



September 13, 2010

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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Re: Request for Public Comment: *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards*, PCAOB Rulemaking Docket Matter No. 028

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA). The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards* (the proposal or proposed standard). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

As we noted in our comment letter to the PCAOB's *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* (the concept release), we support the PCAOB's standard-setting project to amend AU Section 330, *The Confirmation Process* (AU 330). We support the Board's objective of updating its interim standards related to the confirmation process. AU 330 was written over 15 years ago and the confirmation process has undergone a number of changes over that period. For example, advances in information technology and the use of the internet have had a significant impact on the confirmation process. We believe the guidance in the proposal to address the use of electronic confirmations is generally appropriate. In addition, counterparties to a company have increasingly included disclaimers or other limiting language in their responses to confirmations. We commend the PCAOB for considering input received on the concept release in developing the proposal.

We fully support the Board's consideration of the work of other standard setters, such as the International Auditing and Assurance Standards Board (IAASB) and Auditing Standards Board (ASB), in the development of the proposal. We recognize that the Board may decide that different procedures are appropriate in the U.S. public company audit environment. However, we are concerned that the Board has included more prescriptive requirements in the proposal than those of the IAASB and ASB, but has not provided sufficient rationale as to why these additional prescriptive requirements are necessary to result in a more effective audit. Further, as we have commented previously, we are supportive of the PCAOB's efforts to provide a comparison of its standards to those of the IAASB and the ASB. Such comparisons facilitate the identification of differences between the various standards as well as provide additional perspective of the PCAOB's intended changes to practice. However, we note the comparison provided in the proposal indicates that several areas of the analogous IAASB and ASB standards "do not include similar requirements" to those being proposed by the Board. Although the proposed requirements may not be included as requirements in the respective IAASB and ASB standards, we note the other standard setters require the auditor to use judgment in determining the appropriate audit procedures to be performed and supplement that requirement to use judgment with additional application guidance similar to the PCAOB's requirements. To avoid a potentially misleading comparison, we recommend the PCAOB acknowledge the additional application guidance and further clarify why establishing requirements where other standard setters have required auditors to use judgment in determining the appropriate audit procedures (supplemented by application guidance) will result in a more effective audit, rather than simply indicating in the comparison provided that the proposed requirements are not required by the other standard setters.

We have certain overall observations that we believe will enhance the PCAOB's proposal and have organized these observations and comments as follows:

- Overarching Concerns
- Principles-based Standards
- Risk Assessment
- Operational Challenges of Certain Aspects of the Proposal
- Use of Internal Audit in the Confirmation Process
- Drafting Conventions

In addition, we have other specific comments, which we have included as an Attachment to this letter.

Overarching Concerns

While we support the Board's efforts to improve the existing confirmation standard, we are concerned that the proposal is overly prescriptive (see Principles-based Standards below) and may result in a significant increase in the use of confirmation requests (i.e. paragraph 8 includes a new and expanded definition of receivables for which there is a presumptive requirement to use confirmation procedures, and eliminates the exception that was provided in AU 330 which allowed an auditor to not confirm receivables if certain conditions were met, paragraph 10 includes a presumptive requirement for auditors to use confirmation procedures in response to significant risks that relate to the relevant assertions that can be adequately addressed by confirmation procedures) and require additional audit procedures regarding the design and evaluation of confirmations, without a corresponding increase in audit quality or effectiveness. The use of confirmations in the appropriate circumstances can provide an effective and efficient means for obtaining audit evidence. However, as discussed in Principles-based Standards below, we are concerned that the proposal does not adequately recognize that confirmations may not always be the most effective means of gathering evidence and, as a result, limits the auditor's ability to use judgment in determining the audit procedures that are appropriate based on the assessed level of risk at the assertion level (see Risk Assessment below).

We believe the proposal will result in a significant increase in not only the auditor's use of confirmation requests but also for a concomitant increase in the effort by responding parties. Consistent with our response to the Board's concept release, we are concerned that the expanded requirements imposed solely on auditors without consideration of the increased obligation being requested of third parties from whom confirmations are sought, presents operational challenges. We strongly recommend that the PCAOB consider the practical implications of the proposed standard and liaise with other organizations, such as the American Bankers Association and Financial Executives International, to understand the impact of the proposal on these organizations' members. The Board should discuss with these organizations whether their members will be willing and able to respond timely to an increase in confirmation requests.

We share the PCAOB's concern regarding the growing prevalence of restrictive language in confirmation responses. However, the fact that some respondents use disclaimers and other restrictive language highlights a fundamental flaw of imposing unilateral requirements on auditors without also addressing the fact that respondents have a variety of reasons for including such language – and can do so regardless of the impact on the audit. In order to reduce the use of such language we believe this issue should be addressed at its root cause rather than including additional prescriptive requirements (i.e., paragraphs 37-38) on the auditors; an approach that only places additional requirements on auditors when confirmations are received with disclaimers and restrictive language does not address the increasing trend for third parties to include restrictive language and does not appear to be in the public interest. To the extent the PCAOB continues to emphasize and expand the use of confirmations, we encourage the Board to work with other organizations, as discussed above, to identify the cause of such restrictive language (i.e., liability concerns) and work to clarify and / or minimize the use of restrictive language in order to enhance the evidence provided.

Principles-based Standards

As mentioned above, while we support the Board's efforts to improve the existing confirmation standard, we are concerned that the proposal is overly prescriptive. We believe a high quality audit is not a predefined set of steps that are applied to each and every engagement, but instead includes a customized set of procedures designed to be responsive to the risks identified. Accordingly, standards should not represent a checklist of requirements, but a collection of guiding principles for the auditor to apply to the particular facts and circumstances of a given audit.

One source of concern relates to the aspects of the proposal related to the presumption that the auditor will request confirmation of accounts receivable. While the PCAOB's interim standards (paragraph 34 of AU 330) includes a presumption that the auditor will request the confirmation of accounts receivable during an audit, the extant standard allows the auditor to exercise professional judgment in determining whether the use of confirmations would be effective. In situations, for example, where an auditor determines that confirmations would not be effective or the auditor's combined level of control and inherent risk are at a sufficiently low level (combined with other evidence obtained as part of the audit), existing PCAOB standards do not require the auditor to request confirmations. We believe that the proposed standard, which eliminates these exceptions, combined with the Board's rationale contained in the accompanying release, as described in the following paragraph, will significantly reduce the auditor's ability to use his or her judgment in determining whether confirmations are an appropriate procedure based on the assessed level of risk.

In addition, because the proposal significantly broadens the requirement of when confirmations are to be used (i.e., paragraph 10 includes a presumptive requirement that the auditor will perform confirmation procedures in response to significant risks that relate to the assertions that can be adequately addressed by confirmation procedures, paragraph 11 includes a statement that "the performance of confirmation procedures still might be an appropriate response to obtain audit evidence" for other risks) we believe this will, at a minimum, result in an increased documentation burden in situations where an auditor determines that confirmation procedures

would not be appropriate. This could also have the unintended result of shifting the auditor's focus from obtaining sufficient appropriate audit evidence to support his or her conclusions to justifying a decision not to send confirmations and/or whether the confirmations were used in an appropriate manner. Ultimately, this may result in an increase in the performance of confirmation procedures in order to satisfy the "checklist" requirement, regardless of whether the audit procedure provides the most effective or efficient means of obtaining sufficiently persuasive audit evidence.

Further, we note the accompanying release currently states, "if auditors consider confirmation procedures to be ineffective, auditors should determine why they are ineffective and look for ways to improve the effectiveness of confirmation procedures." However, the Board fails to acknowledge that in certain situations the auditor cannot improve the effectiveness of confirmation procedures. For example, the healthcare industry traditionally experiences low response rates to confirmation requests. Under the extant standard the auditor would have the discretion to determine whether alternate procedures would be a more effective and efficient means for obtaining audit evidence. However, the proposed standard would significantly limit the auditor's ability to use judgment in determining the appropriate audit procedures for obtaining sufficient audit evidence. As a result, we believe that auditors may expend significant efforts performing confirmation procedures in situations where they are neither the most effective nor efficient means of gathering sufficiently persuasive audit evidence.

Any of these outcomes would not enhance the persuasiveness of audit evidence obtained by the auditor. Therefore, we encourage the PCAOB to reconsider these provisions and allow the auditor to use his or her judgment in determining whether confirmations procedures are appropriate in the circumstances to address the identified risks.

Risk Assessment

We note that in an audit performed in accordance with PCAOB recently issued risk standards, risk assessment and response underlies the entire audit process. However, we are concerned that the proposal removes the auditor's judgment to assess and respond to risk and instead includes prescriptive requirements for the confirmation process, regardless of the assessed level of risk. For example:

- Paragraph 10 states that "[t]he auditor should perform confirmation procedures in response to significant risks that relate to the relevant assertions that can be adequately addressed by confirmation procedures." Does the Board intend for this to be a requirement for the auditor to perform confirmation procedures in response to significant risks in every circumstance where an auditor *can* perform them? We believe the Board should allow the auditor to determine the most effective audit response that would provide sufficiently persuasive audit evidence to address the identified risk.
- Paragraph 15 requires an auditor to select the confirming party, even if the company provides the auditor with the name, regardless of the assessed level of risk. We recommend that the Board allow the auditor to use judgment, based on risk, in determining the nature and extent of verification procedures necessary to identify the confirming party. For example, sending a deposit account confirmation to a bank generally would be considered lower risk than confirming for the possibility of side agreements on revenue contracts. Given the assessed level of risk, it may be appropriate for the auditor to use the names and addresses provided by the bank when sending deposit account confirmations but an auditor may want to perform additional procedures to select and/or verify the confirming party relative to a side agreement risk, given the higher risk.

Given these concerns, we recommend the Board align the procedures in the proposed standard to the assessed level of risk so the auditor may apply his or her time and attention to the specific area that would have the greatest effect on improving audit quality.

Operational Concerns of Certain Aspects of the Proposal

The proposal includes requirements for auditors to perform additional procedures to address possible inherent risks that are beyond the scope of the audit and outside an auditor's control as well as to consider or assess certain risk factors based upon information we believe an auditor should not be reasonably expected to know. For example:

- Paragraphs 16 and 31 require the auditor to consider the “[l]ocal customs that might influence confirmation responses, such as a local custom of responding to confirmation requests without verifying the information” when designing and assessing the reliability of confirmations. We question why an auditor would reasonably be expected to have this knowledge. In addition, if the PCAOB is aware of such situations, we encourage the PCAOB to make that information known to all registered accountants in order to enhance the effectiveness of the confirmation procedures.
- Paragraph 32 requires the auditor to assess any indication that the confirming party is not competent or objective, has questionable motives, or is not free from bias with respect to the company, when evaluating the reliability of the response received. We question how an auditor would be able to sufficiently assess these qualities given the limited interaction between the auditor and the confirming party. For example, what does the Board believe an auditor should be looking for that could indicate that a confirming party “had questionable motives?” In addition, in situations where an auditor determines that there is a higher risk that a confirming party's response may not be reliable, we recommend the PCAOB consider whether requiring confirmations in such circumstances would be appropriate.

Given these concerns we urge the Board to consider the practical implications of these requirements.

Use of Internal Audit in the Confirmation Process

In the proposed standard and accompanying release, the PCAOB notes that the auditor cannot use internal audit to send confirmation requests, receive confirmation responses or evaluate the evidence obtained from performing confirmation procedures. Further, the proposed standard significantly reduces the auditor's ability to use judgment in determining the extent to which the work of internal auditors can be used in confirmation procedures. The Board's rationale for restricting the role of the internal audit function as well as the auditor's ability to use judgment in the confirmation process is unclear. We believe that internal audit can assist in many aspects of an auditor's confirmation process and that such assistance, appropriately supervised, increases audit quality by allowing the auditor to focus his or her efforts on the areas of higher risk, which is consistent with extant PCAOB guidance (e.g., PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*), and the risk standards recently approved by the Board. While we believe the standard should emphasize the auditor's responsibility to maintain control over the confirmation process (as defined in AU 330.28) as well as to evaluate the responses, we believe that the auditor should be able to use his or her assessment of risk and the framework provided in AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, in determining the appropriate manner to use the work of internal auditors.

Drafting Conventions

We appreciate the Board’s inclusion of a number of examples to illustrate requirements in the standard. However, we note the examples included in the proposal state that an auditor “should” perform certain auditing procedures. Consistent with the Board’s drafting conventions, the word “should” is used to identify procedures that the auditor is required to perform. We do not believe examples should be determinative of required audit procedures. We urge the Board to replace the term “should” with “may” in each of the illustrative examples. To the extent the PCAOB intends to communicate requirements in certain examples, we encourage the Board to develop the appropriate principle or provide guidance within such standards, as it may be difficult for auditors to apply such guidance broadly when it is contained only within a narrow example. The following instances illustrate this observation:

- Paragraph 14 states, “when an auditor performs confirmation procedures for receivables at an interim date, the auditor *should* perform sales cutoff testing at the balance sheet date to reduce audit risk to an appropriately low level for the existence and completeness assertions.” We recommend the Board change the “should” to “may” as this procedure is only one example of an audit procedure the auditor may perform to obtain relevant and reliable audit evidence. Rarely is there only one audit procedure that would be acceptable to reduce the risk of misstatement to an appropriately low level. In addition, the Board should consider whether this is the most appropriate example given (1) it does not relate specifically to the use of confirmations, but rather provides guidance regarding an auditor’s consideration of obtaining evidence at an interim date (AU Section 313, *Substantive Tests Prior to the Balance Sheet Date*), and (2) it could be misleading as there may be other procedures, in addition to sales cutoff procedures, that would be necessary in order to fully address the completeness and existence assertions.
- The examples included in paragraph 28 (Note) are intended to illustrate audit procedures that could be performed in order to satisfy an auditor’s responsibilities related to performance of alternative procedures for non-responses. However, the examples are narrowly focused and include a number of “should” requirements specific to confirmation of terms of transactions or agreements. We recommend the Board replace the term “should” with “may”. Further, to supplement these examples, the Board should consider including general principles or considerations for alternative procedures, which would enhance an auditor’s understanding of the Board’s view of the nature and extent of alternative procedures to be performed.

In addition, we are concerned with the inconsistent requirements in the accompanying release of the proposal versus the proposed standard and vice versa. For example, page 33 of the accompanying release requires an auditor to consider whether an exception to a confirmation indicated a previously unidentified risk of material misstatement due to error or fraud or deficiencies in the company’s internal control over financial reporting. The notion of the impact of confirmation procedures on the auditor’s consideration of the company’s internal control over financial reporting is not included within the proposed standard, thus we recommend such guidance specifically be incorporated into paragraph 30 as opposed to only in the accompanying release. In order to avoid possible confusion, we recommend the Board ensure these inconsistencies are reconciled before finalizing the standard.

We appreciate the opportunity to comment on the proposed standard and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli
Executive Director
Center for Audit Quality

Enclosure

cc: PCAOB

Daniel L. Goelzer, Acting Chairman

Willis D. Gradison, Member

Steven B. Harris, Member

Charles D. Niemeier, Member

Martin Baumann, Chief Auditor and Director of Professional Standards

SEC

Chairman Mary Schapiro

Commissioner Luis Aguilar

Commissioner Kathleen L. Casey

Commissioner Troy Paredes

Commissioner Elise B. Walter

James L. Kroeker, Chief Accountant

ATTACHMENT

#	COMMENT
<i>Relationship of Confirmation to the Auditor's Assessment of Audit Risk</i>	
1	Paragraph 4 reiterates a portion of the guidance provided in the Board's recently adopted risk assessments standards, Auditing Standard No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i> and Auditing Standard No. 15, <i>Audit Evidence</i> . We recommend that the standard instead refer back to these standards to 1) reduce redundancy and 2) encourage auditors to consider these standards in their entirety when considering the relationship of confirmations to the auditor's assessment of audit risk.
2	Paragraph 5 states that "[a]udit evidence in the form of a confirmation response, because it is received directly by the auditor from a confirming party, <i>generally is</i> more reliable than audit evidence generated internally by the company or provided directly by the company." However, given certain circumstances exist where confirmation responses do not yield more reliable audit evidence, we believe that this sentence should be revised as follows: <i>Audit evidence in the form of a confirmation response, because it is received directly by the auditor from a confirming party, generally is may be more reliable than audit evidence generated internally by the company or provided directly by the company.</i>
<i>Confirmation of Specific Accounts</i>	
3	The first sentences of paragraphs 6 and 7 state "[c]onfirmation requests address one or more of the assertions of specific accounts and disclosures" and "[c]onfirmation requests do not address all assertions equally well" respectively. A confirmation <i>request</i> does not address assertions. We recommend the Board consider whether articulating as "confirmation requests could be designed to address..." and "confirmation procedures do not address..." would better express the Board's point.
<i>Cash with Financial Institutions</i>	
4	Paragraph 9 states that "[the] auditor should perform confirmation procedures for cash with financial institutions" and other relationships, such as lines of credit, as well as whether any additional information about other deposit or loan accounts that have come to the attention of the financial institution. We recommend the Board expand the description of cash to include both cash and cash equivalents.
<i>Other Risks</i>	
5	Paragraph 11 states that the performance of confirmation procedures might be an appropriate response to obtain audit evidence for certain items even when a significant risk does not exist. This does not appear to be an incremental requirement and therefore we recommend the Board delete the paragraph. Further, determination of the appropriate audit procedures to be performed to address a specific assertion is already part of the auditor's responsibility when planning and performing the audit.
<i>Determining the Type of Confirmation Requests to Send</i>	
6	Paragraph 17 provides guidance regarding the use of negative confirmations. We recommend the Board clarify these requirements. For example, it would be helpful for the Board to clarify whether it intends to require an auditor to supplement negative confirmations with positive confirmations if certain factors stated in the proposal are not present. Given that negative confirmations provide some audit evidence, we believe the



