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Discussant's Response to Third Party Confirmation Requests: A New Approach Utilizing an Expanded Field

William C. Dent

Elmer Fox, Westheimer & Co.

Being a commentator on a paper at a symposium such as Auditing Symposium IV at the University of Kansas is an interesting and challenging opportunity. A commentator can be censorious, neutral, or supportive. Being neutral is not much fun. One can usually find a basis for the posture of a censor, but I believe one should not attempt to be censorious unless there is a basis for such a position, and I find none in this paper. Therefore, my overall comments on Dr. Sorkin's paper will be supportive.

I find the paper to be creative and innovative—an interesting and fascinating study. Sorkin's objective of increasing the reliability of the confirmation process is admirable, and I am pleased that he recognizes the cost/benefit relationship in his paper. Too often in accounting research the cost/benefit relationship is ignored.

Sorkin makes the statement, "If reliability can be increased, then the auditor will be able to perform the audit task more effectively and efficiently." In a period of rising audit costs there are few who would disagree with the concept of more effective and efficient auditing. The question then is: Does the expanded field confirmation request provide more reliability to the third party confirmation process? Dr. Sorkin's research suggests that the third party confirmation process is made more reliable through the use of the expanded field, but more research may be necessary as discussed later.

Sorkin makes one statement in the paper that basically I do not agree with: "The auditor relies upon evidence to evaluate the accuracy of an entity's books . . ." I would contend that the auditor relies upon evidence to corroborate the representations made in the financial statements to support the auditor's opinion thereon. If the auditor intends to rely on internal accounting controls, the auditor must study and evaluate and test compliance with those controls. In testing compliance, the auditor will gather evidence that the controls are operating and therefore can be relied on to produce accounting records that have no material misstatement in them. The type of testing performed in Dr. Sorkin's study, while not described as such, appears to be a form of attribute sampling to test compliance with accounting controls surrounding receivables and revenue.

On another point, in my opinion it was unfortunate that both the populations sampled involved individuals. One population really should have been commercial accounts. Further research might show a substantial difference in results

with commercial accounts. Also, clients with commercial accounts might be more likely to object to the expanded field confirmation request in that it could imply that the client is not sure of the balance to be confirmed.

The statement that a nonresponse to a negative request is a confirmation is questionable. There must be consideration of the recipient who tosses the confirmation in the wastebasket without any further thought—a possibility that exists with all types of negative confirmations.

Was it significant that the “large high” errors on positive confirmations had significantly higher response rates even though the Type II error rate was high? Why? Was the respondent attempting to select a balance more favorable to him? We don’t know. This area needs further research. It was also noted that the Type II error rate decreased as error increased. Why? Materiality? We don’t know.

In conclusion, the approach is innovative and forward thinking. However, research is needed involving commercial accounts receivable of different sized companies. Once this research has been performed and evaluated, more definitive conclusions can be drawn about expanded field third party confirmation requests.