

May 29, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 028, *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations*

Dear Sir:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the "Board") Release No. 2009-002: *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* (the "Concept Release").

We support the Board's continuing effort to promulgate auditing standards that promote audit quality. In the past, we have encouraged the Board to increase the depth and accelerate the timing of public involvement in its standard-setting process, and believe that the issuance of a concept release is a positive step towards this goal. We believe that the use of a concept release has the potential to provide increased transparency to the Board's standard setting agenda and will provide early input as the Board considers a new standard. We view the use of a concept release to be an important and welcomed improvement to the Board's standard setting process and suggest that concept releases be used in the future. We recommend, however, that the Board consider release at a time closer to the beginning of a standard setting project (e.g., in 2004 in the case of the audit confirmations project). Doing so will help to ensure that a concept release and responses thereto serve to accelerate rather than potentially delay the progress of the project.

While the Board's issuance of a concept release helps to increase the depth and accelerate the timing of input, we continue to believe that the quality of the standard-setting process could also be significantly enhanced by creating task forces or otherwise more directly involving experienced members of the auditing profession in the development of standards. We believe that such a process would enhance the quality, timeliness and efficiency of the development process and complement the role of the Standing Advisory Group and the other forums that currently inform the Board's standard-setting activities.

Lastly, before responding to the specific questions raised by the Board and in light of the increasing global acceptance of the International Standards on Auditing ("ISAs"), we continue to encourage the Board to provide a detailed comparison of its proposed standards and those of the International Auditing and Assurance Standards Board ("IAASB"). When the Board moves forward with an exposure draft on Audit Confirmations, we suggest that the Board provide a marked comparison of the proposed standard to ISA 505, *External Confirmations* (revised and redrafted) ("ISA 505"), in order to highlight differences between the two standards. We suggest that significant differences be discussed in the Board's release. By highlighting differences, we believe commenters will be able to more readily and thoroughly analyze the Board's proposal and therefore be able to provide quality feedback without undue effort.



In the remainder of our letter, we have provided our responses to each of the 23 questions posed in the Board's Concept Release.

Objective of the confirmation standard

Question 1 - Should the objective of the confirmation standard be for the auditor to design and perform confirmation procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks?

Consistent with ISA 505.5 and the proposed SAS that the Auditing Standards Board (ASB) has voted to expose (AICPA's proposed SAS on Audit Confirmations), the standard should include an objective. We offer the following suggestion of an objective for the audit confirmations standard:

The objective of the auditor is to use external confirmations in appropriate circumstances in response to assessed risks and to design and perform such confirmation procedures to independently obtain relevant and reliable audit evidence from knowledgeable third parties.

Our proposed objective is different from that suggested by the Board in its question in two important ways. First, it includes the auditor's consideration of when to use confirmations since we believe, as further discussed in other parts of our letter, that the Board's standard should provide guidance, as opposed to new presumptions, that will assist auditors in making this determination. Second, it replaces the objective of obtaining "sufficient competent" audit evidence with the objective of obtaining "relevant and reliable" audit evidence since confirmations may not be the sole source of audit evidence for a particular account or assertion.

Definition of confirmation

Question 2 - Should the definition of confirmation allow for responses other than traditional mailed responses, such as oral confirmation, facsimile, email, responses processed through third-party service providers, and direct online access to information held by a third party? Why or why not?

Yes. In light of the evolution of methods of communication since Statement on Auditing Standards No. 67, *The Confirmation Process* (AU 330) was written over a decade ago, we believe that the definition of confirmation should be updated to specifically include electronic responses and responses received through third parties. Further, we believe that the standard should provide appropriate guidance regarding the consideration of proper control and use of electronic confirmations as discussed in our response to Question 3. The use of electronic media (e.g., web sites, email, fax) for obtaining confirmations has become increasingly relevant to auditors. Over the past few years, financial institutions have introduced electronic confirmations as an option for auditors to confirm bank balances and some even now require the use of electronic confirmation requests and/or responses. Additionally, certain financial institutions have partnered with third-party electronic confirmation service providers to facilitate receipt of confirmation inquiries and delivery of a response.

However, we don't believe that access to a client's account information should constitute "confirmation" unless both (a) the third party has knowledge of the auditor's request and intended use, and (b) the auditor's access is provided by the third party (i.e., as opposed to the client simply sharing their access to third party information). We believe AU 330.04 appropriately provides that audit confirmation is a process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions. We believe that it is important for a third party to be aware that an auditor intends to rely upon the information for the

information to constitute an "audit confirmation." Important audit evidence can be obtained when the client provides the auditor with "access" to a bank website in order to view client account balances without the third party's knowledge; however, we do not believe that this should constitute a "confirmation" under PCAOB standards.

We believe it is important to acknowledge that oral responses to written confirmation requests do provide audit evidence; however, we agree with ISA 505.A15 which states that, "on its own, an oral response to a confirmation request does not meet the definition of an external confirmation." As a result, we believe that the following guidance on oral responses from AU 330.29 is appropriate:

There may be situations in which the respondent, because of timeliness or other considerations, responds to a confirmation request other than in a written communication mailed to the auditor. When such responses are received, additional evidence may be required to support their validity. For example, facsimile responses involve risks because of the difficulty of ascertaining the sources of the responses. To restrict the risks associated with facsimile responses and treat the confirmations as valid audit evidence, the auditor should consider taking certain precautions, such as verifying the source and contents of a facsimile response in a telephone call to the purported sender. In addition, the auditor should consider requesting the purported sender to mail the original confirmation directly to the auditor. Oral confirmations should be documented in the workpapers. If the information in the oral confirmations is significant, the auditor should request the parties involved to submit written confirmation of the specific information directly to the auditor.

Question 3 - What direction should the standard include regarding the use of electronic confirmations and third-party service providers?

We believe that the recently issued AICPA Interpretation No. 1, "*The Use of Electronic Confirmations*" of AU 330 (AU 9330) provides guidance that the PCAOB should consider. It states the following:

The auditor's consideration of the reliability of the information obtained through the confirmation process to be used as audit evidence includes consideration of the risks that

- *the information obtained may not be from an authentic source;*
- *a respondent may not be knowledgeable about the information to be confirmed; or*
- *the integrity of the information may have been compromised.*

No confirmation process with a third party is without some risk of interception or alteration, including the risk that the confirmation respondent will not be the intended respondent. Such risk exists regardless of whether a response is obtained in paper form, by electronic correspondence, or through some other medium. Factors that may indicate increased risk relating to the reliability of a response include that it

- *was received by the auditor indirectly; or*
- *appeared not to come from the originally intended confirming party.*

Responses received electronically, for example by facsimile or e-mail, involve risks relating to reliability because proof of origin and knowledge of the respondent may be difficult to establish and alterations may be difficult to detect. An electronic confirmation process that creates a secure confirmation environment may mitigate the risks of interception or alteration. The key to creating a secure confirmation environment lies in the process or mechanism used by the

auditor and the respondent to minimize the possibility that the results will be compromised because of interception or alteration of the confirmation.

The PCAOB should also consider the application guidance in paragraph A12 of the AICPA's proposed SAS on Audit Confirmations, which notes the following:

Responses received electronically, for example by facsimile or electronic mail, involve risks relating to reliability because proof of origin and knowledge of the respondent may be difficult to establish, and alterations may be difficult to detect. An electronic confirmation process that creates a secure confirmation environment may mitigate the risks of interception or alteration. The key to creating a secure confirmation environment lies in the process or mechanism used by the auditor and the respondent to minimize the possibility that the results will be compromised because of interception or alteration of the confirmation. If the auditor is satisfied that such a process is secure and properly controlled, the reliability of the related responses is enhanced. Various means might be used to validate the source of the electronic information and the respondent's knowledge about the requested information. For example, the use of encryption, electronic digital signatures, and procedures to verify Web site authenticity may improve the security of the electronic confirmation process.

Question 4 - What procedures should the auditor be required to perform to address the risk that the information is not from a proper source and the risk that the integrity of the data has been compromised?

We believe that the auditor should be required to assess the risk and determine the extent to which procedures should be performed, rather than be required to perform a specific set of procedures that would be required in every circumstance. In this regard, we believe that the guidance in AICPA AU 9330 and application guidance in paragraph A15 of the AICPA's proposed SAS on Audit Confirmations is appropriate and should be considered by the Board as it allows the auditor to apply judgment depending on the specific facts and circumstances. The auditor may be able to use an assurance trust services report (for example, Systrust) or a SAS 70 report to assess the design and operating effectiveness of the electronic and manual controls with respect to electronic confirmations if a system or process that facilitates electronic confirmation is in place. In some cases, for example if a Systrust or SAS 70 report is unavailable, the auditor may determine that it is appropriate to address the risks related to reliability of transmission of the information received electronically by directly contacting the purported sender (for example, by telephone) rather than by using alternative means.

Paragraph A15 of the AICPA's proposed SAS on Audit Confirmations states the following:

"The auditor is required...to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence. In some cases, the auditor may determine that it is appropriate to address the risks related to the reliability of the information received electronically by directly contacting the purported sender (for example, by telephone) rather than by using alternative means to validate the source of the electronic information. For example, if significant information is provided via an e-mail response, the auditor may perform alternative procedures, including procedures to verify the authenticity of information such as the e-mail address of the purported sender. The auditor may also contact the purported sender directly by telephone to verify that the information received was sent by the confirming party and also that what was received by the auditor corresponds to the information transmitted by the purported sender. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

Confirmations obtained electronically may be considered reliable audit evidence if the auditor is satisfied that (a) the electronic confirmation process is secure and properly controlled, (b) the information obtained is a direct communication in response to a request, and (c) the information is obtained from a third party who is the intended respondent."

Requirement to confirm

Question 5 - Should the Board expand the presumptively mandatory requirement to request confirmation of accounts receivable in AU sec. 330 to include confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions? Why or why not?

Question 6 - Should the Board require that the auditor consider confirming other items? If so, which items should be included in this requirement?

No. Various factors may affect an auditor's risk assessment, including: materiality, nature of the transaction, business purpose, historical information, relationship/frequency of transaction with the counterparty, subsequent information, etc. Paragraph A120 of ISA 315, *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment*, states that risks of material misstatement may be greater for significant non-routine transactions arising from matters such as the following:

- *Greater management intervention to specify the accounting treatment.*
- *Greater manual intervention for data collection and processing.*
- *Complex calculations or accounting principles.*
- *The nature of non-routine transactions, which may make it difficult for the entity to implement effective controls over the risks.*

Rather than expanding the presumptively mandatory requirement, the Board should consider including a framework that includes factors the auditor should consider in making a determination about whether confirmations are an appropriate source of audit evidence in the circumstances. We also believe that the factors contained in paragraph A51 of ISA 330, *The Auditor's Response to Assessed Risks*, are appropriate, which are as follows:

- *The confirming party's knowledge of the subject matter – responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.*
- *The ability or willingness of the intended confirming party to respond – for example, the confirming party:*
 - *May not accept responsibility for responding to a confirmation request;*
 - *May consider responding too costly or time consuming;*
 - *May have concerns about the potential legal liability resulting from responding;*
 - *May account for transactions in different currencies; or*
 - *May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.*

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.

- *The objectivity of the intended confirming party – if the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.*

We believe that it is appropriate for auditors to use these factors, in addition to the other factors in AU 330.34 (discussed in our response to Question 7), when performing a risk assessment and evaluating whether it would be effective to use audit confirmations. Given the nature of these considerations, and the fact that the appropriate risk considerations, including the relevant factors to consider, are dependent upon the facts and circumstances, it is inappropriate to extend the presumptive requirement for confirmation of accounts receivable to other areas. However, if the Board were to create guidance, we strongly believe it should be predicated with "may" rather than "should" to allow for appropriate auditor judgment.

Question 7 - Should the Board require the auditor to perform specific procedures when evaluating whether confirmation of accounts receivable would be ineffective? If so, what should those procedures include?

Auditors currently consider each of the factors in AU 330.34 (i.e., whether accounts receivable are immaterial to the financial statements, the use of confirmations would be ineffective, and the auditor's combined assessed level of inherent and control risk in conjunction with other evidence) when designing their audit approach. We believe that adding specific procedures to evaluate the effectiveness is unnecessarily burdensome. Instead, we believe that the Board should consider including the factors in AU 330.34 and possibly adding other factors for auditors to consider, such as the items included in our response to Questions 5 and 6 from ISA 330.A51, rather than creating specific procedures for auditors to perform. Moreover, we believe that there would be greater value in focusing the auditor's attention on when confirmations can be effective and should be used, rather than directing the auditor's attention to obtaining evidence simply to verify that they are not (effective).

Question 8 - Should the Board include direction in the standard on what constitutes "unusual" or "complex" agreements or transactions, including revenue transactions? If so, what should that direction include?