	auditor should consider the amount of incremental evidence necessary to support his/her conclusions on the basis of risk – which may or may not include the use of positive confirmations.
7	Paragraph 17 states, in part, “negative confirmation requests provide limited audit evidence...the auditor should perform other substantive procedures to supplement the use of negative confirmation requests.” Based on the proposed requirement, it appears that the use of negative confirmations will no longer be sufficient without supplemental audit procedures. We encourage the Board to reconsider this requirement given, for example, negative confirmations are typically used for deposit liability accounts, particularly when the inherent risk of such accounts is assessed as low and the internal control risk is assessed as very low. We believe in these situations, negative confirmations may provide sufficiently persuasive audit evidence.
8	The second sentence of paragraph 17 states that “a positive confirmation request provides audit evidence only when a response is received directly by the auditor from the confirming party.” However, in assessing the reliability of confirmation responses, the first two factors in paragraph 31 refer to indirectly received responses. We recommend the Board modify paragraph 17 to indicate that, based on an auditor’s risk assessment, obtaining indirectly received responses provides a form of audit evidence with the acknowledgement that the auditor will need to consider the persuasiveness of the evidence obtained and determine if additional procedures should be performed.
9	The fourth bullet of paragraph 17 states that the auditor “reasonably believes that recipients of negative confirmation requests will give such requests consideration.” We note that the extant AU 330 utilizes the term “the auditor has no reason to believe.” As such, we recommend the PCAOB clarify whether or not they intend for a change in an auditor’s evaluation based on the change included in the proposal. We believe that any such clarification should consider that the auditor will not have a direct relationship with the confirming party.
<i>Determining That Confirmation Requests Are Properly Addressed</i>	
10	Paragraph 18 states “[t]he auditor should design confirmation requests to establish direct communication between the confirming party and the auditor to minimize the possibility that the audit evidence resulting from the confirmation procedures might not be reliable as a result of interception, alteration, or fraud.” We acknowledge that the auditor should control the confirmation process and send confirmation requests and receive responses directly (in accordance with guidance in paragraph 28 of extant AU 330). We request the PCAOB clarify and/or provide examples to illustrate what additional procedures the PCAOB envisions in “designing” confirmation requests to facilitate this process given this proposed change to the existing requirement.
11	Paragraph 19 includes the use of post office boxes as a factor in determining the nature and extent of procedures to perform to validate addresses on confirmation requests. We request the Board clarify its views on the level of risk associated with a post office box. Given the prevalence of their use, particularly in areas such as trade receivables, this may be the only address on file with the company. Without further guidance, we are concerned that auditors may perform significant verification procedures related to post office box addresses without a significant increase in the quality of audit evidence obtained.

12	<p>We request the PCAOB clarify what is meant in paragraph 19, which states that “the auditor should perform procedures to determine the validity of the addresses on the confirmation requests, including substantive procedures or tests of controls.” Further, we are concerned with how to operationalize this requirement. Specifically, since an auditor is simply verifying the address, what constitutes “tests of controls” versus “substantive procedures?” For example, with regard to trade accounts receivable confirmations, would tests of controls represent, for instance, procedures an auditor may perform on a company’s controls regarding establishing and maintaining customer information as part of its revenue billing and collection process? Would these procedures not be adequate to address the risk of invalid addresses for significant risks? What other types of substantive verification procedures does the Board believe would be appropriate? The PCAOB should provide additional guidance in this area in order to clarify the Board’s expectations.</p>
<i>Directly Sending the Confirmation Requests</i>	
13	<p>In a footnote to paragraph 21 the proposed standard defines the term “Intended Intermediary.” We recommend the Board include this term in Appendix A - <i>Definitions</i>, to maintain consistency with the rest of the proposed standard.</p>
<i>Management Requests Not to Confirm</i>	
14	<p>The Note accompanying paragraph 24b. states that in the situation where management requests the auditor not confirm certain accounts, balances, or other items, “[t]he auditor should perform procedures to obtain more persuasive audit evidence than he or she would have obtained had there been no responses to a confirmation request or had the auditor made a decision not to perform confirmation procedures.” We are unclear as to the Board’s rationale in requiring the auditor to obtain “more persuasive” evidence in this situation rather than a situation where there was no response to a confirmation request or had the auditor chosen not to confirm. Is the concern that where management requests the auditor not confirm a certain item, the auditor should consider an increased fraud risk and exercise a heightened level of skepticism in performing alternative procedures? We recommend that the Board clarify its rationale.</p> <p>In addition, we recommend the Board provide further clarification as to what an auditor should do if “more persuasive” evidence is not available. For example, if alternative procedures for a non-response on an installment loan confirmation are to audit subsequent cash receipts and read/agree the balance back to the loan agreement, the Board should clarify what procedures could be performed that would be “more persuasive.”</p>
15	<p>Paragraph 24c. requires that the auditor communicate all management requests not to confirm to the audit committee. It is unclear whether the Board intends to require notification of each individual account to the audit committee. If so, we are concerned that such a requirement may not result in the most useful information being provided to the audit committee. For example, many financial institutions maintain no-mail accounts as a regular business practice. Is it the Board’s intention to require notification of each individual account to the audit committee?</p> <p>We believe a more appropriate trigger for communicating management’s request for the auditor not to confirm certain accounts, balances or other items is whether the request has a significant impact on the audit or the financial statements and whether the auditor <u>does not agree</u> to the request and management refuses to authorize the confirmation request (paragraph 25).</p>

