

# Standard-Setting Update

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# DISCLAIMER

This presentation is provided in the speaker's official capacity as a PCAOB staff member, but the views expressed are those of the speaker and do not necessarily reflect the views of the Board, Board Members, or other members of the staff

# OVERVIEW

- Part I – Standard-Setting Projects
  - Standard-Setting Activities and Agenda
  - Recently Issued Proposals (more on *Firm & Engagement Metrics*)
- Part II – Recently Completed Projects
  - AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*
  - QC 1000, *A Firm's System of Quality Control*
  - AS 2310, *The Auditors Use of Confirmation*

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# STANDARDS-RELATED ACTIVITIES

Standard-Setting Process

Standard-Setting, Research, and  
Rulemaking Projects

Implementation of PCAOB  
Standards and Rules

Post-Implementation Review

Standard-related activities can be found at:  
<https://pcaobus.org/oversight/standards>

# STANDARDS-SETTING AGENDA

- Recently Issued Standard-Setting Proposals
- Recently Completed Standard-Setting Projects
- Short-Term Standard-Setting Projects
- Mid-Term Standard-Setting Projects
- Research Projects
- Rulemaking Projects

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## Quality Control

Subject to approval by the SEC, the final standard and related amendments to auditing standards, rules, and forms would take effect on December 15, 2025.

May 13, 2024

Pending

The first evaluation period will be for the period beginning on the effective date of the standard (i.e., December 15, 2025) and ending on September 30, 2026. The firm's first evaluation must be reported to the PCAOB on Form QC no later than November 30, 2026.



[CLICK HERE FOR PROJECT PAGE](#)

# STANDARD-SETTING AND RULEMAKING PROPOSALS

Firm and  
Engagement  
Metrics

Technology-  
Assisted Analysis  
Amendments

Noncompliance  
with Laws and  
Regulations

Contributory  
Liability

Registration

Firm Reporting

Standard-Setting, Research, and Rulemaking Projects:  
<https://pcaobus.org/oversight/standards/research-standard-setting-projects>

# RECENTLY COMPLETED PROJECTS

- AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*
- QC 1000, *A Firm's System of Quality Control*
- AS 2310, *The Auditors Use of Confirmation*



# RECENTLY COMPLETED PROJECTS

## ***AS 1000, General Responsibilities of the Auditor in Conducting an Audit***

- Board voted to approve on May 13, 2024; pending SEC approval
- AS 1000 will modernize, clarify, and streamline the general principles and responsibilities of auditors
- Amendments to other PCAOB standards will:
  - Clarify the auditor's responsibility to evaluate whether the financial statements are "presented fairly"
  - Clarify the engagement partner's responsibilities by adding specificity to certain audit performance principles
  - Accelerate the documentation completion date from 45 days to 14 days

# RECENTLY COMPLETED PROJECTS (CONT'D)

## ***AS 1000, General Responsibilities of the Auditor in Conducting an Audit (Cont'd)***

- Effective dates
  - Audits of financial statements for fiscal years beginning on or after December 15, 2024, except for the 14-day documentation completion date requirement, which is as follows:
  - Effective dates for the 14-day documentation completion date requirement:
    - For firms that, during the calendar year ending 12/31/24, issued audit reports with respect to more than 100 issuers – effective for audits of financial statements for fiscal years beginning on or after 12/15/24; and
    - For all other firms – effective for audits of financial statements for fiscal years beginning on or after 12/15/25

# RECENTLY COMPLETED PROJECTS (CONT'D)

## *QC 1000, A Firm's System of Quality Control*

- Board voted to approve on May 13, 2024; pending SEC approval
- QC 1000 and related amendments will:
  - Strike a balance between a risk-based approach to QC and a set of mandates
  - Require all PCAOB-registered firms to design a QC system that complies with the new standard
  - Require for firms that perform audits of public companies or SEC-registered brokers and dealers to implement and operate the QC system

# RECENTLY COMPLETED PROJECTS (CONT'D)

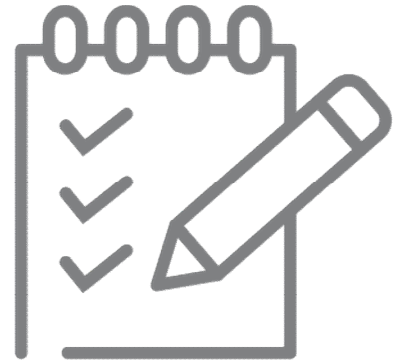
## *QC 1000, A Firm's System of Quality Control (Cont'd)*

