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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 Standard Related To Confirmation and Related Amendments to PCAOB Standards, PCAOB Release No. 2010-03

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Proposed Auditing Standard, (the "Proposed Standard"). This letter contains our general comments on certain matters contained in the Proposed Standard.

We support the Board's objective to improve audit quality by updating interim standards and providing new standards that provide clarity. We support the Board's consideration of the work of other standard setters, such as the International Auditing and Assurance Standards Board (IAASB) and Auditing Standards Board (ASB), in the development of new standards. We understand the Board may decide that different procedures are appropriate in the U.S. public company audit environment; however, we strongly encourage the Board to consider the need for such differences in an area such as confirmations. We fully support convergence of the auditing standards and encourage the Board to work with the other standard setters to achieve an appropriate level of convergence.

We believe there are several matters that should be addressed before the Proposed Standard is adopted. We have provided specific observations and comments on the Proposed Standard in the body of this letter which we believe will assist the Board in achieving its goals for this Proposed Standard. The matters are organized by paragraph number to expedite consideration.

Paragraph 8

This paragraph states: *"The auditor should perform confirmation procedures for receivables that arise from credit sales, loans, or other transaction."* The Board has included the presumptively mandatory requirement to confirm credit sales, loans and other transactions without the exception for ineffectiveness of the confirmation as provided by AU section 330 *"The Confirmation Process"*. In the release on pages 12-13, the Board indicates that ineffectiveness is not an appropriate exception to the confirmation process because the auditor should determine why confirmations are ineffective and look for ways to improve the effectiveness of the confirmation procedures. The release continues with the example of confirming specific transactions that make up an account balance versus confirming the account balance. Auditors have utilized the transaction confirmation process for years, and in certain situations this process is no more effective than account balance confirmations. Companies, including

financial institutions, large multinational companies and many others, have adopted policies of not responding to confirmations. Some of these policies are based on their cost cutting measures and some are based on their own risk assessment processes – but as an auditor, we would not know the specific reasons. The auditor does not control the responding entity's process and by not including the ineffective exception in the standard, auditors will spend time and effort sending confirmations that past experience has proven to be ineffective. We suggest that the Board consider including language in the standard that indicates that in situations where the confirmation process has been proven to be ineffective, the presumption of confirming receivables that arise from credit sales, loans, other transactions or cash has been overcome.

The third exception to sending confirmations within AU 330 is when the combined assessed level of inherent and control risk is low, and the assessed level, in conjunction with the evidence expected to be provided by analytical procedures and other substantive procedures of details, is sufficient to reduce audit risk to an acceptably low level for the applicable assertion. Appendix 3, page A3 states that AU section 316, "Consideration of Fraud in a Financial Statement Audit requires the auditor to presume there is a risk of material misstatement due to fraud related to revenue recognition and receivables often are related to revenue recognition". As noted here, the Board notes "receivables often are related to revenue recognition". This implies that receivables are not always related to revenue recognition. In addition, some receivables are dollar for dollar related to revenue recognition, such would be the case of a manufacturer selling inventory, while other receivables are only a percentage, such as the case for a financial institution recognizing interest income on a loan. We suggest the Board consider language that the presumption of confirmation may be overcome, through documentation of the risk based standards where the auditor has concluded the assessment of risk is sufficiently low.

The above suggested changes would also move the standard closer to that adopted by other standard setters.

Paragraph 9

The first sentence of this paragraph states: "*The auditor should perform confirmation procedures for cash with financial institutions.*" This provides a presumption that confirmations are required for all cash accounts with financial institution. However, the paragraph further expands the requirement by having the auditor consider the company's cash management and treasury function as well as the assessment of risk of material misstatement due to error or fraud, including whether the risk is a significant risk, when selecting which cash accounts and other relationships to confirm. We agree with the risk assessment process as defined in the paragraph for selecting cash accounts and relationships to be confirmed. The first sentence should be removed as it is contradictory to the rest of the guidance since it implies all cash accounts with financial institutions should be confirmed.

The sentence "*The auditor should obtain an understanding of the company's cash management and treasury function to determine which cash accounts and other relationships with financial institutions to confirm*" represents a requirement of a risk assessment process that should be in the risk assessment standards and not in the confirmation standard. We encourage the Board to revise this statement to refer to the risk assessment process associated with the company's cash management and treasury function in identifying the appropriate cash accounts and relationships to confirm.

Paragraph 12

This paragraph states that *“the auditor should maintain control over the confirmation process”* and control is defined in paragraphs 13-22. Paragraph 21 indicates that the auditor should send the confirmation requests directly to the intended confirming parties and should not permit the company or any other party to send the confirmation requests. This is different than the existing standard which allows the auditor to maintain control while utilizing internal auditors in the confirmation process. We generally agree with the Board’s description of control as presented in paragraphs 13-22 except that we suggest the Board consider the utilization of internal audit for part of the confirmation process. The auditor should control the variable inputs to the confirmation process through the determination and selection process. However, the Board should recognize the use of internal audit to control a portion of the mailing of confirmations. The lack of consideration of internal audit in this process appears to indicate that the Board does not believe internal audit can function with competence and objectivity which, if that were true, would also impact the use of internal audit for other functions during the audit. This is in contrast of PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, paragraphs 16-19 and encouragement of auditors to use the work of others, as well as AU Section 322, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements* paragraph 21 which indicates consideration of internal audit alone cannot reduce audit risk to an acceptable level, but does not restrict the use of internal audit. We would encourage the Board to reconcile paragraph 12 of this proposed standard to other auditing standards that allow use of internal audit.

Paragraph 26

As noted above in the discussion of paragraph 12, the Proposed Standard indicates that *“the auditor should evaluate the audit evidence obtained from performing confirmation procedures and should not rely on the company or any other party for this evaluation”* which precludes the auditors from utilizing the work of internal audit. This statement appears to alter the guidance in Auditing Standard No. 5 paragraphs 16-19 and the encouragement of auditors to use the work of others and AU Section 322, paragraph 21 as noted above. We would encourage the Board to reconcile paragraph 26 of this proposed standard to other auditing standards that allow use of internal audit in the conduct of an audit.

Paragraph 27

The Proposed Standard requires the auditor to send second requests for confirmations not returned and mandates that they should consider following up with a third request. By this, the Board has moved from a principles based approach to a rules based approach. The objective of the audit is to gain sufficient appropriate audit evidence to support the conclusions and the opinion rendered. The Board should allow the auditor to use their judgment to determine if second and or third confirmation requests will be sent in order to gather sufficient audit evidence, or to simply move to alternate procedures to gather the appropriate evidence.

Paragraph 30

This paragraph states: *“The auditor should investigate all exceptions in confirmation responses to determine why each exception occurred and whether any exceptions, individually or in the aggregate, are indicative of a misstatement or of a previously unidentified risk of material misstatement.”* The use of “all” in this requirement suggests that there should be no materiality

consideration. For example, a \$.50 error on a confirmation for \$100,000 must be investigated based on this paragraph. Auditors should be allowed to utilize their judgment in evaluating results which may mean passing on differences because they are small enough that when projected over the population is immaterial or, conversely, pursuing a difference because it appears to be a control issue or a potential material fraud risk. As in the risk based standards, we suggest the Board allow the auditor to exercise professional judgment to appropriately mitigate the risk on the engagement, without such specific rules.

Paragraph 31

The Board has proposed that the auditor should assess the reliability of the confirmation responses and has also provided some factors to consider in the auditor's assessment process. While we generally agree with the factors noted, we are unsure how an auditor is to have knowledge of local customs that may affect the confirmation process. We encourage the Board to clarify various customs they are aware of to help the auditor with this assessment. Alternatively, the Board should consider changing the requirement to assess responses to the auditor should consider the reliability of the confirmation responses as part of their evaluation process. This would remove the mandatory requirement which will be confusing and allows the auditor to utilize professional judgment in the confirmation evaluation process.

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Crowe Horwath LLP supports the Board's efforts to improve its auditing standards with the objective of furthering the public interest. We hope our comments and observations will assist the Board in its consideration of the Proposed Standard. We would be pleased to discuss our comments with members of the Board or its staff. If you would like to discuss with us any of our observations, please contact Wes Williams (wes.williams@crowehorwath.com) or Mike Yates (mike.yates@crowehorwath.com).

Cordially,


Crowe Horwath LLP