

## COMMENTARY

# Comments by the *Ad Hoc* Task Force of the Auditing Standards Committee of the Auditing Section of the American Accounting Association on the Proposed Auditing Standard, *the Auditor's Use of Confirmation*, and Other Proposed Amendments to PCAOB Standards

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**SUMMARY:** On December 20, 2022, the Public Company Accounting Oversight Board (PCAOB) issued a request for comment on its proposed auditing standard, *The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*. The proposed auditing standard describes principles-based requirements that apply to paper-based and electronic confirmations, improves integration with risk assessment standards, requires confirmation for cash held by third parties, and carries over existing requirements regarding confirming accounts receivable. Further, it considers additional audit procedures when using negative confirmation requests and clarifies certain activities where the auditor should not use an internal auditor to provide direct assistance. The proposed standard is important, as the audit confirmation process touches nearly every

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The views expressed in this letter are those of the participating members of the Committee and do not reflect an official position of the American Accounting Association. The comments do not necessarily reflect the views of every member.

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audit. The comment period ended on February 20, 2023. This commentary summarizes the participating members' views on the questions posed by the PCAOB.

**Data Availability:** *Proposed Auditing Standard—The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*, including questions for respondents, is available at PCAOB Proposes New Standard for the Auditor's Use of Confirmation | PCAOB (<https://pcaobus.org/>).

## I. INTRODUCTION

The PCAOB believes that a new audit standard is needed due to the increased use of electronic confirmations, third-party intermediaries, and inspection findings. Further, they assert that the new standard will improve audit quality and investor protection since the audit confirmation process touches nearly every audit. This *ad hoc* Task Force of the American Accounting Association Audit Section Standards Committee commends the PCAOB (“the Board”) for addressing the use of confirmations, including electronic confirmations, third-party intermediaries, confirmations of other accounts, and special terms.<sup>1</sup> We agree that a new standard is needed to reflect changes in audit technology and to align with the PCAOB risk assessment standards and that the proposed standard significantly improves the confirmation process. In general, we support this principles-based approach that allows for more use of auditor judgment in proposing new standards. We agree with the decision to maintain the presumption that the auditor will request confirmation of accounts receivable and the provision in paragraph .21 and Appendix B that negative confirmations alone do not provide sufficient appropriate evidence.

We understand that a principles-based approach tries not to be overly prescriptive, but we believe auditors would benefit from additional guidance in several areas. Examples of such areas include when the auditor should consider confirming special terms, using confirmations for other accounts (e.g., accounts payable), and evaluating exceptions and nonresponses. We suggest that the PCAOB develop separate guidance on the confirmation process, either in an appendix to the standard or a separate confirmation guide. The following section presents several specific comments or suggestions organized along the lines of the questions posed by the Board in the release of the proposed standard.

## II. QUESTION-SPECIFIC COMMENTARY

**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?

Footnote 1 on page 5 of the Release refers to paragraph .08 in AS 1105 ([Public Company Accounting Oversight Board \(PCAOB\) 2010b](#)) *Audit Evidence* that “[e]vidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources.” Although confirmation evidence may be more reliable, it is not truly “independent.” For example, a supplier/customer relationship exists for accounts receivable and payable. [Caster, Elder, and Janvrin \(2008\)](#) find that collusion involving the audit client and the confirming party was the most common challenge in the confirmation process. We believe

<sup>1</sup> Throughout our response, we use or adapt certain language from the [Public Company Accounting Oversight Board \(PCAOB\) \(2022\)](#) proposal.

that it is important to acknowledge those business relationships that exist between clients and the confirming parties, avoiding the term “independent.” Potential bias of the confirming party is addressed in paragraph .19 of the proposed standard, but there is little guidance on the types of information that would heighten concern about potential bias in the confirming party’s response.

**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?

Investors have many sources of information. Unless confirmations were used to address a risk of material misstatement that rose to the level of a critical audit matter (CAM), it is unclear what potential benefit would accrue by disclosing the use of confirmations.

**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?

Paragraph .24 indicates that the auditor or confirming party can engage another party as an intermediary to facilitate direct electronic transmission of confirmation requests and responses. We note that the proposed standard does not discuss the faster response times when auditors use electronic rather than postal mail transmission. Further, due to technology efficiencies, audit firms may be able to confirm a higher percentage of all cash and/or accounts receivable accounts. We also note that using an intermediary for electronic confirmations may be too expensive for smaller audit firms, thus providing challenges as smaller audit firms attempt to stay competitive with larger firms.

