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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Release 2008-002, Rulemaking Docket Matter No. 025 – *Proposed Auditing Standard – Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*

McGladrey & Pullen, LLP is pleased to submit written comments on the proposed auditing standard, *Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*. McGladrey & Pullen, LLP is a registered public accounting firm serving middle-market issuers.

McGladrey & Pullen, LLP supports the issuance of an engagement quality review standard that more clearly articulates the standards for performing an engagement quality review. However, we do have some concerns with specific aspects of the proposed standard as set forth in our responses to the questions posed in Release 2008-002 and in our other comments which follow.

Engagements for Which an Engagement Quality Review Is Required

- 1. The proposed standard does not explicitly state an overall objective of an engagement quality review. Should this standard state such an objective? If so, what should be included in the objective?***

We believe the standard should state an overall objective of the engagement quality review. We suggest the following overall objective:

"The objective of an engagement quality review is to provide an objective evaluation of the significant judgments made by the engagement team in (a) assessing the significant risks of material misstatement, (b) identifying and performing procedures that were responsive to those risks, (c) evaluating the adequacy of the audit documentation with respect to such risks, and (d) concluding on whether the results of the procedures support the engagement team's overall conclusions; and, to provide concurring approval of the engagement report prior to its issuance."

2. *Should an engagement quality review be required for all engagements performed in accordance with the standards of the PCAOB? If not, when should an engagement quality review be required?*

We believe that an engagement quality review should be required for all engagements performed in accordance with the *auditing standards* of the PCAOB. We are concerned, however, that because the proposed standard is written in the context of an audit of the financial statements or an audit of internal control over financial reporting that is integrated with an audit of the financial statements, it is not readily adaptable to certain engagements, such as those performed in accordance with AU 622, 634 and 722.

Qualifications of the Engagement Quality Reviewer

3. *Are the qualifications of an engagement quality reviewer appropriately described in the proposed standard? If not, how should they be revised?*

We believe that the qualifications of an engagement quality reviewer are appropriately described in the proposed standard. We note that the proposing release appropriately indicates that the engagement quality reviewer may seek assistance from others to supplement his or her own expertise and experience or where needed to complete the review in a timely basis. We suggest that similar language be included in the standard itself.

4. *Should the proposed standard allow the engagement team to consult with the engagement quality reviewer during the engagement? Would such consultation impair the reviewer's objectivity?*

We believe the engagement team should be allowed to consult with the engagement quality reviewer during the engagement and that such consultation would not impair the reviewer's objectivity provided the engagement team first analyzed and appropriately documented the relevant facts, circumstances and professional standards, and the engagement team's conclusions with respect to the subject matter of the consultation.

The Engagement Quality Review Process

Scope of Review

5. *Are the descriptions of the scope and extent of engagement quality review procedures contained in the proposed standard appropriate? If not, how should they be changed?*

We believe the scope and extent of the procedures set forth in paragraphs 7-10 of the proposed standard are generally appropriate. However, see our recommendations for modification of paragraphs 7-10 of the proposed standard set forth below, which we believe would appropriately distinguish the engagement quality reviewer's responsibilities from those of the engagement team.

6. *Is the risk-based approach to the engagement quality review described by the proposed standard sufficient to identify significant engagement problems? If not, how should the proposed standard be changed?*

We support the use of a risk based approach to the performance of the engagement quality review, however, we believe the focus of the risk assessment should be on the significant risks of material misstatement rather than on the risk that the engagement team failed to obtain sufficient competent evidence or reached an inappropriate conclusion because there is no generally accepted risk model against which to evaluate that risk. See our recommendations for modification of paragraphs 7-10 of the proposed standard set forth below.

Review of Engagement Documentation

7. *Are the proposed requirements for the review of the engagement team's documentation appropriate? If not, how should they be changed?*

We believe the engagement quality reviewer should have the responsibility to assess the adequacy of the audit documentation with respect to the areas reviewed, but we have recommended modifications to paragraph 10 of the proposed standard, as set forth below.

