

August 30, 2009

Ms. Sherry Hazel
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: May 28, 2009 Exposure Draft (ED) of a Proposed Statement on Auditing Standards, *External Confirmations*

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC fully supports the issuance of this ED, including the changes from the extant SAS, the differences with ISA 505 and other changes made as part of the clarity and convergence project. TIC also believes the stated objectives of the SAS are appropriate. TIC especially appreciated the inclusion of numerous cross references from the ED to the risk assessment and other relevant SASs, as well as the additional examples provided in the application guidance.

TIC's comments on the issues for consideration by respondents are presented below.

SPECIFIC COMMENTS—ISSUES FOR CONSIDERATION

Presumptive Requirement to Use External Confirmation Procedures for Accounts Receivable

The ASB has retained the presumptive requirement from paragraph 34 of the extant SAS to use external confirmation procedures for accounts receivable. This requirement is incremental to the requirements of ISA No. 505, which does not require the use of



confirmations in any cases. As shown in the appendix of the proposed SAS, this requirement is included as a conforming amendment to the proposed SAS Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (Redrafted) because it is part of the process of determining the appropriate audit procedures to perform to address assessed risks, which is not included in the scope of the proposed SAS. The ASB concluded that it was appropriate to retain this requirement in the U.S. environment, notwithstanding that the IAASB did not include a similar requirement in ISA No. 505. The ASB is seeking views on its decision to retain the presumptive requirement to use external confirmation procedures for accounts receivable and to include that requirement in the proposed SAS Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (Redrafted).

TIC believes the Board should retain the presumptive requirement to use external confirmation procedures for accounts receivable. The existing requirement is a long-standing, effective audit procedure for testing various assertions relating to accounts receivable. It serves as an important source of third-party evidence that promotes audit quality. It is also one of the most visible audit procedures to clients and third parties. TIC believes deleting the requirement would result in substantial differences in practice among auditors and may be perceived negatively by some third parties who expect auditors to perform this procedure.

Definition of External Confirmations

The ASB has expanded the ISA definition of an external confirmation to include direct access by the auditor to information held by a third party. Third-party involvement is increasingly common, and the ASB believes that the inclusion of this concept clarifies the definition. The ASB believes this clarification is an improvement to the ISA definition because it specifically addresses a situation that is becoming increasingly common, and this change to the ISA definition is not inconsistent with the intent of the IAASB's definition. The ASB is seeking views on its decision.

TIC supports the Board's decision to include the direct access concept in the SAS. However, TIC believes the existing definition of an external confirmation is unclear as to whether "direct access" could include the use of an authorized confirmation service. TIC therefore recommends that the definition in the final SAS be expanded to explain what "direct access" means in this context. Specifically, the definition should be revised to explain that "direct access to information held by a third party" may include the use of a third-party intermediary authorized by the confirming party to communicate information to auditors.

TIC suggests the following revised definition:



Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium or through the auditor's direct access to information held by a third party (including access to the confirming party through a third-party intermediary's electronic confirmation process)

Such revisions would leave no doubt that the use of confirmation services may be an acceptable "method of communication" with the confirming party and would ensure that auditors understood later references to "other medium" (paragraph A4, 5th bullet) and "another process" (paragraph A6).

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee