

September 8, 2010

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington D.C. 20006-2803

Re: Comments Regarding PCAOB Rulemaking Docket Matter No. 028  
Proposed Auditing Standard Related to Confirmation

Board Members:

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) is pleased to provide our comments to the PCAOB on the proposed auditing standard.

The AP&AS Committee is the senior technical committee of CalCPA. CalCPA has approximately 32,000 members. The Committee is composed of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

The Committee’s responses are organized to follow the questions set forth by the PCAOB in the proposed auditing standard.

**Question 1: Are the definitions included in the proposed standard sufficiently clear and appropriate? If not, what changes should the Board make to the definitions?**

A. The definition of “confirmation” ought to include the concept of direct access, by acknowledging that obtaining direct access to a confirming party’s electronic records constitutes an acceptable form of confirmation.

B. The definition of “non-response” ought to be expanded to include the obvious case where no response from the confirming party constitutes a non-response. As currently drafted, the definition at Appendix A8 implies that some form of communication, be it incomplete, must exist before the response can be considered a non-response. In practice, many confirming parties have established as a clear business policy, their unwillingness to respond to written confirmations, and will not respond at all, or will not submit a partial response.

**Question 2: Is the objective of the proposed standard clear and appropriate? If not, what changes should the Board make to the objective?**

The stated objective is clear, appropriate and consistent with the ISA 505 definition.

**Question 3: What other matters, if any, should the objectives include?**

None.

**Question 4: Is the description of “receivables that arise from credit sales, loans, or other transactions” sufficiently clear and appropriate? If not, what changes should the Board make?**

The current audit requirement to confirm receivables has been limited to receivables arising from credit sales, subject to the auditor’s ability to support the ineffectiveness of past attempts to confirm such receivables. The Committee does not support the Board’s expansion of required confirmations absent this exclusion on practical grounds. While the Committee believes the confirmation process represents a highly effective means of gathering audit evidence, the Board as well as the registered public accounting firms under its jurisdiction cannot force the recipient of the confirmation to return it. If the Board ultimately expands the required applicability of sending confirmations, we suggest the Board provide additional examples of the types of “other transactions” contemplated. For example, transactions with related parties often result in loans, advances, etc. Does the Board contemplate requiring written confirmation for such related party transactions?

**Question 5: Is the requirement in the proposed standard to confirm cash and other relationships with financial institutions sufficiently clear and appropriate? If not, what changes should the Board make?**

The Board should be aware that confirming cash account balances, as a standard audit procedure, has, in many instances, been dropped in favor of direct access to period end bank statements, or other means to validate period end cash account balances. The Committee supports the affirmation that obtaining direct confirmation of relevant bank account cash balances represents a means of obtaining highly effective audit evidence at a reasonable cost.

The Board might consider providing additional guidance regarding the process of obtaining confirmation of other relationships from financial institutions (as set forth in paragraph 9 of the proposed standard). It is common practice for financial institutions to refrain from responding to blank requests regarding other relationships, unless the client specifically identifies the existences of such other relationships on the standard bank account confirmation form.

**Question 6: Does the proposed standard appropriately address the risk of material misstatement by requiring confirmation procedures in response to significant risks that relate to the relevant assertions that can be adequately addressed by confirmation procedures? If not, what changes should the Board make?**

The Board's proposed standard contains a potentially material change in practice by suggesting that confirmation of the terms of agreements or transactions be considered in response to significant audit risk. The majority of the Committee members strongly believe this requirement ought to be removed in its entirety and left to the professional judgment of the auditor. The Board should limit the expansion of the confirmation process and instead adopt the provisions set forth in ISA 505.

**Question 7: Should the proposed standard include additional requirements with regard to sending confirmation requests in response to significant risks? If so, what additional requirements should the Board include?**

Please refer to our response to Question 6. above.

**Question 8: Is the description in the proposed standard of other risks sufficiently clear and appropriate? If not, what changes should the Board make?**

The Committee does not consider the discussion of "other risks" in paragraph 11 of the proposed standard sufficiently clear; in light of the Board's intent to require the expanded use of the confirmation process from current practice. Otherwise, an indication that consideration of confirmation procedures in situations not required by the proposed standard be left to the professional judgment of the auditor might be added.