	<p>In addition, we question the Board’s rationale underlying this new requirement. Is the purpose of the requirement simply to inform the audit committee of management’s request not to confirm? Does the Board intend for the audit committee to provide some additional assurance to the auditor as to the appropriateness of management’s request not to confirm? We recommend the Board discuss these issues with audit committee representatives or organizations (i.e. National Association of Corporate Directors, Association of Audit Committee Members, Inc.) to gain their perspective before finalizing this guidance.</p>
<i>Non-Responses</i>	
16	<p>Paragraph 27 states, “[w]hen using positive confirmation requests and a response from a confirming party has not been received, the auditor should follow up with a second request and should consider following up with a third request.” We are concerned that the mandate of a second request and consideration of a third request for positive confirmations may not be appropriate requirements for all situations where confirmation procedures are being performed and may not result in a commensurate increase in audit quality. For example, if the auditor has no expectation of receiving responses to specific confirmation requests, it would seem more appropriate to plan and perform alternative audit procedures rather than sending out second or third requests. We recommend that the Board consider allowing the auditor to exercise professional judgment when determining whether it is appropriate to send follow-up confirmation requests, rather than including a requirement.</p>
17	<p>We note that in the Appendix A – <i>Definitions</i>, the Board has defined a confirmation response as “audit evidence obtained as a direct communication to the auditor from a third party.” Further, the definition states that “[a]n oral response to a confirmation request is audit evidence, but it does not meet the definition of a confirmation response.” We recommend the Board modify paragraph 27 to indicate that, based on an auditor’s risk assessment, obtaining an oral response in follow-up to a non-response provides a form of audit evidence with the acknowledgement that the auditor will need to consider whether and the extent of supplemental procedures required.</p>
<i>When a Response to a Positive Confirmation Request is Necessary to Obtain Sufficient Appropriate Audit Evidence</i>	
18	<p>Paragraph 29 should be clarified to provide for auditor judgment in determining when a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Accordingly, we recommend the first sentence of paragraph 29 be revised as follows:</p> <p style="padding-left: 40px;">“When the auditor determines that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence”</p>
<i>Reliability of Confirmation Responses</i>	
19	<p>When assessing the reliability of confirmation responses we agree there is a need for auditors to exercise the appropriate level of skepticism. However, we believe that the prescriptive requirements in paragraph 31 would be more appropriate as factors the auditor should consider if they have identified concerns as to the reliability of the confirmation response. We recommend the guidance in this paragraph be conformed with paragraph 10 of ISA 505, <i>External Confirmations</i>, which includes a requirement for the auditor to obtain further audit evidence only “if the auditor identifies factors that give rise to the doubt about the reliability of the response to a confirmation request.”</p>

20	<p>Extant AU 330.33 states that an auditor should consider the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient audit evidence has been obtained. The extant standards states that in performing the evaluation the auditor should consider the reliability of a confirmation response and alternative procedures, nature of any exceptions, evidence provided by other procedures and whether additional evidence is required. If the combined evidence is not sufficient, the auditor is required to obtain additional evidence. Paragraph 33of the proposal requires an auditor to obtain additional audit evidence if a confirmation response is deemed not to be reliable, regardless of whether the combined evidence provided by the audit procedures provides sufficiently persuasive audit evidence. In accordance with extant AU 330, when a confirmation response is deemed not to be reliable, we believe an auditor should be required to use his/her professional judgment to determine whether the auditor has obtained sufficiently persuasive audit evidence or whether additional audit evidence is necessary. Therefore, we believe this paragraph should be modified to require the auditor to focus on the impact of the reliability of the confirmation on the combined audit evidence obtained and the assessed level of risk to determine whether additional evidence is necessary.</p>
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