



National Association of State Boards of Accountancy

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February 13, 2023

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

Via email: 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 Members of the Public Company Accounting Oversight Board (PCAOB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the PCAOB’s Proposed Auditing Standard, *The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* (Proposal).

Founded in 1908, NASBA serves as a forum for the nation’s Boards of Accountancy (State Boards), representing fifty-five jurisdictions. NASBA’s mission is to enhance the effectiveness and advance the common interests of the State Boards that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

Risk-Based/Principles-Based

NASBA commends the PCAOB for their continued efforts in modernizing the standards. We are supportive of a risk-based approach designed to focus firms’ attention on proactively identifying and responding to risks that may affect their engagements. We recognize that risk-based standards can be more challenging to enforce by regulators due to the greater level of judgment that can be implicit in their implementation.

In the preamble to the Proposal, there is discussion and reference to risk-based or principles-based standard setting; however, we noted several instances throughout the Proposal in which there were fairly prescriptive requirements. We respectfully request the PCAOB’s consideration as to whether or not those areas are in conflict before a final standard is issued.

Negative Confirmations

The Proposal sets a high bar for the use of negative confirmations and, in our opinion, appropriately emphasizes the relatively insignificant amount of audit evidence obtained from using negative confirmation requests. We support the approach with negative confirmations and believe placing the burden on the auditor to justify their use is appropriate.

Communication with the Audit Committee

The Proposal includes a requirement for the auditor to communicate to the audit committee instances where the auditor has determined that the presumption to confirm accounts receivable has been overcome and the basis for the auditor's determination. We believe that other standards and existing communication requirements such as communication about the overall audit strategy, significant changes to the planned audit strategy and significant difficulties experienced during the audit are sufficient and that this requirement should apply only if receivables represent a significant risk area.

Confirmation with Intermediaries

The Proposal permits the auditor or confirming party to engage another party as an intermediary to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party. If an intermediary is used, then the auditor should evaluate detailed information about the intermediary and the design and operating effectiveness of the intermediary's controls.

The Proposal does not address situations in which intermediaries receive a Service Organization Control Type 1 report (SOC1), which evaluates service organization controls that are applicable to a user entity's internal control over financial reporting, and how the auditor might use the SOC1 report to fulfill the requirements of the standard.

The use of intermediaries is a common practice. We recognize that, in addition to the proposed standard, there is additional non-authoritative guidance provided in the Spotlight document referenced in footnote 10 on page 7 of the Proposal. Nevertheless, we believe more robust guidance is needed in considering intermediaries and the expectations around required procedures and documentation to better enable auditors to comply with the standard.

Disclosure of Confirmation Strategy to Investors

Question 2 on page 16 of the Proposal asks if investors would find it useful in making investment decisions to have more information about the auditor's use of confirmation in the audit of an issuer's financial statements.

We do not support the disclosing of the auditor's confirmation strategy to investors. There is concern about the notion of over-emphasizing one element of the audit strategy with respect to one discrete

item of the financial statements. From a regulatory perspective, it could possibly create more confusion with differing understandings and expectations of the information that has been disclosed.

Internal Audit Involvement

The Proposal identifies certain activities in the confirmation process where the auditor may not use the assistance of the company's internal audit function. Specifically, the auditor would not be permitted to use internal auditors for selecting items to be confirmed, sending confirmation requests and receiving confirmation responses.

We do not support the proposed prohibition. The PCAOB did not provide an evidence-based rationale for this prohibition. The prohibition could potentially undermine the valid and helpful relationship that exists between external and internal audit functions and the very positive audit work that can be accomplished when auditors work with internal audit in the context of AS 2605, *Consideration of the Internal Audit Function*.

Additionally, in many instances, internal audit performs confirmation procedures on its own (not in the form of direct auditor assistance). In such instances, it is possible, even likely, that external auditors may want to review evidence provided by such internal auditor-issued confirmations for a variety of reasons. The proposed ban may cause confusion as to whether the external auditors could continue to review (and react to) such internal auditor-generated confirmations.

Guidance on New Asset Categories

Given that new asset categories, such as blockchain, cryptocurrency and digital assets, have emerged as an area of concern and likely to be one of audit focus and inspection focus, we believe additional guidance is needed on these asset categories and the procedures and documentation to be considered.

Integration with QC 1000

The Proposal makes reference to integration with QC 1000, which we understand has not yet been finalized. As QC 1000 is currently still under consideration, reference to QC 1000 may need to be revisited upon finalization.

Use of Email

We would recommend more guidance around the area of use of email for confirmation. The Proposal included minimal guidance – to verify the email domain. Given the common use of email in the confirmation process, additional guidance would be advisable.

Definitions

We would also recommend including a definition of the term “confirmation” in the Appendix. Definitions provided in the Appendix include a confirmation response and mentions that an oral response equates to a non-response. However, there is not much guidance on what other form of response is evidence of confirmation. For example, are screen shots from a confirming party’s system an acceptable form of evidence? Can the auditor observe the client accessing the company’s account at a confirming party’s system as a form of confirmation?

Effective Date

We are concerned that, given some of the more substantial changes contained in the Proposal, the effective date beginning in the year after approval by the SEC approval may be too soon.

We would recommend the effective date to begin two years after the year of SEC approval (regardless of the timing of when approval is granted). Many audits utilize confirmations throughout the auditee’s fiscal year, and requiring implementation in the year after approval would be premature and likely not allow effective implementation and training. Effective implementation of standards is in the public interest.

Robust Guidance for Implementation

Given the breadth of the changes in the Proposal, we believe there will be a need for robust guidance and perhaps training from the PCAOB staff, to communicate expectations from an inspection standpoint to better enable firms to comply with the standard and better enable regulators to provide the required oversight.

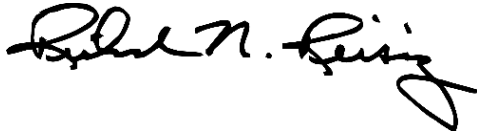
Special Consideration for Emerging Growth Companies (EGC)

While the risk profile of an EGC is different from more mature entities, we believe that the Proposal should apply to EGCs, to the extent that such applicability is determined to be statutorily permissible. To exclude EGCs from the Proposal would be inconsistent with protecting the public interest.

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Again, we appreciate the opportunity to comment on the Proposal.

Very truly yours,

Handwritten signature of Richard N. Reising in black ink.

Richard N. Reising, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink.

Ken L. Bishop
NASBA President and CEO