

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

By E-mail: comments@pcaobus.org

May 29, 2009
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Dear Sir(s):

**Re.: PCAOB Rulemaking Docket Matter No. 028
PCAOB Release No. 2009-002
Concept Release on Possible Revisions to the PCAOB's Standard
on Audit Confirmations**

The Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany], the professional organization representing public auditors in Germany, appreciates the opportunity to comment on the above-mentioned Concept Release.

We have chosen not to respond to each of the individual questions posed in the paper. However, our comments do address a number of the issues raised. We submit our comments as follows:

Proposed Retention of the Presumption in the Board's Interim Standards

We agree with the comments of those members of the PCAOB's SAG who, according to footnote 22 of the Concept Release, indicated that auditors should determine which procedures to perform based on the assessed level of risk for the relevant assertions for each account.

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Our main concerns at the proposed approach to the current presumption discussed in the Concept Release are threefold:

Firstly, retention of the current presumption that accounts receivable will be subject to the auditor's confirmation procedures, even if extended to include specific additional matters, may concentrate auditors' attention unduly on accounts receivable and the specific additional matters such that other matters may not be given the attention they deserve.

Secondly, depending on the particular engagement circumstances there are potentially many other items for which confirmation may be an appropriate audit procedure. Indeed, we believe drawing up a comprehensive list of all such matters as a presumption is unlikely to prove feasible.

Thirdly, despite the fact that the presumption in the PCAOB's interim standards that accounts receivable will be subject to the auditor's confirmation procedures can be overcome in some circumstances, the PCAOB approach is overly rules-based.

In our opinion, the more principles-based ISA requirement in ISA 330.20A, which follows the audit risk approach, whereby the auditor has to "... consider whether confirmation procedures are to be performed..." has the advantage that an auditor must give due consideration to a comprehensive range of possible confirmations relevant in the particular engagement circumstances, and their consideration will not be biased by presumptions or lack of presumptions, respectively, but constitutes instead a response to the assessed risk of material misstatement. The application of an auditor's professional judgment in determining the appropriateness and scope of confirmations to be sought, when applied properly, will enhance audit quality more than the "tick the box" approach likely to result from a widening of the extant presumption on the part of the PCAOB.

Expansion of the Definition of "Confirmation" in Recognition of Technological Developments

We agree that the definition of confirmation procedures should be expanded in response to "new" situations such as those discussed in the Concept Release resultant from advances in technology that face, or will soon face, many auditors. Irrespective of the method by which auditors may seek confirmation, the auditor's objective remains the same, i.e., to obtain relevant and reliable audit evidence from those confirmation procedures used.

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Therefore, when confirmation procedures deviate from the hitherto commonly applied methods, the auditor's procedures will likewise need to differ in response. Given the technological advances that facilitate direct confirmation with a third party, the auditor will need to perform procedures directed at ensuring the security and integrity of the auditor's direct interaction with that third party, i.e., procedures to determine whether the third party supplied link is secure and cannot be subject to manipulation and whether access granted by that third party does indeed relate to all the information requested. Such measures would aim to ensure the authenticity and completeness of information confirmed by an auditor's direct interaction. It would be useful if a revision of the PCAOB's interim standard were to cover such aspects.

In our opinion, the use of a client's password would not constitute an external confirmation.

Confirmation Requests in the Negative Form

Both the interim PCAOB Auditing Standard and ISA 505 (Revised and Redrafted) allow confirmation requests in the negative form. The Concept Release discusses whether to retain their use, and, if so, whether to require they be supplemented by other substantive procedures. In our view, the use of negative form requests should not be forbidden. However, because of the drawbacks mentioned in the Concept Release, we believe they should be used only under certain conditions. In this context, we refer to paragraph 15 of ISA 505 (Revised and Redrafted), which excludes their use as a sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level with specific exceptions.

