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

**PCAOB Rulemaking Docket Matter No. 028**  
***Proposed Auditing Standard Related to Confirmation, and Related Amendments to PCAOB Standards***

Dear Mr. Secretary:

KPMG appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2010-003, "*Proposed Auditing Standard Related to Confirmation, and Related Amendments to PCAOB Standards*" (the "Proposal"). Appendix 1 of the Proposal contains the Proposed Auditing Standard and is referred to herein as "the proposed auditing standard."

We support the Board's objective of updating its interim standards related to confirmation. AU section 330, *The Confirmation Process* ("AU 330") was written nearly 20 years ago and changes in business and the business environment since then have affected the way in which confirmation can be performed and in its effectiveness. Advances in information technology and the widespread use of the Internet, for example, have had a significant impact on the confirmation process and, if properly used, have the potential of further increasing the efficiency and effectiveness of the confirmation process. At the same time, however, response rates to confirmation requests are lower than we desire, and respondents to confirmation requests increasingly are including disclaimers or other limiting language in their responses.

We support the Board's consideration of the work of the International Auditing and Assurance Standards Board (IAASB) and Auditing Standards Board (ASB) in the development of the Proposal. We also recognize that the Board may decide that different procedures are appropriate in the U.S. public company audit environment. In this case, the Board has included more prescriptive requirements in the proposed auditing standard than are included in the respective standards of the IAASB and ASB. The Board has not provided much explanation, however, as to why these additional prescriptive requirements are necessary or how they would result in a more effective audit. We believe the Board should more fully explain the rationale as to why such additional prescriptive procedures are necessary. As described elsewhere in this letter, however, we believe that certain of these additional requirements are not necessary.



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We also support the PCAOB's efforts to provide a comparison of its standards to those of the IAASB and the ASB. Such comparisons facilitate the identification of differences between the various standards and provide additional perspective on the PCAOB's intended changes to practice. In several sections of the analysis in which proposed PCAOB requirements are compared to the analogous IAASB and ASB standards, however, the comparison indicates only that the IAASB and ASB standards "do not include similar requirements" to those being proposed by the Board. Although the PCAOB's proposed requirements are not included as requirements in the respective IAASB and ASB standards, the other standard setters require the auditor to use judgment in determining the appropriate audit procedures to be performed and supplement the requirement to use judgment with additional application guidance similar in content to the PCAOB's requirements. To avoid for a potentially misleading comparison, we recommend the PCAOB acknowledge the additional application guidance and further clarify why establishing requirements where other standard setters have required auditors to use judgment in determining the appropriate audit procedures (supplemented by application guidance) will result in a more effective audit, rather than simply indicating in the comparison provided that the proposed requirements are not required by the other standard setters.

While we support the PCAOB's standard setting project to revise AU section 330, *The Confirmation Process*, given the significance of our comments, we believe that substantial changes should be made to the proposed auditing standard prior to its issuance. Specifically, we believe that the proposed auditing standard is too prescriptive and does not fully allow the auditor to respond to assessed risk in a manner consistent with the PCAOB's recently issued risk standards. Furthermore, we believe that it is doubtful that the proposed auditing standard, or any proposal related to confirmations, will significantly improve audit quality until marketplace issues are addressed that result in increasing the response rate to confirmation requests and decreasing the use of disclaimers and restrictive language by confirmation responders.

This letter is organized by first providing general observations and comments on the Proposal as a whole, followed by comments on specific issues in an Attachment. Our general observations discussed below are organized as follows:

- Overarching Concerns
- Principles-based Standards
- Risk Assessment
- Use of Internal Audit in the Confirmation Process
- Drafting Conventions

### **Overarching Concerns**

We are concerned that the proposed auditing standard is overly prescriptive and does not adequately recognize that confirmations may not always be the most cost-effective means of



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gathering sufficient appropriate audit evidence. The proposed auditing standard inappropriately limits the auditor's ability to use judgment in determining the audit procedures that are necessary based on the assessed level of risk at the assertion level and is not consistent, we believe, with the PCAOB's recently adopted risk assessment standards. As a consequence, the proposed auditing standard may result in a significant increase in the use of confirmation requests in areas such as consumer receivables (e.g., health care receivables, credit card receivables and telecommunications receivables) and receivables resulting from an ongoing estimation process (e.g. certain reinsurance recoveries) and, as a result, require additional audit procedures regarding the design and evaluation of confirmations, without a corresponding increase in audit quality or effectiveness. As discussed in Principles-based Standards below, we are concerned that the Proposal does not adequately recognize that confirmations may not always be the most effective means of gathering evidence and, as a result, limits the auditor's ability to use judgment in determining the audit procedures that are appropriate based on the assessed level of risk at the assertion level (see Risk Assessment below).

We believe the proposed auditing standard also would require an increase in the effort by responding parties. We are concerned that the expanded requirements imposed solely on auditors without consideration of the increased obligation being requested of third parties from whom confirmations are sought, present operational challenges that will either increase the auditor's effort to obtain responses or reduce the response rates, or both. We recommend that the PCAOB consider the practical implications of the proposed standard and liaise with other organizations, such as the American Bankers Association and Financial Executives International, to understand the impact of the proposed auditing standard on these organizations' members. The Board should discuss with these organizations whether their members will be willing and able to respond timely to an increase in confirmation requests. Further, and especially if the Board proceeds to increase audit requirements in this area, the Board should undertake to work with these and other organizations that represent entities that routinely receive requests for confirmation to identify actionable ways to increase response rates.

We share the PCAOB's concern regarding the growing prevalence of restrictive language in confirmation responses. However, the fact that some respondents use disclaimers and other restrictive language highlights a fundamental flaw of imposing unilateral requirements on auditors without also addressing the fact that respondents have a variety of reasons for including such language – and can do so regardless of the impact on the audit. This issue should be addressed at its root cause; an approach that only places additional requirements on auditors when confirmations are received with disclaimers and restrictive language would not be in the public interest. As we indicated in our letter dated May 29, 2009, in response to the Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations, we believe the Board should play an active role in trying to increase both the response rate and quality of the responses to auditor requests for confirmation. We also believe it would be helpful if the PCAOB would provide more clarity as to what type of restrictive language is acceptable.



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## **Principles-based Standards**

As mentioned above, while we support the Board's efforts to improve the existing confirmation standard, we are concerned that the proposed auditing standard is overly prescriptive. We believe a high quality audit does not result from the performance of a predefined set of steps that are applied to each and every engagement, but instead results from a customized set of procedures designed to be responsive to the risks identified. Accordingly, standards should not represent a checklist of requirements, but a collection of guiding principles for the auditor to apply to the particular facts and circumstances of a given audit using professional judgment.

We have concerns related to the aspects of the proposed auditing standard related to the presumption that the auditor will request confirmation of accounts receivable. While the PCAOB's interim standards (paragraph 34 of AU 330) include a presumption that the auditor will request the confirmation of accounts receivable during an audit, the extant standard permits the auditor to exercise professional judgment in determining whether the use of confirmations would be effective. In situations, for example, where an auditor determines that confirmations would not be effective or the auditor's combined level of control and inherent risk are at a sufficiently low level (combined with other evidence obtained as part of the audit), existing PCAOB standards do not require the auditor to request confirmations. We believe that the proposed auditing standard, which eliminates these exceptions, combined with the Board's rationale contained in the accompanying release, will significantly reduce the auditor's ability to use his or her judgment in determining whether confirmations are an appropriate procedure based on the assessed level of risk.

In addition, because the proposed auditing standard significantly broadens the requirement of when confirmations are to be used (e.g., paragraph 10 includes a presumptive requirement that the auditor will perform confirmation procedures in response to significant risks that relate to the assertions that can be adequately addressed by confirmation procedures and paragraph 11 includes a statement that "the performance of confirmation procedures still might be an appropriate response to obtain audit evidence" for other risks) we believe this will, at a minimum, result in an increased documentation burden in situations where an auditor determines that confirmation procedures would not be appropriate. This could also have the unintended result of shifting the auditor's focus from obtaining sufficient appropriate audit evidence to support his or her conclusions to justifying a decision not to send confirmations and/or whether the confirmations were used in an appropriate manner. Ultimately, this may result in an increase in the performance of confirmation procedures in order to satisfy the "checklist" requirement, regardless of whether the audit procedure provides the most effective or efficient means of obtaining sufficiently persuasive audit evidence.

Further, we note the accompanying release currently states, "if auditors consider confirmation procedures to be ineffective, auditors should determine why they are ineffective and look for



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ways to improve the effectiveness of confirmation procedures.” However, the Board fails to acknowledge that in certain situations the auditor cannot improve the effectiveness of confirmation procedures. For example, the health care industry traditionally experiences low response rates to confirmation requests. Under the extant standard, the auditor would have the discretion to determine whether alternate procedures would be a more effective and efficient means for obtaining audit evidence. However, the proposed standard would significantly limit the auditor’s ability to use judgment in determining the appropriate audit procedures for obtaining sufficient audit evidence. As a result, we believe that auditors may expend significant efforts performing confirmation procedures in situations where confirmations are neither the most effective nor efficient means of gathering evidence.

Any of these outcomes would not enhance the persuasiveness of audit evidence obtained by the auditor. Therefore, we encourage the PCAOB to reconsider these provisions and allow the auditor to use his or her judgment in determining whether confirmations procedures are appropriate in the circumstances to address the identified risks.

### **Risk Assessment**

In an audit performed in accordance with the PCAOB’s recently issued risk standards, risk assessment and response underlies the entire audit process. We are concerned, however, that the proposed auditing standard removes the auditor’s judgment to assess and respond to risk and instead includes prescriptive requirements for the confirmation process, regardless of the assessed level of risk. For example:

- Paragraph 10 states that “[t]he auditor should perform confirmation procedures in response to significant risks that relate to the relevant assertions that can be adequately addressed by confirmation procedures.” This indicates that the Board intends that the auditor perform confirmation procedures in response to significant risks in every circumstance in which an auditor *can* perform them. We do not agree with this position. Rather, we believe the Board should allow the auditor to determine the most effective and efficient audit response that would provide sufficiently persuasive audit evidence to address the identified risk.
- Paragraph 15 requires the auditor to select the confirming party, even if the company provides the auditor with the name, regardless of the assessed level of risk. We recommend that the Board allow the auditor to use judgment, based on risk, in determining the nature and extent of verification procedures necessary to identify the confirming party. For example, sending a deposit account confirmation to a bank generally would be considered lower risk than confirming for the possibility of side agreements on revenue contracts. Given the assessed level of risk, it may be appropriate for the auditor to use the names and addresses provided by the bank when sending deposit account confirmations but an auditor may want to perform additional procedures



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to select and verify the confirming party relative to addressing side agreement risk, given the higher risk.

As noted above, the proposed auditing standard appears to disregard the auditor's risk assessment process and instead appears to require that the existence of bank deposits, receivables, accounts payable, debt, etc., always should be assessed as higher risk, and prescribes confirmation procedures as the appropriate audit response to address this risk. Although auditors routinely incorporate confirmation procedures when auditing these balances, prescribing that auditors do so negates the risk assessment process and the ability for an auditor to determine the appropriate audit response.

Given these concerns, we recommend the Board align the procedures in the proposed auditing standard to the assessed level of risk in a manner consistent with the Board's recently issued risk standards so the auditor may apply his or her time and attention to the specific area that would have the greatest effect on improving audit quality.

#### **Use of Internal Audit in the Confirmation Process**

In the proposed auditing standard and accompanying release, the PCAOB notes that the auditor cannot use internal auditors or others within the company to send confirmation requests, receive confirmation responses or evaluate the evidence obtained from performing confirmation procedures. Further, the proposed auditing standard significantly reduces the auditor's ability to use judgment in determining the extent to which the work of others can be used in confirmation procedures. The Board's rationale for restricting the role of the internal audit function as well as the auditor's ability to use judgment in the confirmation process is unclear. In areas of lower risk for which confirmations may be an effective and efficient source of evidence, we believe an appropriately competent and objective internal audit department could assist in the confirmation process by, for example, tracing confirmations back to source documentation. We believe such assistance, appropriately supervised, increases audit quality by allowing the auditor to focus his or her efforts on the areas of higher risk, which is consistent with extant PCAOB guidance (e.g., PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*), and the risk standards recently adopted by the Board. While we believe the Proposal should emphasize the auditor's responsibility to maintain control over the confirmation process as well as to evaluate the responses, we believe that the auditor should be able to use his or her assessment of risk and the framework provided in AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, in determining the appropriate manner to use the work of the internal audit function.



## Drafting Conventions

We appreciate the Board's inclusion of a number of examples to illustrate requirements in the proposed auditing standard. However, we note the examples included in the proposed auditing standard state that an auditor "should" perform certain auditing procedures. Consistent with the Board's drafting conventions, the word "should" is used to identify procedures that the auditor is presumptively required to perform. We do not believe examples should be determinative of required audit procedures. We urge the Board to replace the term "should" with "may" in each of the illustrative examples. To the extent the PCAOB intends to communicate requirements in certain examples, we encourage the Board to develop the appropriate principle or provide guidance outside of an example, as it may be difficult for auditors to apply such guidance broadly when it is contained only within a narrow example. The following instances illustrate this observation:

- Paragraph 14 states, "when an auditor performs confirmation procedures for receivables at an interim date, the auditor *should* perform sales cutoff testing at the balance sheet date to reduce audit risk to an appropriately low level for the existence and completeness assertions." We recommend the Board change the "should" to "may" as this procedure is only one example of an audit procedure the auditor may perform to obtain relevant and reliable audit evidence. Rarely is there only one audit procedure that would be acceptable to reduce the risk of misstatement to an appropriately low level. In addition, the Board should consider whether this is the most appropriate example given (1) it does not relate specifically to the use of confirmations, but rather provides guidance regarding an auditor's consideration of obtaining evidence at an interim date (AU Section 313, *Substantive Tests Prior to the Balance Sheet Date*), and (2) it could be misleading as there may be other procedures, in addition to sales cutoff procedures, that would be necessary in order to fully address the completeness and existence assertions, depending on the specific facts and circumstances.
- The examples included in paragraph 28 (Note) are intended to illustrate audit procedures that could be performed in order to satisfy an auditor's responsibilities related to performance of alternative procedures for non-responses. However, the examples are narrowly focused and include a number of "should" requirements specific to confirmation of terms of transactions or agreements. We recommend the Board replace the term "should" with "may." Further, to supplement these examples, the Board should consider including general principles or considerations for alternative procedures, which would enhance an auditor's understanding of the Board's view of the nature and extent of alternative procedures to be performed.

In addition, we are concerned with the inconsistent requirements in the accompanying release versus the proposed auditing standard and vice versa. For example, page 33 of the accompanying



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release requires an auditor to consider whether an exception to a confirmation indicated a previously unidentified risk of material misstatement due to error or fraud or deficiencies in the company's internal control over financial reporting. The notion of the impact of confirmation procedures on the auditor's consideration of the company's internal control over financial reporting is not included within the proposed auditing standard, thus we recommend such guidance specifically be incorporated into paragraph 30 as opposed to only in the accompanying release. In order to avoid possible confusion, we recommend the Board reconcile these inconsistencies before finalizing the standard.

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Set forth in the Attachment to this letter are comments on specific matters included in the proposed auditing standard and accompanying release.

We appreciate the opportunity to comment on the Proposal. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, [sranzilla@kpmg.com](mailto:sranzilla@kpmg.com) or Glen L. Davison, (212) 909-5839, [gdavison@kpmg.com](mailto:gdavison@kpmg.com).

Very truly yours,

*KPMG LLP*

cc: PCAOB Members and SEC Chief Accountant

**PCAOB**

Daniel L. Goelzer, Acting Chairman  
Willis D. Gradison, Member  
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Martin Baumann, Chief Auditor and Director of Professional Standards

**SEC**

James Kroeker, Chief Accountant



**ATTACHMENT**

**(References to specific paragraph numbers refer to Appendix 1 of the Proposal)**

#	COMMENT
<b><i>Relationship of Confirmation to the Auditor's Assessment of Audit Risk</i></b>	
1	Paragraph 4 reiterates a portion of the guidance provided in the Board's recently adopted Auditing Standard No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i> and Auditing Standard No. 15, <i>Audit Evidence</i> . We recommend that the proposed auditing standard instead refer back to these standards to 1) reduce redundancy and 2) encourage auditors to consider these standards in their entirety when considering the relationship of confirmations to the auditor's assessment of audit risk.
<b><i>Cash with Financial Institutions</i></b>	
2	Paragraph 9 states that "[the] auditor should perform confirmation procedures for cash with financial institutions" and other relationships, such as lines of credit, as well as whether any additional information about other deposit or loan accounts that have come to the attention of the financial institution. We recommend the Board expand the description of cash to include both cash and cash equivalents.
<b><i>Other Risks</i></b>	
3	Paragraph 11 states that the performance of confirmation procedures might be an appropriate response to obtain audit evidence for certain items even when a significant risk does not exist. This does not appear to be an incremental requirement and therefore we recommend the Board delete the paragraph. Further, determination of the appropriate audit procedures to be performed to address a specific assertion is already part of the auditor's responsibility when planning and performing the audit.
<b><i>Designing the Confirmation Requests</i></b>	
4	Paragraphs 16 and 31 require the auditor to consider the "[l]ocal customs that might influence confirmation responses, such as a local custom of responding to confirmation requests without verifying the information" when designing and assessing the reliability of confirmations. We do not believe that an auditor would reasonably be expected to have this knowledge. In addition, if the PCAOB is aware of such situations, we encourage the PCAOB to make that information known to all registered accountants in order to enhance the effectiveness of the confirmation procedures.
<b><i>Determining the Type of Confirmation Requests to Send</i></b>	
5	The second sentence of paragraph 17 states that "a positive confirmation request provides audit evidence only when a response is received directly by the auditor from the confirming party." However, in assessing the reliability of confirmation responses, the first two factors in paragraph 31 refer to indirectly received responses. We recommend the Board modify paragraph 17 to indicate that, based on an auditor's risk assessment, obtaining indirectly received responses provides a form of audit evidence with the acknowledgement that the auditor will need to consider the persuasiveness of the evidence obtained and determine if additional procedures should be performed.

<p>6</p>	<p>The fourth bullet of paragraph 17 states that the auditor “reasonably believes that recipients of negative confirmation requests will give such requests consideration.” We note that the extant AU 330 utilizes the term “the auditor has no reason to believe.” As such, we recommend the PCAOB clarify whether or not they intend for a change in an auditor’s evaluation based on the change included in the proposed auditing standard. We believe that any such clarification should consider that the auditor will not have a direct relationship with the confirming party.</p>
<p><b><i>Determining That Confirmation Requests Are Properly Addressed</i></b></p>	
<p>7</p>	<p>Paragraph 18 states “[t]he auditor should design confirmation requests to establish direct communication between the confirming party and the auditor to minimize the possibility that the audit evidence resulting from the confirmation procedures might not be reliable as a result of interception, alteration, or fraud.” We acknowledge that the auditor should control the confirmation process and send confirmation requests and receive responses directly (in accordance with guidance in paragraph 28 of extant AU 330). We request the PCAOB clarify and/or provide examples to illustrate what additional procedures the PCAOB envisions in “designing” confirmation requests to facilitate this process given this proposed change to the existing requirement.</p>
<p>8</p>	<p>Paragraph 19 includes the use of post office boxes as a factor in determining the nature and extent of procedures to perform to validate addresses on confirmation requests. We request the Board clarify its views on the level of risk associated with a post office box. Given the prevalence of their use, particularly in areas such as trade receivables, this may be the only address on file with the company. Without further guidance, we are concerned that auditors may perform significant verification procedures related to post office box addresses without a significant increase in the quality of audit evidence obtained.</p>
<p>9</p>	<p>We request the PCAOB clarify what is meant in paragraph 19, which states that “the auditor should perform procedures to determine the validity of the addresses on the confirmation requests, including substantive procedures or tests of controls.” Specifically, since an auditor is simply verifying the address, what constitutes “tests of controls” versus “substantive procedures?” For example, with regard to trade accounts receivable confirmations, would tests of controls represent, for instance, procedures an auditor may perform on a company’s controls regarding establishing and maintaining customer information as part of its revenue billing and collection process? Would these procedures be adequate to address the risk of invalid addresses for significant risks? What other types of substantive verification procedures does the board believe would be appropriate? The PCAOB should provide additional guidance in this area in order to clarify the Board’s expectations.</p>
<p><b><i>Directly Sending the Confirmation Requests</i></b></p>	
<p>10</p>	<p>In a footnote to paragraph 21, the term “Intended Intermediary” is defined. We recommend the Board include this term in Appendix A, <i>Definitions</i>, to maintain consistency with the rest of the proposed auditing standard.</p>
<p><b><i>Management Requests Not to Confirm</i></b></p>	
<p>11</p>	<p>Paragraph 23b states “[i]f management requests the auditor not to confirm certain accounts, balances, or other items, the auditor should obtain audit evidence as to the appropriateness of management’s reasons for the request.” It is unclear as to what would constitute sufficient audit evidence to conclude on the reasonableness of management’s reasons. We</p>

	recommend the PCAOB provide an example in order to clarify the Board’s expectations.
12	<p>The Note accompanying paragraph 24b states that in the situation where management requests the auditor not confirm certain accounts, balances, or other items, “[t]he auditor should perform procedures to obtain more persuasive audit evidence than he or she would have obtained had there been no responses to a confirmation request or had the auditor made a decision not to perform confirmation procedures.” We are unclear as to the Board’s rationale in requiring the auditor to obtain “more persuasive” evidence in this situation rather than a situation where there was no response to a confirmation request or had the auditor chosen not to confirm. Perhaps the concern is that where management requests the auditor not confirm a certain item, the auditor should consider an increased fraud risk and exercise a heightened level of skepticism in performing alternative procedures. We recommend that the Board clarify its rationale.</p> <p>In addition, we recommend the Board provide further clarification as to what an auditor should do if “more persuasive” evidence is not available. For example, if alternative procedures for a non-response on an installment loan confirmation are to audit subsequent cash receipts and read/agree the balance back to the loan agreement, the Board should clarify what procedures could be performed that would be “more persuasive.”</p>
13	<p>Paragraph 24c requires that the auditor communicate all management requests not to confirm to the audit committee. It is unclear whether the Board intends to require notification of each individual account to the audit committee. If so, we are concerned that such a requirement could be unmanageable and will not result in the most useful information being provided to the audit committee. For example, many financial institutions maintain no-mail accounts as a regular business practice. We believe that an appropriate requirement in such circumstances would be for the auditor to consider whether communication with the audit committee is appropriate in these situations. This consideration could be based upon a number of factors such as if there is a significant impact on the audit or the financial statements and if this is a benign business practice common in the industry. Furthermore, this consideration would be appropriately tempered by paragraph 25, which states: “[i]f the auditor does not agree to management’s request and management refuses to authorize the confirmation request the auditor should communicate management’s refusal to the audit committee, or equivalent, and evaluate the implications for the audit report.” The Board should clarify its intention as to whether it would require notification of each individual account to the audit committee.</p> <p>In addition, we question the Board’s rationale underlying this new requirement. Is the purpose of the requirement simply to inform the audit committee of management’s request not to confirm? Does the Board intend for the audit committee to provide some additional assurance to the auditor as to the appropriateness of management’s request not to confirm? We recommend the Board discuss these issues with audit committee representatives or organizations (i.e. Association of Audit Committee Members, Inc.) to gain their perspective before finalizing this guidance.</p>
<b><i>Non-Responses</i></b>	
14	<p>Paragraph 27 states, “[w]hen using positive confirmation requests and a response from a confirming party has not been received, the auditor should follow up with a second request and should consider following up with a third request.” We are concerned that the mandate of a second request and consideration of a third request for positive confirmations may not</p>

	<p>be appropriate requirements for all situations where confirmation procedures are being performed and may not result in a commensurate increase in audit quality. For example, if the auditor has a low expectation of receiving responses to specific confirmation requests, it would seem more appropriate to plan and perform alternative audit procedures rather than sending out second or third requests. We recommend that the Board consider allowing the auditor to exercise professional judgment when determining whether it is appropriate to send follow-up confirmation requests, rather than including a requirement.</p>
15	<p>Paragraph 27 is not clear as to the Board’s position with regard to an oral response received in follow-up to a non-response of a positive confirmation request. As such, we recommend the Board modify paragraph 27 to indicate that, based on an auditor’s risk assessment, obtaining an oral response in follow-up to a non-response provides a form of audit evidence with the acknowledgement that the auditor will need to consider whether and the extent of supplemental procedures required.</p>
<p><b><i>Reliability of Confirmation Responses</i></b></p>	
16	<p>When assessing the reliability of confirmation responses, we agree there is a need for auditors to exercise the appropriate level of skepticism. However, we believe that the prescriptive requirements in paragraph 31 would be more appropriate as factors the auditor should consider if they have identified concerns as to the reliability of the confirmation response. We recommend the guidance in this paragraph be conformed with paragraph 10 of ISA 505, <i>External Confirmations</i>, which includes a requirement for the auditor to obtain further audit evidence only “if the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request.”</p>
17	<p>Paragraph 32 requires the auditor to assess any indication that the confirming party is not competent or objective, has questionable motives, or is not free from bias with respect to the company, when evaluating the reliability of the response received. We question how an auditor would be able to sufficiently assess these qualities given the limited interaction between the auditor and the confirming party, and recommend that the Board provide guidance to help auditors make that assessment, if the Board intends to keep this requirement. In addition, in situations where an auditor determines that there is a higher risk that a confirming party’s response may not be reliable, we recommend the PCAOB consider whether requiring confirmations in such circumstances would be appropriate.</p>
18	<p>Extant AU 330.33 states that an auditor should consider the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient audit evidence has been obtained. The extant standard states that in performing the evaluation the auditor should consider the reliability of a confirmation response and alternative procedures, nature of any exceptions, evidence provided by other procedures and whether additional evidence is required. If the combined evidence is not sufficient, the auditor is required to obtain additional evidence. Paragraph 33 of the proposed auditing standard requires an auditor to obtain additional audit evidence if a confirmation response is deemed not to be reliable, regardless of whether the combined evidence provided by the audit procedures provides sufficiently persuasive audit evidence. In accordance with extant AU 330, when a confirmation response is deemed not to be reliable, we believe an auditor should be required to use his/her professional judgment to determine whether the auditor has obtained sufficiently persuasive audit evidence or whether additional audit evidence is necessary. Therefore, we believe this paragraph should be modified to require the auditor to focus on the impact of the reliability of the confirmation on the combined audit evidence</p>

	<p>obtained and the assessed level of risk to determine whether additional evidence is necessary.</p>
<p><i>Effective Date</i></p>	
<p><b>19</b></p>	<p>The accompanying release to the Proposal states that “[t]he Board anticipates that the proposed standard would be effective, subject to approval by the SEC, for audits for fiscal years ending on or after December 15, 2011.” Unless the final standard is issued on or before March 31, 2011, we believe that the effective date be revised to a later date to accommodate effective implementation. Many calendar year-end audit engagements are planned during the second quarter of the year. Practitioners will need sufficient time to incorporate a final standard into firm training, methodology, tools and industry guidance prior to the commencement of audit planning and interim audit procedures, which may include confirmation at an interim date.</p>