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My personal comments regarding audit confirmations:

As a practitioner who has worked for Big 4, large regional, and local CPA firm, and also worked in government, Fortune 200 industry, and small industry, I have seen the auditing profession from a number of different angles. Over the years, I have seen the audit process morph and adapt to the times, but I feel the current audit process relies too much on what I call "conversational auditing", and little hard-nosed auditor work. The current process is primarily geared towards identifying "issues" that the client self-identifies, and little work is done by the auditor to identify issues on their own.

I think anyone who looks at the economics of this process would understand why the auditors would naturally migrate to the current process. I can see three reasons: income, comfort zone, and staff retention.

For example, the pocket book issue of talking about "issues", which drives consulting fees and result in higher overall fees than just audit fees. The daily stress issue which makes it easier to talk about a client's "issues", resulting in a daily routine that is more comfortable and doesn't look like the auditor fails to trust the client. Finally, the new college recruits that make up the audit staff would rather work the client's "issues", so this means that it is easier to retain staff, than when they are relegated to doing confirmations.

All of this means the current process relies heavily on trust:

1. Trust that the client is competent enough to identify the proper issues. Some clients do a better job of hiring competent staff than others.
2. Trust that the client has the resources to gather the right facts. In this international world, with many times zones, language barriers, cultural differences, competitive cost issues, etc. that may be a stretch.
3. Most of all, trust that the client does not have any intent of fraud. Granted, a smart sophisticated criminal mind can make it difficult to detect fraud, but I feel the auditing profession has almost given up on even looking for fraud, or even plain human errors.

When I was a staff person in public accounting, I can't tell you how many issues the audit confirmations identified. Sometimes they were dead ends, but sometimes not. I personally identified a case of fraud thru confirmations and related audit techniques. Are the audit confirmations a pain for everyone involved? You bet. Is it worth the effort to our collective investing society? You bet. So we should focus on the material items, to minimize the pain.

Does this call into play that level of trust between a client and their auditor? It shouldn't. I think everyone realizes that trust between these parties is needed in order for it to be an effective and efficient audit. But since the investing public relies upon the audit process to work, and their expectation is that there is more audit work, it would seem appropriate that any reliance upon the client's representations are substantiated by something more than conversation. My own thoughts are that the process works best when defined by the phrase "Trust,..... but verify". Audit confirmations should be an important part of the audit verification process and the auditor role.

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