

P B T K

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

Transmitted by e-mail to: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Re: PCAOB Rulemaking Docket Matter No. 028  
Release No. 2010-003 — Proposed Auditing Standard Related to Confirmation and Related  
Amendments to PCAOB Standards

Ladies and Gentlemen:

We are pleased to have this opportunity to respond to the Board's proposed auditing standard (the Proposed Standard) related to confirmation contained in Release No. 2010-003 (the Release) of July 13, 2010, in which it resides as Appendix 1. Although we have not commented directly on Appendix 2 to the Proposed Standard, many of our comments will likewise apply in some respect to the related proposed amendments to other standards. We support the Board's apparent objective to enhance our professional standards by providing improved guidance to auditors about when and how to use confirmations as a source of audit evidence; however, we have serious overriding concerns about perceived inconsistencies and other flaws in the content of these documents. Therefore, we are presenting our overriding concerns in Part 1 of this letter of comment, which is followed by Part 2 containing our responses to the specific questions posed by the Board in the Release. Since many of our comments in Parts 1 and 2, are interrelated, we are numbering our paragraphs to facilitate internal cross-referencing wherever deemed useful. Although except as otherwise noted, most of our comments below directly address language in the Proposed Standard, itself, responsive actions should likewise result in conforming changes in the final version of the Release. Lastly, in Part 3, we provide some editorial suggestions of somewhat lesser significance.

### **Part 1 — Overriding Concerns**

1.1. In our opinion, the overly prescriptive Release and Proposed Standard both contain many significant inconsistencies within and between them as well as with fundamental principles of modern auditing and professionalism. The nature of such apparent inconsistencies is summarized as follows:

- Inconsistencies with an auditor's basic, general responsibility to exercise professional judgment,
- Inconsistencies with an auditor's specific responsibilities to apply the principles of risk-based auditing, and

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- Inconsistencies with the increasingly popular trend in favor of principles-based auditing standards as opposed to rules-based (or “cookbook”) standards, and there appears to be no compelling reason to increase the number of “required” (or even presumptively mandatory) audit procedures at this time.
- Inconsistencies with an auditor’s professional responsibility to perform efficient audits, which inefficiencies tend also to impair timely financial reporting by clients to the inherent detriment of their investors.
- Particularly with regard to the use of intermediaries, inconsistencies with an auditor’s professional responsibilities to determine the nature of auditing procedures to be applied and to supervise the work, as set forth in AU 543 of the PCAOB’s Interim Auditing Standards.

1.2. The most pervasive and significant inconsistencies result from the apparent overly prescriptive nature of the Proposed Standard and Release which, in our view, tend to preclude auditors from meeting their obligation to exercise professional judgment, as is set forth in Rule 102 (ET 102.01) of the AICPA’s *Code of Professional Conduct*, which requires CPAs to maintain their objectivity with regard to professional services and not subordinate their judgment to that of others. Although the judgment-based principles of risk-based auditing (as are set forth in the eight new auditing standards recently adopted by the Board) are cited in several places within these documents, they appear to be given only lip service in the context of the excessively prescriptive provisions of the Proposed Standard and the interpretive language of the Release.

1.3. Significant and pervasive inconsistencies between the Release and Proposed Standard result from, the repeated unqualified use of the terms “requires” and “required,” which denote an *unconditional responsibility* of auditors pursuant to PCAOB Rule 3101(a)(1), as compared to the term “should,” which indicates auditor responsibilities that are *presumptively mandatory* pursuant to Rule 3101(a)(2). This subtle difference, we believe, would pose substantial unnecessary risk to auditors who comply with the final standard but are forced to defend themselves in adversarial proceedings against asserted claims that are based on the more prescriptive language in the Release. It is unlikely that adversaries and adjudicators would understand or appreciate such a fine distinction. We believe the Board should take greater care to assure that the final standard and accompanying release are consistent with one another and with its intended meaning in relation to the definitions in Rule 3101(a).

1.4. A glaring example of the excessively prescriptive language of the Proposed Standard (which also appears in the Release) is the unsupported (and unsupportable, in our opinion) notion (in paragraph 9) that an auditor might obtain audit evidence of some significance or value by confirming immaterial cash on deposit with financial institutions based on the level of pre-balance sheet date activity in the account. It is a fundamental principle of risk-based auditing that when the risk of material misstatement is low, such as with regard to existence of an immaterial asset balance, the need for highly reliable, substantive tests of details should be significantly reduced or eliminated. See our response to **Q5** in paragraphs 2.6-2.7, below.

1.5. The Proposed Standard and Release repeatedly make an ineffective argument to justify its excessively prescriptive language as to when one “should” (or “is required to”) use confirmations by using a variation of language asserting merely that confirmations *can or may provide adequate audit evidence*, without regard to whether the probability of it providing adequate evidence or the probability of adequate (in relation to perceived risks) or even better evidence being provided by other means. We believe these assertions fail to justify the prescriptive language used.

1.6. Based on our views as set forth above in paragraphs 1.1-1.5, above, we believe that a great deal more of the provisions in the Proposed Standard and the discussions thereof in the Release should be revised in the final documents to align clearly with an auditor’s *responsibility to consider*, as set forth in Rule 3101(a)(3). It is our view that allowing for auditor judgment based on thoughtful risk assessment is not

likely to adversely affect the quality of financial audits or diminish the value of a new standard with regard to its ability to achieve its stated objective. On the contrary, as compared to the likely effect of adopting the Proposed Standard, it would have the likely effect of allowing audits to be more effective by eliminating unnecessary work, related costs and possible completion delays thus improving the timeliness of financial reporting.

1.7. We previously responded on September 2, 2009, to the Board's Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations issued April 14, 2009, most particularly about the use of third party service providers (called *intermediaries* in the Proposed Standard and Release) to process electronic confirmations. We believe the Proposed Standard and Release fall far short of addressing several significant issues identified in our previous communication, which are, therefore repeated in paragraphs 2.28-2.32 of our response to **Q22** in Part 2, below. We believe these are serious issues that should be addressed in the final standard.

## **Part 2 – Responses to Questions Presented in the Release**

***Q1.** Are the definitions included in the proposed standard sufficiently clear and appropriate? If not, what changes should the Board make to the definitions?*

2.1 Yes. However, we believe the definition of *intermediary* should be moved from footnote 39 (on p. 20 of the Release) to Appendix A in the final standard.

***Q2.** Is the objective of the proposed standard clear and appropriate? If not, what changes should the Board make to the objective?*

2.2 No. The objective of the Proposed Standard is set forth in its paragraph 1 (as opposed to paragraph 3, which is captioned "Objective" and sets forth the auditor's objective). For reasons set forth primarily in paragraphs 1.1-1.5, above, we firmly believe that the prescriptive language of paragraph 1 does not give any credence to the principles of risk-based auditing and the relevance of auditors' professional judgment. It is the first example within the body of the Proposed Standard, itself, of the contradiction described in our paragraph 1.3, above, between an *unconditional responsibility* pursuant to Rule 3101(a)(1), as compared to a *presumptively mandatory* responsibility pursuant to Rule 3101(a)(2).

2.3 We believe both paragraphs 1 and 3 should be revised to make it clear that the decision when to use confirmation as a means of obtaining audit evidence is an auditor judgment to be based on risk considerations, and the primary objective if the standard (among others) is to provide guidance to assist auditors in making such judgments.

***Q3.** What other matters, if any, should the objective include?*

2.4 We believe both paragraphs 1 and 3 of the Proposed Standard should be revised to state clearly that decisions as to when to use confirmations as a means of obtaining audit evidence are auditor judgments to be based on risk considerations, and that the primary objective of the (final) standard, among others, is to provide guidance to assist auditors in making such judgments.

***Q4.** 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?*

2.5 No. We believe additional language is necessary to limit the applicability of the term *other transactions* in this context.

***Q5.** 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?*

2.6 No. As discussed above in paragraph 1.4, we believe the Board's underlying premise for its overly prescriptive language of the Proposed Standard (which also appears in the Release) regarding confirmation of cash on deposit in financial institutions is unsupportable. We have neither heard nor read any persuasive arguments for the elevation of cash confirmation procedures even to that of presumptively mandatory at this time. In addition, the growing proliferation of insistence by financial institution on the use of intermediaries and their use of disclaimers and restrictions respondents discussed below in our responses to **Q22** and **Q26** in paragraphs 2.28-2.32 and 2.36, below, have greatly diminished the probable cost/benefit value of this procedure with regard to cash on deposit with such institutions and, thus, is inconsistent with making it either mandatory or presumptively mandatory.

2.7 Even when cash balances are material, there is little or no opportunity for incremental audit comfort from confirming a bank balance (in the absence of other banking relationships that might warrant confirmation) as compared to merely examining a bank statement obtained from the client unless one has reason to suspect the client might have altered the statement. Such suspicions go beyond the level of a healthy professional skepticism normally associated with common fraud risk factors but go to the heart of a client retention decision. Generally post-balance sheet activity (such as the bank paying outstanding checks timely provides sufficient evidence of existence of the asset, consistent with the risk. Once again, we believe the final standard should be clear that confirmation of cash balances should be a risk driven auditor judgment with the standard providing useful guidance to assist in such judgments.

*Q6. 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?*

2.8. No. Once again, as explained above in paragraph 1.3, we believe what is "required" unconditionally vs. what is presumptively mandatory is quite unclear in the Proposed Standard, muddled by the imprecise use of terminology defined in Rule 3101(a). The Board should revisit all so-called "requirements" of the Proposed Standard and revise it throughout to be consistent (among other things) with its risk assessment standards, with its intent pursuant to Rule 3101(a) and with Rule 102 of the *Code of Professional Conduct*.

*Q7. 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?*

2.9. No. We do not believe the proposed standard should include any additional requirements with respect to sending confirmation requests. We believe a reference to appropriate portions of the risk assessment standards for further guidance should be sufficient, however, to guide auditors as to the consideration of other risks in making scope decisions.

*Q8. Is the description in the proposed standard of other risks sufficiently clear and appropriate? If not, what changes should the Board make?*

2.10. No. Paragraph 11 of the Proposed Standard does not provide any useful guidance and appear entirely gratuitous and of no value as presently drafted. In view of this and our response to **Q7** in paragraph 2.9, above, we believe paragraph 11 should be deleted.

*Q9. 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?*

2.11. With the exception of matters relating to the use of intermediaries discussed below in response to **Q22** (paragraphs 2.28-2.32), and their characterization as "requirements," we believe the guidance for maintaining control over the confirmation process is sufficiently clear and appropriate.

**Q10.** *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?*

2.12. No. The Board's views on the use of internal auditors, whether for direct assistance or otherwise, are not articulated in the Proposed Standard, *per se*, but appear only in the accompanying Release, making them difficult to find and, thus easily overlooked. Subject to our comments in paragraph 2.13, below, we believe the Board's views should be articulated clearly in the final standard.

2.13. In addition to our views about the inconsistent use of Rule 3101(a) language, we believe the language in the Release regarding using the work of internal auditors is inappropriate in several important respects. This is primarily because we believe an absolute proscription from using direct assistance of internal auditors to process confirmations is neither warranted nor even logical. Such a decision, once again, should be an auditor's judgment based on a risk assessment consistent with the principles set forth in AU 322 and AU 316 of the Interim Auditing Standards. Moreover, we believe such a position is inconsistent with the suggestion in the first full paragraph on page 21 of the Release that would enable an auditor to reduce the scope of confirmation work based on the internal auditors' work and inconsistent with the proposed uses of intermediaries that are likely to be even less under the supervision and control of the auditor than internal auditors would be.

**Q11.** *Are the factors for designing confirmation requests in the proposed standard sufficiently clear and appropriate? If not, what changes should the Board make?*

2.14. No. We fundamentally disagree with the change from the extant standard as reflected in pages 12-13 of the Release (but not articulated in the Proposed Standard, *per se*) that would strip an auditor of the ability to choose alternative procedures for receivables when the perceived likelihood of obtaining a timely and otherwise satisfactory response is low. The Release (but not the Proposed Standard) would effectively "require" the auditor to make changes in the design of the confirmation request or the process intended to elevate such probability without regard to the practicality of such an approach based on deadlines and/or perceived likelihood of success in the circumstances, but paragraphs 28 and 38 of the Proposed Standard the use of alternative procedures only if such additional attempts to obtain satisfactory responses fail. Such an inflexible "requirement" to use confirmations invariably without regard to the probability of a satisfactory response is inconsistent such language that would enable an auditor to rely on alternative procedures after nonresponses or after receiving an inadequate response that is accompanied by a disclaimer or restriction. Accordingly, we believe that auditors should be clearly permitted and encouraged to use their best professional judgment as to how to deal with such circumstances, subject to some flexible guidance to aid such judgment as may be provided in the final standard.

2.15. In addition, paragraph 16, among other things, effectively states that an auditor should consider certain factors in designing confirmation requests. (The paragraph is internally contradictory and, therefore, confusing as to its use of language denoting both *presumptively mandatory responsibility* and *responsibility to consider* as per Rule 3101(a) and (c).) Among the factors is the "nature of the information to be confirmed." However, no further guidance is given as to what that is intended to mean. At a minimum, we think that in addition to balances or transaction values and major transaction terms, examples should be given that include requests for information from third parties as to vague or otherwise questionable business purposes such and others mentioned in paragraph 71 of PCAOB Auditing Standard No. 12 (AS 12, pending SEC approval), *Assessing Risks of Material Misstatement*. We think examples should be provided. See our response to **Q18** in paragraph 2.23, below.

**Q12.** *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?*

2.16. No. The first bullet in paragraph 17, inappropriately, in our opinion, would make it presumptively mandatory for an auditor to have supported a low assessment of the risk of material misstatement satisfactorily by testing the operating effectiveness of controls as a condition for the use of negative

confirmations. We point out that this criterion in apparent direct conflict with the clear implication in AU 329.09 of the Interim Auditing Standards (as revised by PCAOB Release 2004-008) that substantive analytical procedures alone (*i.e.*, without tests of controls or substantive tests of details) may afford sufficient audit evidence when the risk of material misstatement is low (not significant). Accordingly, we believe the guidance in the final standard should be revised to acknowledge that an assessment of a low risk of material misstatement may be adequately supported by a low inherent risk assessment without regard to controls, therefore, without testing them, and that in such circumstances, although the use of negative confirmations may provide additional evidence to support substantive analytical procedures or to reduce the necessary scope of positive confirmation work, such use may be entirely unnecessary in many cases.

2.17. In addition, we recommend that the Proposed Standard provide useful (but non-prescriptive) guidance about how to support the presumptively mandatory expectations of a low exception rate and adequate consideration by recipients. With regard to the latter, even though this idea is expressed in general elsewhere in the Proposed Standard, we believe the final standard should point out that such an expectation of adequate consideration would be reasonable in this specific instance only for the existence assertion for assets, such as receivables, and the completeness assertion for liabilities, such as bank deposits.

***Q13.** 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?*

2.18. Yes.

***Q14.** 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?*

2.19. Yes.

***Q15.** 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?*

2.20.No. We believe the final standard should contain some useful examples of possibly acceptable and unacceptable reasons for such requests together with guidance for assessing their credibility. In addition, we believe that Paragraph 23a should state that an auditor should obtain management's representation (even though that is contained in a proposed revision to another standard) and supporting evidence. Examples of the types of evidence that might be sought, depending on the circumstances, should also be provided.

***Q16.** 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?*

2.21. Yes, but only if the initial request for confirmation was made solely as a result of a perceived need to comply a prescriptive standard and not judged by the auditor to be necessary to meeting an objective deemed relevant or necessary to support an audit opinion.

***Q17.** 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?*

2.22. Substantially; however, it should be pointed out in the second bullet of paragraph 29 that such alternative procedures as described in paragraph 28 may not be sufficient to address other fraud risks, for example, concerning the presence or absence of side agreements or when seeking information from third parties as to a vague or otherwise questionable business purpose of a significant, unusual transaction or arrangement and others mentioned in paragraph 71 of AS 12 (pending SEC approval).

***Q18.** 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?*

2.23. Yes. We think that paragraph 29 should be revised to suggest that responses to positive confirmation requests should be deemed necessary by auditors (to avoid reporting a scope restriction) when an auditor's judgment requires information from third parties to address concerns about the presence of side agreements or assure an adequate understanding of an apparently vague or otherwise questionable business purpose of a material transaction or arrangement as well as certain other circumstances mentioned in paragraph 71 of PCAOB Auditing Standard No. 12 (AS 12, pending SEC approval), *Assessing Risks of Material Misstatement*. We also believe reference should be made in the final standard to f/n 6 to AU 334.09b of the Interim Auditing Standards, which states, "Until the auditor understands the business sense of material transactions, he cannot complete his audit. If he lacks sufficient specialized knowledge to understand a particular transaction, he should consult with persons who do have the requisite knowledge." (Although this language is contained in a standard about related party transactions, we believe its applicability should not be so limited, and that the standards should clarify that.)

2.24 We also believe paragraph 29 should be revised to clarify the term "is necessary" by adding "in the auditor's judgment" so that it is not misinterpreted by auditors or adversaries as an unconditional responsibility.

***Q19.** 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?*

2.25. Yes. We believe the language in paragraph 30 adequately describes an appropriate (presumptively mandatory) auditor responsibility with respect to all reported exceptions and allows for the application of professional judgment.

***Q20.** 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?*

2.26. Yes.

***Q21.** Does the proposed standard include adequate requirements regarding electronic confirmation procedures? If not, what additional requirements should the Board include?*

2.27. Yes. This response, however, is without regard to the use of intermediaries, which is discussed in our response to Q22 in paragraphs 2.28-2.32, below.

***Q22.** 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?*

2.28. The only guidance offered by the Proposed Standard appears in paragraph 35 (third bullet). Paragraph 35 rather succinctly states (in presumptively mandatory language) that an auditor (a) "should obtain an understanding of the controls over the procedures used by the intermediary to process the

confirmation requests and responses,” (b) “should perform procedures to determine whether the auditor can use the intermediary's process,” and (c) “should determine whether the intermediary is authorized to respond on behalf of the intended confirming party.” It also sets forth examples of risks to be considered in addressing item (b). However, the Proposed Standard affords auditors no guidance as to how or against what criteria to assess “controls over the procedures used by the intermediary” nor does it suggest any need or provide any guidance as to how to test the operating effectiveness of such controls despite an implied and *de facto* reliance to be placed thereon. Nor does it provide any guidance suggesting how an auditor might otherwise address the identified risks. Significant risks not specifically identified in the Proposed Standard include:

- That the controls over the procedures used by the intermediary are not adequately complied with or otherwise ineffective, for example, due to inadequate training and supervision of the assigned personnel, and
- That the client has the ability to influence to performance of the procedures or the reporting of the results.

2.29. The AICPA attempted to address questions from practitioners on the use of intermediaries raised through its Audit and Attest Hotline in an informal “Communication to AICPA Members Regarding Electronic Confirmations” posted on its website February 10, 2009. Besides being virtually irretrievable and anonymous as to its source and certainly not authoritative, this communication is extremely superficial; it fails to address the principal issues we have identified and with which we are concerned about in connection with this growing practice. Like AU9330-.03 and .06\* and PITF Practice Alert 03-1, to which it refers, this AICPA communication speaks primarily to the security of electronic data transmission but does not address any of the critical issues listed in paragraphs 2.30-2.32, below.

2.30. The aforementioned February 10, 2009, member communication from the AICPA indicates that it was precipitated by the position taken by a major bank (and probably others) that it will not process requests for confirmations unless made electronically through a specified intermediary with which it has contracted. However, if an intermediary is to be used to service the auditor, it should be the auditor’s sole judgment that dictates what organization is to be selected and to what extent it is to be relied upon. This is an audit scope decision that should not be made by a bank. In our opinion, allowing a bank to make such a decision without allowing the auditor the opportunity to evaluate the service organizations qualification or make scope adjustments based on the results of such evaluations, may likely constitute a significant scope restriction that should be dealt with as such pursuant to other appropriate auditing literature.

2.31. In our view, an auditor’s use of an intermediary, which we understand is generally to control, mail, receive and process electronic confirmations, often including verification of names and addresses of intended recipients, is, in fact and substance, the delegation of audit procedures to a third party (like another auditor) that are to be performed on the auditors’ behalf, which is the subject of AU 543 (of the Interim Auditing Standards). However, there is no literature, authoritative or not, that makes an analogy to or discusses the applicability or inapplicability of AU 543 to such circumstances. Nevertheless, auditors need to be told that they have a responsibility to assess the competence of assigned service organization personnel, the quality of supervision that they receive, and their independence from the audit client, and to make audit scope judgments based on such assessments. We believe the final standard

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\* In fact, it is only AU 9930.07 of the Interim Auditing Standards that is somewhat relevant to the use of intermediaries, but it falls far short of dealing with the principal issues regarding the use of intermediaries identified herein. It does recommend consideration of a report based on an assurance service called SysTrust for assessing the reliability of a system for processing confirmations. Few auditors, however, are familiar with SysTrust or are able to distinguish a SysTrust or similar report or the related assurance service from those that are associated with an AU 324 audit engagement discussed herein. Such a distinction is made in another virtually irretrievable (except by internet search engine) and anonymous AICPA online document available at <http://www.sas70.com/systrust.html>. Moreover, there is no guidance in the auditing literature that dictates scope of the work that underlies such a non-AU 324 report, its structure or content or that enables auditors to evaluate its reliability or usefulness consistently.



should contain cautionary language to this effect that clearly informs auditors, with reference to AU 543, of their responsibilities in this regard.

2.32. Many auditors seem to be of the clearly mistaken notion that under the Interim Auditing Standards, an AU 324 audit report (commonly referred to as a SAS 70 report) from an auditor engaged by one of these service organization serves as useful evidence as to reliability of the service provided. These auditors do not seem to understand that AU 324 is intended to deal solely with the objective of obtaining an understanding or establishing the reliability (depending on whether one gets a type 1 or type 2 report) of controls exercised by the third party service organization on a *client's* (not the auditor's) behalf in the execution or processing of the client's (not the auditor's) transactions. An AU 324 report is clearly not intended to afford a basis for relying on *audit work performed by others* in support of one's audit opinion, as AU 543 is. We believe the final standard should also contain cautionary language to this effect.

*Q23. 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.*

2.33. Reference is made to paragraph 2.31 in our response to Q22, above.

*Q24. 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?*

2.34. No.

*Q25. Should direct access be permitted as a confirmation response only if such response is received from a financial institution? Why or why not?*

2.35. We do not understand the question.

*Q26. 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?*

2.36. No. We have observed the use of such disclaimers or restrictions increasing as financial institutions have gotten more automated and cost conscious over the last 40 years when they first appeared. Most tend to render the confirmations virtually unreliable while others may have little or no adverse consequence as to reliability. We believe the prevalence and variety of such practices warrants more guidance (albeit non-prescriptive) in the standard to enable sound professional judgment by auditors.

*Q27. 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?*

2.37. Yes.

### **Part 3 – Minor Editorial Suggestions**

3.1. Although defined in Appendix A to the Proposed Standard, the term *direct access* appears in the paragraph beginning on p. 36 and ending on p. 37 of the Release, but is not explained until five paragraphs later in the second paragraph on p. 39. We recommend that this paragraph be moved to p. 36 or 37 in closer proximity to the first usage of the term.

3.2. A presumptively mandatory provision to perform confirmation procedures when the presence of side agreements is suspected appears in the Proposed Standard only in paragraph 10, which, as per f/n 11, states that it is not applicable to receivables. Similar language should be placed in paragraph 8 or the final standard should be otherwise revised to clarify that such provision applies equally to receivables.

3.3. Paragraph 14 contains a presumptively mandatory provision to perform sales cutoff testing. We believe the quality of the guidance would be improved if the final standard were to also state that the scope of such testing should be determined based on the auditor's judgment of the level of risk of material misstatement, supported as necessary with tests of controls.

3.4. The second sentence in paragraph 17 is a false statement about positive confirmation since some audit evidence is obtained as to the existence of a valid addressee merely by the absence of a postal return. The same is true for negative confirmations (as is clearly acknowledged in the last paragraph on p. 24 of the Release) thus requiring a correction to the second sentence to eliminate such inconsistency.

3.5. F/n 13 to paragraph 24 should make reference to the guidance provided elsewhere (as recommended above) in the final standard for the use of intermediaries.

3.6 Paragraph 27 should refer also to responses received from an intermediary as well as directly from the confirming party.

3.7 Paragraph 28 should note the unusual nature of confirming accounts payable so as to make it clear that such a procedure is neither mandated nor presumptively mandated by the standard.

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Questions about these comments should be directed to the undersigned at 702/382-1120 or [hlevy@pbtck.com](mailto:hlevy@pbtck.com).

Thank you for this opportunity to comment. We hope the Board finds our comments useful in its deliberations on this important matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Howard B. Levy, Sr.", with a stylized flourish at the end.

Howard B. Levy, Sr. Principal and Director of Technical Services  
Piercy Bowler Taylor & Kern, Certified Public Accountants