

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY, 10017
USA

15 February 2008

Dear Sir

IAASB Exposure Draft – “External Confirmations”

We appreciate the opportunity to comment on the IAASB’s Proposed Revised and Redrafted ISA 505, *External Confirmations*.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We support the proposed revised and redrafted ISA 505 and are satisfied that the Clarity drafting conventions have been appropriately applied.

Request for specific comments

1. *Is the objective to be achieved by the auditor, stated in the proposed revised and redrafted ISA, appropriate?*

We believe that the objective in the proposed revised and redrafted ISA is appropriate.

2. *Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgement by auditors?*

We are satisfied that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently in the proposed revised and redrafted ISA.

3. *The proposal that ISA 505 (Revised and Redrafted) should not mandate the use of external confirmation requests in any particular circumstance or in response to any particular risk of material misstatement.*

We support the IAASB’s approach not to mandate the use of external confirmations.

As a matter of principle, we believe that an auditor should be able to design and perform audit procedures whose nature, timing and extent are, in the auditor’s judgement, the most effective response to an assessed risk of material misstatement, rather than being required to perform specific procedures.

As noted in the Introduction to the proposed ISA, many of the ISAs recognise the importance of external confirmations as audit evidence. In many circumstances, confirmations can be a very effective means of obtaining reliable audit evidence.

The effectiveness of the confirmation process, however, is dependent on third parties – which is both its strength and its weakness. An external confirmation can provide valuable corroborating evidence from sources independent of the entity. On the other hand, the auditor has no control over obtaining the other party's effective co-operation.

Of particular relevance to IAASB is that international standards must recognise the vast range of circumstances auditors face in different jurisdictions around the globe. We are aware that there are jurisdictions that require, or presumptively require, the use confirmations in certain circumstances. In such jurisdictions, reliable responses to confirmation requests are reasonably expected. In other jurisdictions, however, the likelihood of recipients responding to such requests, or responding reliably, might be very low for cultural or legal reasons.

In addition, in some sectors, the nature of the business may render external confirmations a less effective audit procedure than alternative approaches. For example, confirmation of individual deposits in a large retail banking operation is unlikely to provide reliable evidence because many customers do not maintain independent records of their cash. They might simply compare the request to their most recent bank statement. The evidence from confirmations is likely to be more reliable where the customer is a commercial entity which has its own books and records. Reinsurance receivables in the insurance industry are another example where confirmations are unlikely to provide reliable evidence.

For all of these reasons, we believe it is important that the ISA recognise – as the Exposure Draft does -- that external confirmations are not always an effective audit response in all cases. When the auditor has reason to believe that responses would not be obtained, it would be contrary to audit quality to require the auditor to perform external confirmations, and inefficient for the auditor to have to justify that judgement. External confirmations are, however, an important procedure in the auditor's toolkit and, as noted in our response to question 4 below, we are pleased that the ISA provides appropriate encouragement on using external confirmations in relevant circumstances.

4. *The proposal that the scope of proposed ISA 505 (Revised and Redrafted) be directed at the effective performance of external confirmation procedures when the auditor determines that such procedures are an appropriate response to an assessed risk of material misstatement, and that accordingly the ISA should not require that the auditor consider when, or under what circumstances, it may be appropriate to use external confirmation procedures when performing an audit of financial statements.*

We support the decision to direct the ISA at the design and performance of external confirmation procedures, rather than addressing circumstances in which confirmations might be appropriate. The risk ISAs (ISAs 315 and 330) are sufficient to provide auditors with sufficient guidance on the matters to consider in determining whether to perform external confirmation procedures. The introductory paragraphs to the ISA, together with the discussion in the Application Material on the relevance of external confirmations and the considerations in determining their appropriateness, provide appropriate encouragement to the auditor to consider the use of external confirmations and to seek them in appropriate circumstances.

5. *Whether proposed ISA 505 (Revised and Redrafted) appropriately limits the extent to which auditors may use negative confirmation requests.*

Although we believe that negative confirmation requests are not widely used, we support the decision to continue to allow their use. We agree that the proposed conditions in paragraph 14 where they are used as the sole source of substantive audit evidence are appropriate.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers