

# Audit & Accounting Alert Newsletter

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## At-A-Glance

The confirmation process has been a staple of the financial audit process for many years. When properly performed, this practice provides one of the best forms of audit evidence. In December 2022, the Public Accounting Oversight Board (PCAOB) proposed a long-awaited update to modernize the standard, known as AS 2310, *The Auditor's Use of Confirmation*. This edition of the Audit & Accounting Alert highlights the new proposal.

Our Worldwide Update is again split into two sections. The first covers COVID-19 news from organizations across the globe, while the second covers other news.



**Gerald Herter - Editor**

## Audit Confirmations Take Center Stage

The venerable audit process gets an update from the PCAOB



While auditing has been around in some fashion for millennia, development of the modern audit profession only began in earnest a century after the Industrial Revolution took hold in the latter half of the eighteenth century. Midway through the nineteenth century, legislation in Great Britain first required a financial audit that produced a report for shareholders.

Accounting associations followed, but not until after the stock market crash in 1929, when the United States formed the Securities and Exchange Commission (SEC) and enacted laws regulating stock trading, did the importance of establishing accounting standards emerge. The subsequent McKesson & Robbins accounting scandal in 1938, where substantial fictitious receivables and inventory went undetected, exposed the inadequacy of audit practices. Consequently, in 1939 the first Statement on Audit Procedure (SAP) was issued by the predecessor of the AICPA.

Audit confirmation standards date back to that first pronouncement in 1939, as did mandatory inventory observation. Though confirmations were an audit staple long before that, SAP 1 formally made confirmation a requirement. That standard was expanded to provide additional guidance in 1992 by Statement on Auditing Standards (SAS) No 67, titled 'The Confirmation Process (later known as AU sec. 330). When the PCAOB was formed in 2002, the Board temporarily adopted AU sec. 330, using the title AS 2310, The Confirmation Process.

The PCAOB's first attempt at producing a new confirmation standard in 2010 was rejected as containing more widespread requirements than were practical, and leaving little room for auditor judgment. Even so, the need for an update was needed to keep pace with technological changes. Now that sufficient time has passed to reconsider how best to approach the confirmation process in the current age, the PCAOB has proposed a new AS2310, *The Auditor's Use of Confirmation*.

The major provisions of the new standard are to:

1. Employ a more principles-based approach to traditional procedures that can adapt as technology and methods evolve over time.
2. Integrate confirmation requirements with the risk assessment standards.
3. Highlight the requirement for use of confirmations for cash, accounts receivable, and certain transaction terms. Interestingly, confirmation of cash had not been specifically held out as a requirement in past standards, though necessity of the procedure has been considered implicit.

4. Generally require confirmation but allow the auditor to use alternate procedures if demonstrated to be at least as “persuasive” as confirmation.

5. Use negative confirmations only in conjunction with other substantive procedures.

6. Offer specific guidance to alternate procedures where confirmations are not effective.

7. Prohibit the use of internal auditors to select the items to be confirmed, send confirmation requests, or receive confirmation responses.

A basic concept of the confirmation process is that confirmations are sent directly by the auditor independent of the client, and responses are received directly by the auditor from the party confirming. When properly performed, this procedure provides one of the best forms of audit evidence. In other words, the auditor maintains control over the process from start to finish.

Nowadays, most bank cash confirmations are obtained electronically. A company, confirmation.com (now a part of Thomson Reuters), has an established one stop platform whereby the auditor can process all bank confirmations through them. This platform has proved to be more effective and efficient, as well as giving the auditor complete independence from the client.

The Institute of Internal Auditors (IIA) is not happy about the reference to internal auditors in the proposed standard. The IIA contends that the prohibition from using internal auditors in the confirmation process casts them in a negative light. In a press release, the IIA stated “Internal auditors are responsible for providing audit committees with objective assurance, independent from management, on matters related to risk management, internal controls, and corporate governance, in accordance with the International Standards for the Professional Practice of Internal Auditing.”

Internal auditors are allowed to help administratively, such as by preparing the confirmation requests and researching differences in the responses. The standard does not appear to accuse internal auditors of potential impropriety. However, the external auditor needs to display the appearance of independence as well as the reality of independence in all cases. For that reason, the external auditor must maintain the appearance as well as the reality of total control of the process.

