



**Texas Society of
CPA Certified Public Accountants**

September 13, 2010

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

RE: PCAOB Rulemaking Docket Matter No. 028
Proposed Auditing Standards Related to Confirmation and Related Amendments to PCAOB Standards

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the TSCPA. The PSC has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee's membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA. We appreciate the opportunity to provide input into your deliberations on the above-referenced Exposure Draft (ED).

Our committee has met and discussed the guidance presented in the above-referenced ED. Prior to relating our responses to the 27 questions posed by the Board, we would like to provide an overall reaction to the ED. We believe much of the guidance presented in this ED is counterproductive to a true risk-based approach to the audit process. While confirmations can provide useful evidence in an audit engagement, they are often given more credibility than they deserve.

There are numerous variables that impact the authenticity and relevance of a confirmation received by an auditor. These variables include the knowledge and concern of the person completing the confirmation, the correct interpretation of the data being confirmed, the agenda of the entity providing the confirmation, etc. In most cases, the auditor is ill-prepared to overcome the risk associated with many of these variables with anything other than a healthy dose of professional judgment. Thus, we believe the auditor should be cautioned about these variables and encouraged to always exercise professional judgment when confirmations are a part of the evidence-gathering process. In our opinion, the ED did not include enough focus on the amount of professional judgment that goes into an evaluation of the confirmation process performed in connection with an audit engagement.

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?

The definitions are sufficiently clear and appropriate.

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

The objective of the ED is clear. However, we believe the objective should include the words "timely" and "accurate" in addition to "relevant" and "reliable" in describing audit evidence.

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

See answer to question 2.

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 description is clear.

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 requirement is clear and appears to be appropriate.

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?

We question the use of confirmations in addressing the risk of material misstatement. We find it hard to believe that an auditee or a third party involved with a material misstatement would admit to that involvement in a confirmation. It is our contention that perpetrators of wrong doing continue to deny the wrong doing until they are caught. We believe confirmations are an inappropriate means to uncover an intentional misstatement whether material or otherwise. If a significant risk exists in an audit client's financial information, then it is our contention that the professional judgment of an auditor should lead the auditor to perform audit procedures other than confirmation. Telling auditors that confirmations can adequately address significant risks of material misstatements is inappropriate guidance. As we stated in our opening remarks, the exercise of professional judgment is the best approach when significant risks and material misstatements are involved. Once an auditor concludes that an issue poses a significant risk that could result in a material misstatement, further investigation of the issue is warranted. Further, it is our belief that the procedures performed in conducting the further investigation would not include confirmations.

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?

As stated in our answer to question 6, we do not believe that confirmations serve a useful purpose in an auditor's investigation of significant risks. Perhaps a confirmation could lead the auditor to believe a significant risk exists due to the manner in which the confirmation was handled by the respondent or the response received. However, once the significant risk is identified, the confirmation process appears to be an inappropriate way to investigate the issue.

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 discussion of "other risks" is unclear. The concept of other risks is not defined in the ED and no information is provided by the Board regarding how such risks have been handled by the auditor in the past. Must these other risks be assumed to be material for consideration or is the auditor to pursue anything that he or she considers to be a risk? The guidance on this topic is much too vague to be effective. If the Board wants auditors to deal with "other risks" in a particular manner, they must clearly define what this term means and what end result the auditor is required to attain.

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 definitions are sufficiently clear and appropriate.

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 requirements in the proposed standard for maintaining control over the confirmation process and with respect to the use of internal auditors is sufficiently clear and appropriate.

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 factors for designing the confirmation requests 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 requirements are sufficiently clear and appropriate regarding the use of negative confirmations.

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?

We believe the Board should consider requiring that the auditor examine addresses on remittance advices or electronic evidence of payment to confirm the addresses and customer existence.

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?

See answer to No. 13 above.

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 guidance is 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-response to positive requests? If so, what are those circumstances?

We believe the auditor should have a responsibility to follow up on positive confirmation requests where no response was received. If the auditor considered it appropriate to send a positive confirmation, then he or she would need some corroborating evidence regarding that confirmation request.

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?

The additional procedures appear to be appropriate.

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?

We are unaware of any additional circumstances.

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 requirements?

The requirement is sufficiently clear and appropriate.

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 requirements appear to be sufficiently clear and appropriate.

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

We believe the question is **not** whether the proposed standard includes adequate requirements; rather, the question is whether the proposed standard includes **relevant** requirements. We feel a standard dealing with the confirmation process should adhere to the auditor's responsibility to obtain and evaluate evidence that meets both the sufficiency and appropriateness criteria. Specific procedures related to electronic media should not be promulgated. Rather, the guidance in this area should caution the auditor to apply professional judgment in evaluating the risks related to electronic media and its impact on the confirmation process. The primary concern surrounding the confirmation process is to control the outbound and inbound communication, with secondary concern about whether the confirmation is coming from an independent 3rd party. Most often, the "other party" to the confirmation process is considered independent of the attest client (e.g., banks) with little incentive to falsify the reply. Also, the attest entity has a very limited opportunity to intercept such confirmation requests. If, in the auditor's judgment, he or she is confident that the controls over the sending and receipt of the confirmation request are strong, then the need to directly contact the confirming party seems to be a waste of time and effort. If an auditor clearly understands the risks associated with electronic confirmations, then the exercise of professional judgment, along with a healthy dose of professional skepticism, would allow him or her to decide on the specific audit procedures necessary in each circumstance. Such guidance would be consistent with the risk-based approach to an audit engagement, and allow the auditor to achieve a high confidence level regarding the evidence gathered. Dictating a list of required procedures frequently results in a lock-step approach to an audit engagement, often causing the auditor to avoid focusing on the most relevant risks. We believe a competent auditor applying professional judgment is the one who should decide on the specific procedures that need be performed to authenticate evidential matter gathered in an audit engagement. We encourage the Board to spend more time identifying the potential risks that can impact the audit evidence gathered by an auditor, and allow the auditor to design the procedures to assess the significance of such risks in specific audit situations.

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 related to the use of an intermediary appear to be adequately addressed. We believe it is possible that obtaining confirmations from an intermediary would require consideration of its internal control environment and whether the controls are designed and operating effectively. We suggest in such situations that, when the risks are significant, the auditor consider obtaining a SAS 70 report on the intermediary's internal control environment. In situations where a SAS 70 report would be unavailable, we suggest the auditor be encouraged to develop and perform audit procedures which focus on the strength of the intermediary's control environment.

Question 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.

While we could not identify a question in the verbiage included in "Question 23," we strongly encourage the Board to gather such information and provide it as an appendix to the proposed standard.

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?

We are sure that the area of direct access has a multitude of risks that, as yet, have not been identified. We suggest the Board again focus on the responsibility of the auditor to exercise a large dose of professional skepticism and use his or her judgment in determining whether sufficient appropriate evidential matter has been gathered. If skepticism on the part of the auditor remains, then the auditor must design procedures that delve further into the situation and determine whether it has the potential to impact the auditor's report.

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?

We are of the opinion that direct access should not be limited to financial institutions, since other sources may be adequate, and the auditor should make that judgment. We do believe, however, that financial institutions are best equipped to satisfy the auditor's needs, since they are probably the only entities today that have sufficiently sophisticated systems to routinely allow for reliance on direct access.

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

The guidance in this area is quite subjective. The Board has listed a number of boiler-plate type disclaimers that reflect very little in terms of the quality of the confirmation or intent of the respondent. When a disclaimer states: "Information is not guaranteed to be accurate nor current and might be a matter of opinion," how should the auditor interpret this? If any one of the three deficiencies identified in the disclaimer is present, the confirmation is useless. Thus, how could an auditor place reliance on any confirmation that includes a disclaimer? Questions such as the following would come to mind when a disclaimer is included in a confirmation response. "Why was the disclaimer included?" "Is the disclaimer merely a legal precaution suggested by legal counsel, or is it due to a legitimate uncertainty about the data?" "Do they have significant reservations about the response?" "Is the disclaimer a way of masking a problem the respondent wishes to keep confidential?" When such uncertainties exist, it seems to us that the confirmation would be unreliable, and the auditor should be encouraged to expand audit procedures to determine whether the risk of the disclaimed confirmation could be overcome. If the risk remains and the issue is significant to the attestation report, then a modified report may be warranted. Also, we believe an auditor should continue to be skeptical of a confirmation with a disclaimer, even if the confirming party orally indicated that the disclaimer was merely a legal requirement and the information was reliable.

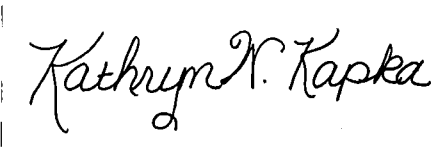
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Question 27: Are the requirements in the proposed standard related to evaluating the results of confirmation procedures sufficiently clear and appropriate? If not what changes should the Board make?

The requirements appear to be clear and appropriate.

We appreciate the opportunity to provide input to the Board's standard-setting process.

Sincerely,

A handwritten signature in cursive script that reads "Kathryn W. Kapka". The signature is written in black ink and is positioned to the left of the typed name.

Kathryn W. Kapka, MBA, CPA, CIA, CGAP
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants