



May 29, 2009

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is appreciates the opportunity to provide its perspective on the Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations.

The Committee is a voluntary group of CPAs from public practice, education and industry. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

We appreciate the PCAOB providing their views in this concept release instead of immediately providing a proposed auditing standard. The method of preparing a concept release and inviting feedback should help you to move quickly to a proposed standard and then to a final auditing standard. The concepts were provided in a good format and allowed a great forum for discussion of the concepts.

Following are the Committee's responses to the questions included in the Appendix:

1. Should the objective of the confirmation standard be for the auditor to design and perform confirmation procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks?

We feel the objective is reasonable. The reference to the "outside the company" qualifier may be redundant since the objective states the evidence would be obtained from third parties.

2. Should the definition of confirmation allow for responses other than traditional mailed responses, such as oral confirmation, facsimile, email, responses processed through third-party service providers, and direct online access to information held by a third party? Why or why not?

The definition of confirmations should absolutely allow for responses other than mailed documents. Some members of the committee believe these should include

all of the examples provided above, while others felt that the definition of confirmation should not include oral responses.

In today's electronic world, the use of other methods of confirming information allows the auditor to utilize different means to obtain audit evidence. Providing alternatives to traditional confirmations allows the auditor to assess the proper method to use in each situation.

3. What direction should the standard include regarding the use of electronic confirmations and third-party service providers?

The standard should only provide general directions regarding the use of non-traditional responses. This will allow the standard to be useful as new types or methods of confirmation of audit evidence evolve.

The Board should also consider providing supplemental guidance to assist the auditor in determining the proper type of confirmation to be used and the evaluation of the reliability of the responses. This will enable the auditor to evaluate whether a particular type of confirmation is responsive to the risks and complexity of the account or assertion

4. What procedures should the auditor be required to perform to address the risk that the information is not from a proper source and the risk that the integrity of the data has been compromised?

The auditor should perform certain procedures to verify that the documents originated from the proper source and that they have not been compromised. These types of procedures could range from verbally confirming with the individual to assessing the controls over the data transmission.

These risks are definitely evident in electronic confirmations but also similarly exist in traditional confirmations.

5. Should the Board expand the presumptively mandatory requirement to request confirmation of accounts receivable in AU sec. 330 to include confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions? Why or why not?

The Board should not expand the presumptively mandatory requirement to request confirmations of accounts receivable. We would also request the Board to reconsider its position to continue the presumptively mandatory requirement to confirm accounts receivable.

With today's technology and access to a variety of information, it seems antiquated to continue to require accounts receivable confirmation. The auditor should be able to assess whether confirming accounts receivable is the best

approach to the identified risks and obtaining audit evidence. In certain circumstances, procedures other than confirmations may provide a better course of action and yield a higher level of audit evidence.

We feel the Board should reconsider adopting the approach of ISA 505 and not requiring the confirmation of any specific accounts, terms or transactions. We feel the presumptively mandatory requirement to confirm accounts receivable is outdated, and the requirement should be modified or removed.

6. Should the Board require that the auditor consider confirming other items? If so, which items should be included in this requirement?

We feel the Board should not require the auditor to consider confirming other items. The auditor should assess the risks and audit evidence required and conclude on the proper course to obtain these items.

7. Should the Board require the auditor to perform specific procedures when evaluating whether confirmation of accounts receivable would be ineffective? If so, what should those procedures include?

No specific procedures should be required.

8. Should the Board include direction in the standard on what constitutes "unusual" or "complex" agreements or transactions, including revenue transactions? If so, what should that direction include?

We do not feel the Board should require confirming unusual or complex agreements. However, if the Board does require this confirmation process, it would be extremely helpful to have the Board include direction on the terms "unusual" and "complex." Such direction would be principles-based and not a prescriptive definition of terms that are designed to incorporate the auditor's judgment. The direction should discuss examples of items that would fall into these categories. A framework for the requirement would help the auditor assess when this might be required and what types of arrangements or transactions would fall into this category.

9. Is additional direction needed with regard to designing confirmation requests and, if so, what direction would be helpful for auditors?

No additional direction is needed in designing confirmation requests.

10. Should the standard include the requirement for the auditor to test some or all of the addresses of confirming parties to determine whether confirmation requests are directed to the intended recipients? Why or why not?

Testing some of the addresses of the confirming parties would greatly increase level of audit evidence obtained. This procedure seems to be necessary to verify the confirmations are in fact sent to the appropriate third party, and this would reduce the risks associated with fraud in the confirmation process. Testing the entire population of confirmations does not seem necessary. Instead, the auditor should test a portion of the confirmations to verify the addresses are correct.

11. What additional direction should the standard include with regard to maintaining control over confirmation requests and responses?

We feel that the Board should look to the International Standards on Auditing for direction on controlling confirmation requests and responses.

12. What direction is necessary in the standard regarding maintaining control over confirmations in electronic form?

The risk of unauthorized individuals obtaining access to the confirmation process exists in both electronic and manual forms of confirmations. This risk could be mitigated by maintaining control over the process. However, this risk could not be eliminated by the highest level of controls. The standard should discuss this risk and provide discussion that confirmations should not be assumed to be absolutely correct. Therefore, the auditor should also consider performing alternative procedures on certain items even though a confirmation was obtained to verify the evidence obtained in the confirmation process is accurate.

13. What changes should be made to the standard regarding the auditor's responsibility for evaluating the reliability of confirmation responses and alternative procedures?

No changes are deemed necessary.

14. When an auditor uses direct on-line access to a third-party database or a third-party service provider, what procedures should the auditor be required to perform to assess that the information included in the third-party database or provided by the third-party service provider is reliable?

The auditor should control the process of obtaining the information. In addition, the auditor should assess the objectivity and competence of the third-party service provider.

In certain audit scenarios, it might require obtaining a service auditor's report from the third-party service provide to verify the entities controls are in place and potentially working properly. Obtaining a service auditor report should only be used when the information obtained in a confirmation process is extremely important and other procedures can't be performed to verify the information received from the service organization.

15. Are there factors other than those mentioned above that the auditor should consider when evaluating the reliability of electronic confirmations? If so, what are they?

We did not note any additional factors to consider.

16. Should the standard require the auditor to perform alternative procedures for non-responses to positive confirmation requests? Why or why not?

The auditor should be required to perform alternative procedures for non-responses. The failure to obtain a response does not provide sufficient audit evidence to be used to address the risks identified. In order to obtain value out of the audit process, alternative procedures should be performed for all non-responses. The auditor should conclude on the alternative procedures that are required based on the level of audit evidence required.

17. Should the standard require the auditor to investigate exceptions identified as a result of confirmation responses? Why or why not?

The auditor should consider the need to investigate the exceptions identified during the confirmation process. However, this should not be a requirement.

18. Should there be a requirement for the auditor to consider the possibility of previously unidentified risk of material misstatements including previously unidentified fraud risk factors when performing alternative procedures for non-responses and investigating exceptions on confirmation responses? Why or why not?

The auditor should consider these factors when performing alternative procedures.

19. Should the standard include alternative procedures the auditor should perform for non-responses when the auditor is confirming the significant terms of unusual or complex agreements or transactions? What should those alternative procedures include?

If the auditor is required to confirm significant terms of unusual or complex agreements or transactions, it does not seem feasible that alternative procedures should be performed for non-responses in all circumstances. The most common alternative procedure would be to obtain written evidence of the agreement preferably through a mutually signed document.

20. Should the standard include procedures for the auditor to perform to address situations in which management requests the auditor not confirm certain accounts, transactions, agreements, or other items? If so, are the procedures listed above the appropriate procedures for the auditor to perform? What other procedures should the auditor perform to address situations in which management requests that the auditor not confirm accounts, transactions, agreements, or other items?

The standard should include specific procedures that need to be performed when management requests certain items not be confirmed. This automatically increases the level of risk associated with these accounts or transactions. The auditor should perform specific procedures to reduce the risk.

21. Should the auditor be required to perform specific procedures to evaluate the effect of disclaimers and restrictive language on confirmation responses? If so, what specific procedures should an auditor be required to perform in evaluating such disclaimers or restrictive language?

The auditor should not be required to perform specific procedures to evaluate the effect of disclaimers or restrictive language.

22. Should auditors be allowed to use negative confirmations and, if so, in what circumstances?

The auditor should be allowed to use negative confirmations in situations that the auditor deems appropriate for the level of audit evidence required.

23. Should the standard include the requirement that the auditor perform additional substantive procedures when using negative confirmations? Why or why not?

This determination should be left to the auditor's judgment.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Jon R. Hoffmeister, CPA, MST
Chair, Audit and Assurance Services Committee

Kevin V. Wydra, CPA
Vice Chair, Audit and Assurance Services Committee

APPENDIX A

ILLINOIS CPA SOCIETY
AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2008 – 2009

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from public practice, education and industry. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Peggy L. Brady, CPA	McGladrey & Pullen LLP
Matthew L. Brenner, CPA	PricewaterhouseCoopers LLP
Jeffrey A. Gordon, CPA	KPMG LLP
Jon R. Hoffmeister, CPA	Clifton Gunderson LLP
Neil F. Finn, CPA	Deloitte & Touche LLP
William P. Graf, CPA	Deloitte & Touche LLP
Michael J. Pierce, CPA	McGladrey & Pullen LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Medium: (more than 40 employees)

Damitha N. Bandara, CPA	Blackman Kallick LLP
Sharon J. Gregor, CPA	Selden Fox, Ltd.
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Jennifer E. Sanderson, CPA	Frost, Ruttenberg & Rothblatt, P.C.

Small: (less than 40 employees)

James R. Adler, CPA	Adler Consulting Ltd.
Scott P. Bailey, CPA	Bronner Group LLC
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly P.C.
Ludella Lewis	Ludella Lewis & Company
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

Industry:

Nicole G. Kiriakopoulos, CPA	Stericycle, Inc.
Janis D. Potter, CPA	MTL Insurance Co.

Staff Representative:

Paul E. Pierson, CPA	Illinois CPA Society
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