There is clearly a need for the new standard in light of the extensive technology changes since 1992, and the incident of recent audit failures. For example, in December 2022, Deloitte was fined by the Financial Reporting Council (FRC) for audit failures partly in the cash area regarding the audit of building materials supplier SIG plc. Though the FRC is a British regulator, similar standards are in place. The audit staff was negligent in procedures reconciling cash balances to bank balances. Checks dated in the audit period had not been reduced from the cash balance causing it to be overstated. Since inexperienced staff are often used to audit cash, this failure also points out the need for additional training and supervision in this area.

The PCAOB 2021 accounting firm inspection report released in December 2022 also noted an increase in audit deficiencies. However, the confirmation process was not specifically mentioned as a problem area.

Further details can be found at [PCAOB Confirmation Standard](#) and [The IIA Deeply Concerned By New PCAOB Proposal](#).

# Worldwide Update



Periodic roundup of recent and upcoming actions and activities by auditing and accounting organizations throughout the world.

## COVID-19 Related

### International

**IASB – International Accounting Standards Board** ([www.ifrs.org](http://www.ifrs.org))

- Coronavirus Information and resources – link – <https://www.ifrs.org/news-and-events/2020/03/the-coronavirus-and-the-foundations-work/>

**IFAC – International Federation of Accountants** ([www.ifac.org](http://www.ifac.org))

- COVID-19 Resources from IFAC's Network – link - <https://www.ifac.org/knowledge-gateway/series/COVID-19-resources-ifacs-network>

**ACCA – Association of Chartered Certified Accountants** ([www.accaglobal.com/](http://www.accaglobal.com/))

- Coronavirus Information and resources – link - <https://www.accaglobal.com/us/en/cam/coronavirus.html>
- **Update on the Coronavirus and Impact for Association Activities** – link - <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

**CIMA – Chartered Institute of Management Accountants** ([www.cimaglobal.com](http://www.cimaglobal.com))

- Update on the Coronavirus and Impact for Association Activities – link - <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

**VRF- The Value Reporting Foundation** ([www.thevrf.org](http://www.thevrf.org))

- The Value Reporting Foundation is the result of the merger of the International Integrated Reporting Council and the Sustainability Accounting Standards Board on June 9, 2021.

**World Economic Forum –** ([www.weforum.org](http://www.weforum.org))

- The COVID Action Platform – link - <https://www.weforum.org/platforms/covid-action-platform> - focuses on three priorities: 1. Galvanize the global business community for collective action. 2. Protect people's livelihoods and facilitate business continuity. 3. Mobilize cooperation and business support for the COVID-19 response.

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## Africa, Europe, India, and the Middle East (AEIME)

**FRC – Financial Reporting Council of the UK** ([www.frc.org.uk](http://www.frc.org.uk))

- FRC guidance for companies and auditors during COVID-19 crisis – link - <https://www.frc.org.uk/covid-19-guidance-and-advice>.

**ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)**

- Coronavirus – updates – link - <https://www.icaew.com/insights/coronavirus>.

**EFRAG – European Financial Reporting Advisory Group ([www.efrag.org](http://www.efrag.org))**

- *No new developments*
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## Americas, Asia, Australia and New Zealand (AAANZ)

**AICPA – American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org))**

- AICPA Coronavirus (COVID-19) Resource Center – link - <https://www.aicpa.org/news/aicpa-coronavirus-resource-center.html>

**FASB – Financial Accounting Standards Board ([www.fasb.org](http://www.fasb.org))**

- FASB Response to COVID-19 – link - <https://www.fasb.org/COVID19>

**GASB – Governmental Accounting Standards Board ([www.gasb.org](http://www.gasb.org))**

- GASB Response to COVID-19 – link - <https://www.gasb.org/COVID19>

**COSO - The Committee of Sponsoring Organizations of the Treadway Commission ([www.coso.org](http://www.coso.org))**

- *No new developments*

**PCAOB – Public Company Accounting Oversight Board ([www.pcaob.org](http://www.pcaob.org))**

- PCAOB Response to COVID-19 – link - <https://pcaobus.org/Pages/response-to-COVID-19.aspx>

**SASB – Sustainability Accounting Standards Board ([www.sasb.org](http://www.sasb.org))**

- See The Value Reporting Foundation above.

