

# Audit & Accounting Alert Newsletter

ISSUE 10 | OCTOBER 2023

## At-A-Glance

Confirmations have been a standard of the modern audit process for a century or more. Independent verification offers some of the strongest evidence providing assurance on an entity's financial statements. On September 28, 2023, the Public Company Accounting Oversight Board (PCAOB) adopted Auditing Standards (AS) No. 2310, The Auditor's Use of Confirmation. This edition of the Audit & Accounting Alert highlights the new standard.

Also, our Worldwide Update covers news from organizations across the globe.



**Gerald Herter - Editor**

# New Audit Confirmation Standard Finalized

PCAOB updates longstanding audit process



In the January 2023 edition of the Audit & Accounting Alert, the proposed update of the Public Company Accounting Oversight Board's (PCAOB) standard, AS 2310, The Auditor's Use of Confirmation, was highlighted. During the comment period since then, almost four dozen responses were received. After considering and incorporating suggested improvements, the final pronouncement was issued on September 28, 2023.

As mentioned in January, when the PCAOB was formed in 2002, Statement on Auditing Standards (SAS) No 67 (later known as AU sec. 330), was temporarily adopted for use and became AS2310. A lot has changed in the business world, especially technology, since SAS 67 was issued in 1992. Consequently, an update was clearly needed.

The original provisions of the proposed new standard were:

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.
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.

While keeping the spirit of the original provisions, some changes were made in the final pronouncement. For example, in earlier times IASB standards were known for being more principles-based, while the FASB tended to be more rules-based. By emphasizing principles over specific rules, the new standard is considered as more durable, with the ability to apply to changing circumstances that develop.

Also, the new proposed standard acknowledges more directly that in certain circumstances confirmations will not be successful or effective. In these cases, direct access to an external source or other testing procedures may provide acceptable evidence.

The original language of the proposed standard was considered, though unintended, to cast a disparaging light on the work of internal auditors. The revisions made clear the important role of the internal auditors in the audit process, while clarifying the procedures and control that are to be maintained by the external auditors.

The final provisions, as summarized in the pronouncement are:

1. Include principles-based requirements that are designed to apply to all methods of confirmation.
2. Expressly integrate the requirements for the auditor's use of confirmation with the requirements of the Board's risk assessment standards, including AS 1105 [the audit evidence standard].
3. Emphasize the use of confirmation procedures in certain situations.
4. Address situations in which it would not be feasible for the auditor to obtain information directly from a knowledgeable external source.
5. Communicate to the audit committee certain audit responses to significant risks.
6. Reflect the relatively insignificant amount of audit evidence obtained when using negative confirmation requests.
7. Emphasize the auditor's responsibility to maintain control over the confirmation process.
8. Provide more specific direction for circumstances where the auditor is unable to obtain relevant and reliable audit evidence through confirmation.

Some aspects of the confirmation process are left to other pronouncements, such as the extent and timing (AS 2315 – Audit Sampling and AS2301- The Auditor's Responses to the Risks of Material Misstatement). The effective date of AS2310 (subject to approval by the SEC) is for audits of financial statements for fiscal years ending on or after June 15, 2025.

Further details can be found at [New PCAOB standard addresses confirmation in the audit.](#)

## Worldwide Update



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

### International

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

- **Exposure Draft – Proposed Updates to IFRS Accounting Taxonomy 2023**, issued October 5, 2023, reflects amended presentation and disclosure requirements. These updates ensure that the IFRS Accounting Taxonomy accurately reflects IFRS Accounting Standards. The comment period ends December 4, 2022
- **Exposure Draft Annual Improvements to IFRS Accounting Standards—Volume 11**, issued September 12, 2023, would impact IFRS 1, 7, 9 and 10, covering the subjects of hedge accounting by a first-time adopter; financial instrument disclosures of gain or loss on derecognition, and accounting for derecognition of lease liabilities and transaction price; consolidated financial statements—determination of a ‘de facto agent’; and statement of cash flows—cost method. The comment period ends on December 11, 2023.

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

- **The State of Play: Beyond the G20, Sustainability Disclosure and Assurance in 20 More Jurisdictions**, report published September 20, 2023, “focuses on the Global South with data from three jurisdictions from Latin America, six in Africa and Middle East, and four in the Asia-Pacific region, as well as six smaller-sized economies within the European Economic Area and Switzerland.AI fraud and accountants.”

#### IFR4NPO - *International Financial Reporting for Non-Profit Organisations* ([www.ifr4npo.org](http://www.ifr4npo.org))

- **Second Exposure Draft of International Non-Profit Accounting Guidance**, report published September 27, 2023, “addresses four main sector specific accounting issues: revenue from grants and donations, grant expenses, inventories and foreign currency translation.” Comment period ends March 15, 2024.

#### IOSCO – International Organization of Securities Commissions ([www.iosco.org](http://www.iosco.org))

- *No new developments.*

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

- *No new developments.*

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

- *No new developments.*

#### 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))

- **ISA (UK) 505 External Confirmations (Revised October 2023)**, standard issued October 3, 2023. “The revisions to the standard reflect recent enforcement findings as well as ensuring that modern approaches to obtaining external confirmations are considered, with additional material in respect of digital means of confirmation, enhanced requirements in relation to investigating exceptions and a prohibition on the use of negative confirmations.” Effective for audits of financial statements for periods commencing on or after 15 December 2024.

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

- *No new developments.*

### EC – European Commission (<https://ec.europa.eu/>)

- *No new developments.*

### 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))

- *No new developments.*

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

- **ASU 2023-06 - Disclosure Improvements - Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative**, issued October 9, 2023. “The amendments are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC’s regulations. For entities subject to the SEC’s existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity.”

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

- **Exposure Draft – Disclosure and Classification of Certain Capital Assets**, issued September 19, 2023, “would require capital assets for sale, intangible assets, and lease assets to be disclosed separately by major class (for lease assets, by major class of underlying asset) in the capital assets note disclosure.” Comment period ends January 5, 2024.

### 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))

- **Inspection Observations Related to Engagement Quality Reviews**, staff report issued October 12, 2023, “focuses on the PCAOB-mandated EQR [engagement quality reviews] process, in which a reviewer who is not part of the engagement team evaluates significant judgments made by the audit engagement team. In addition to covering recent trends in audit deficiencies related to EQRs, the staff report provides good practices and reminders for auditors so they can avoid such deficiencies. It also highlights key questions related to EQRs that audit committees might want to consider as discussion points as they engage with external auditors.
- **PCAOB Release No. 2023-008 - The Auditor’s Use of Confirmation and Other Amendments to PCAOB Standards, Rules, and Forms** – issued September 28, 2022,

“includes principles-based requirements that would apply to all methods of confirmation, including paper-based and electronic communications. The standard better integrates the PCAOB’s confirmation standard with its risk assessment standards.” See article in this issue.

- **Proposed amendments to PCAOB Rule 3502, Responsibility Not to Knowingly or Recklessly Contribute to Violations**, issued September 19, 2023, “proposing to change from recklessness to negligence the standard of conduct for associated persons’ contributory liability,” and “proposing to amend the rule to provide that an associated person contributing to a violation need not be an associated person of the registered firm that commits the primary violation (i.e., that an associated person of one firm can contribute to a primary violation of another firm).” Comment period ends November 3, 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

- [The 'proof of reserves' myth in crypto-accountancy](#)
- [Building a responsible AI framework](#)
- [FRC: Financial reporting quality 'vital' amid economic turbulence](#)
- [Audit sector can tackle Big Four dominance through collaboration, experts say](#)
- [FASB revisits GAAP cleanup](#)
- [Bankman-Fried dismissed audit risks, ex-girlfriend testifies](#)



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