



# PROPOSED AUDITING STANDARD - THE AUDITOR'S USE OF CONFIRMATION AND OTHER PROPOSED AMENDMENTS TO PCAOB STANDARDS

Issued 20 February 2023

ICAEW welcomes the opportunity to comment on the PCAOB's *Proposed Auditing Standard - The Auditor's Use of Confirmation and Other Proposed Amendments to PCAOB Standards* published by the PCAOB on 20 December 2022, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at [tdaf@icaew.com](mailto:tdaf@icaew.com) quoting REP 14/23.

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## GENERAL POINTS

1. We welcome the PCAOB's proposal to revise its auditing standard related to an auditor's use of confirmation by updating AS 2310, 'The Confirmation Process', to AS 2310, 'The Auditor's Use of Confirmation'. The use of confirmation requests is a core audit procedure, and one which is often the focus of public and regulatory scrutiny after alleged instances of audit failure. It is critical that auditing standards in this area are clear and robust. We are therefore pleased that the Board is prioritising revisions to this standard.
2. In particular, we support the modernisation and enhancement of the existing standard through increased linkage to risk assessment guidance; the encouragement of auditors to consider using confirmations for complex transactions and significant unusual transactions; and the provision of more granular guidance and examples to assist auditors, especially where exceptions arise or the reliability of confirmation responses is uncertain.
3. We see a need for practical guidance from the PCAOB, outside the revised standard, on technological developments affecting the confirmations process. This could be issued in the form of Staff Guidance, tailored to specific situations, such as particular industries, and kept up to date as technology changes. In several places, the consultation document refers to changes in the business environment, the growing use of technology in the confirmation process and the increasing prevalence of newer and more complex asset types. Despite this, the revised standard does not cover these developments in detail except regarding the use of intermediaries. We understand the need to maintain auditing standards that are relevant and flexible enough to apply to any situation, and the consequent desire not to include reference to specific technologies given the pace of change in this area. By remaining principles-based, standards avoid becoming overly long and obsolete as older technologies are superseded.
4. However, as the use of technology evolves, auditors are seeking increased direction from regulators and standard-setters regarding the role of technology in performing audit procedures, as well as guidance on how to approach auditing new types of transaction and account balances. By avoiding the issue, standard setters make auditors responsible for developing their own approaches and methodologies, which are likely to be inconsistent across firms and may lead to further inspection findings and enforcement actions by the PCAOB.
5. Additionally, the Board should reconsider its proposed approach where intermediaries are assessed as unreliable. We are concerned that there is a risk of conflict between the requirement to perform confirmation procedures over cash, and the requirement not to use an intermediary if concerns are identified about their reliability. If a bank or financial institution will only accept confirmation requests via a specific intermediary, but the auditor has assessed the intermediary as unreliable, the auditor will be unable to perform confirmation procedures as required by AS 2310.09. The requirement to assess the intermediary will also result in significant additional work for auditors. It is not currently common practice to directly assess intermediaries in this manner.
6. It is essential for the PCAOB to effectively challenge the IAASB in areas in which it believes that ISAs should be improved. For that challenge to be effective, there is a need for it to be robust and detailed in its explanations of differences between PCAOB standards and ISAs. Challenge is an important part of the convergence process, which is not well-served by small differences in wording (noted below in our responses to questions 4, 28, and 37). We caution against the use of different words simply to express better what is required, as this can be misconstrued as needlessly adding a costly layer of complexity without commensurate benefit. The use of different words may distract firms from the key requirements of the

standard, cause needless concern about the distinctions between the two or discourage firms from conducting PCAOB audits.

7. The PCAOB should be clear about the nature and extent of changes in auditor behaviour it is seeking through the publication of the revised standard and introduction of further requirements. Adverse inspection findings generally focus on a failure to confirm at all, or to cover the gap between the response date and the period-end, both of which are existing requirements. We therefore remain unconvinced that the additional work proposed will result in any significant reduction in adverse inspection findings, and it is not clear that there will be an improvement to audit quality. In addition to carrying forward the pre-existing differences between the requirements of AS 2310 and ISA 505, the revised standard introduces new requirements which represent a further divergence from the ISAs.
8. We support the move towards a more principles-based framework which has eliminated some differences that we identified in our response to the Board's 2010 proposal, but other differences remain. Examples that concern us include new requirements to:
  - perform confirmation procedures over cash and cash equivalents held by third parties (see questions 10 and 11);
  - 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 (see question 19);
  - evaluate the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses (see question 26); and
  - send a second confirmation request if no response is received to a positive confirmation request (see question 30).
9. Questions on which we have no comment we omit from our response below. We have answered some groups of questions in aggregate.

