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Ms. Phoebe W. Brown, Secretary  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

20 February 2023

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

Dear Ms. Brown:

Ernst & Young LLP is pleased to submit comments on the proposed standard on the auditor’s use of confirmations and related amendments issued by the Public Company Accounting Oversight Board (PCAOB or Board).

We support the Board’s efforts to modernize the requirements for the auditor’s confirmation process. As the Board noted in the proposing release, the manner in which auditors perform confirmation procedures to obtain audit evidence has changed significantly since 1991, when the American Institute of Certified Public Accountants (AICPA) issued the standard that the PCAOB subsequently adopted as interim auditing standard Accounting Update section 330, *The Confirmation Process*. Today, most audit confirmations are sent and received electronically, and new ways to perform confirmation procedures could emerge as technology evolves, creating both benefits and risks that were not contemplated by the interim auditing standard.

We also appreciate the Board’s efforts to solicit public comment and for its consideration of the feedback it already received on its initial 2010 proposal.<sup>1</sup> Below we discuss two areas where we encourage the Board to make adjustments in the final standard.

We agree with the Board that, when properly designed and executed, the confirmation process is an effective way for the auditor to obtain important third-party evidence to support certain financial statement assertions. The confirmation process is widely used in practice to obtain audit evidence for several financial statement accounts and to obtain information regarding the terms of certain transactions. We support the use of confirmations to obtain audit evidence in all circumstances where it is the best option to get sufficient, appropriate audit evidence. However, we believe it is also appropriate to retain the ability to obtain other forms of audit evidence directly from third parties (e.g., direct access) where possible and appropriate.

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<sup>1</sup> See [Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards](#)

Generally, we recommend changes in two areas: (1) to provide further guidance regarding how the use of other forms of third-party audit evidence, not obtained through the confirmation process, may be sufficient and appropriate in the circumstances and (2) remove the proposed requirement to communicate to the audit committee when the auditor has not sent accounts receivable confirmations to be consistent with other communication requirements.

### **Persuasiveness of audit evidence**

We agree that confirmation procedures that are properly designed and executed may provide more reliable audit evidence than audit evidence from internal company sources, as stated in the release.<sup>2</sup> However, we are concerned that the language in paragraphs .06 and .07 of the proposed standard could be interpreted to mean that other forms of audit evidence aren't sufficient and appropriate to address the assessed risks of material misstatement. Similarly, it is unclear what audit evidence would qualify as "at least as persuasive as the audit evidence that the auditor might expect to obtain through performing confirmation procedures."

We generally believe that auditors should follow the guidance in Auditing Standard (AS) 1105, *Audit Evidence*, and use their professional judgment to determine whether and to what extent confirmations should be used to obtain sufficient and appropriate audit evidence based on their assessment of risk. We support the Board's intention for the standard to be flexible enough to apply to new methods that may arise from future technological changes in auditing. However, we believe the proposal's emphasis on confirmations as the most reliable form of audit evidence in certain cases may have the unintended consequence of not supporting other techniques to gather evidence, such as appropriately designed direct access to third-party information.

While we agree that properly designed confirmations are an important form of third-party audit evidence, we believe that, without further clarifications on the evaluation of the persuasiveness of other forms of evidence, in certain situations the auditor could wind up expending significant effort to send confirmations, even when the auditor has determined that the confirmations are likely to not provide significant evidence in the audit. For example, this may be the case when an entity under audit operates in an industry where the auditor has observed a history of very low confirmation response rates (e.g., health care, hospitality, power and utilities, oil and gas industries) or when the auditor has concluded that the risks related to the existence of accounts receivable are minimal and persuasive evidence from external confirmations is not commensurate with the assessed risks.

Consider the audit of a utilities company, where accounts receivable are converted to cash quickly because the company will stop providing service promptly if the customer does not pay the company's invoices timely and whereby the accounts receivable balance is composed of many individually insignificant balances held by ordinary consumers. Based on these considerations and other factors, the auditor may have assessed the risk of material misstatement for the assertions related to accounts receivable as low. Let's also assume that the auditor has attempted to confirm accounts receivable historically and has consistently observed extremely low response rates. In this situation, the auditor may have elected to perform audit procedures other than confirmation to obtain sufficient and appropriate audit evidence that the receivables existed as of the testing date. Such procedures

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<sup>2</sup> See Release page 4.

may have included obtaining third-party evidence that the receivables selected for testing were subsequently collected in cash and that the services were provided in the appropriate period. Under the proposed standard, the auditor would be required to send confirmations, despite knowing that this method of obtaining audit evidence is not effective and other forms of evidence will likely be needed for the auditor to conclude or assert that the evidence they obtained from other procedures is “at least as persuasive” as the evidence they would have obtained had they sent the confirmations, which may not be commensurate with the auditor’s risk assessment.

### **Audit committee communication**

We understand the importance of and support the communication of key elements of the audit strategy, the timing of the audit and identified significant risks to the audit committee, as required by AS 1301, *Communications with Audit Committees*. Such communications form the foundation of the audit committee’s oversight of the auditor.

