AuditConfirmations

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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

Dear Board Members and Staff:

AuditConfirmations, LLC appreciates the opportunity to comment on the PCAOB's concept release, *Possible Revisions to the PCAOB's Standard on Audit Confirmations*. AuditConfirmations, LLC is a new service provider that owns and operates a web based application for processing electronic audit confirmations for use by public accounting firms.

We welcome the Board's efforts to broaden the existing confirmation standard and provide guidance on the use of electronic confirmations. Our comments to certain technology specific questions are noted below.

QUESTIONS & RESPONSES

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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 on-line access to information held by a third-party? Why or why not?*

Modern advances in technology have changed the landscape in the area of communications. Traditional mail is no longer the preferred method for most forms of communication in the current business environment; e-mail and the Internet are the preferred methods. The definition of confirmation should accommodate both certain modern forms of electronic communications (eg, e-mail, third-party service providers) and yet unknown future forms of communication that will almost certainly be developed and deployed in the business setting. Furthermore, the definition should also accommodate direct access to information held by a third-party.

Traditional mail is inferior to other forms of communication in many respects including timeliness, security, and status tracking. First, with traditional mail confirmations, it can take weeks to receive responses. Alternatively, confirmations using electronic communications (ie,

electronic confirmations) can usually be completed within minutes or days. Secondly, electronic confirmations can be encrypted whereby only the auditor, company, and respondent can view and enter only specific allowable information. Traditional mail offers no such mechanism. Lastly, electronic confirmations can provide status tracking for each phase of the confirmation process including initiation, authorization, approval, and completion. Status tracking enables the auditor to know where the confirmation is in the process, date and time stamps for each phase, and electronic address stamps (eg, Internet Protocol (IP) address) for the auditor, company, and respondent. Traditional mail does not provide any type of status information.

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

Direction should address the responsibilities of the auditor to confirm that the electronic confirmation process is secure and controlled by the auditor. When service providers are used, auditors should confirm the provider's identity, company identity, respondent's identity, information technology (IT) security, and gain an understanding of the provider's electronic confirmation process. A service provider's identity and certain aspects of IT security can be confirmed through an independent organization such as VeriSign or Trustwave. These organizations are commonly used and trusted among e-commerce transaction websites. Additionally, an auditor can use any number of commonly used methods to confirm a company's and respondent's identity. Furthermore, auditors should gain an understanding of how the electronic confirmation process works. This can usually be accomplished from information supplied by the service provider.

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?*

Increased auditor control over the process reduces source risk. To reduce risk further, the auditor should attempt to confirm the identity of the respondent. In the case of electronic confirmations, the auditor can easily do this through domain address verification of the respondent. Additionally, the auditor can use the Internet to corroborate physical addresses and phone number pre-fixes to substantiate the validity of the respondent source. The auditor can also call the respondent to verify information. Data integrity can be achieved through encrypted data transmission, input controls for auditors, companies and respondents, and secure storage on data servers. With electronic confirmations, the likelihood that data will be compromised and still tie-out to information provided to the auditor by the company is low, provided the auditor uses blank balances and requires the respondent to provide balance information.

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

We believe standardized confirmation request forms should be created for commonly used confirmations, including accounts receivable, accounts payable, investments, credit facilities, and debt agreements. The *Standard Form to Confirm Account Balance Information with Financial Institutions* is a consistent method to confirm specific information and is familiar to both bankers and auditors alike. We believe the more consistent the language and format used for confirming information from respondents, the greater the response rate.

For example, many bankers immediately recognize the *Standard Form* for confirming bank balances, and although they may view the form as an administrative burden, bankers are well practiced at processing the form. On the other hand, accounts receivable confirmations are sent to respondents with widely varying language and formats including a range of requested information. Many respondents view these disparate forms as confusing and an even greater administrative burden than the bankers, which contributes to a lower response rate for these types of confirmations.

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?*

Yes, auditors should perform procedures sufficient to validate *all* the addresses of respondents to substantiate the confirmations were directed to the intended recipients. Likely, many of the audit confirmations already represent a sample of transactions making up a larger account balance. Taking a further sample from this sample to test addresses dilutes the efficacy of this portion of the audit process. Moreover, the technology available today can assist an auditor in quickly testing the validity of respondent addresses, whether physical, facsimile, or electronic (eg, e-mail or Internet).

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

We believe whether electronic or traditional mail confirmations are used, auditors should maintain control over each step in the process. Although, we believe that electronic confirmations significantly reduce risk compared to traditional mail confirmations since traditional methods require more hands to move the mail. Auditors should maintain the ability to initiate the audit confirmation for a company, dictate the required information in accordance with audit guidance, direct the confirmation to the intended respondent, and receive the information directly from the respondent. Furthermore, we believe the Board should require electronic audit confirmations be encrypted, which would further strengthen the auditor's control over the process.

The objective of third-party service providers that facilitate electronic audit confirmations is to provide a secure electronic mechanism between the auditor, company, and respondent to reduce the auditor's time spent processing confirmations, and improve the timeliness and number of responses from respondents. The control of this process can and should remain in the hands of the auditor.

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?

Similar to the response to previous questions, when auditors use a third-party service provider to facilitate the confirmation process, the auditor should confirm the service provider's identity, independence from the company, IT security, respondent address verification, and gain an understanding of the process. We consider third-party service providers that facilitate communications between auditors and respondents to be comparable in many respects to how the U.S. Postal Service and FedEx facilitate exchanges between parties. The fact that the methods of transport are electronic rather than traditional does not necessarily increase the risk of the confirmation process. On the contrary, given the very nature of encrypted electronic communications, the risk of interception and data manipulation by unauthorized individuals is lower compared to traditional mail methods.

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We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or a member of its staff. Please feel free to contact Newel C. Linford at (720) 330-7202 or newel@auditconfirmations.com. We thank you for your consideration in this matter.

Very truly yours,
/s/ AuditConfirmations, LLC