

September 13, 2010

Ms. Jennifer Rand, Deputy Chief Auditor
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

By e-mail: comments@pcaobus.org

**Re: PCAOB Release No. 2010-003 – Proposed Auditing Standard, *Confirmation*,
and Related Amendments to PCAOB Standards
(PCAOB Rulemaking Docket Matter No. 028)**

Dear Ms. Rand:

The New York State Society of Certified Public Accountants, representing more than 27,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA's Auditing Standards Committee deliberated the release and prepared the attached comments. If you would like additional discussion with us, please contact Jan C. Heringer, Chair of the Auditing Standards Committee at (212) 885-8133, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Margaret A. Wood
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PCAOB RELEASE NO. 2010-003 – PROPOSED AUDITING STANDARD,
CONFIRMATION, AND RELATED AMENDMENTS TO PCAOB STANDARDS**

(PCAOB RULEMAKING DOCKET MATTER NO. 028)

September 13, 2010

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Auditing Standards Committee

Comments on

**PCAOB Release No. 2010-003 – Proposed Auditing Standard, *Confirmation*, and
Related Amendments to PCAOB Standards**

(PCAOB Rulemaking Docket Matter No. 028)

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments in response to the Public Company Accounting Oversight Board’s (PCAOB or the Board) request for comments on the *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards* (the Proposal or the Proposed Standard).

We support the PCAOB’s standard-setting project to amend the interim standard, AU Section 330, *The Confirmation Process*, because advances in technology from the time the confirmation standard was initially written have changed the way in which confirmation procedures are performed; however, we are concerned that the Proposal does not seem to incorporate the foundational concepts included within the risk assessment standards. As such we are concerned that such a prescriptive approach may stifle the auditor’s risk assessment procedures and result in a “check the box” approach rather than the approach we believe is set out in the recently issued risk assessment standards.

Our comments to the questions posed in the release are presented below.

A. Definitions

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

Yes, we believe the definitions included within Appendix A of the proposed standard are generally clear and appropriate.

B. Objective

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

No. We note that this objective is similar to the objective of the corresponding confirmation standard of the International Auditing and Assurance Standards Board (IAASB) and the proposed standard of the Auditing Standards Board (ASB); however, the structure of this proposed standard differs from those standards in that the Board's standard addresses only the design and performance of confirmations whereas the ASB's and IAASB's approach addresses the auditor's response to assessed risks of material misstatement in addition to the design and performance of confirmations when the auditor has determined that confirmation procedures will likely provide relevant audit evidence. For this reason, we do not believe the objective is appropriate and recommend revising as follows:

The objective of the auditor is to—

1. Consider whether to obtain sufficient appropriate audit evidence through the use of confirmation procedures; and
2. Design and perform confirmation procedures to obtain relevant audit evidence.

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

(See our response to question 2 above.)

C. Confirmation of Specific Accounts

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?

We do not believe the description of “receivables that arise from credit sales, loans, or other transactions” is sufficiently clear as it relates to the term “other transactions.” We believe that the proposed standard should clarify what is meant by the term “other transactions,” as it is not clear what “other transactions” are incorporated within that term. Such additional guidance is necessary to ensure auditors are able to comply with the requirement to perform confirmation procedures for these “other transactions.”

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?

While we agree that, ordinarily, confirmation of cash and other relationships with financial institutions should be performed to address the assessed risks of material misstatement, we do not believe that it is appropriate to prescribe the confirmation of cash and other relationships in all instances. Generally, we do not believe that the risks associated with cash are significant, especially in situations in which internal controls are effective. The appropriate response to the assessed risk should be based on the auditor's professional judgment and that the decision about whether to use confirmation procedures should be based on the most effective and efficient means of obtaining

sufficient appropriate audit evidence. Many times confirmation procedures will be the appropriate method, but there are other circumstances in which confirmation procedures may not be the most appropriate means of addressing the assessed risk.

For example, there may be circumstances in which an entity has numerous cash accounts at multiple locations, each with various financial institutions, but the balances are small and the controls over the cash accounts are effective enough that to require confirmation of all cash accounts would not be the most effective or efficient approach. As such, we believe that a risk-based approach would address the risk of material misstatement more appropriately.

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?

No, it does not. We believe that the requirement is unclear, and recommend that the Board clarify the meaning of it. For example, if an auditor is able to perform confirmation procedures, is he or she required to do so, regardless of whether such an approach is the most effective and efficient approach? Further, we believe that a risk-based approach that focuses the auditor on the assessed risks of material misstatement and provides for the use of professional judgment in deciding the most appropriate response to those assessed risks, as set out in the foundational suite of risk assessment standards, provides the best approach.

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?

We do not believe the proposed standard should include any additional requirements with respect to sending confirmation requests. As stated above, we believe a risk-based approach, based on the principles set out in the risk assessment standards, provides for the most effective and efficient audit.

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

The description in paragraph 11 of “other risks” does not seem to provide any incremental guidance. Further, the identification of risks and the determination of the appropriate response to such risks is already part of the auditor’s responsibility as set out in the risk standards.

D. Confirmation Procedures

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 for maintaining control could be enhanced. For example, paragraph 16 requires the auditor to consider “local customs that might influence confirmation requests without verifying the information.” It is not clear how the auditor might obtain this information and whether such “local customs” are meant to relate to a country, a specific jurisdiction of a country, or other such geographic location. We suggest clarifying this guidance and providing examples of how to assess such a condition.

We note that the proposed ASB standard has addressed this risk in another way. While acknowledging that a risk exists that a confirming party may reply to the confirmation request without verifying that the information is correct, the clarified ASB standard suggests that the auditor may reduce this risk by using positive confirmation requests that ask the confirming party to fill in the amount or furnish other information. We recommend that the Board consider including such guidance to address the risk that the confirming party will not verify the information being confirmed.

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 Proposed Standard does not permit the auditor to use internal auditors or others within the company to send confirmation requests, receive confirmation responses, or evaluate the evidence obtained from performing confirmation procedures. We do not believe that such a complete restriction on the use of internal auditors, without regard to (1) risk, (2) the competence and objectivity of internal auditors, and (3) the degree of supervision provided by the auditor, is appropriate. In areas of low risk for which confirmations may be an effective and efficient source of evidence, we believe that the use of internal auditors should be permitted, subject to an assessment of their competence and objectivity. While we agree that the responsibility to maintain control over the confirmation process is solely that of the external auditor, we believe that the use of internal auditors, properly supervised, should be permitted in those areas considered to be low risk.

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

(See our response to question 9 above.) Additionally, we are unclear as to whether each of the factors listed in paragraph 16 are “required” to be considered, and would require the auditor to document his or her consideration of each factor. We do not believe that such a documentation requirement would be appropriate, and suggest moving the second sentence to a separate paragraph so that it is clear that the list is intended to reflect the factors that may be considered when designing confirmation requests.

Further, we are concerned that although the Proposed Standard has provided considerable guidance regarding the design of confirmation requests to increase the reliability of the confirmation process, limitations will continue to exist. For example, respondents may not respond, be unwilling to respond, cannot respond because their systems may not be able to verify what is requested, or do not understand what is being requested and respond incorrectly. We do not believe that these concerns can be adequately resolved solely by improvements in design of the confirmation.

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?

We suggest that the Board clarify certain of the factors the auditor should consider in determining whether to use negative confirmation requests as the only form of confirmation requests to address the risk of material misstatement at the assertion level. One factor the proposed standard requires the auditor to consider is whether the auditor reasonably expects a low exception rate; however, the proposed standard does not provide any guidance about how to support such an expectation. We recommend including additional guidance regarding this evaluation.

Further, the fourth bullet point states that the auditor should reasonably believe that recipients of negative confirmation requests will give such requests consideration. We note that extant guidance AU Section 330.20 provides similar guidance; however, that standard states that the “auditor has reason to believe that the recipients of the request are likely to give them consideration.” We suggest that the PCAOB clarify whether the revised language in the proposed standard is intended to result in a different auditor consideration than under the extant guidance, and if not, we recommend retaining the extant guidance.

Additionally, we note the Proposal lacks any guidance on the extent of procedures when negative confirmations are used. We believe that guidance regarding the determination of sample sizes in this regard is needed to promote consistent implementation.

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 agree that it is important to design confirmation requests in such a way as to enhance the reliability of the audit evidence obtained from such responses and that determining the validity of the addresses on confirmation requests is necessary to ensure the validity of confirmation responses. We note that this requirement is consistent with the IAASB standard, ISA 505, *External Confirmations*, and the ASB proposed clarified standard on confirmations.

However, we recommend expanding the guidance in the proposed standard to include a discussion about how the risks associated with a particular type of confirmation or address may impact the auditor's procedures. For example, electronic confirmations may necessitate different or more extensive procedures to determine a request has been directed appropriately than a written confirmation request to an entity that is well known to the entity and the auditor.

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?

Yes, the procedures the auditor should perform when determining that a confirmation request does not include a valid address are sufficiently clear and appropriate.

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?

Yes, the procedures the auditor should perform when management requests the auditor not to confirm certain accounts, balances, or other items are sufficiently clear and appropriate.

E. Evaluation

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?

We agree that in the case of each non-response, the auditor should perform alternative audit procedures to obtain relevant and reliable audit evidence; however, we do not believe that it is appropriate in all cases to send second and third requests (especially when the auditor may have sent confirmation requests solely in response to the requirement set out in the proposed standard) rather than based on the assessed risk of

material misstatement or whether sending confirmation requests was the most effective and efficient procedure to obtain sufficient appropriate audit evidence.

In addition, the note to paragraph 28, describes the alternative procedures the auditor should perform in relation to the completeness assertion for accounts payable, however, we believe this example is inappropriate, because confirmation procedures primarily address the existence assertion rather than completeness. For this reason, we recommend deleting this example.

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?

Yes, the additional procedures seem appropriate.

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?

No, we are not aware of any additional circumstances.

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?

No, we do not believe the requirement in the proposed standard to investigate all exceptions is clear, and suggest clarifying the guidance. We agree that the auditor should evaluate the results of confirmation procedures to determine whether exceptions represent misstatements or potential misstatements, but we believe that the decision about whether an exception represents a risk of material misstatement which requires the performance of additional procedures should be left to the auditor's judgment. For example, some exceptions do not represent misstatements, but instead represent timing differences, or measurement or clerical errors in external confirmation procedures, and, for this reason, we recommend adding this clarifying language to the Proposed Standard.

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?

For the most part, we believe the requirements related to addressing the reliability of confirmation responses are sufficiently clear and appropriate; however, we believe that signatures from the confirming party, other than for direct access, for which other controls ensure the validity of the responding party, should be required.

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

Yes, we believe the proposed standard provides adequate requirements regarding electronic confirmation procedures.

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?

We note that paragraph 35 of the Proposed Standard provides guidance to the auditor when an intermediary is used to facilitate the confirmation process. We believe that additional guidance is necessary to ensure that the system or process that facilitates the electronic confirmation process between the auditor and the respondent is in place and operating effectively. For this reason, we recommend adding guidance that directs the auditor to obtain an assurance trust services report or other assurance report on that process to assist the auditor in assessing the design and the operating effectiveness of the controls with respect to that process. If such a report is not available, additional procedures should be described which could assist the auditor in addressing these risks.

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.

We have no comments relating to this 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?

There are no risks related to the auditor's use of direct access that the proposed standard has not adequately addressed of which we are aware.

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 have no comments relating to this 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?

We believe additional clarification is required with respect to disclaimers and restrictive language that is used in confirmation responses. Confirmation responses with such language pose difficulties to auditors in assessing the appropriateness and reliability of such responses, and they have become increasingly prevalent. We recognize that a response that contains restrictions may not invalidate the reliability of the audit evidence derived from the confirmation response; however, we believe additional guidance would assist auditors in evaluating such matters.

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 are sufficiently clear and appropriate.