Management's Refusal to Cooperate in Confirmation Procedures

We would support the inclusion of additional material (over and above that presently included in the PCAOB's interim standard) dealing with management refusals to allow an auditor to send a confirmation request. Such material should be based on paragraphs 8 and 9 of ISA 505 (Revised and Redrafted) and accompanying application material.

Third Party Cooperation in Confirmation Procedures

As page 4 refers to the fact that low response rates, respondent errors and directional bias in detecting errors are key barriers to confirmation effectiveness,

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we would like to suggest the Board consider whether, in future, legislative or regulatory measures might be taken to improve third party cooperation with requesting auditors. For example, we wonder whether consideration ought to be given to the possibility that the SEC could specifically require all registrants to cooperate with auditor requests for confirmations.

Reliability of Confirmation Responses

We note that although consideration of the reliability of confirmations is mentioned in AU330.33 as a part of the auditor's evaluation of the results from confirmation procedures, the PCAOB's interim standard does not specifically require the auditor respond to any identified factors that give rise to doubts about the reliability of confirmation responses. In our opinion, any new PCAOB standard should require the auditor pursue such matters as appropriate in the individual engagement circumstances. In this context, we refer to paragraphs 10 and 11 of ISA 505.

We also support the fact that the inclusion of disclaimers and other restrictive language in responses to confirmation requests is also discussed in the Concept Release. We note that this is an aspect that ISA 505 (Revised and Redrafted) does not cover. However, not least because the legal validity or otherwise of confirmations varies depending on the jurisdiction from which the confirmation response was provided, we believe that this issue ought to be addressed in any new PCAOB Standard through guidance without recourse to detailed rules.

Omission of Alternative Procedures in Case of Non-Responses

We note that in case of non-response, the PCAOB's interim standard allows the auditor to omit alternative procedures in some circumstances. We welcome the discussion in the Concept Release on disallowing this omission. In contrast to the PCAOB's interim standard, paragraph 12 of ISA 505 requires the auditor perform alternative procedures to obtain relevant and reliable audit evidence in the case of each non-response. As requests for confirmation may constitute either substantive tests or tests of controls, we suggest that the Board tighten this aspect, such that in the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. Furthermore, we believe there is a need for any future standard to cover the auditor's procedures in specific circumstances; firstly, when the auditor has determined that a response to a positive confirmation request is necessary to obtain

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sufficient appropriate audit evidence and no response can be obtained; and, secondly, when confirmation responses reveal exceptions – paragraph 14 of ISA 505 specifically requires the auditor to investigate exceptions to determine whether or not they are indicative of misstatements. Any new PCAOB standard should be clear in specifying that auditors investigate significant exceptions. We agree with the statement at the top of page A-14 of the Concept Release “Performing alternative procedures for non-responses and investigating exceptions to confirmation requests may result in the identification of previously unidentified risk of material misstatements, including previously unidentified fraud risk factors that require evaluation.” However, we would caution that care needs to be taken not to create an expectation that it would be practicable for auditors to actively seek out fraud risk factors in following up non-responses and exceptions. Rather it is more a question of auditors using professional skepticism in performing such procedures that may or may not lead to such identification of fraud risk factors which then should be pursued.

The Objective of Audit Confirmations

In general, we support the PCAOB including an objective in its Auditing Standards. In our opinion, the objective of any new standard on audit confirmations ought to be substantially the same as that set forth in ISA 505 (Revised and Redrafted): “The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.”, as this is sufficiently flexible to allow the auditor to exercise professional judgment in determining whether to use audit confirmations as an audit procedure in the individual engagement circumstances. We believe that the way the objective is proposed by the PCAOB would lead to a requirement to use confirmations to respond to all relevant identified risks, and therefore we would not support the PCAOB’s proposed wording.

We hope that our comments are useful for the Board’s further deliberations. Should you have any questions about our comments, we would be pleased to be of assistance.

Yours very truly,



Klaus-Peter Feld
Executive Director



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