Timing of the Review

8. *Is the description of the timing of the engagement quality review, as proposed, appropriate? If not, how should it be changed?*

We believe the requirements for the timing of the engagement quality review, as set forth in paragraph 11 of the proposed standard, are appropriate.

Concurring Approval of Issuance

9. *Is the standard for the engagement quality reviewer's concurring approval of issuance appropriate? If not, how should it be changed?*

We believe the "know or should have known" standard, as set forth in paragraph 12 of the proposed standard is very problematic and that a better approach would be to establish a requirement that would preclude concurrence with issuance if the engagement quality reviewer "has not performed" the review in accordance with the requirements of the standard or, based on his or her review, the reviewer "knows" that the engagement team has failed to obtain sufficient competent evidence to support the engagement report or that the engagement report proposed to be issued by the firm is inappropriate. See our recommendations for modification of paragraph 12 of the proposed standard set forth below.

Documentation of an Engagement Quality Review

10. *Are the documentation requirements for an engagement quality review appropriate? If not, how should they be changed?*

The documentation standards set forth in paragraph 14 of the proposed standard are generally appropriate; however, see our recommended modifications to those requirements set forth below.

12. *Should the proposed standard require documentation of the engagement quality review to comply with other provisions contained in AS No. 3? If so, which provisions should be applicable?*

We believe there are no provisions of AS No. 3 not set forth in paragraph 14 of the proposed standard that would be applicable to the documentation of the engagement quality review.

Recommendations for Modifications to Specific Paragraphs of the Proposed Standard

Paragraph 7

7. The engagement quality review should include an evaluation of the significant judgments made by the engagement team and the significant conclusions reached ~~by the engagement team~~ in forming the overall conclusion on in conducting the engagement and in preparing the engagement report, if a report is to be issued. To identify and evaluate the significant judgments and conclusions, the engagement quality review should include discussions with the person with overall responsibility for the engagement, discussions with other members of the engagement team as deemed necessary by the reviewer, and other procedures, as described in paragraphs 8 and 9.

Paragraph 8

8. As part of performing the engagement quality review, the engagement quality reviewer should:

- a. **Read the engagement acceptance or continuance documentation and make inquiries of the engagement team to Obtain an understanding of the firm's recent engagement experience with the company and risks identified in connection with the firm's client acceptance and retention process.**
- b. **Read the engagement planning documentation, make inquiries of the engagement team and perform other procedures as deemed necessary by the reviewer to Obtain an understanding of the company's business, significant activities during the current year, and significant financial reporting issues and risks of material misstatement.**
- c. **Review the engagement team's documentation of its evaluation of the firm's independence in relation to the engagement.**

- d. Evaluate engagement planning, including (1) the judgments made about materiality and the effect of those judgments on the engagement strategy and (2) the identification of significant risks of material misstatement, including fraud risks, and (3) the plan for ~~and~~ performance of engagement procedures in response to those risks.
- e. Evaluate judgments made about (1) the materiality and disposition of corrected and uncorrected identified misstatements and (2) the severity and disposition of identified control deficiencies.
- f. Read the documentation of consultations that have taken place on difficult or contentious matters. ~~Determine if~~ Evaluate whether appropriate consultations have taken place on difficult or contentious matters that were subject to the engagement quality review procedures. ~~Review the documentation, including conclusions, of such consultations.~~
- g. Read the financial statements, management's report on internal control over financial reporting, or other information that is the subject of the engagement and the engagement report (if an engagement report is to be issued) for the period covered by the engagement and for the prior comparative periods presented.
- h. Read other information in documents containing financial statements that are the subject of the engagement to be filed with the SEC and evaluate whether the engagement team has taken appropriate action with respect to material inconsistencies with the financial statements or material misstatements of fact of which the engagement quality reviewer is aware.
- i. ~~Determine if~~ Evaluate whether appropriate matters that were subject to the engagement quality review procedures have been communicated, or identified for communication to the audit committee, management, and other parties, such as regulatory bodies.
- j. ~~Review~~Read the engagement completion document and confirm with the person with overall responsibility for the engagement that there are no significant unresolved matters.

Paragraph 9

9. Based on the procedures performed in accordance with paragraphs 7 and 8, and other relevant knowledge possessed by the engagement quality reviewer, the engagement quality reviewer should assess whether there are significant risks of material misstatement ~~areas within the engagement that were not identified by the engagement team~~ pose a higher risk that the engagement team has failed to obtain sufficient competent evidence or reached an inappropriate conclusion. For the ~~areas that pose any such risks,~~ the engagement quality reviewer should evaluate whether the engagement team performed procedures that were responsive to the ~~assessed risks,~~ the judgments made by the engagement team were reasonable in the circumstances and the results of the procedures support the engagement team's overall conclusion.

Paragraph 10

10. Evaluate *Engagement Documentation*. The reviewer should evaluate whether the engagement documentation of the matters that were subject to the engagement quality review procedures –

- a. ~~Is appropriate in the circumstances and~~ consistent with the requirements of PCAOB Auditing Standard No. 3, *Audit Documentation (AS No. 3)*,
- b. Indicates that the engagement team responded appropriately to matters that present a significant risk of material misstatement, and
- c. Supports the conclusions reached by the engagement team ~~with respect to the matters reviewed~~ and the conclusions and representations in the engagement report with respect to the matters reviewed.

Paragraph 12

12. The engagement quality reviewer must not provide concurring approval of issuance if he or she has not completed the engagement quality review in accordance with the requirements of this standard, or knows, or should know based upon the requirements of this standard, that (1) the engagement team failed to obtain sufficient competent evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the firm's report, if a report is to be issued, is not appropriate in the circumstances, or (4) the firm is not independent of its client.

Paragraph 14

14. Documentation of an engagement quality review should be included in the engagement documentation and should include information concerning:

- a. Who performed the engagement quality review,
- b. The areas of the engagement subject to the engagement quality review,
- c. Evidence that ~~the~~ procedures required by paragraphs 7-10 of this standard were performed by the engagement quality reviewer,
- d. When the review procedures were ~~performed~~completed,
- e. ~~The results of the review procedures~~Whether the engagement quality reviewer concurs with significant judgments made by the engagement team in the areas subject to the engagement quality review procedures, and
- f. Whether the engagement quality reviewer provided concurring approval of issuance.

Other Comments

Effective Date

As proposed, the standard would be effective for engagement reports issued (or the communication of an engagement conclusion, if no report is to be issued) on or after December 15, 2008. We are concerned that the proposed effective date would not permit sufficient time for registered public accounting firms to implement the new engagement quality review requirements. We also believe that the effective date should be linked to the beginning of an engagement period. By linking the effective date to the beginning of the engagement period rather than the report issuance date, the new requirements would (1) be known and anticipated as of the beginning of the engagement period, (2) allow the assigned engagement quality reviewer to comply with the requirements throughout engagement planning and execution, and (3) be in place for each quarterly review conducted under AU section 722, *Interim Financial Information*. In this manner, adoption of the new standard would be more effective and efficient.

The effective date should provide all registered public accounting firms with sufficient time to (1) adopt policies and procedures consistent with the new standard, (2) train their personnel in the requirements of the new standard, and (3) assign qualified engagement quality reviewers consistent with their system of quality control. Accordingly, we recommend that the PCAOB should delay the effective date to annual periods beginning no earlier than twelve months after SEC approval of the final standard.

Closing

Thank you for the opportunity to comment on this proposed standard. Questions concerning our comments should be directed to Bruce Webb, Executive Partner – National Office of Audit and Accounting (515.281.9240) or Scott Pohlman, SEC Coordinator (952.921.7734).

Very truly yours,

McGladrey & Pullen, LLP