



KPMG LLP
757 Third Avenue
New York, NY 10017

Telephone 212-909-5600
Fax 212-909-5699
Internet www.us.kpmg.com

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

Re: Request for Public Comment: *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* - PCAOB Rulemaking Docket Matter No. 028

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the Board) *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* (the Concept Release). We support a project to amend AU section 330, *The Confirmation Process*, or issue a new auditing standard on audit confirmations to reflect advances in technology since the original standard was written and respond to recent challenges auditors are facing with designing and performing confirmation procedures.

While we agree with the objective of revising existing guidance on audit confirmations, we are concerned that the Board may be considering a prescriptive approach in the Concept Release, which may limit the auditor's ability to exercise professional judgment in the selection of audit procedures that address the risks of material misstatement in the financial statements in the most effective and efficient manner. Many of the questions included in the Concept Release suggest potential new requirements as opposed to allowing exercise of professional judgment. We believe an auditing standard should contain the principles an auditor should follow, allowing for judgment in the selection and performance of audit procedures in response to the risk of material misstatement of the financial statements. The auditor's risk assessment should be the foundation for the auditor's determination of when, and if, to use confirmations to address the assessed risk associated with one or more relevant assertions. Requiring that certain confirmation procedures be performed (1) does not contemplate the effectiveness of confirmations for various assertions, the risk associated with those assertions or the challenges sometimes associated with evaluating the reliability of the confirmation responses, (2) discounts other audit procedures, which may provide more persuasive audit evidence than confirmation procedures, (3) could lead auditors to inappropriately rely on a confirmation response when another procedure might have been more effective, and (4) burdens the auditor with the inefficient task of documenting why confirmation procedures were not performed if the auditor determines that other procedures would be more effective.

Additionally, as the Board considers whether to impose new requirements for the auditor to seek confirmation, we believe it is important to keep in mind that third parties are not obligated to respond to



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an auditor's confirmation request and some third parties choose not to respond. Accordingly, there is likely to be increased effort and associated cost, following up on non-responses and performing alternative procedures. Whether or not the Board imposes any new confirmation requirements, we believe the Board should play an active role in trying to increase both the response rate and quality of the responses to auditor requests for confirmation. Leadership in this area might include encouraging relevant constituency organizations, such as banking associations and organizations of accounting and finance officers, to remind their constituencies of the importance of auditor confirmations and the need for them to provide accurate and timely responses.

We also note that the Board has referred to provisions in International Standard on Auditing 505 (ISA 505), *External Confirmations*, in the Concept Release. We urge the Board to continue its consideration of auditing standards convergence, with the overarching objective of enhancing audit quality around the world.

Converged auditing standards will serve to enhance auditors' understanding, implementation, and consistent application of standards on *all* audits, beyond those subject to the Board's oversight. Enhanced understanding, implementation, and consistent application of auditing standards will serve to improve the quality of audits on a broad basis. Additionally, appropriate convergence affords auditing firms the ability to avoid redundant costs, for example, by allowing for synergies related to training, implementation, and the development and maintenance of quality control systems that accommodate the standards of the various standards-setting bodies.

We understand that the Board has considered the Auditing Standards Board's (ASB) current project to converge its confirmations standard with ISA 505. The ASB will soon expose a proposed standard for public comment, and a number of the issues addressed in this Concept Release have been deliberated by the ASB. We encourage the Board to specifically consider the ASB's proposed standard and the extant guidance, updated in November 2008, in AU Section 9330, *The Confirmation Process: Auditing Interpretations of Section 330*, of the AICPA Professional Standards (vol.1). This interpretation was updated to address some of the challenges related to electronic confirmations.

In addition to our overall comments above, the remainder of this letter provides comments on the following specific areas noted in the Concept Release:

- Objective and Definition of Confirmations
- Requirement to Confirm
- Use of Third-Party Intermediaries
- Management Requests Not to Confirm
- Disclaimers and Restrictive Language
- Negative Confirmations



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Objective and Definition of Confirmations

The proposed objective should be that *when the auditor has determined that confirmations are appropriate*, the procedures are designed and performed to obtain sufficient appropriate audit evidence. The suggested objective in the Concepts Release could be interpreted to mean that the auditor should perform confirmation procedures when those procedures may not be the most effective to obtain sufficient appropriate audit evidence. The Board's Proposed Auditing Standard, *Audit Evidence*, already requires that an auditor design and perform audit procedures to obtain sufficient appropriate audit evidence, and presents external confirmation as a procedure to be considered.

We encourage the Board to conform its definition of confirmation to that used by the IAASB except as noted below. We understand that the ASB recently expanded the definition of an external confirmation from ISA 505 in a soon-to-be-exposed proposed standard, *External Confirmations*. Accordingly, we recommend using the ASB's expanded definition as follows: "Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form, or by electronic or other medium, or through direct access by the auditor to information held by a third party."

When expanding the definition beyond traditional mailed responses, we recommend that the Board provide additional guidance and examples to assist auditors in evaluating the relevance and reliability of the confirmation responses. We recommend that the Board consider the guidance in ISA 505, paragraphs A12-A14, and AU Section 9330, *The Confirmation Process: Auditing Interpretations of AU Section 330*.

We do not believe oral responses should be included in the definition of confirmations. An oral response often provides audit evidence, but would not constitute a "confirmation" as the oral response process might not be as disciplined as a written confirmation.

Requirement to Confirm

We agree with retaining the presumptively mandatory requirement to request confirmation of accounts receivable. However, we do not believe that the requirement should be expanded to include confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions. As discussed in our overall comments above, such a requirement is inconsistent with a principles-based approach to standard setting, particularly given the subjectivity of "*significant terms of complex or unusual agreements or transactions*." Instead, the auditor should apply professional judgment in the decision to confirm these items based on the risk of misstatement of the relevant assertions and the sufficiency and effectiveness of other procedures considered by the auditor.

We believe that auditors should be required to resolve exceptions and perform alternative substantive procedures on non-responses to positive confirmation requests; however the nature of those procedures should be left to the auditor based on specific facts and circumstances. We believe the revised standard should continue to allow for the omission of alternative procedures in the circumstances described in Footnote 30 of the Concept Release.



Use of Third-Party Intermediaries

The use of an intermediary introduces additional risk relating to the reliability of confirmations, including that the information may not be obtained from an authentic source, the respondent may not be knowledgeable about the information to be confirmed, or the integrity of the information may be compromised. When a third party facilitates the confirmation process between the auditor and the respondent, the auditor should understand the role of the third party. The auditor may wish to evaluate and/or test controls when assessing the reliability of confirmations received through third parties. The Board may want to consider whether and how an assurance trust services report (for example, SysTrust), or another type of auditor's report on that process, may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls, and include appropriate guidance within its revised standard.

Management Requests Not to Confirm

Although we believe requests by management not to confirm to be infrequent, we support the inclusion of the following procedures to consider (see paragraphs 8 and 9 of ISA 505):

- Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
- Evaluate the implications of management's request on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures;
- Perform alternative audit procedures designed to obtain relevant and reliable audit evidence;
- Communicate with those charged with governance if management's request cannot be validated, is determined to be unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative procedures; and
- Evaluate the implications for the audit and audit opinion.

Disclaimers and Restrictive Language

We strongly encourage the Board to address confirmation disclaimers and restrictive language by working with regulators, issuers, and others to develop an approach that is in the public's best interest, while being sensitive to the respondents' liability concerns. As the use of ever more restrictive disclaimers increases, it will become unreasonable for the auditor to be able to effectively address each unacceptable disclaimer that is received. In all likelihood, the only reasonable course of action will be for the auditor to substantially discount the value of the response and perform alternative procedures. Accordingly, this issue must be addressed at its root cause; an approach that only places additional requirements on auditors when confirmations are received with disclaimers and restrictive language is not in the public interest.

In conjunction with the Board's assessment and response to the broader root cause issue, and due to the recent proliferation of disclaimers and restrictive language, we agree with the inclusion of guidance to evaluate whether such responses provide sufficient appropriate audit evidence. While a clarification of the risk that exists when disclaimers or restricted language are present would be helpful, it is important



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that any guidance follow a principles-based approach and not prescribe additional requirements for auditors to follow, thus replacing the professional judgment of the auditor.

Negative Confirmations

We believe that the evidence provided by negative confirmations is limited and less persuasive than the evidence provided by positive confirmations. Nevertheless, we believe the use of negative confirmations should continue to be allowed. Based on auditor judgment relative to audit risk, the use of negative confirmations represents an audit technique that, in limited circumstances such as testing bank deposit liabilities for understatement, may provide an appropriate source of audit evidence, and as a matter of practicality, may be the only type of substantive procedure that could be performed without undue audit effort and associated cost. We are supportive of the requirements and guidance in the Board's extant confirmations standard (which are also consistent with ISA 505) being included in a new confirmations standard.

If you have any questions or comments regarding information included in this letter, please contact Walt Conn at (201) 505-2615 or Glen Davison at (212) 909-5839.

Very truly yours,

KPMG LLP

cc: Mr. James Kroeker, Acting Chief Accountant – Securities and Exchange Commission