No. Attempting to define "unusual" or "complex" would not be practical given the vast array of circumstances that could fit that description. Furthermore, a prescriptive approach could result in focusing on strict compliance with standards rather than appropriately evaluating and addressing risk of material misstatement. As discussed in our response to Question 5, many factors are important to an auditor's risk assessment. We caution that what may be unusual or complex to one issuer may not be to another issuer, and that creating presumptively mandatory direction in an auditing standard could have the unintended consequences of requiring additional work to be performed that may not be commensurate with the level of risk. Additionally, creating a prescriptive approach could also have the unintended consequence of leading an auditor not to perform confirmation procedures simply because a transaction was not included within the Board's definition of unusual or complex.

Designing confirmation requests

Question 9 - Is additional direction needed with regard to designing confirmation requests and, if so, what direction would be helpful for auditors?

We believe that no significant change is required with regard to designing confirmation requests; however, the Board may consider including application guidance similar to what is included in paragraph A4 of ISA 505 and the AICPA's proposed SAS on Audit Confirmations.

Paragraph A4 of ISA 505 and paragraph A4 of the AICPA's proposed SAS on Audit Confirmations are as follows:

Factors to consider when designing confirmation requests include:

- *The assertions being addressed*
- *Specific identified risks of material misstatement, including fraud risks*
- *The layout and presentation of the confirmation request*
- *Prior experience on the audit or similar engagements*
- *The method of communication (for example, in paper form, or by electronic or other medium)*
- *Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.*
- *The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).*

Question 10 -Should the standard include the requirement for the auditor to test some or all of the addresses of confirming parties to determine whether confirmation requests are directed to the intended recipients? Why or why not?

We suggest that the Board consider including application guidance consistent with paragraph A6 of ISA 505 and the AICPA's proposed SAS on Audit Confirmations, which states that "determining that requests are properly addressed includes testing the validity of some or all of the addresses on the confirmation requests before they are sent out."

Maintaining control over confirmation requests and responses

Question 11 - What additional direction should the standard include with regard to maintaining control over confirmation requests and responses?

Question 12 - What direction is necessary in the standard regarding maintaining control over confirmations in electronic form?

In addition to the guidance contained in the Board's existing standard, the Board should consider adding guidance that maintaining control includes performing procedures to verify that the confirmation is being directed to the intended recipient, similar to that in AICPA Interpretation AU 9330. Specific to email confirmations, the auditor may decide to perform procedures to verify the email address supplied by the auditor's client for a confirmation request to be sent to that recipient's email address. If another electronic process is used, the auditor may decide to perform other procedures to determine that the request is directed to the intended recipient.

Reliability of confirmation responses

Question 13 - What changes should be made to the standard regarding the auditor's responsibility for evaluating the reliability of confirmation responses and alternative procedures?

AICPA Interpretation AU 9330 provides guidance that the Board should consider. It states that the auditor should consider the reliability of the information to be used as audit evidence in response to the risks that the confirmation might not be obtained from an authentic source, a respondent may not be knowledgeable about the information to be confirmed, and the integrity of the information might have been compromised. While AU 330.33 states that the auditor should consider the reliability of the confirmations, AU 230.12 also appropriately states that an audit conducted in accordance with generally accepted auditing standards rarely involves authentication of documentation, nor are auditors trained as or expected to be experts in such authentication.

The IAASB considered the AICPA's interpretation when recently finalizing ISA 505. ISA 505 paragraph A14 requires the auditor to obtain further evidence if the auditor identifies factors that give rise to doubts about the reliability of the response. Such factors include whether the response was received by the auditor indirectly or whether it appeared not to come from the originally intended confirming party. In these situations, the auditor is required to evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. Examples of additional procedures include calling the confirming party.

Question 14 - When an auditor uses direct on-line access to a third-party database or a third-party service provider, what procedures should the auditor be required to perform to assess that the information included in the third-party database or provided by the third-party service provider is reliable?

Similar to guidance in ISA 505 and the AICPA's proposed SAS on Audit Confirmations, the Board should include guidance relating to evaluating the reliability of confirmation responses received electronically (e.g., use of a third-party service provider or direct on-line access to a third-party database provided directly by that third party). Auditors' access to a secure website through the use of a username and password that is separate from the client's is an example of direct on-line access to a third-party database. The PCAOB should consider the following guidance included in the recently issued AICPA interpretation AU 9330:

Various means might be used to validate the source of the electronic information and the respondent's knowledge about the requested information. For example, the use of encryption, electronic digital signatures, and procedures to verify Web site authenticity may improve the security of the electronic confirmation process.