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

While we agree with the commenters on the 2010 proposal ([Public Company Accounting Oversight Board \(PCAOB\) 2010a](#)) that the objective is generic, it is consistent with objectives in other PCAOB auditing standards, and we believe that it is sufficiently clear. Because the proposed standard is designed to address all confirmation methods and uses, it is necessary to have a broad objective. We also note that paragraph .06 of the proposed standard provides examples of assertions and the types of confirmations that would be relevant for each assertion.

**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?

In general, we support the approach to be more principles based and allow for more use of auditor judgment than to be more rules based in proposing new standards. However, please see our response to Question 21, as we believe that as a result of the emphasis on cash and accounts receivable confirmations in the proposed standard, auditors may not fully recognize all situations in which confirmations may be appropriate.

**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?

We do not believe that there are additional accounts or financial statement assertions for which confirmation procedures should be required. We note that confirmation for accounts payable should be considered (but not required) when auditors assess controls over the recording of liabilities as ineffective. Further, we recommend considering expanding the examples in paragraph .06 to include inventory held at third-party warehouses and insurance policies under the Existence assertion and investments and insurance policies as examples under the Valuation and Allocation assertion. In the spirit of issuing principles-based standards, we encourage the PCAOB to continue to use examples to aid auditors in considering other accounts to confirm rather than require confirmation for additional accounts or financial statement assertions.

**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?

We believe that not including this requirement to send confirmation requests in response to significant risks is appropriate. We understand the intent in the earlier proposed standard to require the use of confirmations to address significant risks because of the perceived high quality of evidence from confirmation. As the Auditing Standards Committee (ASC) of the Auditing Section of the American Accounting Association noted in their comment on the earlier proposal (Elder, Bierstaker, Caster, and Janvrin 2011), confirmations may not be responsive to every significant risk, and other forms of evidence may be more effective in addressing the significant risk.

We note that a requirement to use confirmations to address significant risks would be inconsistent with paragraph .14 in the current proposed standard that allows the auditor to overcome the presumption to confirm accounts receivable where other substantive audit procedures provide evidence at least as persuasive as that expected to be obtained from confirmation. AS 2301.11 already requires the auditor to perform substantive procedures, including tests of details, that are specifically responsive to the assessed significant risks. Such tests of details could include confirmation procedures based on the auditor's judgment. Further, paragraph .15 in the proposed confirmation standard indicates, "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."

**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?

We think the proposed standard is sufficiently flexible to accommodate other situations where an auditor may choose to confirm information. Paragraph .06 presents several assertions where a confirmation would provide high-quality evidence. As described in paragraph .08, the auditor's responsibilities to understand how the specific asset (transaction) functions are clear.

**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?

We do not believe the proposed standard needs changes to align further with the PCAOB's risk assessment standards. However, in our response to question 20, we discuss the need for more clarity and guidance on confirming unusual transactions and special terms.

**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?

The proposed standard for confirming cash held by third parties and other financial relationships is sufficiently clear and appropriate.

**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.

We are not aware of other substantive audit procedures that would provide audit evidence that is at least as persuasive as evidence the auditor might expect to obtain through confirming cash.

**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?

The proposed standard's requirement to consider other financial relationships with the confirming party is sufficiently clear and appropriate.

**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?

We believe the standard is sufficiently risk based concerning selecting which cash accounts and other relationships to confirm. The guidance makes it clear that the auditor needs to consider the significance of the cash balances and the nature of any other relationships with the confirming party.

For example, paragraph .02 states, "The objective of the auditor in designing and executing the confirmation process is to obtain relevant and reliable audit evidence about one or more relevant financial statement assertions of a significant account or disclosure." It is clear that the standard does not apply to insignificant accounts.

Paragraph .09 indicates, "For cash and cash equivalents held by third parties ("cash"), the auditor should perform confirmation procedures." Considering the objective in paragraph .02, the auditor should know that cash confirmations are not required for insignificant accounts. However, from a risk perspective, insignificant accounts may have attributes that would suggest that confirmations are appropriate, as evidenced by the paragraph .10 discussion of the auditor's need to understand the company's cash management and treasury function, arrangements, and transactions with third parties. Paragraph .11 indicates that the auditor should consider sending confirmation requests about other financial relationships and provides examples.