The auditor’s existing communication responsibilities require a discussion about the overall audit strategy, including significant risks identified during the risk assessment process. AS 1301 notes that the communication of the audit strategy is intended to provide information about key areas of the audit in such a way to not compromise the effectiveness of the audit procedures.

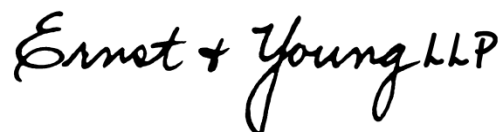
With respect to accounts receivable, we believe that the existing requirements would result in communications that accomplish the objective of sufficiently informing the audit committee when revenue and accounts receivable were identified as containing a significant risk, including fraud. In situations when the auditor concluded that the assertions related to accounts receivable have a lower risk of material misstatement, we believe the proposed requirement to communicate to the audit committee a determination that the presumption to confirm accounts receivable has been overcome could have the unintended consequence of shifting focus away from more meaningful issues given the volume of other required communications to the audit committee. Therefore, we believe that such requirement would not significantly enhance the audit committee’s oversight or have a positive impact on audit quality.

The attachment to this letter contains our responses to the questions the PCAOB posed in the release.

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We want to again thank the Board and its staff for its consideration of this letter and the comments we previously submitted on this topic. We would be pleased to discuss our comments with members of the PCAOB or its staff at your convenience.

Sincerely,





Copy to:

**PCAOB**

Erica Y. Williams, Chair  
Duane M. DesParte, Board Member  
Christina Ho, Board Member  
Kara M. Stein, Board Member  
Anthony C. Thompson, Board Member  
Barbara Vanich, Chief Auditor

**SEC**

Gary Gensler, Chair  
Hester M. Peirce, Commissioner  
Caroline A. Crenshaw, Commissioner  
Mark T. Uyeda, Commissioner  
Jaime Lizárraga, Commissioner  
Paul Munter, Chief Accountant  
Diana Stoltzfus, Deputy Chief Accountant

Attachment

## Attachment

**Q6.** Are there accounts other than those addressed in the new proposed standard or financial statement assertions for which the auditor should be required to perform confirmation procedures? Why or why not?

We do not believe there are accounts other than those addressed in the proposed standard or financial statement assertions for which the auditor should be required to perform confirmation procedures. Auditors should determine whether to use confirmation procedures to obtain sufficient and appropriate audit evidence based on their risk assessment for each account or disclosure.

**Q7.** As discussed above, the new proposed standard would not include a requirement to send confirmation requests in response to significant risks related to assertions that could be adequately addressed through confirmation. Is the proposed approach appropriate? Why or why not?

Yes. The proposed approach would be appropriate for the reasons stated in the release.

**Q10.** Are the requirements in the new proposed standard regarding confirming cash held by third parties, as well as other financial relationships, sufficiently clear and appropriate? If not, what changes should be considered?

We agree that properly designed and executed confirmation procedures may provide audit evidence that is more reliable than that from internal company sources. However, we believe the emphasis on confirmations as the most reliable form of audit evidence in certain cases may not support the use of other techniques, such as appropriately designed direct access to third-party information, and the use of methods designed in the future that may provide sufficient appropriate audit evidence in the circumstances.

While we believe the proposed requirements related to confirming cash held by third parties would be sufficiently clear, we encourage the Board to add criteria to overcome the requirement to confirm cash in the final standard, consistent with the criteria in paragraph .34 of extant AS 2310, *The Confirmation Process*, on accounts receivable, to support the use of other techniques.

**Q13.** Are the requirements in the new proposed standard sufficiently risk-based to enable the auditor to use professional judgment in selecting which cash accounts and other relationships would be subject to confirmation?

Yes. We believe that the requirements in the proposed standard would be sufficiently risk-based to enable the auditor to use professional judgment in selecting which cash accounts and other relationships would be subject to confirmation.

**Q14.** Is the continued requirement to confirm accounts receivable sufficiently clear and appropriate? Are there other approaches that we should consider instead?

Yes. The continued requirement to confirm accounts receivable is sufficiently clear and appropriate.

**Q15.** Are the provisions of the new proposed standard sufficiently principles-based to allow auditors to use professional judgment to determine the extent of confirmation of accounts receivable?

Yes. The provisions of the proposed standard would be sufficiently principles based to allow auditors to use professional judgment to determine the extent of confirmation of accounts receivable. Paragraph 13 of the proposed standard would allow the auditor to make judgments regarding which accounts to select for confirmation, based on their understanding of the company's arrangements and transactions with third parties and the nature of items that make up the account balances.

**Q16.** Is the description of accounts receivable sufficiently clear? Is there any reason to broaden the description to include other types of receivables, and if so, which ones?

Yes. The description of accounts receivable is sufficiently clear in the proposed standard, and we are not aware of a reason for the Board to broaden the description to include other types of receivables.