**Question 9: Are the requirements in the proposed standard for maintaining control over the confirmation process sufficiently clear and appropriate? If not, what changes should the Board make?**

The requirements are clear in the proposed standard.

**Question 10: Is the description with respect to the use of internal auditors in the confirmation process sufficiently clear and appropriate? If not, what changes should the Board make?**

The Board states on page 20 of the Release that "The Board is not retaining the reference to the use of internal auditors in the proposed standard because the requirements for considering the work of internal auditors and on using internal auditors to provide direct assistance to the auditor are included in AU Sec. 322..." The discussion of the use of internal auditors on pages 20 and 21 of the Release is confusing. On page 20 the Release says "...the auditor cannot use internal auditors to send confirmation requests, receive confirmation responses..." This would be a significant change from current practice.

But then on page 21, the Release says: “..., consistent with AU sec. 322... if the internal auditors, as part of their work, confirm certain receivables, the auditor may consider the internal auditor’s work and change the timing of his or her confirmation procedures or the number of receivables to confirm.” By reducing the number of receivables to confirm, the auditor is relying on the internal auditor to mail confirmations and receive responses on receivables that the auditor otherwise would confirm. This reflects current practice, but is contradictory to what is on page 20. While use of internal auditors is not covered in the proposed standard, the discussion should be amended to clarify whether any change in practice is being proposed. Therefore, use of a client’s internal auditors is not sufficiently clear in the proposed standard as drafted, and ought to be expanded to identify in what circumstances the auditor can consider using internal auditors in the confirmation process.

**Question 11: Are the factors for designing confirmation requests in the proposed standard sufficiently clear and appropriate? If not, what changes should the Board make?**

The stated factors are sufficiently clear and appropriate.

**Question 12: Are the requirements in the proposed standard regarding the use of negative confirmation requests sufficiently clear and appropriate? If not, how should the Board change these requirements?**

The Committee suggests that, in addition to the other constraints, that negative confirmations be used only for numeric balances (e.g., the amount owing) and not other information.

**Question 13: Are the procedures the auditor should perform to determine the validity of the addresses on confirmation requests sufficiently clear and appropriate? If not, what changes should the Board make to the proposed procedures?**

The stated procedures are sufficiently clear and appropriate.

**Question 14: Are the procedures the auditor should perform when he or she determines that a confirmation request does not include a valid address sufficiently clear and appropriate? If not, what changes should the board make to the proposed procedures?**

the stated procedures are sufficiently clear and appropriate.

**Question 15: Are the procedures the auditor should perform when management requests the auditor not to confirm certain accounts, balances, or other items sufficiently clear and appropriate? If not, what changes should the board make to the proposed requirements?**

The stated procedures are sufficiently clear and appropriate.

**Question 16: Are there circumstances in which it would not be necessary for the auditor to perform alternative procedures for non-responses to positive confirmation requests? If so, what are those circumstances?**

There may be situations where it would not be necessary to perform alternative procedures for non-responses to positive confirmation requests. For example, the auditor may send out confirmation requests on a large proportion of accounts, anticipating a low response rate, in order to get a sampling of responses to a question on the confirmation about credit terms. Other procedures are used to audit the receivables. Alternative procedures on non-responses would serve little, if any, purpose. Some room should be left to the auditor's judgment in following up on non-responses.

**Question 17: Are the additional procedures that are required when the auditor does not receive a confirmation response for the terms of a significant transaction or agreement appropriate? If not, what changes should the Board make?**

Please refer to our response to Question 6 above regarding the Committee's recommendation to not require the use of confirmations regarding the terms of significant transactions or agreements, follow ISA 505 and leave to the professional judgment of the auditor.

**Question 18: Are there additional circumstances that make it necessary for the auditor to receive a confirmation response to a positive confirmation request to obtain sufficient appropriate audit evidence? If so, what are those circumstances?**

The proposed standard is sufficiently clear regarding the need to receive a confirmation response to a positive confirmation request.

**Question 19: Is the requirement in the proposed standard for the auditor to investigate all exceptions in confirmation responses sufficiently clear and appropriate? If not, what changes should the Board make to the requirement?**

The proposed standard is sufficiently clear regarding the need to investigate all exceptions. However, the Board might wish to clarify the use of the client's internal auditors with respect to assistance in resolving any numeric differences which might arise from commonly encountered timing differences in the posting of cash receipts, credit memorandums, etc.

**Question 20: Are the requirements in the proposed standard related to addressing the reliability of confirmation responses sufficiently clear and appropriate? If not, what changes should the Board make to those requirements?**

The proposed standard is sufficiently clear regarding addressing the reliability of confirmation responses.

**Question 21: Does the proposed standard include adequate requirements regarding electronic confirmation procedures? If not, what additional requirements should the Board include?**

The Committee believes the overall guidance on pages 37 through 40 of the Release is good, but the conclusions ultimately reflected in the proposed standard are too rigid, and are in danger of becoming obsolete by technology changes. We are in a world of increasing automation, and automated access to specific portions of an entity's records by authorized parties has arrived. A logical next step is to expand access to auditors, either directly or through intermediaries. This authorized access may happen

without the entity's direct knowledge. The only written representation from the confirming party would be an electronic receipt that can be printed or stored electronically in the audit work papers. A written representation from the confirming party may not be feasible. It should be left to the auditor to take steps to become satisfied as to the authenticity of the information received.

**Question 22: Are there risks related to the use of an intermediary that the proposed standard has not adequately addressed? If so, what are those risks, and how should the standard address them?**

The risks associated with the use of an intermediary should be correlated to the risk the elements confirmed cannot be validated through other means. End of period bank balances can be traced to a bank statement as a means of validating the bank confirmation received from the intermediary.

Therefore, the requirements set forth in the third bullet in paragraph 35 of the proposed standard regarding acceptance of the intermediary's processes, may be difficult or impossible to satisfy unless the intermediary were to provide a service organization report prepared in conformity with AU sec. 324. We recommend the Board reduce the extent of required procedures to be performed when an intermediary is used to allow for the application of the auditor's judgment.

**Question 23: the Board is interested in information about the services that an intermediary provides, specifically information about responsibilities and obligations between the auditor and the intermediary and the confirming party.**

The Committee is not in a position to comment on this question.

**Question 24: Are there risks related to the auditor's use of direct access that the proposed standard has not adequately addressed? If so, what are those risks, and how should the standard address them?**

Please refer to our response to Question 21 above.

**Question 25: Should direct access be permitted as a confirmation response only if such response is received from a financial institution? Why or why not?**

Direct access should be permitted in any case where the requirements set forth in the definition of “direct access” at A5 of Appendix A are met. Direct access is particularly useful when the entity has online access to a vendor’s order entry/accounts receivable system, or the underlying detail accounts of a factor or asset based lender who manages the entity’s accounts receivable activities.

**Question 26: Are the requirements in the proposed standard related to disclaimers and restrictive language in confirmation responses sufficiently clear and appropriate? If not, what changes should the board make?**

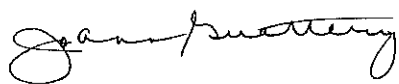
The proposed standard is sufficiently clear regarding disclaimers and restrictive language.

**Question 27: Are the requirements in the proposed standard related to evaluating the results of confirmation procedures sufficiently clear and appropriate? If not, what changes should the Board make?**

The requirements set forth in paragraph 39 of the proposed standard are sufficiently clear and appropriate. However, as discussed in several of the Committee’s responses to the questions above, the more detailed requirements set forth in paragraph 26 “Evaluation” ought to be modified regarding the requirement to perform an alternative procedures for “each” non-response and the application of professional judgment in assessing the reliability of electronic confirmation responses.

We thank the Board for the opportunity to comment on the proposed standard. We would be glad to discuss our opinions with the Board should they have any questions or require any additional information.

Very truly yours,



JoAnn Guattery, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Certified Public Accountants