



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

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By email: comments@pcaobus.org

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

RE: PCAOB Rulemaking Docket No. 028: PCAOB Release 2022-009: Proposed Auditing Standard - The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2022-009, *Proposed Auditing Standard - The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* (the "Release"). We would like to acknowledge the considerable effort and thoughtfulness that went into the creation of the Release, which includes the proposed replacement of AS 2310, *The Confirmation Process*, with a new standard AS 2310, *The Auditor's Use of Confirmation* (the "Proposed Standard"). We commend the Board for taking significant steps towards modernizing the extant PCAOB confirmation process standards. We recognize and agree that this is an important standard for audit quality and investor protection as the confirmation process may provide relevant and reliable external audit evidence obtained as part of an audit. We also commend the PCAOB for thoughtfully considering and addressing in the Proposed Release the many comments communicated as part of the 2010 Proposed Standard.

We support further alignment of the Proposed Standard with the existing risk assessment standards to enable the level of risk to drive the necessary audit response, including the nature of evidence necessary when using confirmations. Further, advances in information technology and the increased use of electronic forms of confirmations have had a significant impact on the confirmation process and, when properly used, have the potential of further increasing the effectiveness of the confirmation process. In addition, since the prior Proposed Standard release issued by the Board in 2010, there has been increased usage of third-party intermediaries within the confirmation process. We support the Board including specific considerations related to the use of intermediaries in the confirmation process, but suggest those considerations be sufficiently principles-based to prevent the new standard from becoming quickly outdated due to future advances in technology.

The remainder of this letter provides our specific comments on the Proposed Standard and other matters.

Risk Assessment

We support the Proposed Standard's overall relationship with the auditor's identification and assessment of and response to risks of material misstatement. Risk assessment and response underly the entire audit process, and confirmation procedures are one of many procedures through which auditors can obtain audit evidence to address the identified risks. In general, the Proposed Standard provides for an appropriate amount of auditor judgment on whether to perform confirmation procedures outside those addressed in the Proposed Standard and allows for an auditor to focus on obtaining sufficient appropriate audit evidence in these areas. However, we have concerns related to the ability to design an audit response commensurate with the assessed level of risk of material misstatement. Specifically, the inability

to overcome confirming cash and cash equivalents and the lack of available alternative procedures as well as the need for the most persuasive evidence for accounts receivable are two areas where we believe the Proposed Standard is inconsistent with the existing risk assessment standards.

Confirmation of cash and cash equivalents

As noted, while we are supportive of the Board's efforts to improve the extant confirmation standard, we have the following concerns related to the aspects of the Proposed Standard that outline the presumption that the auditor will request confirmation of cash and cash equivalents.

We acknowledge the importance of cash confirmations as an audit procedure and note the Board's view that cash confirmations provide the most persuasive audit evidence. We also acknowledge that a confirmation is a common procedure to respond to an assessed level of risk over cash and cash equivalents under AS 2301, *The Auditor's Responses to the Risks of Material Misstatement* (AS 2301). However, the proposed standard's requirements to always confirm cash and cash equivalents appears inconsistent with AS 2301 requirements to vary the nature of audit procedures based on the degree of risk. While we believe confirming cash will usually be the most appropriate procedure to respond to risks of material misstatement related to cash and cash equivalents, we respectfully suggest that the Board considers permitting the presumption to confirm cash and cash equivalents to be overcome, similar to the provisions over accounts receivable, such that the audit response is commensurate with the assessed level of risk as required under AS 2301.

Further, we are concerned that the Proposed Standard's requirements to confirm cash and cash equivalents without an ability to obtain alternative evidence sets a performance requirement that may result in an inability to obtain sufficient appropriate audit evidence in the event of a nonresponse or incomplete response to a request for confirmation. The Release states that, "In general, 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 confirmation of cash". Further, the alternative procedure examples included in paragraph 31 of the Proposed Standard are intended to illustrate audit procedures that may satisfy an auditor's responsibilities when relevant and reliable evidence is not obtained through confirmation. However, paragraph 31 does not include examples relative to cash and cash equivalents. Therefore, the language in the Release and the Proposed Standard suggests that the most persuasive audit evidence (confirmation) is the only way to obtain sufficient appropriate evidence. If the Board believes a confirmation is necessary to provide sufficient audit evidence over cash and cash equivalents, then situations where confirming parties do not respond to confirmation requests for cash and cash equivalents or return incomplete confirmation responses would result in an inability to obtain sufficient appropriate audit evidence because an auditor would never be able to obtain a level of persuasive evidence the Board believes is necessary. In this situation, while alternative procedures may provide relevant and reliable evidence, that evidence would appear to fall short of the Board's expectation of the level of evidence necessary.