**Question 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 clear and appropriate. See our answer to Question 17 regarding other potential approaches to consider.

**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?

The provisions of the new proposed standard are sufficiently principles based to allow auditors to use professional judgment to determine the extent of confirmation of accounts receivable.

**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?

The description of accounts receivable is sufficiently clear. We do not believe that identifying other types of receivables to be confirmed is necessary.

**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?

We appreciate that the proposed standard allows auditors flexibility on whether to send accounts receivable confirmations. However, given that confirmations come from a third party, “evidence that is at least as persuasive as performing confirmation procedures” is a high bar to meet. The standard for audit procedures generally is that they provide sufficient appropriate evidence. Combined with the requirement to inform the audit committee if the presumption to confirm accounts receivable has been overcome, this may discourage auditors from using other procedures in place of confirmations, even in cases where the other procedures are considered highly persuasive.

**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?

As noted in Question 17, “evidence that is at least as persuasive as performing confirmation procedures” is a high bar to meet. We believe that the reliability of evidence is the benchmark to measure against confirmation procedures. To overcome that presumption and use other procedures, it would appear that controls should be effective, and there should not be significant risks beyond the assumption that there is a fraud risk related to revenue recognition.

**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?

Unless the auditor determines that specific audit procedures address a risk of material misstatement that rises to the level of a critical audit matter (CAM), we do not believe this information needs to be communicated to the audit committee. While the requirement is “clear,” we do not believe it is “appropriate.”

**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?

The provision relating to confirming the terms of certain transactions is clear. However, because this provision in paragraph .15 immediately follows the discussion in paragraph .14 about overcoming the presumption to confirm receivables, it could be helpful to clarify that the requirement to confirm certain transactions applies to all unusual transactions, not just transactions involving revenue. It would also be helpful to amend AS 2401 to note this requirement or reference the requirement in AS 2310.

We note that 2401.54 suggests that if there is an identified fraud risk involving revenue recognition, the auditor should consider confirming with customers certain relevant contract terms and the absence of side agreements. However, because there is a presumption of fraud risk for revenue recognition on most engagements, it is unclear when confirmation of special terms should be considered or used. We believe it would be helpful to include special terms with reference to AS 2401 in the proposed standard and distinguish confirmation of special terms from confirmation of unusual transactions.

**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?

We do not believe the standard is clear on the use of confirmation in circumstances other than those discussed in paragraphs .09 through .15 related to cash and accounts receivable. The ability to use confirmations in other circumstances may be inferred from the examples included in paragraph .06. However, the first bullet in paragraph .08 could be expanded to note that the use of confirmations is not limited to the circumstances discussed in paragraphs .09 through .15 and can provide sufficient appropriate evidence to address significant risks of material misstatement for other accounts and assertions.

**Question 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 new proposed standard related to identifying information to confirm is sufficiently clear. However, the information on page 29 of the release indicates that blank forms generally provide more reliable evidence but does not mention the possible negative impact on response rates. Although the research on blank forms is very old, [Sauls \(1970, 1972\)](#) finds that blank forms have significantly lower response rates, and the evidence on effectiveness is mixed ([Sauls 1970](#); [Warren 1974](#)).

To our knowledge, blank form confirmations are not commonly used. Auditors often confirm invoices rather than balances ([Allen and Elder 2001](#)) and balance and invoice confirmations differ in response rates ([Krogstad and Romney 1980](#); [Ashton and Hylas 1981](#)) and effectiveness ([Allen and Elder 2001](#)). Discussion of various types of confirmations could be incorporated in a separate confirmation guide.

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

We believe the provisions of the new standard related to identifying confirming parties are sufficiently clear and appropriate. However, given the rapidly growing practice of using an intermediary to facilitate electronic transmission of confirmation requests and responses (e.g., [Caster, Elder, and Janvrin 2021](#)), we believe that the PCAOB should consider describing this process in the body of the audit standard rather than in Appendix B.

**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?

We believe that the requirement to send a confirmation request directly to the confirming party and to determine that the request is properly addressed is sufficiently clear and appropriate. We think the requirements in paragraph .19 to consider the potential confirmation party's (1) motivation, ability, or willingness to respond or (2) objectivity and freedom from bias with respect to the audited entity to be particularly helpful. However, the standard does not appear to address procedures to verify the recipient's mail or email address. We believe this should be incorporated in the standard with further guidance in a separate confirmation guide.

