



**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

175 South West Temple, Suite 650  
Salt Lake City, Utah 84101  
801-364-9300 ph  
801-364-9301 fx  
www.mhm-pc.com

September 13, 2010

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

**RE: PCAOB Rulemaking Docket Matter No. 028, Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards**

Dear Board Members and Staff:

Mayer Hoffman McCann P.C. (“MHM”) welcomes the opportunity to comment on the *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards* (the “Proposed Auditing Standard”).

In summary, MHM agrees with The Public Company Accounting Oversight Board’s (“PCAOB” or the “Board”) conclusion regarding the need to update and expand certain aspects of the existing auditing guidance on audit confirmations due to changes in the auditing environment and the increased use of technology in the audit confirmation process. However, MHM is concerned with the unilateral approach the Board has taken in certain areas of the Proposed Auditing Standard which seems to be in conflict with a principles based approach to auditing and potentially other current or proposed auditing guidance. For example, the Board’s proposed standard *Audit Evidence* already requires an auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence. Requesting external confirmations is one of the procedures but not the only procedure an auditor may use in obtaining audit evidence. Therefore, MHM is concerned with certain aspects of the Proposed Auditing Standard as currently written and questions, in some cases, the auditor’s ability to comply with the Proposed Auditing Standard due to factors dictated by the confirming parties which are outside the control of the auditor.

***Overly Broad Terminology***

In certain areas of the Proposed Auditing Standard, the Board has used what MHM considers to be overly broad terminology. MHM believes the terminology should be revised to be either more specific or explained in greater detail through the addition of more terms being added to the definitions section in Appendix A of the Proposed

Auditing Standard. MHM is concerned that without these refinements consistency in the application of this guidance among practitioners will suffer. For example, MHM believes the use of the term “other transactions” in Paragraph 8 is overly broad and is open to a wide variety of interpretation which will result in inconsistent application of the Proposed Auditing Standard.

### ***Requirement to Confirm Receivables***

MHM agrees with the Board that a confirmation response from a third party can provide relevant and reliable audit evidence of the existence of receivables and that audit evidence from a third party is generally more reliable than audit evidence generated internally by a company or provided directly by a company. However, MHM believes that a unilateral requirement to confirm receivables in all cases is a one size fits all audit approach that discounts the professional judgment of the auditor and completely ignores factors which may exist that would historically have had an impact on the auditor’s judgment regarding the testing of receivables such as:

- The nature of the receivables and the frequency with which they are collected
- The effectiveness of confirmations. This may be due to a lack of response or incorrect responses being received historically despite utilization of many, if not all, of the steps suggested by the Proposed Auditing Standard to improve the response rate
- The fact that other auditing procedures in certain circumstances may be more effective and provide more persuasive audit evidence than a confirmation
- A history of restrictive or qualified language being included on the returned confirmations which renders them potentially ineffective as audit evidence
- The amount of time elapsed between the balance sheet date and the date of the audit procedures (i.e., in certain circumstances with respect to Initial Public Offerings)

As a result, MHM believes the presumptive requirement to confirm receivables and the exceptions for overcoming this presumption under the existing auditing guidance in AU Section 330, *The Confirmation Process* should continue to be provided to the auditor in the Proposed Auditing Standard.

### ***Requirements Confirming Cash with Financial Institutions***

The confirmation process requires the cooperation of not only management but also of the confirming party. Consequently, as the Board seeks to impose expanded requirements for the auditor to seek confirmations from third parties and to prescribe with whom at the third party the auditor should confirm, MHM reminds the Board that these third parties are not obligated to respond or cooperate in the confirmation process and often they do not. In addition, the ability of the auditor to dictate to third parties certain aspects of the confirmation process is, in some cases, beyond the control of the auditor.

For example, Paragraph 15 of the Proposed Auditing Standard states, "The auditor should direct the confirmation request to an appropriate confirming party." Paragraph 15 continues, "Even if the company provides the auditor with the name of an appropriate confirming party, the auditor should select the confirming party." MHM is concerned with the auditor's ability to comply with this requirement because the confirming party at a financial institution and their knowledge of the arrangements or transactions is quite often out of the control of the auditor or the client as more and more financial institutions have policies that require all confirmation requests be sent to a central location. As a result, it is the financial institution selecting the confirming party, not the auditor or the client.

*When a Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence*

Paragraph 29 of the Proposed Auditing Standard states "When a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence that the auditor requires." The Proposed Auditing Standard then goes on to provide two examples of situations when alternative procedures would not be acceptable audit evidence and thus require that audit evidence be obtained only through a positive confirmation. However, due to the seriousness of the implications of this guidance on the audit and auditors' report and the broad nature of the two examples presented, MHM believes additional guidance is needed to further clarify when a positive confirmation is the only acceptable form of audit evidence.

---

We appreciate the opportunity to provide comments on the Exposure Draft. Please contact Mark Nichols (801-364-9300 ext. 180) if you have any questions.

Respectfully Submitted.

*Mayer Hoffmann McCann P.C.*