**Q17.** 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?

While we understand the Board's objective, we do not believe that the proposed standard clearly explains when other substantive procedures would provide evidence that is at least as persuasive as performing confirmation procedures (i.e., when the presumption to confirm accounts receivable is overcome).

We recommend the Board retain the criteria to overcome the requirement to confirm accounts receivable in paragraph .34 of extant AS 2310. We are concerned that the proposal's emphasis on the persuasiveness of audit evidence obtained through confirmation procedures may unintentionally limit the auditor's ability to obtain other types of audit evidence that may be sufficient and appropriate, as required by PCAOB AS 1105.04. Further, we believe that it is unclear in the proposed standard how, and in what situations, an auditor would be able to obtain evidence that is "at least as persuasive" as performing confirmation procedures.

**Q19.** 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?

No. While we understand the importance of and support the communication of key elements of the audit strategy, we do not believe the proposed 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 would be appropriate. The existing communication requirements in AS 1301 result in communications that achieve the objective of informing the audit committee when relevant. While we do not believe the proposed requirement is necessary, we are supportive of PCAOB's efforts to enhance auditor communications with audit committees given their important role.

**Q20.** Are the provisions of the new proposed standard related to confirming the terms of certain transactions that have a significant risk of material misstatement sufficiently clear and appropriate?

While we support the Board's objectives related to confirming the terms of certain transactions that have a significant risk of material misstatement, we do not believe that the related provisions of the proposed standard would be sufficiently clear.

Paragraph .15 of the proposed standards states that "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." We believe that this proposed requirement, read alongside proposed paragraphs .06 and .07, could be interpreted to mean that auditors should perform confirmation procedures in such situations, even when other forms of sufficient appropriate audit evidence exist and may be more appropriate in certain cases.

Further, this proposed requirement would imply that the auditor should consider confirmation for all significant risks associated with a complex or significant unusual transaction, regardless of whether a confirmation procedure could adequately address the identified significant risk of material misstatement. We recommend that the Board revise proposed paragraph .15 as follows:

For significant risks of material misstatement associated with either a complex transaction or a significant unusual transaction, the auditor should consider confirming the terms of the transaction with the counterparty to the transaction **when the assertions related to the significant risk of material misstatement can be adequately addressed through confirmation.**

**Q22.** Are the provisions of the new proposed standard related to identifying information to confirm sufficiently clear and appropriate?

We do not believe the proposed provisions related to identifying information to confirm would be sufficiently clear and appropriate. Paragraph .17 of the proposed standard would require the auditor to "test the accuracy and completeness of information produced by the company that the auditor uses in selecting items to confirm." We believe the Board should consider narrowing this requirement to focus only on the attributes of the information produced by the company that are relevant to the account and/or disclosure that is to be confirmed.

**Q26.** Are the requirements in the new proposed standard to evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses (including as set forth in paragraph. B2 of the new proposed standard) sufficiently clear and appropriate? Are there other requirements or considerations that the auditor should perform or take into account when using an intermediary in the confirmation process?

We believe that the proposed requirements to evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses would be appropriate; however, additional clarity may be required to make sure that the proposed provisions would be practical, particularly as it relates to the auditor's response to a potential control failure at an intermediary.

Appendix B3 of the proposed standard states that an auditor should determine that the controls used by the intermediary to address the risk of interception and alteration are designed and operating effectively. We expect that auditors would generally rely on their review and evaluation of the intermediary's Service Organization Control (SOC) report to comply with this proposed requirement.

Consequently, if auditors are not able to obtain a SOC report from the intermediary stating that it has effective controls to mitigate the risk of interception and alteration of confirmation requests and responses, the auditor may not be able to use the audit evidence obtained from confirmation procedures because many confirming parties would only participate in the confirmation process through an intermediary. We believe that in these situations the auditor should have the flexibility to continue to use the intermediary to facilitate the confirmation process if the auditor is able to perform incremental audit procedures to mitigate any risks that arose as a result of the control failure(s).

**Q28.** Are the provisions of the new proposed standard related to evaluating the reliability of confirmation responses sufficiently clear and appropriate?

Yes. The provisions of the proposed standard related to evaluating the reliability of confirmation responses are sufficiently clear and appropriate.

**Q35.** In the event of a management request not to confirm a certain item, are there procedures that the auditor should perform which are not currently required by other PCAOB standards? If so, what other procedures should be required?

No. We believe that AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2401, *Consideration of Fraud in a Financial Statement Audit*, provide sufficient guidance for the auditor's responsibilities in these situations.



**Q49.** Would requiring compliance for fiscal years beginning after the year of SEC approval present challenges for auditors? If so, what are those challenges, and how should they be addressed?

Yes. Although we do not believe that significant effort would be required to implement the proposed standard considering current requirements and practices, we believe that intermediaries would need time to evaluate its impact on their operations with respect to the confirmation process, update their processes and controls, and effectively implement them so that they are prepared by the time the final standard becomes effective.

Therefore, we recommend that the final standard be effective for audits of fiscal years beginning no earlier than two years after approval by the Securities and Exchange Commission (SEC).