



California
Society
Certified
Public
Accountants

September 22, 2009

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

RE: Proposed Statement on Auditing Standards, *External Confirmations*

Dear Ms. Hazel:

The Accounting Principles and Auditing Standards Committee (the AP&AS Committee) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Auditing Standards Board (the "Board") on the proposed standard.

The AP&AS Committee is the senior technical committee of the CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Following is a summary of the Committee's responses to the proposed SAS for your consideration.

On the whole, we agree with the proposed SAS and we feel that it results in a better document than the original SAS on confirmations. We do, however, disagree with the continuation of the presumptive requirement to use external confirmation procedures for accounts receivable. This requirement would not be included in the proposed SAS but would be included in a separate proposed SAS, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained (Redrafted)*.

We do not believe that the use of external confirmations should be a presumptive requirement for the following reasons:

- The current audit model requires the auditor to design their audit program by selecting audit procedures (tests of controls and \ or substantive procedures) that are responsive to the assessed risk of material misstatement at the relevant assertion level. In order to overcome the presumption to use external confirmations, the standard indicates that "The auditor's assessed level of risk of material misstatement is low, and the auditor plans to. . . ." The use of external confirmations provides little evidence for several assertions involving receivables (e.g. valuation, completeness and cutoff). As written, if the auditor assessed the risk of material misstatement as medium with respect to the valuation assertion, he would presumably be required to use external confirmations despite the fact that this would provide little, if any, audit evidence with regard to valuation.
- A requirement to use any specific audit procedure in and of itself conflicts with the current audit risk model. Procedures should always be based on risk assessment.

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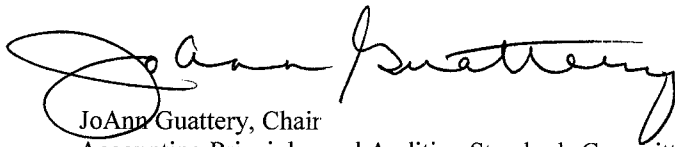
The reliability of audit evidence is dependent upon numerous factors and the auditor is best situated to evaluate that reliability.

- We are not aware of any empirical evidence that supports the assumption that the use of external confirmation results in improved audit quality (based on audit failures). In fact, the International Auditing and Assurance Standards Board (IAASB) indicated in the Exposure Draft of Proposed ISA 505 (Revised and Redrafted) that research and experience have shown that there is no basis for the presumption that external confirmations requests would always provide relevant and reliable audit evidence.
- On a practical level, our group has found that the routine use of external confirmations provides little audit evidence, and a great deal of time and effort is spent on this procedure simply to satisfy professional standards.

Our Committee is a strong supporter of the ASB's current strategy to converge its standards with those of the IAASB. Accordingly, differences between the proposed SAS and ISA 505 should only occur where compelling reasons exist. We do not believe that a compelling case has been made to retain the presumptive requirement for external confirmations. Accordingly, this difference should be eliminated.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our comments with you further should you have any questions or require additional information.

Very truly yours,



JoAnn Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Public Accountants