**SEC – Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov))**

- SEC Coronavirus (COVID-19) Response – link - <https://www.sec.gov/sec-coronavirus-COVID-19-response>

**CAANZ - Chartered Accountants Australia and New Zealand (<https://www.charteredaccountantsanz.com/>)**

- Financial Reporting and Audit Guide: Financial reporting and audit issues stemming from COVID-19 – link - <https://www.charteredaccountantsanz.com/tools-and-resources/client-service-essentials/reporting/financial-reporting-and-audit-guide-financial-reporting-and-audit-issues-stemming-from-covid19>
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## Other Updates

### International

**IASB – International Accounting Standards Board ([www.ifrs.org](http://www.ifrs.org))**

- **Exposure Draft - IFRS Accounting Taxonomy 2022—Proposed Update #2 - Lease Liability in a Sale and Leaseback and Non-current Liabilities with Covenants**, issued November 28, 2022, reflects amended presentation and disclosure requirements. These updates ensure that the IFRS Accounting Taxonomy accurately reflects IFRS Accounting Standards. The comment period ends December 28, 2022.

## IFAC – International Federation of Accountants ([www.ifac.org](http://www.ifac.org))

- **The International Auditing and Assurance Standards Board (IAASB) - Amendments to IAS 1 and the Impact on the ISAs: Disclosure of Material Accounting Policy Information**, guidance published November 16, 2021, “to help users understand the impact on the International Standards on Auditing (ISAs) due to narrow-scope amendments made to International Accounting Standard (IAS) 1, *Presentation of Financial Statements*.”
- **The International Auditing and Assurance Standards Board (IAASB) - Quality Management and Group Audits: Highlighting Certain Aspects of Interaction Between ISA 220 (Revised) and ISA 600**, fact sheet published December 15, 2022. “The fact sheet highlights aspects of a group audit that may be affected by ISA 220 (Revised) and International Standard on Quality Management #1 addressing quality management at the firm level.”
- **International Ethics Standards Board for Accountants (IESBA) - IESBA Technology Working Group Phase 2 Report**, research report published November 18, 2022, “documents the impacts of disruptive and transformative technologies on the work of professional accountants, and provides extensive analysis and insights into the ethical dimension of those developments. The report also discusses the relevance and importance of the overarching principles and specific provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) in laying out the ethical guardrails for professional accountants as they face opportunities and challenges in their work as a result of rapid digitalization.”

## ACCA – Association of Chartered Certified Accountants ([www.accaglobal.com](http://www.accaglobal.com))

- **The Planning and Performance Management Paradigm**, research report published November 18, 2022, in conjunction with Chartered Accountants Australia and New Zealand (CA ANZ) and PwC, “asked over 3,000 finance professionals around the world for their views on the future of the finance function. Overall respondents report too much focus on past financial performance and limited insight to the other data needed for ESG purposes.”

## CIMA – Chartered Institute of Management Accountants ([www.cimaglobal.com](http://www.cimaglobal.com))

- *No new developments.*

## VRF - The Value Reporting Foundation ([www.thevrf.org](http://www.thevrf.org))

- *No new developments.*

## IIRC - International Integrated Reporting Council ([www.theiirc.org](http://www.theiirc.org))

- See The Value Reporting Foundation above.

## World Economic Forum – ([www.weforum.org](http://www.weforum.org))

- *No new developments.*

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## Africa, Europe, India, and the Middle East (AEIME)

### FRC – Financial Reporting Council of the UK ([www.frc.org.uk](http://www.frc.org.uk))

- **What Makes a Good... Annual Report and Accounts**, report published December 13, 2023, “sets out the attributes for a high-quality Annual Report and Accounts (ARA).”
- **Environment for Auditor Scepticism and Challenge**, report published November 23, 2022, “setting out examples of good practice to improve auditor scepticism and challenge.”
- **Amendments to FRS 100 Application of Financial Reporting Requirements - the Interpretation of Equivalence**, issued November 18, 2021, “revise the Application Guidance to FRS 100 to reflect changes to company law and decisions on equivalence following the UK’s exit from the European Union.” Effective immediately.

### ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com/>)

- **Audit Monitoring Report 2021/2022**, report published December 13, 2023, “found there was a drop in the percentage of audits requiring significant improvement to 4%, down from 7% in 2020-2021. At 76% the percentage of audits found to be good or generally acceptable remained the same, reflecting continuity in audit quality standards from 2020-2021.”

- *No New Developments*

**EFRAG – European Financial Reporting Advisory Group ([www.efrag.org](http://www.efrag.org))**

- **Exposure Draft – European Sustainability Reporting Standards**, issued November 23, 2022’ This first set of twelve standards covers the general aspects of environmental, social and governmental issues, developed from wide-ranging input from the European community. “In its sustainability reporting activities, EFRAG provides technical advice to the European Commission in the form of draft EU Sustainability Reporting Standards that are accompanied by basis for conclusions and cost benefit analysis including impact analysis.”