Therefore, we respectfully suggest that the Board clarifies the type of evidence it believes is necessary to obtain sufficient evidence over cash and cash equivalents in the event of incomplete or nonresponses. Should alternative procedures be required, we suggest the Board clarifies that the auditor should obtain relevant and reliable audit evidence and may not require audit evidence that is as persuasive as confirmation. We also suggest that the Board provides examples of alternative procedures that may provide relevant and reliable audit evidence for cash and cash equivalents. For example, obtaining the bank statement for the period-end as well as the period following and examining subsequent cash activity or obtaining direct online view-only access to an entity's bank accounts are procedures that could provide relevant and reliable evidence about cash and cash equivalent balances held with third parties.

We are also concerned that future changes in the technology or process used by confirming parties or enhanced technology-enabled audit techniques may enable auditors to obtain equally persuasive audit evidence without using a confirmation. We believe our suggestion above that the Board considers permitting the presumption to confirm cash and cash equivalents to be overcome will have an added benefit of future-proofing the Proposed Standard.

Overcoming the presumption to confirm accounts receivable

We agree that the provisions of the new Proposed Standard allow auditors to determine the extent of confirmation of accounts receivable and that the Proposed Standard should allow for the presumption to confirm accounts receivable to be overcome. However, we believe the Proposed Standard is unclear as to how the presumption can be overcome. Paragraphs 6 and 7 state that audit evidence obtained through confirmation is generally more reliable and persuasive than other evidence. To overcome the presumption to confirm, paragraph 14 requires the auditor to perform procedures that “would provide audit evidence that is at least as persuasive as the evidence that the auditor might expect to obtain through performing confirmation procedures.” If evidence from confirmations is the most persuasive form of evidence, it is unclear in the Proposed Standard as to what evidence could be obtained that would be at least as persuasive as a confirmation. We observe that ‘persuasive’ is not defined in AS 1105, *Audit Evidence*, which contributes to the lack of clarity of the Board’s expectations about the procedures that would be necessary if the presumption to confirm accounts receivable is overcome.

The Release includes an example of procedures that may meet the requirement; however, the Proposed Standard lacks clarification as to how to measure persuasiveness, and it is unclear as to what combination of evidence would then rise to that level. The Release also states that “as the risk increases, the auditor could increase the number of individual transactions for which the auditor examines third-party evidence. Further, the auditor may determine that to obtain audit evidence that is at least as persuasive as evidence from a confirmation, the auditor may need to apply the other procedures to a greater number of items than the auditor would otherwise address through confirmation.” The weight an auditor is to put on the quality (i.e. appropriateness) of evidence compared to the quantity (i.e. sufficiency) of evidence in the determination of persuasiveness under the Proposed Standard is not clear. If an auditor is required to obtain evidence that is equally persuasive as a confirmation and confirmations are viewed to provide the most persuasive evidence, then obtaining a larger quantity of lower quality evidence would seem to contradict AS 1105.05, which states “Obtaining more of the same type of audit evidence, however, cannot compensate for the poor quality of that evidence.” We recommend the PCAOB further clarify their intent and provide guidance on how to evaluate persuasiveness in such circumstances.

Similar to our comment on cash and cash equivalents above, since the Proposed Standard requires the most persuasive audit evidence for accounts receivable, it suggests that accounts receivable are presumed to contain a higher risk. We do not believe this level of risk exists for all accounts receivable balances. When accounts receivable has been determined to contain a lower risk, while confirmations may provide the most persuasive audit evidence when returned, other substantive audit procedures may provide audit evidence that is sufficiently persuasive to address the risk.

The Release acknowledges there are situations where a confirmation for accounts receivable may not provide sufficient appropriate audit evidence, indicating “an auditor may have determined from firsthand experience that sending positive confirmation requests to a company’s customers has not resulted in obtaining relevant and reliable audit evidence, because of poor rates of response, as well as unreliable responses, from the customers contacted by the auditor.” However, this does not appear to be included in the Proposed Standard. The extant standard more explicitly considers and acknowledges these situations. We agree with the language in the Release that sending confirmations in certain situations would not be necessary, including certain industries (for example telecommunications where balances between providers are in dispute or in retail where almost all receivables are from credit card companies

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that are settled within a few days of year-end). However, the Proposed Standard suggests that in such situations where the rates of response are low, auditors should still send confirmations unless they can obtain audit evidence at least as persuasive as a confirmation. We respectfully recommend that the Board includes specific criteria for when to overcome the requirement to confirm accounts receivable, consistent with that of the extant standard and example substantive procedures to perform when the presumption to use confirmations is overcome.

Further, we believe the continued development of technology utilized throughout audits, including when applied to provide substantive audit evidence, is an important consideration for the Proposed Standard. For accounts receivable, there is potential opportunity to utilize technology and data and analytics routines to provide evidence across entire populations to sufficiently address the relevant risks. However, the requirement in the Proposed Standard to perform procedures that provide equally persuasive evidence may limit the ability to utilize these future technologies depending on how persuasiveness is measured.

Other considerations

We included in the appendix detailed responses to certain questions on which the Board requested feedback.

We appreciate the Board's consideration of our comments and observations in support of revising the auditing standards to enhance audit quality and would be pleased to discuss our comments with the Board and its staff at your convenience. We look forward to continuing our engagement with the Board and its staff in support of our shared commitment of investor protection and audit quality.