- Annually evaluate the firm's QC system and report to the PCAOB on new Form QC
- Require firms that audit more than 100 issuers annually to establish an external oversight function for the QC system
- Take effect on December 15, 2025
  - The first evaluation period will be from December 15, 2025, to September 30, 2026
  - Form QC - No later than November 30, 2026

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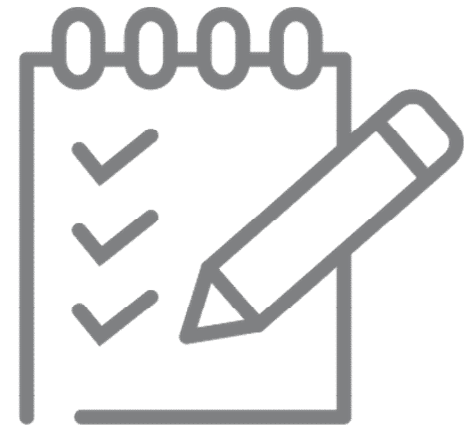
# NEW CONFIRMATION STANDARD

- Board approved September 28, 2023; SEC approved December 1, 2023
- New standard (AS 2310, *The Auditor's Use of Confirmation*) will replace the current standard (AS 2310, *The Confirmation Process*) in its entirety
- Effective for audits of financial statements for fiscal years ending on or after June 15, 2025



# NEW CONFIRMATION STANDARD (CONT'D)

- Topics covered in this session:
  - Confirming parties
  - Use of negative confirmations
  - Confirmation of cash
  - Confirmation of accounts receivable
    - Addresses situations when it is not feasible to perform confirmation procedures



# CONFIRMING PARTIES

Requirement: AS 2310.09 states that, “The auditor should direct confirmation requests to confirming parties (individuals or organizations) who are knowledgeable about the information to be confirmed and **determine that the confirmation requests are properly addressed.**”

## Examples

Compare all or some addresses to physical addresses or e-mail domains on the confirming party’s website

When using an intermediary, consider if controls exist at the intermediary related to validating addresses of confirming parties and, if so, perform procedures in accordance with Appendix B



# NEGATIVE CONFIRMATION REQUESTS

Requirement: AS 2310.12 states that, “Generally, the auditor obtains significantly less audit evidence when using negative confirmation requests...Therefore, the use of negative confirmation requests alone does not provide sufficient appropriate audit evidence for addressing the risk of material misstatement to a financial statement assertion.”

# NEGATIVE CONFIRMATION REQUESTS (CONT'D)

So, when might an auditor still elect to use negative confirmation requests as part of their planned audit response?

## Examples

Low risk of material misstatement AND sufficient appropriate audit evidence regarding the design and operating effectiveness of controls

Population composed of small, homogenous items

Expectation of a low exception rate in response to negative confirmation requests and reasonable basis for expectation

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# CONFIRMING CASH & ACCOUNTS RECEIVABLE

Requirement: AS 2310.24 – for cash & accounts receivable, “the auditor should perform confirmation procedures...or otherwise obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source.”

# CASH PROCEDURES

Company has cash balances deposited at a financial institution.  
What substantive audit procedures could satisfy the requirements in AS 2310.24?

## Examples

Auditor sends confirmation requests directly

Intermediary facilitates direct transmission of confirmation requests & responses

Auditor directly accesses information maintained by financial institution

# CASH ALTERNATIVE PROCEDURES

- Requirement: AS 2310.23 states that, “In the case of a nonresponse or an incomplete response, the **auditor should perform alternative procedures.....**”
- Auditor sends confirmation request(s) to confirming party, e.g., financial institution, no confirmation response(s) received. What follow up could satisfy the requirements in AS 2310.23?

## Example

Auditor verifies company’s cash balances by viewing information directly on a secure website of financial institution.

# ACCOUNTS RECEIVABLE

Requirement: AS 2310.25 – For accounts receivable [only], “if the auditor **determines it is not feasible** to obtain audit evidence pursuant to paragraph 24 based on the auditor’s experience..., the **auditor should obtain external information indirectly** by performing other substantive procedures, including tests of details.”

# ACCOUNTS RECEIVABLE PROCEDURES

Auditor determines it is not feasible to obtain necessary audit evidence through confirmation procedures. What substantive audit procedures could satisfy the requirements in obtain external information indirectly?

## Examples

Examination of subsequent cash receipts

Examination of shipping documents from third-party carriers

Examination of customer purchase orders or signed contracts



# REQUIRED AUDIT COMMITTEE COMMUNICATION

For significant risks of material misstatement associated with either ***cash*** or ***accounts receivable***, the auditor should communicate when the auditor did not perform confirmation procedures or otherwise obtain audit evidence by directly accessing information maintained by a knowledgeable external source.

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# QUESTIONS

