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Certified Public Accountants

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March 2, 2010

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Request for Public Comment - *Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Related Amendments to PCAOB Standards*, PCAOB Rulemaking Docket Matter No. 026

Dear Office of the Secretary:

McGladrey & Pullen, LLP (McGladrey) appreciates the opportunity to offer our comments on the *Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk, and Related Amendments to PCAOB Standards* (the repropoed standards). McGladrey is a registered public accounting firm serving middle market issuers.

As noted in our previous comment letter dated February 20, 2009, we support the Board's efforts to update its existing standards related to the requirements for assessing and responding to risks in an audit. Further, we appreciate the changes and improvements the PCAOB has made from the original proposed auditing standards.

Our comments are organized by those that are general in nature, followed by those that relate to specific standards.

Eliminate unnecessary differences between the Board's standards and other standards

Virtually all public accounting firms registered with the PCAOB also audit nonissuers under the International Auditing and Assurance Standards Board's (IAASB), *International Standards on Auditing (ISAs)* and the AICPA's Auditing Standards Board's (ASB), *Statements on Auditing Standards (SASs)*. As the demand on U.S. public accounting firms to conduct audits under the ISAs increases, auditors will be required to master this third set of standards.

We recognize the PCAOB's significant efforts in the repropoed standards towards reducing differences between its standards and the ISAs and SASs. We also recognize the PCAOB's efforts towards providing clarity as to its rationale for many such differences in Appendix 9, *Additional Discussion of New Proposed Auditing Standards and Comments on Original Standards Proposed in October 2008*. However, many differences remain that we believe are not intended to

result in a different decision or action by the auditor. (Examples of such differences are included in the Center for Audit Quality (CAQ) comment letter and in our Firm's and the CAQ's comment letters on the original proposed standards.) Unnecessary differences between the Board's standards and those of other standard-setters increase the costs of performing *all* audits because firms must develop and maintain two, and even three, audit methodologies and training programs, with no corresponding benefit to audit quality. In fact, these unnecessary differences can lead to confusion and misunderstanding by auditors of what is required of them and why, which potentially leads to an erosion of audit quality. We encourage the PCAOB to minimize or eliminate differences between its standards and those of other standard-setters when no difference in an objective or in a decision or action by the auditor is intended.

Organization of the standards

We encourage the Board to undertake a project to improve the consistency in the form and style of its standards. We also urge the Board to provide a codification of its standards, which we believe would facilitate better understanding and implementation of the Board's standards.

In addition, we suggest that all requirements of the auditor be placed in the main body of the standards. For example, paragraph 56.c. of Appendix 4, *Identifying and Assessing Risks of Material Misstatement*, states "...the auditor should evaluate how risks at the financial statement level could affect risks of misstatement at the assertion level." In addition, paragraph B.1 in Appendix B of the same proposed standard states, "...the auditor should obtain an understanding of how the company uses information technology ("IT") and how IT affects the financial statements." Embedding requirements in the notes and appendices can result in auditors' failure to identify and implement those requirements.

Standards-setting process

We appreciate the Board's improvements in the transparency of its standards-setting process; in particular its re-exposure of the proposed standards, its detailed responses to the comments received, and explanations of its rationale where it believes differences between the re-proposed standards and those of other standards-setters are warranted. We agree with the CAQ's recommendations for further enhancements to the PCAOB's standards-setting process, including:

- Highlighting expected changes in auditor performance.
- Providing detailed comparisons of proposed standards with existing PCAOB, IAASB and ASB standards.
- Increasing collaboration with IAASB and ASB in developing auditing standards.
- Establishing task forces that include members of the auditing profession to provide a practicing auditor's perspective, which would allow the Board to identify potential implementation issues and enhance auditors' understanding of the Board's standards.

Effective date of the standards

The Board's proposed effective date (audits of fiscal years beginning on or after December 15, 2010) may not provide sufficient time between the date of approval by the Board and the SEC and the date on which firms could be ready for implementation. As a practical matter, changes in standards need to be finalized early in a calendar year to allow firms time to revise policies and methodologies by mid-year and train their professionals during the summer CPE season in order to be in a position to implement the policies as of calendar year end. Accordingly, we request that if the standards have not been approved by the Board and the SEC by April 30, 2010, the Board change the effective date to audits of fiscal years beginning on or after December 15, 2011.

Following are our observations on specific paragraphs of the proposed standards:

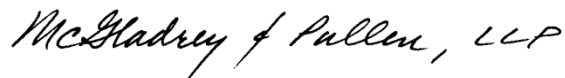
1. Appendix 2 (Proposed Auditing Standard – *Audit Planning and Supervision*).
 - a. Paragraph 13 regarding multi-location engagements addresses how an auditor takes into account the activities of internal auditors or others in accordance with AU sec. 322 but does not address how an auditor takes into account the audits performed by other auditors on components of the entity in accordance with AU sec. 543. We recommend the Board add a paragraph to explain how paragraphs 11 – 12 would be applied in that situation.
 - b. We believe paragraphs 16 -19 could lead to confusion, particularly in regards to the phrase “who participates in the audit,” which could be interpreted a number of ways. We suggest the PCAOB consider the approach taken by the IAASB in ISA 220, *Quality Control for an Audit of Financial Statements*, and in ISA 620, *Using the Work of an Auditor's Expert*. Under these standards, when the auditor uses professionals in specialized areas of accounting and auditing, they are treated as members of the engagement team, regardless of whether they are employees of the firm or outside professionals, and professionals or organizations that provide assistance in fields other than accounting or auditing are deemed “auditor's specialists.”
2. Appendix 3 (Proposed Auditing Standards – *Consideration of Materiality in Planning and Performing an Audit*). We ask the Board to reconsider the use of the term “tolerable misstatement” in the context of assessing risks of material misstatement and planning and performing audit procedures. While we agree that auditors understand the term “tolerable misstatement,” that understanding is currently applied in the context of audit sampling. Changing the context for use of this term from its current context, as well as the use of the same term as the ISAs in a different context, will lead to confusion among auditors. We recommend that the Board instead use the term “performance materiality” to be consistent with ISA 320.

3. Appendix 4 (Proposed Auditing Standard – *Identifying and Assessing Risks of Material Misstatement*).
 - a. The definition of “significant risk” in Appendix A is different from that in the corresponding ISA and proposed SAS. We recommend the Board adopt the same definition to avoid confusion by auditors, or otherwise provide an explanation of the difference.
 - b. We suggest the Board clarify that, since the auditor’s identification of necessary disclosures in accordance with paragraph 13 is performed as part of the auditor’s risk assessment procedures in the planning stage of the audit, that this is a preliminary identification that should be reevaluated at the conclusion of the engagement.

4. Appendix 5 (Proposed Auditing Standard – *The Auditor’s Response to the Risks of Material Misstatement*). Paragraph 5.c. and the related Additional Discussion in Appendix 9 appear to require the auditor to incorporate elements of unpredictability in the selection of audit procedures in response to risks of material misstatement due to fraud and error. We do not believe unpredictable procedures are effective in detecting misstatements due to error and *we further believe the action required* by the auditor in this regard is unclear. Accordingly, we recommend the Board reinstate the language from the October 21, 2008 release, which placed this requirement in the context of responding to the risk of fraud.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to either Bob Dohrer (919.645.6819) or Susan Menelaides (602.760.2827).

Sincerely,



McGladrey & Pullen, LLP