

September 9, 2010

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

Re: PCAOB Rulemaking Docket Matter No. 028

Dear Office of the Secretary:

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards*. Our comments are organized by those that are general in nature, followed by those that relate to specific paragraphs.

General Comments

Differences between the Board's Standards and Other Standards

The requirements of this proposed standard are significantly different from the corresponding standards of the International Auditing and Assurance Standards Board (IAASB) and AICPA Auditing Standards Board (ASB). If differences between the PCAOB's standards and the IAASB and ASB standards become more significant and pervasive, audit firms may be required to develop and maintain separate audit methodologies, policies and training. Under such circumstances, some firms may elect not to perform issuer audits, ultimately resulting in reduced competition. Before embarking on further revisions of the interim standards, we urge the PCAOB to consider whether its planned revisions to the interim standards will create unnecessary differences between its auditing standards and those standard setters for non-issuers.

Risk-based Audit Approach

In our comments below, we note instances where the proposed standard is prescriptive and at times contradicts the concept of risk-based auditing. An effective risk-based audit approach is dependent on the auditor's use of professional judgment in identifying and assessing risks of material misstatement and in designing and performing further audit procedures in response to those risks. Prescriptive procedures inhibit the auditor's use of professional judgment, based on the facts and circumstances of the entity and its environment. In many instances, we believe the Board can achieve its objectives by providing additional guidance regarding the auditor's use of professional judgment, rather than requiring adherence to rigid, prescriptive requirements.

Requirements of the Auditor Included in Notes

We are concerned that auditors will not readily identify requirements contained in "Notes" to the proposed standard, and that auditors may fail to identify and implement those requirements. We urge the Board to place all requirements of the auditor in the body of the standard and use "Notes" to describe how auditors might implement the requirements.

Comments on Specific Paragraphs

1. **Confirmation of Receivables That Arise from Credit Sales, Loans, or Other Transactions**

Paragraph 8 of the proposed standard requires the auditor to perform confirmation procedures for receivables that arise from credit sales, loans, or other transactions. We recommend that the Board retain the exception in extant AU Section 330 that allows auditors to not send confirmation requests when the confirmation process is expected to be ineffective. We believe there are valid situations where confirmation procedures are ineffective, such as when customers have a stated policy of not responding to any auditor confirmation requests and when confirmations are sent to individuals in connection with an audit of a healthcare provider. In such situations, the design of the confirmation has little or no impact on the effectiveness of the confirmation procedures. We believe the removal of this exception precludes the auditor's use of professional judgment and will lead to inefficiencies in the audit without improving audit effectiveness. To improve auditor performance in this area, we suggest the Board retain this exception, but provide guidance on and examples of the appropriate use of the exception and the alternative procedures to be performed in such circumstances.

We also recommend revising the last sentence of paragraph 8 as follows: The auditor should consider ~~assess~~ the risk of material misstatement due to error or fraud, including whether the risk is a significant risk, when selecting which receivables to confirm.
2. **Confirmation Procedures in Response to Significant Risks**

Paragraph 10 requires the auditor to perform confirmation procedures in response to significant risks that can be adequately addressed by confirmation procedures, regardless of whether the risk of material misstatement can be adequately addressed by the performance of other substantive procedures. We believe this is unnecessarily prescriptive and that paragraph 10 should be revised to apply only to those situations where the significant risk is a fraud risk, such as undisclosed oral or written modifications to agreements. For example, paragraph 10 would appear to require an auditor to confirm the terms of a business acquisition with the selling party when other substantive procedures would also be effective. We recommend the Board eliminate or modify this requirement and, instead, provide guidance regarding when confirmation procedures would be the only effective response to significant risks.
3. **Use of Internal Auditors and Others**

Page 20 of the Release accompanying the proposed standard states: "internal auditors may assist in testing that confirmation requests are properly addressed and in assembling information necessary for the auditor to resolve exceptions in confirmation responses." We suggest the Board include this guidance in the proposed standard. Without this language in the standard, we believe auditors will interpret the standard as precluding the use of internal auditors to assist with confirmation procedures in any manner.
4. **Determining the Type of Confirmation Requests to Send**