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

Paragraph .21 states "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." Thus paragraph .21 could be interpreted that negative confirmations combined with a substantive analytical procedure would provide sufficient evidence. The examples on page 32 include examples of evidence "(e.g., examining subsequent cash receipts, including comparing the receipts with the amounts of respective invoices being paid, examining shipping documents, examining subsequent cash disbursements, or sending positive confirmation requests)" that clearly indicates that the evidence should provide direct evidence on the assertions being tested. We believe that using negative confirmations in conjunction with positive confirmations can be a very effective audit technique, depending on the characteristics of the accounts receivable population. However, more guidance on how to use negative confirmations is needed, perhaps in a separate confirmation guide or in an expanded Appendix B.

We agree with eliminating the requirement that recipients be expected to give confirmations adequate consideration as a requirement for sending negative confirmations. While we also agree it is possible that email confirmations may be more likely to be ignored or caught by a spam filter, we note that technology does allow for the use of read receipts and other methods to determine whether an email was opened and read.

**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?

We believe that additional examples or guidance, in the standard or in a separate confirmation guide, may be appropriate to encourage auditors to consider the implications of using an intermediary to facilitate direct electronic transmission of confirmation requests and responses.

**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?



While the proposed standard is silent on the specific nature of the interaction between the standard and the proposed requirements in quality control (QC) 1000, the proposed requirements related to third-party providers are sufficiently clear.

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

We believe that the provisions of the new proposed standard related to evaluating the reliability of confirmation responses are sufficiently clear and appropriate.

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

We believe that the provisions on nonresponses are clear and appropriate. While auditors should recognize that exceptions in a sample of accounts receivable should be projected to the population with adequate consideration of sampling risk, we believe it would be helpful to provide a footnote or other reference to AS 2315 in paragraph .27.

A similar concern applies to the note at the bottom of paragraph .31. Existing AS 2310.15 is clear that untested amounts should be projected as 100 percent misstatements. The existing standard also notes that alternative procedures may not be necessary for all nonresponses. If an accounts receivable balance or individual invoice has been selected for confirmation, we prefer that it be subject to alternative procedures. However, the auditor may not need to perform alternative procedures for the entire balance.

**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?

The provisions regarding sending a second positive confirmation request are clear. We defer to practicing auditors as to whether this is a change from current practice.

**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?

We agree that proposed circumstances under which the auditor would generally be required to perform alternative procedures are sufficiently clear and appropriate. However, see our response to Question 29. We believe that further guidance is needed with respect to the note below paragraph .31.c that alternative procedures may not be necessary if the auditor's evaluation of the uncorrected misstatements would not change the outcome of the evaluation.

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

We are unaware of other alternative procedures that should be included.

**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?

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 are

sufficiently clear and appropriate. However, we note that specific prohibitions are contrary to the spirit of principles-based standards.

**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?

We believe that auditors infrequently use internal audit to send or receive confirmations.

**Question 35:** In the event of a management request not to confirm a certain item, are there procedures that the auditor should perform that are not currently required by other PCAOB standards? If so, what other procedures should be required?

While we agree that the potential scope limitation or fraud risk from a request not to confirm is addressed in other PCAOB standards, we believe that it is appropriate to provide some guidance in AS 2310 unique to confirmations. For example, the account for which the request not to confirm is made should be included in the auditor's sample (if the request occurs before the sample is selected, the item should be included in the population from which the sample is drawn). At a minimum, since the proposed standard does not address requests not to confirm, it could include a footnote that indicates that the auditor should evaluate any requests not to confirm using the guidance in the standards referenced on pages 44–45 of the release.

**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?

We have no current knowledge of the extent of management requests not to confirm. [Janvrin, Caster, and Elder \(2010\)](#) review Accounting and Auditing Enforcement Releases (AAERs) involving confirmations from 1982 to 2006. None of the AAERs involve requests not to confirm. Although this does not necessarily indicate that such requests are infrequent, it suggests that they have not been used by management to hide misstated receivables in documented AAER cases.

**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?

The definitions included in the new proposed standard are sufficiently clear and appropriate.

**Question 38:** Are there other amendments that should be made to the PCAOB's existing standards to conform them with the new proposed standard?

We are not aware of necessary amendments to the PCAOB's existing standards other than those noted in our other responses. In our response to Question 1, we note that we do not believe that AS 1105 should refer to external third-party evidence as "independent." Our response to Question 20 suggests an amendment to AS 2401.