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## Americas, Asia, Australia and New Zealand (AAANZ)

**AICPA – American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org))**

- *No new developments*

**FASB – Financial Accounting Standards Board ([www.aicpa.org](http://www.aicpa.org))**

- **Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848 - an Amendment of the FASB Accounting Standards Codification – ASU 2022-06**, issued December 21, 2022. “To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.” The amendments in this Update are effective for all entities upon issuance of this Update.
- **Financial Services—Insurance (Topic 944) - Transition for Sold Contracts- an Amendment of the FASB Accounting Standards Codification – ASU 2022-05**, issued December 15, 2022, “amends the Accounting for Long-Duration Contracts (LDTI) transition guidance to allow an insurance entity to make an accounting policy election to exclude certain contracts or legal entities from applying the LDTI guidance when, as of the LDTI effective date, (a) the insurance contracts have been derecognized because of a sale or disposal and (b) the insurance entity has no significant continuing involvement with the derecognized contracts.” Effective generally beginning in 2023 for public entities and 2025 for all others, with early adoption permitted.
- **Exposure Draft - Leases (Topic 842) Common Control Arrangements**, issued November 30, 2022, “would provide private companies and not-for-profit organizations that are not conduit bond obligors with a practical expedient that would allow those entities to use the written terms and conditions of an arrangement between entities under common control to determine whether a lease exists and, if so, the classification of and accounting for that lease. The proposed ASU also would change the accounting for leasehold improvements associated with leases for all entities (that is, including public companies) under common control. Leasehold improvements associated with those leases would be amortized by the lessee over the economic life of the leasehold improvements as long as the lessee controls the use of the leased asset.” The comment period ends January 16, 2023.
- **FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting— Chapter 5, Conceptual Framework for Financial Reporting**, issued November 22, 2022. Chapter 5 “establishes concepts that the Board would use in developing standards of financial accounting and reporting. It would provide the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.”

**GASB – Governmental Accounting Standards Board ([www.gasb.org](http://www.gasb.org))**

- **Exposure Draft - Implementation Guidance Update—2023**, issued November 15, 2022, “contains proposed new questions and answers that address application of GASB standards on leases, subscription-based information technology arrangements, and accounting changes. The proposal also includes amendments to previously issued implementation guidance on leases.” The comment period ends January 20, 2023.

**COSO - The Committee of Sponsoring Organizations of the Treadway Commission ([www.coso.org](http://www.coso.org))**

- *No new developments*

## PCAOB – Public Company Accounting Oversight Board ([www.pcaob.org](http://www.pcaob.org))

- **Exposure Draft - The Auditor's Use of Confirmation and Other Proposed Amendments to PCAOB Standards, Rules, and Forms** – issued December 20, 2022, “includes principles-based requirements that would apply to all methods of confirmation, including paper-based and electronic communications. The proposal, if adopted, would better integrate the PCAOB's confirmation standard with its risk assessment standards.” See article in this issue. The comment period ends February 20, 2023.
- **Exposure Draft - A Firm's System of Quality Controls and Other Proposed Amendments to PCAOB Standards, Rules, and Forms** – issued November 18, 2022, “would replace the current QC standards in their entirety and would provide a framework for a firm's QC system that is grounded in proactively identifying and managing risks to quality, with a feedback loop from ongoing monitoring and remediation designed to drive continuous improvement. Among other provisions, the proposal would foster a more structured approach where a firm would annually evaluate its QC system and report the results of its evaluation on new Form QC.” The comment period ends February 1, 2023.

## SASB – Sustainability Accounting Standards Board ([www.sasb.org](http://www.sasb.org))

- *No new developments*

## SEC – Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov))

- *No new developments*

## Additional A&A News

- [Accountants must transform from number crunchers to trusted advisors](#)
- [4 ways leaders can improve enterprise risk management](#)
- [Analytical procedures in a review engagement - New Practice Aid](#)
- [Deloitte hit with £1.25m FRC fine over SIG audit](#)
- [Accountancy in 2022: 'A year of resilience'](#)
- [Audit tips from PCAOB inspections leader](#)
- [Accounting Today's complete coverage of the coronavirus impact](#)
- [Accountancy Age's Resource on UK regulations on accountancy during coronavirus](#)
- [California CPA Society Coronavirus Resources and Information](#)
- [Accountingweb's Coronavirus Content Series](#)
- [Accountancy Daily Corona Virus Resources](#)
- [China Briefing's Coronavirus Insights for Your Business in China](#)



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