If a system or process that facilitates electronic confirmation between the auditor and the confirmation respondent is in place and the auditor plans to rely on such a system or process, an assurance trust services report (for example, Systrust), or another auditor's report on that process, may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls with respect to that process. Such a report would usually address the risks described above. If these risks are not adequately addressed in the report, the auditor may perform additional procedures to address those risks.

In some cases, the auditor may determine that it is appropriate to address the risks related to the reliability of the information received electronically by directly contacting the purported sender (for

example, by telephone) rather than by using alternative means to validate the source of the electronic information. For example, if significant information is provided via an e-mail response, the auditor may perform alternative procedures, including procedures to verify the authenticity of information such as the e-mail address of the purported sender. The auditor may also contact the purported sender directly by telephone to verify that the information received by the auditor was sent by the confirming party and also that what was received by the auditor corresponds to the information transmitted by the purported sender.

As indicated in our response to Question 2, we do not believe that access should constitute "confirmation" unless the third party has knowledge of the auditor's request and intended use and unless the auditor's access is provided by the third party. Where the auditor's client has provided the auditor "access" to a bank website to view client balances without the third party's knowledge, we do not believe this should constitute a confirmation and is not the same as the electronic confirmations noted above. Accessing a bank website to review client account balances using access provided by the client provides some amount of audit evidence but less than a confirmation would provide because this process does not involve a direct response from a third party to a request for information.

Question 15 - Are there factors other than those mentioned above that the auditor should consider when evaluating the reliability of electronic confirmations? If so, what are they?

No. We believe that the factors mentioned in the Board's Concept Release are appropriate and are consistent with ISA 505, the AICPA Interpretation AU 9330 and the AICPA's proposed SAS on Audit Confirmations.

Exceptions and non-responses

Question 16 - Should the standard require the auditor to perform alternative procedures for non-responses to positive confirmation requests? Why or why not?

Consistent with the extant AU 330, the AICPA's proposed SAS on Audit Confirmations and ISA 505, the Board should continue to include the requirement that the auditor should perform alternative procedures to non-responses, in most circumstances, to obtain relevant and reliable audit evidence. However, similar to the concept in paragraph 31 of AU 330 and consistent with the AICPA's proposed SAS on Audit Confirmations, the omission of alternative procedures may be acceptable when testing for overstatement of amounts when: (a) the non-responses in the aggregate, when projected as 100 percent misstatements to the population and added to the sum of all other unadjusted differences, would not affect the auditor's decision about whether the financial statements are materially misstated, and (b) the auditor has not identified unusual qualitative factors or systematic characteristics related to non-responses, such as that all non-responses pertain to year-end transactions. We believe this provision should be included in the Board's standard.

Question 17 - Should the standard require the auditor to investigate exceptions identified as a result of confirmation responses? Why or why not?

Yes. We believe that the standard should require the auditor to investigate exceptions to determine whether or not they are indicative of misstatements. This is also consistent with ISA 505.14 and the AICPA's proposed SAS on Audit Confirmations. Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts. Exceptions may also indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting. The standard should of course allow for the auditor to exercise appropriate professional judgment to determine whether some exceptions do not merit follow-up based upon factors such as materiality, nature and frequency of exceptions reported.

Question 18 - Should there be a requirement for the auditor to consider the possibility of previously unidentified risk of material misstatements including previously unidentified fraud risk factors when performing alternative procedures for non-responses and investigating exceptions on confirmation responses? Why or why not?

We believe that *guidance* (as opposed to a requirement) for auditors to consider, which is consistent with paragraph A19 of ISA 505 and the AICPA's proposed SAS on Audit Confirmations, is appropriate. These items note that non-responses to confirmation requests may indicate a previously unidentified risk of material misstatement and in such situations the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures. For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation. Similarly, exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements which may be indicative of fraud. Additionally, the Board's standard should reference AU 230, which instructs the auditor to exercise an appropriate level of professional skepticism in connection with the confirmation process. Such reference is included in AU 330.15.

Question 19 - Should the standard include alternative procedures the auditor should perform for non-responses when the auditor is confirming the significant terms of unusual or complex agreements or transactions? What should those alternative procedures include?