**Question 39:** We request comment generally on the baseline for evaluating the economic impacts of the new proposed standard. Are there additional data (e.g., data on the use of electronic confirmation, types of accounts confirmed, or confirmation response rates) or academic studies that we should consider?

We are unaware of additional data that should be considered. However, in our response to Question 22, we note academic literature on response rates by type of confirmation.

**Question 40:** We request comment generally on the analysis provided above regarding the need for the new proposed standard. Should we consider any additional arguments, academic studies, or data related to the need for standard setting?

The Peregrine fraud ([Elder, Janvrin, and Caster 2014](#)) demonstrated a weakness in paper confirmation requests. Using Photoshop, Chairman of the Board Russell Wassendorf, Sr., inflated bank statement balances and replaced the bank's address with a post office box number that he controlled. Confirmation requests were sent to the post office box, and he confirmed the inflated balances. The 20-year fraud unraveled when Peregrine was required to allow the regulator's auditors to use electronic confirmation with the bank through a third-party service provider. Further, [Huang and Vasarhelyi \(2019\)](#) explore how "bots" may be used to increase the efficiency of the electronic confirmation process.

**Question 41:** Are there additional potential benefits that should be considered?

Evolving technology continues to provide potential benefits. For example, some large national and multinational audit firms now use "bots" (programs) to select random samples of accounts receivable to confirm, obtain email addresses from clients' systems, send first and second requests, and compile responses that human auditors evaluate ([Huang and Vasarhelyi 2019](#)). Outside of the software development costs, automating the confirmation procedure reduces time and effort and therefore reduces costs auditors incur when sending confirmation requests. In addition, some CPA firms have established confirmation centers, similar to what financial institutions have done, to centralize all cash confirmation requests made throughout their audit practice. These confirmation specialists are usually college graduates but are not required to be accounting majors. Their remuneration is much lower than audit staff, thus reducing the cost of the cash confirmation procedures.

A possible additional benefit is the deterrent effect the use of confirmations may have on clients' likelihood of creating fictitious accounts. However, we are unaware of any studies that demonstrate that confirmations are a deterrent, and we cannot quantify the extent of any such benefit.

**Question 42:** Are there additional potential costs that should be considered? If so, what are they?

The proposed standard requires the auditor to evaluate the reliability of the confirmation response. Although this requirement does not require authentication, it is unclear how reliability would be established without authentication. Authenticating confirmation replies, particularly when email confirmation requests are sent directly by the auditor, is extremely difficult, and requiring it would add significant expense to the audit. Further, confirmation centers within audit firms require significant resources to establish, and centralized confirmation centers are only successful if there is appropriate communication and trust between the local audit office and the confirmation center. Finally, smaller audit firms may not have the appropriate resources to establish a confirmation center, which may provide larger audit firms with economic advantages.

**Question 43:** Are there additional academic studies or data related to the potential benefits and costs of the proposed requirements? If so, please provide citations and other reference information for such studies and data.

We are unaware of additional academic studies or data related to the potential benefits and costs of the proposed requirements other than those noted previously.

**Question 44:** We request comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release adequate? Are there additional potential unintended consequences that we should consider? If so, what responses should be considered?

We are unaware of any unintended consequences.

**Question 45:** We request comment generally on the alternative approaches described in this release that we considered but are not proposing. Are any of these approaches, or any other approaches, preferable to the approaches that are being proposed? What reasons support those approaches over the approaches proposed?

Although we have provided numerous comments on the proposed standard, we do not believe any of the alternative approaches described in the release are preferable to those proposed in the standard.

**Question 46:** Are there additional economic impacts or considerations associated with this proposal that should be considered? If so, what are those considerations?

We are unaware of any additional economic impacts or considerations associated with this proposal at this time.

**Question 47:** We request comment generally on the analysis of the proposal on emerging growth companies (EGCs). Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?

The requirement to obtain evidence from a confirming party has existed in the United States since 1939 without providing exceptions to organizations based on economic or other considerations. We do not believe that the proposed standard imposes new or unusual burdens on EGCs that would justify an exemption from the standard.

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

We defer to practicing auditors on this question, but we do not believe that auditors will need significant time to implement the proposed requirements.

**Question 49:** 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?

Similar to our response to Question 48, we defer to practicing auditors on this issue.

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