Sincerely,

Handwritten signature of KPMG LLP in black ink.

KPMG LLP



Appendix

Below are responses to select questions outlined in the Release for which we had specific input.

8. Is the new proposed standard sufficiently flexible to accommodate situations where an auditor chooses to confirm information about newer types of assets (e.g., existence, and rights and obligations of digital assets based on blockchain or similar technologies)? If not, what changes or additions should we consider to address confirmation of newer types of assets?

The Proposed Standard offers sufficient flexibility to accommodate situations where an auditor confirms information about newer types of assets. While such assets would be outside the categories of cash or accounts receivable, the application of the remainder of the Proposed Standard would not be hindered in these cases.

14. Is the continued requirement to confirm accounts receivable sufficiently clear and appropriate? Are there other approaches that we should consider instead?

The continued requirement to confirm accounts receivable is sufficiently appropriate. However, we suggest that the Proposed Standard carry forward the provisions addressing materiality or a combination of risk assessment to overcome the presumption to confirm accounts receivable in the extant standard to provide more clarity on the matter.

17. Is the ability to overcome the presumption to confirm accounts receivable when another substantive audit procedure would provide evidence that is at least as persuasive as performing confirmation procedures sufficiently clear and appropriate?

As discussed in *Overcoming the presumption to confirm accounts receivable* above, because the evidence obtained through confirmation is generally more reliable and persuasive than other evidence, consideration should be given to whether auditors would be able to obtain evidence that is equally persuasive. In addition, it is not sufficiently clear as to how an auditor would measure the persuasiveness of evidence to comply with the Proposed Standard. We also believe that the requirement to obtain evidence that is equally persuasive to a confirmation, which the Proposed Standard regards as the most persuasive audit evidence, is not necessary when the risk is low. We respectfully recommend that the Board include specific criteria for when to overcome the presumption to confirm, consistent with that of the extant standard.

19. Is the requirement for the auditor to communicate to the audit committee instances in which the auditor has determined that the presumption to confirm accounts receivable has been overcome and the basis for the auditor's determination sufficiently clear and appropriate? Why or why not?

We believe that AS 1301, *Communications with Audit Committees*, sufficiently addresses circumstances requiring the auditor to communicate to the audit committee. Specifically, Paragraph 3 of AS 1301 states the auditor's objectives, which include to, "(c) communicate to the audit committee an overview of the overall audit strategy and timing of the audit; and (d) provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process". Under AS 1301, we believe there are circumstances when the auditor will communicate that the presumption to confirm accounts receivable has been overcome; such circumstances could include, for example, when there is a significant risk over accounts receivable, if the auditing of accounts receivable has a significant impact on the audit strategy or timing and/or if there is a critical audit matter related to the auditing of accounts receivable. However, we do not believe that such communication is relevant in all circumstances, and particularly when accounts receivable has been determined to have a lower risk of material misstatement. We are concerned that in such circumstances, the requirements outlined in Paragraph 14 of the Proposed Standard may result in a disproportionate amount of the audit committee's agenda being focused on lower risk areas, contrary to the principles outlined in AS 1301. We suggest the Board replace

the requirement for communication to the audit committee of the auditor's determination that the presumption to confirm accounts receivable has been overcome with an acknowledgement that such communication is something an auditor may find appropriate under AS 1301.

22. Are the provisions of the new proposed standard related to identifying information to confirm sufficiently clear and appropriate?

We believe that the provisions of the Proposed Standard related to identifying information to confirm are, in most aspects, sufficiently clear and appropriate. However, Paragraph 17 states, "the auditor should test the accuracy and completeness of information produced by the company that the auditor uses in selecting the items to confirm". We agree that the completeness of the information produced by the company and used by the auditor in selecting the items to confirm, should be tested. However, we are concerned that the proposed language will require the auditor to test the accuracy of the information used by the auditor to select the items to confirm as a procedure separate from sending the confirmations. We believe the results of the confirmation procedures (or alternative procedures) provide relevant and reliable audit evidence to address the accuracy of the information provided by the company. We suggest that the Board clarify that the population of information produced by the company and used by the auditor in selecting the items to confirm, should be tested for completeness. The requirement to test the accuracy of the information used by the auditor in selecting the items to confirm should be removed or further clarified.

48. How much time following SEC approval would audit firms need to implement the proposed requirements?

While the Proposed Standard would result in changes to methodologies, guidance and related tools, the overall impact of the Proposed Standard would likely not take considerable time to implement. However, we believe that the Proposed Standard may have a more pervasive impact on intermediaries utilized in the confirmation process. This may include modified processes and controls and changes in the preparation of SOC reports, including additional and/or more timely release of SOC reports. Firms will likely need time to coordinate with intermediaries and implement changes to processes necessary to address the new requirements in the Proposed Standard. We recommend the PCAOB consider responses from intermediaries, if any, as to the impact of the Proposed Standard and the time needed to implement the requirements of the Proposed Standard.