
From: Howard Levy [mailto:hlevy@pbt.com]
Sent: Wednesday, September 02, 2009 6:45 PM
To: Comments; mirandogould@pcaobus.org; David, Christopher
Subject: PCAOB Rulemaking Docket Matter No. 028

Ladies and Gentleman:

We are aware that the comment period has expired with respect to the Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations issued April 14, 2009, and regret that we were unable to comment within the allotted time. Nevertheless, we thought our comments recently presented to AICPA's Auditing Standards Board in response to its proposed SAS, *External Confirmations*, about what we regard as serious issues overlooked by that body might likely be of interest to those deliberating similar issues at the PCAOB. Accordingly, we are attaching that comment letter for your information and consideration before a proposed standard is exposed by the PCAOB for further comment.

Very truly yours,



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August 28, 2009

Sherry Hazel, Administrative Secretary, Audit and Attest Standards
American Institute of Certified Public Accountants
Transmitted by e-mail to: shazel@aicpa.org

Re: Proposed Statement on Auditing Standards; *External Confirmations*

Dear Ms. Hazel:

We are pleased to have the opportunity to respond to the request for comment on the exposure draft, "Proposed Statement on Auditing Standards, *External Confirmations*" (the ED or the proposed SAS).

Our comments are focused primarily on what is not in the ED rather than what is. Quite frankly, we find the so-called "issues for consideration" set forth in the accompanying Explanatory Memorandum to be rather trivial in the absolute and certainly in relation to what is omitted, which we believe to be the most significant issue relative to the use of confirmations to have faced our profession in the last 70 years. Consequently, we are not responding directly to the questions posed in the "Guide for Respondents" section of the ED.

As suggested in the Explanatory Memorandum, the proposed SAS "is not expected to change practice in any significant respect," nor does it add any substance to the current standard or related other guidance now available. Accordingly, we believe the ED, as written, does not justify the issuance of a new standard at this time.

On the other hand, the one significant emerging issue omitted from the ED does, in our opinion, warrants addressing at the standard-setting level. That is the use of third party service providers to process electronic confirmations.

Use of third party service providers to process electronic confirmations. The AICPA attempted to address questions from practitioners on such practices raised through its Audit and Attest Hotline in an informal and virtually irretrievable "Communication to AICPA Members Regarding Electronic Confirmations" posted on its website February 10, 2009. Besides being virtually irretrievable and anonymous as to its source and certainly not authoritative, this communication is extremely superficial; it fails to address the principal issues we have identified and with which we are concerned about in connection with this growing practice. Like AU9330.-.03 and .06* and PITF Practice Alert 03-1, to which it refers, the communication speaks primarily to the security of electronic data transmission and not to any of the critical issues listed below:

- An auditor's use of a third party service organization to control, mail, receive and process electronic confirmations, often including verification of names and addresses of intended recipients, is, in fact and substance, the delegation of audit procedures to a third party (like another auditor) that are to be performed on the auditors' behalf. However, there is no literature, authoritative or not, that makes an analogy to or discusses the applicability or inapplicability of AU 543. Nevertheless, auditors need to be told that they have a responsibility to assess the competence of assigned service organization personnel, the quality of supervision that they receive, and their independence from the audit client, and to make audit scope judgments based on such assessments.

* In fact, it is only AU 9930.07 that is somewhat relevant to the use of third party service organizations, but it falls far short of dealing with the principal issues identified herein. It does recommend consideration of a report based on an assurance service called SysTrust for assessing the reliability of a system for processing confirmations. Few auditors, however, are familiar with SysTrust or are able to distinguish a SysTrust or similar report or the related assurance service from those that are associated with a SAS 70 audit engagement discussed herein. Such a distinction is made in another virtually irretrievable (except by internet search engine) and anonymous AICPA online document available at <http://www.sas70.com/systrust.html>.

- Many auditors seem to be of the mistaken notion that a SAS 70 (AU 324) audit report from an auditor engaged by one of these service organization serves as useful evidence as to reliability of the service provided. These auditors do not seem to understand that SAS 70 is intended to deal solely with the objective of obtaining an understanding or establishing the reliability (depending on whether one gets a type 1 or type 2 report) of controls exercised by the third party service organization on a client's behalf in the execution or processing of the client's transactions. A SAS 70 report is not intended to afford a basis for relying on *audit work performed by others* in support of one's audit opinion, as AU 543 is.
- The February 10, 2009, communication from the AICPA indicates that it was precipitated by the position taken by a major bank (and probably others) that it will not process requests for confirmations unless made electronically through a specified third party service organization with which it has contracted. However, if a third party service organization is to be used to service the auditor, it should be the auditor's sole judgment that dictates what organization is to be selected and to what extent it is to be relied upon. This is an audit scope decision that should not be made by a bank. In our opinion, allowing a bank to make such a decision without allowing the auditor the opportunity to evaluate the service organizations qualification or make scope adjustments based on the results of such evaluation, may likely constitute a significant scope restriction that should be dealt with as such as guided by other applicable literature.

The February 10, 2009, communication refers to an auditing interpretation in process that will further address "evolving practices related to the use of electronic confirmations." It appears that this is not referring to the subject ED, but we believe that guidance as to all of these significant matters is urgently needed and, therefore, should be addressed now and at the standard level.

Other matters. We have two comments that do address matters that are contained in the ED. The first deals with negative confirmations. Paragraphs 15c and 15d repeats the requirements of the extant standard that to use negative confirmations, an auditor must expect a low rate of exceptions and (expressed in the negative) have no reason to believe that requests for such negative confirmation would be disregarded by recipients. We believe that, like paragraph 15c, paragraph 15d should be expressed as a positive expectation. We also believe that these are risk assessments that, to be consistent with the principles of the risk assessment standards, should be based on objective audit evidence that should be documented and that the final standard should say so. Moreover, we believe that these criteria, and the need for supporting evidence in their evaluation, should be discussed in greater detail in or near paragraph A26 in the final standard.

Our second comment relative to the content presented in the ED is a minor one. We believe that the term "external confirmation," used in the title of and throughout the proposed standard and the appendix is awkward and redundant, that is not consistent with the ASB's stated intent with regard to convergence, *i.e.*, "to use terms or phrases that are more common in the United States," and that it should be reduced, therefore, to merely "confirmation."

A courtesy copy of this letter is being sent directly to Charles Landes. Please also forward one to each of the other copy recipients named below. Questions about our comments may be addressed to the undersigned at hlevy@pbt.com or by telephone at 702/384-1120.

Very truly yours,



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cc: Charles E. Landes, Vice President, Professional Standards
Harold L. Monk, Chair, Auditing Standards Board
Megan F. Zeitsman, Chair, External Confirmations Task Force