidance are generally clear, and it lays out the requirements in a detailed step-by-step manner. We also appreciate the Board including a reference to intermediaries reflecting current practices.

We have carefully considered the Board's questions and are providing our comments based on our experience and our work with PCAOB-registered firms worldwide.

Principles-Based Requirements

The Executive Summary states that the proposed standard describes "principles-based requirements that apply to all methods of confirmation, including paper-based and electronic means of communication" and would be "more expressly integrated with the Board's risk assessment standards....". However, the proposal provides prescriptive requirements primarily focused on cash held by third parties and accounts receivable.

While we agree that confirmations generally provide more reliable evidence to support assertions, we suggest revising the proposal to focus on the use of confirmations as a tool that may apply to many components of the audit and to provide guidance on how to execute confirmations regardless of the nature of the account being tested.

Rather than setting requirements to confirm cash and accounts receivable within the *Confirming Certain Accounts and Terms of Transactions* section early in the proposed standard, we suggest moving these specific requirements to application guidance. Cash and accounts receivable are examples that illustrate the application of the objective of the principles-based proposal.

We also suggest that the Board add other illustrations to guide the application of these principles to other areas, such as inventories, digital assets, loans, etc. Using practice aids or other explanatory material would also support scaling the requirements to varying-sized audits and audit practices. Finally, as noted above, we encourage the Board to lead off the standard with the general principles followed by the more specific application guidance and illustrations.

Confirming Cash Held by Third Parties

The proposed standard requires auditors to perform confirmation procedures over cash held by third parties and indicates that the Board is not aware of other types of substantive procedures that would provide audit evidence that is as persuasive as audit evidence obtained through confirmations. However, from the proposal, the extent of work expected from auditors regarding the confirmation process is unclear.

Section D, 1. i. Confirming cash on page 20 of the proposal indicates that “an auditor need not necessarily confirm all cash accounts in all cases. Under PCAOB standards, the alternative means of selecting items for testing are selecting all items, selecting specific items, and audit sampling.” However, paragraph 9 of the proposed standard’s text requires the auditor to perform confirmation procedures for cash and cash equivalents held by third parties. Since most cash balances are held by third parties, this requirement implies that auditors must confirm all balances regardless of the auditors’ identification, assessment, and response to the risk of material misstatement. However, selecting specific items or conducting audit sampling under AS 2315 will often result in not all items being subject to confirmation procedures. We encourage the Board to clarify the requirements and how paragraph 9 interacts with the risk assessment standards.

The proposal does not appear to provide any room for auditors to determine or identify other procedures that could provide audit evidence that is as persuasive as that obtained through confirmations. This does not provide flexibility for future evolution in practice. In addition, this seems inconsistent with the approach proposed for confirming accounts receivable, whereby the auditor can overcome the presumption to confirm accounts receivable.

Confirming Accounts Receivable

Presumption to confirm accounts receivable may be overcome

The proposal follows the existing guidance and practice generally to confirm accounts receivable. It also includes a presumption that must be overcome if accounts receivable is not confirmed. As noted above, it is not clear why this option is provided for accounts receivable but not for cash.

Communicate with audit committee when presumption to confirm accounts receivable has been overcome

The proposal requires auditors to communicate with the audit committee when they have overcome the presumption to confirm accounts receivable. This requirement appears inconsistent with the approach used for other audit areas. In addition, it is not clear why the proposed standard expressly includes this

requirement, as existing standards for auditors to communicate with audit committees appear adequate. If this area is viewed as significant as a stand-alone item, it should be covered by those existing standards.

Maintaining Control over the Confirmation Process – Use of Intermediaries

We support including guidance over the use of intermediaries in the confirmation proposal and the requirement for auditors to address certain aspects of the intermediary's controls that address the risk of interception and alteration of communication between the auditor and the confirming party.

The proposal allows auditors to customize their approach based on the facts and circumstances of their audit firm and the audit engagement. However, we have observed several practical issues through our work with auditors. We encourage the Board to provide additional guidance on using intermediaries. Specifically, it would be helpful to address the following questions to guide auditors:

- Is an auditor expected to follow the principles and rigor of procedures used to evaluate internal control over financial reporting in evaluating intermediaries? Alternatively, is it appropriate to view these processes akin to software audit tools whereby the auditor would consider different risks around the software tools?
- What is a reasonable gap period or bridge period between the receipt of an independent service auditor's report on service organization controls at the intermediary and the auditor's report on an issuer and the issuer's year-end? For example, when an intermediary receives its annual independent service auditor's report in November, audits with a June 30 or September 30 year-end might be challenged using this intermediary due to the length of the gap period. We also understand that, generally, a bridge letter covering an interim period greater than three months has typically not been acceptable when used in the audit of internal controls over financial reporting.
- What alternative procedures are acceptable for the auditor when the length of the gap period or bridge period between the date of the independent service auditor's report and the issuer's year-end is too long to address the risk of material misstatement?

Addressing Nonresponses and Incomplete Responses

Paragraph .28 of the proposed standard requires an auditor to send a second positive confirmation request to the confirming party unless the auditor has become aware of information that indicates that the confirming party is unlikely to respond. We believe that this prescriptive requirement is very limiting and appears unnecessary to the objective of the proposal. If this is retained, we encourage the Board to provide additional clarification regarding the extent of information an auditor would need to support not sending a second request and the length of time an auditor should allow for the first responses to return.

Appendix 2 – Proposed Amendments to the Related PCAOB standards

The Board proposes to amend AS 2510, *Auditing Inventories*, to refer to the requirements set out in the proposed AS 2310, *The Auditor's Use of Confirmation*. It leaves intact the existing guidance in AS 2510 regarding confirming inventories held in public warehouses and adds the reference to AS 2310. There is no further discussion of the addition, and the guidance here appears vague. We propose that the Board clarify and illustrate the work an auditor should do when an entity holds inventory in a public warehouse and more directly address applying proposed AS 2310 principles to inventory.

We appreciate the opportunity to provide our comments and support the PCAOB's efforts to modernize these standards. We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Jackson Johnson, President (jjohnson@jgacpa.com) or Geoffrey Dingle, Managing Director (gdingle@jgacpa.com). They may be reached at (702) 848-7084.

Sincerely,

A handwritten signature in black ink that reads "Johnson Global Accountancy". The signature is written in a cursive, flowing style.

Johnson Global Accountancy