No. Auditors should exercise professional judgment when designing and performing alternative procedures for non-responses to confirmation requests of significant terms of unusual or complex agreements. Many factors are important to an auditor's decision about performing alternative procedures for non-responses including, for example, subsequent information and availability of other reliable audit evidence, among others. Given the nature of these considerations, the standard should allow for sufficient flexibility to address specific facts and circumstances.

Management requests not to confirm

Question 20 - Should the standard include procedures for the auditor to perform to address situations in which management requests the auditor not confirm certain accounts, transactions, agreements, or other items? If so, are the procedures listed above the appropriate procedures for the auditor to perform? What other procedures should the auditor perform to address situations in which management requests that the auditor not confirm accounts, transactions, agreements, or other items?

Yes. We believe that the standard should include procedures for the auditor to perform to address these situations. The procedures listed in the Concept Release are appropriate, and we note that they are consistent with ISA 505, paragraph 8. They are:

- *Inquire as to management's reasons for the request and seek audit evidence as to their validity and reasonableness;*
- *Evaluate the implications of management's request on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures; and*
- *Perform alternative procedures designed to obtain sufficient, appropriate audit evidence.*

Also, consistent with ISA 505, paragraph 9, if the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable or cannot be supported as valid based on available audit evidence, the auditor should communicate with those charged with governance and should consider whether management's request causes a limitation on the scope of the audit.

Disclaimers and restrictive language

Question 21 - Should the auditor be required to perform specific procedures to evaluate the effect of disclaimers and restrictive language on confirmation responses? If so, what specific procedures should an auditor be required to perform in evaluating such disclaimers or restrictive language?

We believe a requirement to evaluate the effect of disclaimer language on audit evidence is appropriate, but that the procedures to perform that evaluation should be left to the auditor's judgment based upon the facts and circumstances.

We believe that auditors should evaluate the potential impact of any language that may be included in confirmation responses, such as a disclaimer on the completeness, accuracy, or the team's ability to use/rely on the information contained in the confirmation, to determine the sufficiency of the responses in relation to the procedures being performed. Auditors should evaluate this for individual confirmation responses received, regardless of whether received electronically or in paper form. Additionally, recognition is important that even confirmations with disclaimer language provide some amount of audit evidence and in some instances, restrictions do not necessarily invalidate the reliability of the response as audit evidence to the extent that the restrictive language does not relate to the assertions being tested by the confirmation. For example, investment confirmations often include disclaimer language related to valuation, but the auditor may be using the confirmation to obtain relevant and reliable audit evidence about the existence assertion rather than the valuation assertion.

Cash confirmations frequently include the standard language agreed to between the American Bankers Association, AICPA, and the Bank Administration Institute, which notes, "The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below." This disclaimer would not impact our ability to rely on the cash confirmation; however, auditors should consider the impact when additional disclaimer type wording is included. Our viewpoint is consistent with paragraph A16 in the AICPA's proposed SAS on Audit Confirmations, which is as follows:

A response to a confirmation request may contain restrictive language regarding its use (for example, language disclaiming the responsibility of the accuracy or completeness of the information included in a response). Such restrictions do not necessarily invalidate the reliability of the response as audit evidence to the extent that the restrictive language does not relate to the assertions being tested by the confirmation. However, when the auditor has doubts as to the reliability of the response that occurs as a result of restrictive language, then in accordance with paragraph 10, the auditor is required to obtain further audit evidence to resolve those doubts. If the restrictive language precludes the auditor's use of the information provided therein as audit evidence, the auditor may conclude that it is necessary to treat such a response as a non-response and in accordance with paragraph 12, be required to perform alternative audit procedures to obtain relevant and reliable audit evidence.

Negative confirmations

Question 22 - Should auditors be allowed to use negative confirmations and, if so, in what circumstances?

Question 23 - Should the standard include the requirement that the auditor perform additional substantive procedures when using negative confirmations? Why or why not?

We do not believe that the Board should eliminate the auditor's ability to use negative confirmations as a source of audit evidence. Further, we believe that the circumstances included in ISA 505.15 are appropriate, which permits the use of negative confirmations as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level only when all of the following are present:

- a) *The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;*
- b) *The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;*
- c) *A very low exception rate is expected; and*
- d) *The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.*

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Vin Colman (973-236-5390), Brian Richson (973-236-5615) or Brian Croteau (973-236-4345) regarding our submission.

Sincerely,

PriceWaterhouseCoopers LLP