



September 13, 2010

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

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the *Proposed Auditing Standard Related to Confirmation*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

While we support the PCAOB’s standard setting project to update its interim standards related to confirmation to more appropriately acknowledge environmental and other changes over the past 15 years, the Committee is concerned that the prescriptive requirements in this proposed standard may result in significant inefficiencies in the audit process without an offsetting increase in audit effectiveness and quality in many circumstances. We acknowledge that a confirmation response from a third-party generally may provide more reliable evidence than company-provided or prepared evidence; however, we also believe that confirmations are not always the most effective or efficient means to gather audit evidence that adequately mitigates the perceived risks. As such, we encourage the staff to reconsider what we perceive as a limitation on the use of auditor judgment in determining when confirmation requests should be made based on risk assessment. We note that such limitations do not appear to be part of the proposed Auditing Standards Board’s or International Auditing and Assurance Standards Board’s proposals on confirmation.

The Committee also notes that in addition to the potentially significant increase in the auditors’ use of confirmations, that a similar increase will be imposed on the third parties that are requested to confirm. We encourage the staff to consider whether this incremental effort required by third parties might serve to lessen the reliability of confirmation responses, increase the use of restrictive language and disclaimers and/or increase the level of non-responses which would require additional audit effort to address.

Following are the Committee’s responses to the specific questions included in the Appendix:

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

The Committee believes that the definitions are sufficiently clear and appropriate, but suggest some potential added clarity, including:



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A1, A2 and A3 – As some may interpret ‘other medium’ to include oral responses, consider using ‘other non-oral medium’ to avoid confusion with A3’s indication that oral responses do not meet the definition of a confirmation response.

Consider defining ‘intermediary’ in Appendix A rather than in a footnote to paragraph 21.

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

The Committee feels that the objective is sufficiently clear and appropriate.

3. *What other matters, if any, should the objective include?*

None.

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 Committee feels that additional clarity is required. The opening sentence of paragraph 8 states that the auditor ‘should’ perform confirmation procedures for receivables, which makes confirmations presumptively mandatory. It is not clear if the staff’s intention is that confirmations be sent in every receivable situation where confirmation responses might add audit evidence. Such a position would seem to unduly limit auditor judgment as to whether confirmation is the most effective means to gather audit evidence or whether more efficient means of gathering adequate audit evidence could be used based on the risk assessment of the relevant assertion. It would also be helpful to include some of the other examples of receivables the staff is considering as being included in ‘other transactions,’ such as the examples provided on page 12 of the Release. Furthermore, the Committee feels that the staff should reconsider including the current standard’s guidance on exceptions to performing confirmation of receivables. The Committee also notes that page 13 of the Release suggests that the auditor look for ways to make an otherwise ineffective confirmation process more effective but does not appear to allow auditor judgment in deciding whether non-confirmation procedures would provide assurance at least as adequate as a more effective confirmation process based on the risk assessment of the relevant assertion.

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 Committee feels that additional clarity is required. The opening sentence of paragraph 9 states that the auditor ‘should’ perform confirmation procedures for cash, which makes confirmations presumptively mandatory. It is not clear if the staff’s intention is that confirmations be sent for every cash balance where confirmation responses might add audit



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evidence. Such a position would seem to unduly limit auditor judgment as to whether confirmation is the most effective means to gather audit evidence or whether more efficient means of gathering adequate audit evidence could be used based on the risk assessment of the relevant assertion. Additionally, it is not clear whether, when sending confirmation to gather audit evidence of other relationships, that the cash balance itself is also required to be confirmed.

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 Committee feels that the proposed standard is not appropriate. The opening sentence of paragraph 10 states that the auditor 'should' perform confirmation procedures in response to significant risks, which makes confirmations presumptively mandatory. It is not clear if the staff's intention is that confirmations be sent in response to every significant risk for which a confirmation may provide adequate assurance. Such a position would seem to unduly limit auditor judgment as to whether confirmation is the most effective means to gather audit evidence or whether more efficient means of gathering adequate audit evidence could be used based on the risk assessment of the relevant assertion.

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?*

No. The Committee feels that the use of confirmations to respond to significant risks should be subject to auditor judgment. Guidance is welcome; however, prescriptive requirements may reduce audit efficiencies without an increase in audit quality and effectiveness.

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 feels that the proposed standard of other risks is sufficiently clear and appropriate, but notes that paragraph 11 essentially only elaborates on the auditors' responsibility to appropriately plan and perform the audit.

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?*

Unless otherwise noted in this response and the responses to questions 10 – 15, the Committee feels that the proposed standard for maintaining control over the confirmation process is sufficiently clear and appropriate. Paragraph 15 states that the auditor should direct the confirmation request to an appropriate confirming party within the third party organization and further suggests that the person's name provided by the company may not



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necessarily be an appropriate person. The Committee is unclear how the auditor would reasonably assess whether the company-provided name was or was not an appropriate person within the third party organization and requests that clarification of this matter be added to the proposed standard.

- 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 Committee feels that while the Release adequately clarifies the particular procedures that an internal auditor can and cannot perform on behalf of the auditor, the proposed standard itself does not. Because the current standard has significant references to the use of internal auditors in the confirmation process, lack of specific mention in the proposed standard itself may inappropriately result in auditors using internal audit less than allowed, thereby creating audit inefficiencies.

- 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 Committee is unclear how the auditor would reasonably be expected to know whether a local custom includes responding to confirmation requests without verifying the information.

- 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?*

Paragraph 17 appears to require the additional use of positive confirmations if all of the listed factors are not present; however, the Committee feels that even with some missing factors, negative confirmation does provide some audit evidence and the decision to supplement negative confirmations with positive confirmations should be based on the auditors judgment in regards to the incremental audit evidence necessary to support the relevant assertion. Similarly, even when all of the factors are present, the proposed standard requires additional substantive audit procedures to be performed to supplement negative confirmations. Again, the Committee believes that auditor judgment in regards to the need for additional procedures, including tests of controls, should be allowed. Furthermore, the Committee believes that the indirect receipt of a positive confirmation can provide some audit evidence (albeit less persuasive evidence) and therefore objects to the staff's statement in paragraph 17 to the contrary. Lastly, the Committee is unclear how the auditor would reasonably have adequate knowledge to reasonably believe that recipients of negative confirmation requests will give such requests consideration.



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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?*

In paragraph 19, it is not clear whether the staff's intention for the auditor to consider the nature and extent of the procedures to validate addresses includes consideration of validating all or just a sample of the addresses (as opposed to 'nature and extent' just referring to level of validation to perform). Additionally, it appears that the staff would not allow test of controls as an appropriate procedure to validate addresses on confirmation requests for transaction or accounts that involve significant risks or are material to the financial statements. Was this prohibition intentional? The Committee also would recommend that the staff consider examples of control tests and substantive procedures that the auditor might consider using for various types of confirmation requests (paper, electronic or other mediums).

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?*

No further comment.

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 staff might consider adding clarification as to whether the procedures described in paragraphs 23 through 25 relate to each individual confirmation request that the auditor might otherwise have made (e.g., several individual account balances of retail consumers) or to homogeneous groups (such as 'retail consumers'). Additionally, the Committee feels that the requirement to inform the audit committee of management's requests not to confirm (paragraph 24 c.) should be limited to those requests that related to significant risks and material items or limited to those requests with which the auditor does not agree.

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?*

The Committee feels that if the auditor assesses the risk of fraud to be low and if the auditor assumed the non-response was an error and the extrapolated amount would not be material, then no further procedures should be required.



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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?*

We feel that the requirement to send second request letters and consider sending third request letters will not provide the auditor sufficient time to complete the audit procedures before the applicable SEC filing deadlines, especially in the case of large, accelerated filers. As a result, we feel that the standard indirectly requires or encourages interim confirmation procedures instead of year-end testing. The Committee believes that year-end testing provides the highest level of assurance.

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 Committee does not feel there are additional circumstances that require a response to a positive confirmation.

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?*

We feel the requirement is clear.

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 requirements are clear and appropriate.

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

The Committee feels that the Board has inappropriately limited the electronic confirmation process. We feel that if the auditor and a member of management logs onto a website known to the auditor on the auditor's computer to obtain audit evidence from a third party website, this should be considered a confirmation or sufficient audit evidence that would meet the confirmation requirements. This process would provide a high level of assurance related to the information obtained.



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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 Board has incorrectly assumed that information obtained from third party services is accurate and of the highest assurance level. It has been certain members' experience that information obtained from third party services is incorrect periodically. Most cases, the third party service has corrected the confirmation when the information obtained from certain websites or statements has been provided to the service. Despite using a third party service, the auditor should consider the risk that the information provided is not accurate.

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

One obligation that exists between an intermediary and the auditor is a financial obligation. Most intermediaries will not process a confirmation until a fee is paid. The fees range but can start at around \$100 for the first account. Therefore, the cost of an intermediary can be high on smaller engagements.

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?*

Direct access has the same fraud risks as any other confirmation procedure. A direct portal could be manipulated the same as a client providing a fictitious website.

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

The Committee feels that direct access should be permitted in any circumstance in which the auditor feels it meets the appropriate audit evidence requirements.

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 Committee requests that the Board consider moving the section on disclaimers and restrictive language earlier in the standard. This section directly impacts the planning and execution of the confirmation process if the auditor has historically or expects restrictive language or disclaimers to be received by the confirming party. We would like the Board to expand the examples of restrictive language and disclaimers in addition to providing guidance on how to address this issue. The Committee asks for guidance on what type of language would be acceptable in the confirmation responses.



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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 in the proposed standard to evaluate the confirmation results are clear and appropriate.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Kevin V. Wydra, CPA

Chair, Audit and Assurance Services Committee

James Gerace, CPA

Vice Chair, Audit and Assurance Services Committee



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2010 – 2011

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public practice. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

James J. Gerace, CPA
William P. Graf, CPA
Howard L. Gold, CPA
Jon R. Hoffmeister, CPA
James R. Javorcic, CPA
Michael J. Pierce, CPA
Elizabeth J. Sloan, CPA
Kevin V. Wydra, CPA

BDO Seidman LLP
Deloitte & Touche LLP
LarsonAllen LLP
Clifton Gunderson LLP
Mayer Hoffman McCann, P.C.
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Medium: (more than 40 professionals)

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Andrea L. Krueger, CPA
Stephen R. Panfil, CPA
Marites U. Sy, CPA

Frost, Rittenberg & Rothblatt, P.C.
Corbett, Duncan & Hubly, P.C.
Bansley & Kiener LLP
E.C. Ortiz & Co, LLP

Small: (less than 40 professionals)

Scott P. Bailey, CPA
Julian G. Coleman, Jr., CPA
Sharon J. Gregor, CPA
Loren B. Kramer, CPA
Ludella Lewis
Richard D. Spiegel, CPA

Bronner Group LLC
Horwich Coleman Levin LLC
Selden Fox, Ltd.
Kramer Consulting Services, Inc.
Ludella Lewis & Company
Steinberg Advisors, Ltd.

Industry:

Janis D. Potter, CPA
Brian D. Wetters, CPA

MTL Insurance Co.
BP

Education:

James C. Westland, CPA

University of Illinois Chicago

Staff Representative:

Paul E. Pierson, CPA

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