In paragraph 17, we suggest removing the phrase "as the only form of confirmation request" from the sentence preceding the bullets as we believe all of these conditions should be present when the auditor uses negative confirmation requests to obtain audit evidence.
5. **Requesting Responses Directly from the Confirming Parties**

The last sentence of paragraph 22 requires the auditor to request that the confirming party re-send a confirmation response that was initially sent to a party other than the auditor. We believe an oral verification of the confirmation response from the confirming party would reduce audit risk to an acceptable level and should also be permitted.

6. **Management Requests Not to Confirm**

The Note in paragraph 24 requires the auditor to “obtain more persuasive audit evidence than he or she would have obtained had there been no response to a confirmation request or had the auditor made a decision not to perform confirmation procedures.” While we understand the rationale for this requirement, we do not understand what audit evidence the auditor would obtain that is more persuasive than that obtained under paragraphs 27 and 28 for non-responses. We suggest the Board revise this Note to more clearly explain the types of evidence the auditor would obtain in these situations.

Also, we believe the requirement in paragraph 24.c. to communicate to the audit committee management’s request to not confirm certain accounts, balances or other items is unnecessary when the auditor has agreed to management’s request. However, we do support the requirement in paragraph 25 for the auditor to communicate any disagreements with management’s request to not confirm certain accounts, balances and other items. We suggest the Board also incorporate this requirement in its *Proposed Auditing Standard Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards*.

7. **Non-responses**

The fourth sentence of paragraph 28 requires the auditor, in addition to performing alternative procedures, to include the terms of significant transactions or agreements in the management representation letter and to communicate the terms of the transactions or agreements to the audit committee, or equivalent. We believe these requirements are unnecessary as they do not provide the auditor with additional audit evidence. However, if the Board retains the requirement to include the terms in the management representation letter, since a copy of that letter must be provided to the audit committee prior to the filing of the audit report with the SEC, it would be redundant to ask the auditor to also include the terms of significant transactions or agreements in the audit committee communication.

8. **Reliability of Confirmation Responses**

Paragraph 31 requires the auditor to explicitly assess the reliability of all confirmation responses, and provides factors the auditor would consider in making this assessment. We believe this requirement is overly prescriptive, and suggest it be revised to conform with International Standard on Auditing 505 and the Auditing Standard Board’s proposed Statement on Auditing Standards, *External Confirmations*, which require the auditor to obtain further audit evidence when he or she identifies factors that give rise to doubts about the reliability of a response.

In the Note to paragraph 32, the list of circumstances where the auditor should obtain additional audit evidence includes a response from a confirming party that is the custodian and servicer of a material amount of the company’s assets. We suggest the Board clarify that this circumstance would not apply to non-related-party financial institutions, insurance companies, broker-dealers, and other entities whose custodial and servicing activities are subject to regulatory oversight.

9. **Additional Procedures for Electronic Confirmation Responses**

The Note to paragraph 35 requires confirming parties to provide a written acknowledgment that “(a) it is aware of the auditor’s request for and intended use of the information, and (b) the files to be accessed contain information responsive to the auditor’s request”. We are concerned that third parties will refuse to provide such an acknowledgement thereby causing the auditor to be required to perform additional audit procedures, and that the cost of performing such procedures will outweigh the benefits. We recommend this requirement be removed or, at a minimum, that the Board allow confirming parties to provide a general acknowledgement to the auditor’s firm, rather than an acknowledgment for each individual issuer.

10. **Disclaimers and Restrictive Language**

Paragraph 37 requires the auditor to evaluate the effect of a disclaimer or restrictive language on the reliability of a confirmation response. While we agree with this requirement, we urge the Board to collaborate with representatives of key confirming parties to reduce the use of disclaimers and restrictive language.

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,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP