



# National State Auditors Association

August 31, 2009

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Ms. Sherry Hazel  
Audit and Attest Standards  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Auditing Standards entitled *External Confirmations*.

We have reviewed the proposed SAS and generally agree with the provisions contained therein. Below we have provided our response to the issues for consideration as well as the guide for respondents noted in the exposure draft. We have also provided, by paragraph, comments or suggestions that we believe will make the document clearer.

### *Issue for Consideration – Presumptive Requirement*

In the exposure draft, the Board indicated that it is seeking views on its decision to retain the presumptive requirement to use external confirmation procedures for accounts receivable. We disagree with the Board's decision to retain the presumptive requirement. We believe it creates an unnecessary difference from international standards, and is not consistent with the risk assessment standards and the theory of designing testwork to cover the identified risks. There may be times when certain risks of material misstatement, or fraud, indicate a need for the use of external confirmations of accounts receivables. However, we believe that the circumstances indicating this need are not present on most audits. We believe audit procedures to verify receivables should be a matter of auditor judgment and should not be specified, just as procedures are not specified for other asset classes.

### *Issue for Consideration – Definition of External Confirmations*

In the exposure draft, the Board indicated it is seeking views on its decision to expand the definition of an external confirmation to include direct access by the auditor to information held by a third party. We agree with the expanded definition.

However, we do have a few issues we believe need to be addressed with regard to the definition of external confirmations:

- The phrase "direct access to information held by a third party" should be revised, or application material added, to clarify that "direct access to information" relates to information available from the third party that addresses the subject matter of the confirmation, but does not imply access to the third party's database.
- We believe the definition of "external confirmation" should be revised to insert the word "obtained" before the phrase "through the auditor's direct access" to clarify that direct access to information held by a third party is an additional form of external confirmation rather than a type of "written response" from a third party.

- This proposed document differs from the non-authoritative guidance in the AICPA Practice Alert 03-1, *Audit Confirmations* (updated June 2007). The last paragraph in 03-01 states: “. . . an online inquiry about a client's bank balance information . . . may provide audit evidence concerning that information, it does not meet the definition of confirmation.” We suggest the Practice Alert be updated after this standard is issued.

#### *Guide for Respondents*

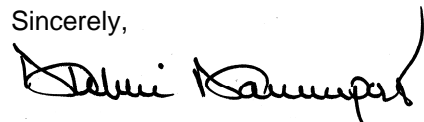
In response to the questions posed by the Board we believe the objectives and convergence revisions are appropriate. However, we do not agree with the difference between the proposed SAS and ISA No. 505, identified in the exhibit, regarding the presumptive requirement to confirm accounts receivable. Please see our response to the first issue for consideration above.

#### *Comments by Paragraph*

- Paragraph 7c – The phrase “. . .provide for being responded to directly to the auditor” is oddly worded and should be clarified. Perhaps the following would be clearer: “. . .and requesting the confirming party to send a direct response to the auditor.”
- Paragraph A6 – The example provided in this paragraph is not helpful. It indicates that the auditor “may perform similar procedures,” but we are unsure what similar procedures it is referring to. If this paragraph is to be of any usefulness, it needs to be elaborated upon so that the point can be understood.
- Paragraph A8 – This paragraph (as it relates to paragraph 8) should mention the possibility that management's refusal could be a “client-imposed scope limitation.”
- Paragraph A18 – We believe it would be helpful to add an example of another, more common, example that auditors face – financial institution investment confirmations. Quite often, the financial institutions do not fully respond to requested information, for example when confirming collateralization, credit quality, or other information affecting amounts and required for disclosures. In these cases, the paragraph should provide some examples of alternative audit procedures.
- Paragraph A29 Appendix paragraph 19(b) – We recommend the Board modify the first sentence by inserting the word “other” in the phrase “by performing substantive procedures.” We believe this will better clarify that the auditor is substituting other substantive procedures in lieu of using external confirmations, which is a substantive procedure.
- Paragraph A29 Appendix paragraph A57a – The examples of relevant confirmations do not include *related party transactions*. Practice Alert 03-1 suggests the auditor may consider confirming certain related party information, but also advises that: “Because it is possible for management to be on both sides of the transaction, more reliable audit evidence may come from the intermediaries. The auditor also may be able to identify related parties through the confirmation of unusual transactions.” We are aware that a proposed SAS on related parties is forthcoming. Based on this, we suggest a bullet be added to this paragraph referencing the related party SAS.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (602) 553-0333.

Sincerely,



Debbie Davenport  
President, NSAA