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PCAOB Adopts New Standard, Modernizing Requirements for Auditors' Use of Confirmation to Better Protect Investors in Today's World

New standard replaces outdated interim standard, enhances procedures including strengthening an auditor's approach to identify fraud

Washington, DC, Sep. 28, 2023

The Public Company Accounting Oversight Board (PCAOB) today adopted a **new standard** to strengthen and modernize the requirements for the auditor's use of confirmation – the process that involves verifying information about one or more financial statement assertions with a third party. The new standard reflects changes in technology, communications, and business practices since the interim standard was first adopted by the PCAOB in 2003 after being issued by the AICPA in 1991. The updated standard will better protect investors by strengthening procedures that enhance an auditor's ability to identify fraud in certain circumstances and improving overall audit quality.

"The new standard will help auditors detect fraud and better protect investors. By replacing a confirmation standard that had not changed significantly since faxes were a regular form of communication, the Board has taken an important step in modernizing our standards to effectively protect investors in today's world," said PCAOB Chair Erica Y. Williams.

"The Board thanks the many commenters whose thoughtful input helped to shape this new standard on the auditor's use of confirmation, and we look forward to monitoring the new standard's implementation and impact."

Key Provisions of the New Standard

Touching nearly every audit, the confirmation process involves an auditor selecting one or more items to be confirmed, sending a confirmation request directly to a confirming party (e.g., a financial institution), evaluating the information received, and addressing nonresponses and incomplete responses to obtain audit evidence about one or more financial statement assertions.

The new standard establishes principles-based requirements designed to stay relevant as technology evolves by applying to all methods of confirmation, including electronic and paper-based communications. In addition, the new standard better integrates with the PCAOB's risk assessment standards. Among its key provisions, the new standard:

- Includes a new requirement regarding confirming cash and cash equivalents held by third parties or otherwise obtaining relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source;
- Carries forward the existing requirement regarding confirming accounts receivable, while addressing situations where it is not feasible for the auditor to perform confirmation procedures or otherwise obtain relevant and reliable audit evidence for accounts receivable by directly accessing information maintained by a knowledgeable external source;
- States that the use of negative confirmation requests alone does not provide sufficient appropriate audit evidence;
- Emphasizes the auditor's responsibility to maintain control over the confirmation process and provides that the auditor is responsible for selecting the items to be confirmed, sending confirmation requests, and receiving confirmation responses; and
- Identifies situations in which alternative procedures should be performed by the auditor.

The adoption of the new confirmation standard was informed by input from an extensive notice-and-comment process, including issuance of a concept release and two proposing releases. Information on the history of this project, including historical documents and comments received, can be found in [Rulemaking Docket 028](#) and the related [Standard-Setting Project page](#).

The new standard will apply to all audits conducted under PCAOB standards. Subject to approval by the Securities and Exchange Commission, the new standard will take effect for audits of financial statements for fiscal years ending on or after June 15, 2025. For more information regarding the PCAOB's standard-setting activity, visit our [Standards page](#).

About the PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws.

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