



September 13, 2010

Hunter College Graduate Program
Economics Department
695 Park Ave.
New York, NY 10065

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
By email: comments@pcaobus.org

**Re: Comment Letter Proposed Rule - PCAOB Rulemaking Docket Matter No. 028.
Proposed Auditing Standard Related to Confirmation and Related Amendments to
PCAOB Standards**

Dear Board members and staff:

The Advanced Auditing class (Eco 775) at the Hunter College Graduate program in New York City appreciates the opportunity to comment on this proposed rule.

The class discussed the above proposed rule and has attached our comments.

If you would like additional discussion with us, contact Professor Joseph A. Maffia, at 212-792-0404.

Sincerely,

Professor Joseph A. Maffia, CPA

**Hunter College Graduate Program
Economics Department
Advanced Auditing Class
Eco 775**

**COMMENTS TO PCAOB DOCKET #28:
*Proposed Auditing Standard Related to Confirmation and Related Amendments to
PCAOB Standards***

September 13, 2010

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Hunter College Advanced Auditing Class

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Professor Joseph A. Maffia, CPA

General Comments

The Advanced Auditing Class has reviewed the above proposed rule and offers the following comments for consideration by the Public Company Accounting Oversight Board (PCAOB). We answered the questions set forth in the proposed draft and also incorporated our comments and suggestions into our responses.

Questions for Respondents

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

The definitions provided in the new proposed standard are clear and broad in the scope of confirmation procedures the auditor should perform. Also by broadening the methods and technology an auditor can use to obtain the confirmation from the outside third party, the auditors would be able to perform more efficiently and effectively with a reduced risk of fraud and tampering.

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

The objective of the proposed standard does not clearly and effectively address the final purpose of the confirmation process. We suggest the Board to use this phrase; “obtain relevant and reliable evidence that is sufficient for the auditor to properly confirm the accounts.”

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

In our opinion, the objective should serve as a reminder to the auditor of their overarching goal of obtaining relevant and reliable audit evidence. Therefore, the general wording of the proposed objective is suitable because it does not include too many specific details which may lead to overreliance by the auditor on mechanically adhering to those rules and underutilization of their professional judgment in obtaining relevant and reliable audit evidence.

- 6. 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?**
- 7. 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?**

We are supportive of the other commenter's recommendations that the auditor should use their professional judgment to determine if more extensive confirmation is needed to help understand any unusual and complex transactions. However, if the Board decides to mandate a new requirement on these types of confirmations they should provide a detailed application guidance of what would be deemed unusual and complex transactions.

- 9. 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?**

The Board should consider adding this requirement:

- Confirmation received through a third party is only viable in situations when risks are insignificant.

- 15. 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?**

In our opinion the procedures that the Board has set forth require more elaboration. We feel that the Board should provide additional application guidance to the auditor about the proper chain of events and communication they should follow when faced with a management imposed scope limitation than AU 508 provides. We feel the auditor should properly document any scope limitations regardless of whether they deem the limitation material or immaterial.

- 16. 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?**

Yes. If the circumstances involved with the non-responses to positive confirmation are deemed relatively low-risk and immaterial by the auditor then the performance of alternative procedures for non-responses to positive confirmation requests should be considered by the auditor but not required. If in the auditor's opinion, the circumstances involved are high risk

or material, then the auditor should increase the scope of conformation testing by performing alternative procedures to obtain confirmation responses.

19. 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?

We recommend that the proposal should include application guidance about the kind of procedures the auditor should perform to investigate exceptions.

20. 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?

The Board should elaborate more on the requirements for addressing the reliability of confirmation responses. They should consider adding more guidance about the auditor ensuring that their confirmation requests reach the authorized personnel within the confirming party.

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

The auditor should pick the most secure means of communicating electronically. Additionally, if the electronic confirmation contains information of a sensitive nature then the auditor should ensure not only the secure transmission but also receipt between the auditor and the confirming party (ideally, we recommend data encryption for all transmitted information, however, we realize that may not be possible in all circumstances).

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

In our opinion, direct access should be permitted as a confirmation response only if such response is received from a financial institution. Financial institutions allow their customers with direct access to their accounts, resulting in a high level of transparency and data integrity. Therefore, direct access in such institutions serves as a reliable confirmation method. Other companies do not allow the same level of access to their customer, suppliers, and vendors, so at any given point in time, their records may not be as reliable as that of financial institutions.

26. 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?

We support the requirements in the proposed standard related to disclaimers and restrictive language in confirmation responses because it provides additional transparency on audit evidence.

Additional Comments

The new definition provided in the proposed statement of receivables that arise from credit sales, loans, or other transactions is clear and easily understood. We also strongly support the Board's decision to retain the requirement to perform third-party confirmation procedures for receivables. We are cognizant of the fact that this may lead to the auditor's over-reliance on confirmation procedures. However, we believe that the benefits of doing so outweigh the potential harm arising from supplanting the auditor's judgment with an over-reliance on confirmation procedures. Not only will the third-party confirmation of accounts receivable be more relevant and reliable than information generated by the client, it will also be extremely useful to the auditor in designing and performing an audit plan to help gather audit evidence, and for potentially finding any material misstatements and fraud within the financial statements.

During our analysis we reached the conclusion that the Board should consider the following 2 suggestions; first, the Board should take initiative to collaborate with COSO to include the requirement for companies to respond to confirmation requests. This can greatly enhance collective financial reporting. Secondly, we should mandate a requirement for confirming parties to respond to positive confirmations and to make it available to the public where all confirmation requests should be sent. The inclusion of this new requirement would reduce the risk of sending the confirmation request to the wrong address or to the wrong person within the confirming party. This new requirement would also increase the overall number of responses received as well as increasing the amount of sufficient and appropriate audit evidence. We are aware that we can only mandate such requirement by amending the Sarbanes Oxley Act of 2002. If the Board and other governing bodies work together, such amendment will not only reduce the unnecessary workload for the auditor but it will also simultaneously facilitate the timely and efficient collection of sufficient and appropriate audit evidence.