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Audit Confirmations: Navigating the Updated ASB, PCAOB and IAAS Standards

Meeting the Tougher Requirements for Confirming Audit Evidence

WEDNESDAY, MAY 11, 2011

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Howard Levy, Senior Principal, Director of Technical Services, Piercy Bowler Taylor & Kern, Las Vegas

Brian Fox, CPA, Founder and Chief Marketing Officer, Capital Confirmation, Inc., Brentwood, Tenn.

Jeffrey Robertson, Special Counsel, Schulte Roth & Zabel, Washington, D.C.

For this program, attendees must listen to the audio over the telephone.

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HISTORICAL SUMMARY TIMELINE — REFERENCES TO USE OF CONFIRMATIONS IN AUDIT LITERATURE
By Howard B. Levy, CPA, May 2011

1939	AICPA's Statement of Auditing Procedures (SAP) 1, <i>Extensions of Auditing Procedure</i>	Confirmations of receivables first mandated in response to McKesson & Robbins management fraud (unless not "practicable and reasonable," and audit objectives could be satisfied by alternate means)
1940	SAP 3, <i>Inventories and Receivables of ... Retailers</i>	Guidance for receivables in special industry circumstances
1942	SAP 14, <i>Confirmation of Public Utility Accounts Receivable</i>	Guidance for receivables in special industry circumstances
1943	SAP 18, <i>Confirmation of Receivables from the Government</i>	Guidance for receivables in special circumstances (WWII-related)
	SAP 19, <i>Confirmation of Receivables (Positive and Negative Methods)</i>	Guidance as to circumstances when negative confirmation of receivables may be acceptable. Positive confirmation was deemed "probably desirable" in specified circumstances. However, choice of method remained solely a matter of auditor judgment.
1970	SAP 43, <i>Confirmation of Receivables and Observation of Inventories</i>	Restatement and expansion of prior guidance. Now positive confirmations were said to be "preferable"(as compared to "probably desirable" to negative but only in specified circumstances similar to SAP 19. Became AU 331 in 1978 after Statement on Auditing Standards (SAS) 1, <i>Codification of Auditing Standards and Procedures</i>
1991	SAS 67, <i>The Confirmation Process</i> (became new AU 330)	Expanded confirmation standard and separated it from AU 331 (which was henceforth limited to observations of inventories). However, except for general requirements (subject to exception) applicable to receivables, "does not address the extent or timing of confirmation procedures."
2003	AICPA's Professional Issues Task Force, Practice Alert 03-01, <i>Audit Confirmations</i>	Contains nonauthoritative guidance to auditors supplemental to but based on then existing authoritative literature (primarily AU 330)
2007	AU 9330 (Interpretation 1 to AU 330), <i>Use of Electronic Confirmations</i>	Nonauthoritative guidance to auditors primarily as to use of e-mail confirmations
2008	Revision to AICPA's AU 9330 (Interpretation No. 1 to AU 330), <i>Use of Electronic Confirmation</i> (for audits of non-SEC issuers only)	Additional nonauthoritative guidance to auditors primarily as to use of e-mail confirmations
	Update to 2004 version of International Auditing and Assurance Standards Board's International Standards on Auditing (ISA) 505	International response to "high profile" European audit failures, e.g., Barings Bank and Parmalat. Effective for ISA-compliant audits for periods beginning after December 14, 2009. Intended to "update and strengthen" the standard and improve reliability of confirmations. Like its predecessor literature, it is similar to U.S. standards except that it does not mandate use of confirmations in any given circumstance but rather requires only exercise of auditor judgment.
2009	Communication to AICPA Members Regarding Electronic Confirmations (Published only on the AICPA's website and no longer available)	Nonauthoritative AICPA staff guidance regarding use of designated third party service providers to process confirmations electronically.
	PCAOB's <i>Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations</i>	To consider amending AU 330 to address technology advances and related risks and other developments reducing effectiveness.
2010	PCAOB's Exposure Draft, <i>Proposed Auditing Standard Relating to Confirmation</i> (not yet "finalized" or submitted to the SEC for approval — subject to change)	Intended to supersede PCAOB's Interim Auditing Standard, AU 330 (for audits of SEC issuers) and to "strengthen" the standard. Among other things, it proposes to: <ul style="list-style-type: none"> • Require confirmations for cash and other specified accounts and in response to specified risks • Update the standard for significant electronic technological developments • Specify required procedures to be applied when responses contain disclaimers or restrictions.
2011	SAS, <i>External Confirmations</i> ("finalized" and approved but not yet numbered or dated, expected to be effective for audit periods ending after December 14, 2012, but subject to change)	Part of the "Clarity Project;" will supersede AICPA/ASB's AU 330 (for audits of non-SEC issuers) and improve convergence with ISA 505. Encourages and suggests new matters for auditor consideration but does not mandate use of confirmations in any specific circumstances except that it retains old SAP 1 requirements regarding receivables.