## ANSWERS TO SPECIFIC QUESTIONS

***Question 1: Are there problems relating to the auditor's use of confirmation that are not described above? If so, what are the problems and what changes should be considered to address them?***

10. Although we agree with the PCAOB's analysis of the problems, we are not convinced that the proposed changes will effectively address them. Enforcement actions and inspection findings relating to confirmation arise due to failure to perform confirmation procedures in situations when using other substantive procedures will not provide sufficient appropriate evidence, or a failure to obtain evidence over gaps in time between the response date and the period-end. The current standard already speaks to these issues, suggesting that if the Board has identified consistent problems over a long period of time, there is a need for additional guidance rather than additional requirements. The incremental requirements of the revised standard may reduce the extent to which auditor judgement can be used to design a response proportionate to the risk assessed, without achieving a reduction in the number of adverse inspection findings and enforcement actions.

***Question 2: Would investors 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? If so, what type of information would be useful to investors and how might it be provided?***

11. We do not see value in re-instating the blanket requirement (last in effect in the early 1970s) to disclose in the auditor's report when confirmation of accounts receivable is not performed. If the auditor determines that the non-performance of this procedure is a critical audit matter, the explanation required by AS 3101.14(c) will explain the auditor's approach. Forcing auditors to disclose this, even where the risk is not considered significant, could have the unintended consequence of unnecessarily alarming investors in situations where the auditor has performed other substantive procedures providing audit evidence at least as persuasive as confirmation.
12. There is no equivalent requirement to disclose in the audit report when other substantive procedures have (justifiably) not been performed on specific account balances, and we therefore consider that the inclusion of additional information in the audit report about the auditor's use of confirmation would attach undue significance to the account balances about which the disclosure is made.

***Question 3: Should the new proposed standard more explicitly address the use of technology, including situations where the use of technology might improve the quality of evidence obtained through the confirmation process? If so, how?***

13. We support the Board's proposal to include more principles-based requirements designed to apply to all methods of confirmation in the revised standard. However, the removal of the detailed guidance that was included in the 2010 proposal around the use of electronic communications deprives auditors of valuable insight into the specific risks and considerations associated with different confirmation methods. We see a need for practical guidance from the PCAOB to support auditors in navigating the use of technology in this area. This could be issued in the form of Staff Guidance.
14. The removal of information related to electronic confirmation procedures also moves the revised standard further away from ISA 505, which provides more guidance in this area. Where the PCAOB does not intend auditor behaviour to be different, we recommend maintaining consistency between the standards.

***Question 4: Is the objective of the new proposed standard clear? If not, how should it be clarified?***

15. We do not consider that the revision to the objective that has been made from the 2010 proposal has resulted in increased clarity, as there is now a wider gap between the revised standard and ISA 505. We understand that the change has been made in response to comments that the objective in the 2010 proposal was too generic but we do not see that the new phrasing provides additional value or how it will change behaviour. We are not convinced that the objectives in the two standards need to be different, and caution against the use of different words simply to clarify meanings where the divergence will have no impact on auditor methodology or behaviour.

***Question 5: Does the new proposed standard provide for an appropriate amount of auditor judgment in determining whether to perform confirmation procedures in situations other than those specifically addressed in the new proposed standard?***

16. While we support the revised standard's emphasis on following the existing requirements of AS 2110 and AS 2301 to determine whether confirmation procedures should be performed, we note that the revised standard does not explicitly address the need for auditor judgment to be used.

**Question 6: 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?**

17. We do not consider that there are any further accounts or financial statement assertions for which the auditor should be required to perform confirmation procedures. We support a risk-based approach, as envisaged by the ISAs, rather than the introduction of prescriptive requirements for specific accounts or assertions. Mandatory procedures for specific accounts may shift the emphasis in audit planning away from the need to thoughtfully identify, assess and respond appropriately to risks.

**Question 7: 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?**

18. We support the proposed approach to remove the requirement in the 2010 proposal to send confirmation requests in response to significant risks. It is sufficient that the revised standard instead emphasises the need to follow the existing requirements of AS 2110 and AS 2301 to determine whether confirmation procedures should be performed.

**Question 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?**

19. The revised standard requires auditors to use judgment to determine when performing confirmation procedures is appropriate. We therefore consider it sufficiently flexible to accommodate different situations, and newer types of asset.
20. However, in the context of rapid technological advancement and the emergence of newer asset types, auditors are seeking enhanced guidance from regulators and standard-setters regarding suitable procedures and approaches. It would be helpful to auditors if the Board were to refer to newer types of asset, and when it might be appropriate to perform confirmation procedures over them either within, or as a note to, the revised standard.
21. As noted in our general points, and in our answer to question 3, above, we see a need for practical guidance from the PCAOB on technological developments outside the revised standard. This could take the form of staff guidance, could be tailored to specific situations, such as particular industries, and kept up to date as technology changes.

**Question 9: Are there ways in which the new proposed standard should be changed to further align with the PCAOB's risk assessment standards? If so, how should the new proposed standard be changed?**

22. None identified.

**Question 10: 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?**

23. The blanket requirement to confirm cash held by third parties is not consistent with the PCAOB's auditing standards on risk assessment, nor is it required by ISA 505. It is important that the requirement to confirm cash is not seen as obviating the need for auditors to take a risk-based approach. However, we note that performing confirmation procedures over cash

is a long-standing requirement in the audit methodologies of many firms and is consistent with current audit practice. We therefore do not consider that the introduction of this requirement will lead to a significantly increased burden for auditors. Codifying this requirement has the benefit of increasing clarity and driving consistency in audit practice.

**Question 11: Are there substantive audit procedures other than confirmation that would provide audit evidence that is at least as persuasive as evidence the auditor might expect to obtain through confirming cash? If so, please describe these procedures.**

24. While we are not currently aware of audit procedures other than confirmation that would provide audit evidence over cash that is at least as persuasive as confirmation procedures, we recommend that the PCAOB keep this requirement under review. Increasingly sophisticated technology makes it unsafe to assume that performing confirmation procedures will always be the best method of obtaining audit evidence over cash and cash equivalents. As new technologies develop, new financial products and digital disruptor banks emerge, definitions of cash are becoming increasingly complex and mutable.

**Question 12: For other financial relationships with the confirming party, is the requirement in the new proposed standard that the auditor should consider confirmation sufficiently clear and appropriate?**

25. Yes.

**Question 13: 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?**

26. Yes.

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

27. Yes.

**Question 15: 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?**

28. Yes.

**Question 16: 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?**

29. We support the revisions to the description of accounts receivable in the revised standard to refer to balances that 'arise from the transfer of goods or services to a customer or a *financial institution's loans*'. This is more precise than that put forward in the 2010 proposal and therefore more likely to prevent confusion about whether confirmation procedures should be performed over complex financial instruments or other transactions.

**Question 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?**

30. The requirement for the auditor to determine that other substantive audit procedures would provide audit evidence at least as persuasive as confirmation procedures will, in practice, force auditors to send confirmations in all situations. Even now, to avoid regulatory challenge, confirmation requests are often sent by auditors even where there is a very poor expected response rate, with alternative procedures planned from the outset. This represents unnecessary additional work and higher costs. Determining that another procedure would provide better evidence than confirmation is a high bar to overcome, and the auditor's judgement would be even more vulnerable to regulatory challenge. Including this presumption in the revised standard is therefore unlikely to change auditor behaviour. It is not clear to us that this change will effectively address the problem where insufficient evidence is expected to be obtained from confirmations.

***Question 18: Are there certain factors that should be present when determining that other substantive audit procedures would provide audit evidence that is at least as persuasive as the evidence that the auditor might expect to obtain through performing confirmation procedures for accounts receivable? If so, what are those factors?***

31. The revised standard should not be prescriptive in defining the factors that should be present when determining that other substantive audit procedures would provide audit evidence at least as persuasive as the evidence expected to be obtained through confirmation. Requiring auditors to justify their approach, rather than follow a checklist of factors, will lead to more robust risk assessments and responses.

***Question 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?***

32. No, we do not consider this requirement appropriate. 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, regardless of the significance of the risk, is not consistent with other audit committee communication requirements under AS 1301, which are focused on significant risks. Audit committees are not usually involved in this level of granularity regarding which audit procedures have been carried out, and no justification has been provided for calling out this issue for specific consideration. Auditors should instead be required to consider reporting such instances to the audit committee. This would allow auditors to use judgment when determining what to report to audit committees, while still requiring audit documentation to evidence their consideration.

***Question 20: 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?***

33. Yes.

***Question 21: Is the new proposed standard sufficiently clear that an auditor's use of confirmation is not limited to the circumstances discussed in paragraphs .09 through .15 of the new proposed standard? If not, how should it be clarified?***

34. Yes. The list of example financial statement assertions for which confirmation procedures could provide relevant and reliable evidence in paragraph .06 is sufficiently clear.

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

35. Yes, although we note that the requirement to test the accuracy and completeness of information produced by the company that is intended to be used as audit evidence is already included in AS 1105.10. The proposed requirement in AS 2310.17 is duplicative, and represents a divergence from ISA 505, which does not include such a requirement as it is covered in ISA 500. We agree that auditors should test the accuracy and completeness of information produced by the company that is used to select items for confirmation, but it is unnecessary to include such a requirement in the revised standard as it is addressed elsewhere in the standards.

**Question 23: Are the provisions of the new proposed standard related to identifying confirming parties sufficiently clear and appropriate?**

36. Yes.

**Question 24: Is the requirement in the new proposed standard to send a confirmation request directly to the confirming party, and determine that the request is properly addressed, sufficiently clear and appropriate? Should the new proposed standard contain specific procedures for the auditor to test information about the confirming party such as the address?**

37. We agree that the requirement in the revised standard to send a confirmation request directly to the confirming party, and determine that the request is properly addressed, is sufficiently clear and appropriate.
38. Specific procedures requiring auditors to test information about the confirming party, such as addresses, would be overly prescriptive. We noted in our response to the 2010 proposal that checking addresses will not deter those intent on deceiving auditors, that PCAOB reports do not highlight problems in this area and that additional direction should therefore be kept to a minimum.

**Question 25: Are the provisions of the new proposed standard related to the auditor's use of negative confirmation requests sufficiently clear and appropriate?**

39. Our understanding is that there is limited use of negative confirmation requests in practice. We are therefore supportive of the revision clarifying that the use of negative confirmations requests alone does not provide sufficient appropriate audit evidence for addressing the risk of material misstatement for a financial statement assertion, even though this is inconsistent with ISA 505. We do not consider that the introduction of this requirement will lead to an increased burden for auditors, and codifying the requirement will increase clarity and drive consistency in audit practice.

**Question 26: 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?**

40. No, because there is a risk of conflicting requirements. In situations where there are concerns about an intermediary's reliability, the standard requires that the auditor should not use that intermediary. However, as the Board has identified, a number of financial institutions and other companies have adopted a policy of only responding to confirmation requests via



intermediaries. We see the potential for a situation to arise in which the auditor has concerns about an intermediary's reliability and concludes that they should not therefore use that intermediary. In situations where a bank or financial institution will only accept confirmation requests via this specific intermediary, the auditor will then be unable to perform confirmation procedures as required by AS 2310.09. Since the same intermediary is likely to be used for all audits where balances are held at the bank in question, this has the potential to create problems in a large number of engagements simultaneously. The Board should provide additional guidance for auditors regarding the procedure to follow in such a situation.

41. The requirement to assess the intermediary will result in significant additional work for auditors. It is not common practice to directly assess intermediaries in this manner and auditors may be unable to assess the quality of the controls in place.

***Question 27: Is the potential interaction between using an intermediary in the new proposed standard and the proposed requirements in QC 1000 related to third-party providers sufficiently clear?***

42. The potential interaction between using an intermediary in the revised standard and the proposed requirements in QC 1000 are not directly addressed in the proposed revisions. It would be helpful for auditors for this link to be made explicit to ensure that intermediaries are consistently identified as third-party providers under QC 1000.

