



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

Dear Board Members and Staff:

AuditConfirmations, LLC appreciates the opportunity to provide an updated comment letter on the PCAOB's proposed rule, *PROPOSED AUDITING STANDARD RELATED TO CONFIRMATION AND RELATED AMENDMENTS TO PCAOB STANDARDS*. AuditConfirmations, LLC is a 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

23. *The Board is interested in information about the services that an intermediary provides, specifically information about the responsibilities and obligations between the auditor and the intermediary and the intermediary and the confirming party.*

AuditConfirmations LLC is an intermediary that facilitates the confirmation process through electronic methods. We take our responsibilities to the profession seriously and seek to improve both audit efficiency and audit integrity. We feel that the following is a listing of some of our responsibilities and obligations:

Between the Auditor and Intermediary

- ✓ Maintain the security, control, and confidentiality of information submitted by the auditor.
- ✓ Transmit electronic confirmations only to the recipients specified by the auditor.
- ✓ Maintain effective internal controls and electronic evidence that could be reasonably expected to prevent, identify, and/or document attempts to provide fraudulent responses to confirmation requests.
- ✓ Transmit results directly to (and only to) the auditor to ensure all confirmation information is directly communicated between the auditor and the third party.

- ✓ Only permit data to be entered and displayed using encrypted methods (e-mail is used to notify parties of confirmation requests, never to provide a confirmation response or otherwise complete confirmations).
- ✓ Host data on secure servers in data centers that have undergone a Type II SAS 70 audit, undergo regular audits and testing of system security, and provide transparency to auditors of internal controls in place to control confirmation-related data.
- ✓ Provide real-time status tracking of outstanding electronic confirmation.
- ✓ Provide an electronic audit trail with Internet Protocol (IP) address stamps, time & date stamps, detailed user information, and other relevant routing information useful in assisting auditors with evaluating and understanding the integrity of the transmission process.
- ✓ When providing confirmations through direct access methods, do so in a manner that supports the audit process through producing reliable and familiar audit evidence free of terms of use that conflict with confirmation guidance.
- ✓ When providing confirmations through direct access methods, producing information that was obtained directly and independently from the third-party's records.
- ✓ Perform direct access confirmations in a manner that searches for other information relevant to the audit procedures in accordance with applicable confirmation guidance (e.g., when providing direct access confirmations of cash, executing a reasonable search of the entity's loan and credit systems to identify otherwise undisclosed liabilities held at the same financial institution).
- ✓ Maintain and document independence, in accordance with all applicable professional audit standards, from any entities for which we are providing a service of confirming assets or liabilities.
- ✓ Maintain and document independence, in accordance with all applicable professional audit standards, from any confirming entities as those entities may have motives that conflict with the objectives of the confirmation process.

Between the Intermediary and Confirming Party

- ✓ Maintain the security, control, and confidentiality of information submitted by the confirming party.
- ✓ Transmit completed electronic confirmations *only* to the auditor that originally initiated the confirmation under the authorization to do so provided by the confirming party's customer.
- ✓ Only permit data to be entered and displayed using encrypted methods (e-mail is used only to notify parties of confirmation requests, not to complete confirmations).
- ✓ Host data on secure servers in data centers that have undergone a Type II SAS 70 audit, undergo regular audits and testing of system security, and provide transparency to auditors of internal controls in place to control confirmation-related data.

24. Are there risks related to the auditor's use of direct access that the proposed standard has not adequately addressed? If so, what are those risks, and how should the standard address them?

There is a comment within the release that states “Direct access might pose additional risks because the information might not be in a form that is readily understandable or the Web site might contain disclaimers or restrictions as to use.” We believe this is a true statement; however, we also would like the PCAOB to consider that direct access, when executed properly and in accordance with the audit guidance, might also *significantly* reduce many risks in cases where the confirming party is a financial institution. Direct access can be used in an electronic confirmation to systematically access historical data at a financial institution without manual intervention by the financial institution. Most financial institutions within the United States and many abroad already have mechanisms in place to allow direct access using certain software tools created by these same financial institutions. These tools allow historical account balance information to be collected in a matter of seconds and in a secure manner. By using direct access methods developed specifically for the purpose of confirmation procedures, the following risks can be addressed:

- The risk of unintentional mistakes or errors made by the confirming financial institutions employees. Also, direct access can eliminate the risk of collusion with financial institution insiders.
- By utilizing appropriate methods of direct access, auditors are able to complete the confirmation with a higher level of independence as it relates to the financial institution avoiding concerns mentioned other places in the proposed rule such as inappropriate motives, lack of independence from the audit client, etc.
- Direct access methods, when properly executed, may provide a more thorough search for unrecorded liabilities or other relationships between the financial institution and the audit client that were previously undisclosed. Often, a financial institution will assign the responsibility of confirmation responses to lower level employees that may not have a comprehensive view of the organization and its relationship with that customer. Direct access methods, such as that provided by AuditConfirmations, provide a programmatic search across institution systems/departments to identify such relationships which may have gone undetected by the financial institution employee.

There is also a comment that “If access codes or information necessary to access data held by a confirming party are provided to the auditor by management of the company and not by the confirming party, evidence obtained by the auditor from access to such information does not meet the definition of a confirmation response. Rather that information constitutes other audit evidence.” In certain cases, it is necessary that management of the company provide access codes (e.g., read-only account user names and passwords) to the auditor so that the auditor in turn may enter the direct access codes into the intermediary’s system to complete the electronic audit confirmation. With AuditConfirmation’s system, the auditor *may choose*, with the cooperation of company management, to use access codes to complete the entire

confirmation with the confirming financial institution. However, since AuditConfirmations and other vendors offer an intermediary system that has verified direct access to the financial institution's systems, there is not an opportunity to for management to interfere with the data exchanged between the systems, despite having provided the access codes. Additionally, using this method the confirmation can be completed with a financial institution in ten minutes or less. This process is fast, secure, and virtually eliminates error and fraud risk since it relies on application controls to directly access financial institution data as noted in the paragraph above. Given this particular set of facts and circumstances in this situation, we believe that this and similar direct access systems meets the current definition of a confirmation response and, in fact, dramatically improves upon any other methods of obtaining confirmation than is otherwise currently available, whether electronic or manual.

25. *Should direct access be permitted as a confirmation response only if such response is received from a financial institution? Why or why not?*

As noted above, financial institutions within the United States have created and utilize tools to permit direct access to historical financial information that can be used to securely provide authentic information about assets liabilities to auditors in the form of a confirmation. We are not aware of other types of institutions that can provide reliable historical financial information in a systematic and controlled way across an industry a similar manner as the financial institution industry. Therefore, we believe at the present time, direct access should be limited to confirming parties that are financial institutions. However, should this change, it should be the responsibility of the auditor to evaluate the direct access methods in other institutions and determine they are adequate to provide reliable confirmation or the responsibility of an intermediary service (should that access be provided through an intermediary service) to provide evidence of such to that auditor.

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Similar to the American Bankers Association (ABA), AuditConfirmations LLC would like to request a meeting with the Public Company Accounting Oversight Board ("PCAOB") staff responsible for this proposed auditing standard. The audit confirmation process, specifically electronic audit confirmations, has a direct and significant impact on the rules contemplated under this proposal and there are many rapidly advancing technologies that provide extraordinarily effective methods for protecting the integrity and reliability of the process. We will contact the PCAOB to establish a meeting date.

In the interim, we would be pleased to discuss our comments with members of the PCAOB or a member of its staff. Please feel free to contact either Newel C. Linford at (720) 330-7202 or newel@auditconfirmations.com or Daniel R. Zitting at (212) 202-2183 or dan@auditconfirmations.com. We thank you for your consideration in this matter.

Very truly yours,
/s/ AuditConfirmations, LLC