***Question 28: Are the provisions of the new proposed standard related to evaluating the reliability of confirmation responses sufficiently clear and appropriate?***

43. Yes. We welcome the inclusion of additional guidance for auditors regarding potential indicators that confirmation responses may have been intercepted or altered, although we note minor differences between the wording in the key provisions of paragraphs .25 and .26 and the equivalent sections of ISA 505. We recommend that the Board considers whether these differences are sufficiently important to the meaning of this section to merit maintaining this divergence.

***Question 29: Are the provisions of the new proposed standard related to confirmation exceptions and nonresponses sufficiently clear and appropriate?***  
***and***

***Question 30: Are the provisions about when the auditor should send a second positive confirmation request sufficiently clear and appropriate? Would this provision be a change from current practice?***

44. No, the requirement to send a second positive confirmation request is not appropriate. This requirement appears to date back to the era of physical confirmation requests being posted to third parties, and physical responses being posted back to the auditor. In the past, if no response was received, it would be reasonable to assume that either the request or the response may not have reached the intended recipient due to mail being incorrectly delivered, lost, or delayed. Sending a second confirmation request would therefore be appropriate. Confirmation requests are now largely sent by email or via third-party intermediaries and auditors can be almost certain that any confirmation requests sent out have been received by the intended party. Therefore, if no response has been received to an initial positive confirmation request, sending a second request would usually be of limited value. Auditors would be more likely to receive a response by directly following up on the status of the request with the confirming party, or asking management to escalate the request with the confirming party, as appropriate. We do not think that this requirement is consistent with the PCAOB's stated desire to 'modify the standard to further support the

*auditor's use of electronic forms of communication between the auditor and the confirming party.'*

45. Additionally, as discussed above, in practice, many auditors send confirmation requests by default, even in situations where low response rates are expected. While auditors may not be aware of any new information indicating that the confirming party is unlikely to respond, the likelihood of receiving a response to a second request will also be low. Auditors should instead be required to use their judgment to determine whether sending a second request is appropriate.

***Question 31: Are the proposed circumstances in the new proposed standard under which the auditor generally would be required to perform alternative procedures sufficiently clear and appropriate?***

***and***

***Question 32: Are there any additional examples of alternative procedures that we should consider for inclusion as examples in the new proposed standard?***

46. The inclusion of additional guidance on alternative procedures that may be performed is welcome. We have not identified any additional examples of alternative procedures that should be considered for inclusion.

***Question 33: Are the requirements in the new proposed standard to exclude the internal auditor from selecting items to be confirmed, sending confirmation requests, and receiving confirmation responses sufficiently clear and appropriate? If not, what changes should be considered?***

***and***

***Question 34: Based upon information available, we understand auditors' use of internal audit in a direct assistance capacity to send confirmation requests or receive confirmation responses to be infrequent. Are commenters aware of information to the contrary?***

47. Yes. Our understanding is that it is not common for auditors to use internal audit in a direct assistance role when designing and executing the confirmation process, but clarity regarding the requirements in this area is welcome to drive quality and consistency in audit practice.

***Question 35: 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?***

***and***

***Question 36: Based upon information available, we understand management requests not to confirm certain items or accounts to be infrequent. Are commenters aware of information to the contrary? If so, in what circumstances do management requests not to confirm commonly arise in practice?***

48. No, we are not aware of information to the contrary. Our understanding is that it is not common for management to request auditors not to obtain confirmations over certain items or accounts.
49. We welcome the Board's decision not to carry forward the proposed requirements related to management requests, in line with our previous comments on the 2010 proposal. The requirements of other PCAOB standards appropriately address the procedures that an auditor should perform.

***Question 37: Are the definitions included in the new proposed standard sufficiently clear and appropriate? If not, what changes should be made to the definitions?***

50. No. We find the differences between the wording of the PCAOB's definitions of positive confirmation requests, negative confirmation requests, non-responses and exceptions, and the wording of the IAASB's definitions, to be so small as to be trivial. We see no difference of substance in these definitions, and we urge the PCAOB to consider the merits of aligning the definitions with that of the ISA. The PCAOB should not use different wording where no difference in the underlying meaning is intended.