

February 24, 2012

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

RE: PCAOB Rulemaking Docket Matter No. 030

Dear Office of the Secretary:

McGladrey & Pullen, LLP appreciates the opportunity to comment on the PCAOB's *Proposed Auditing Standard Related to Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU sec. 380*. We continue to support the PCAOB's efforts to further strengthen the communications between auditors and audit committees. We have the following comments, which we believe would help to clarify certain sections of the proposed standard and enhance its application in practice.

Establish an Understanding of the Terms of the Audit

Paragraph 5 requires the auditor to establish an understanding of the terms of the audit engagement with the audit committee, including communicating to the audit committee the responsibilities of the auditor and the responsibilities of management. Although this requirement does not institute the responsibilities of the auditor or management, it does require the establishment of an understanding of such responsibilities. Likewise, the proposed standard should not institute the responsibilities of the audit committee. However, it should require the establishment of a mutual understanding of the audit committee's responsibilities. This is particularly relevant for audits of non-issuer brokers and dealers who do not have audit committees that are subject to the rules of the SEC or the stock exchange governance rules.

We believe the requirements in paragraph 5 should be expanded to include establishing an understanding of the audit committee's responsibilities related to the audit of the company's financial statements. Additionally, we believe that Appendix C, "Matters Included in the Audit Engagement Letter," should be revised to include matters such as the following:

- d. Audit committee's responsibilities:
 1. The audit committee is responsible for overseeing the company's financial reporting.
 2. The audit committee is responsible for informing the auditor of matters that may be related to the audit, including for example, knowledge of known or potential illegal acts and complaints or concerns raised regarding accounting or auditing matters.
 3. The audit committee is responsible for adequate communications with the auditor, including, but not limited to the following:
 - i. Appropriate and timely actions taken in response to matters raised by the auditor;
 - ii. Open communications with the auditor;
 - iii. A willingness to meet with the auditor without management present; and
 - iv. Probing issues raised by the auditor.

Paragraph 6 requires the auditor to have the engagement letter executed by the appropriate party or parties on behalf of the company. Further, if the appropriate party or parties is other than the audit committee, or its chair on behalf of the audit committee, the auditor should determine that the audit committee has acknowledged and agreed to the terms of the engagement. We suggest this requirement be strengthened to require acknowledgment by the audit committee in writing. This is especially important if the audit committee's responsibilities are outlined in the engagement letter.

Overall Audit Strategy and Timing of the Audit

Paragraph 10.d. requires the auditor to communicate to the audit committee the names, locations, planned roles, and responsibilities, including the scope of audit procedures, of other independent public accounting firms or other persons, who are not employed by the auditor, that perform audit procedures in the current period audit. We believe it could be beneficial to provide the audit committee with additional relevant information related to the involvement of others who support the audit effort. We are concerned however that the proposed requirement for the auditor to communicate the involvement of others who are not considered key participants in the audit could detract from the meaningfulness of this aspect of the communication to the audit committee.

We suggest establishing a threshold for this communication, such as a minimum percentage that is consistent with that ultimately used in the PCAOB's transparency proposal (if adopted) for disclosing in the audit report the involvement of other firms or persons. With respect to metrics that might be used to indicate the extent of participation of each firm, we believe a threshold of 10 or 20 percent would provide audit committees the most meaningful information about participants in the audit. This is consistent with existing PCAOB rules that set a threshold for the level of audit work deemed significant enough to require PCAOB registration and inspection.

Accounting Policies, Practices, and Estimates

Paragraph 12.b.(2) requires the auditor to communicate to the audit committee how current and anticipated future events might affect the determination of whether certain policies and practices are considered critical. We are unclear as to how an auditor should anticipate future events and determine whether they are relevant and/or likely to affect a company's current policies or practices. We believe management would be in a much better position to provide meaningful information to the audit committee about how current and anticipated future events or transactions might affect the determination of whether certain policies and practices are considered critical.

Auditor's Evaluation of the Quality of the Company's Financial Reporting

Paragraph 13.e. requires the auditor to communicate to the audit committee matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee's oversight of the financial reporting process. We recommend that the auditor, through the use of professional judgment, be allowed to determine which matters meet the criteria of "difficult" and "contentious" when determining which consultations need to be communicated to the audit committee. To assist the auditor in the exercise of professional judgment in this area, it would be helpful if the guidance explaining the terms "difficult" and "contentious" on page A4-28 of the proposal were included within the final standard.

Going Concern

Paragraph 17.a. of the PCAOB's proposed standard requires the auditor to communicate to the audit committee, when applicable, the conditions and events the auditor identified that, when considered in the aggregate, indicate that there *could* be substantial doubt about the company's ability to continue as a going concern for a reasonable period of time (emphasis added). Paragraph 17.b. requires that if the

auditor's doubt is mitigated, the auditor should communicate to the audit committee the information that mitigated the auditor's doubt, including, if applicable, a discussion of management's plan. Paragraph 3(a) of AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, of the PCAOB's interim standards requires the auditor to consider whether the results of audit procedures performed identify conditions or events that indicate there could be substantial doubt about the entity's ability to continue as a going concern. However, the auditor is only required to obtain information regarding management's plans if he or she believes *there is* substantial doubt regarding the entity's ability to continue as a going concern. Therefore, the communication requirement in proposed paragraph 17.b. would require a level of detail to be provided to the audit committee that exceeds the auditor's current responsibility for performance and documentation.

We believe the trigger point for requiring auditor communication with the audit committee should be when the requirements of paragraph 3(b) of AU Section 341 are applicable. Paragraph 3(b) of AU Section 341 requires that if the auditor believes *there is* substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, he should (1) obtain information about management's plans that are intended to mitigate the effect of such conditions or events, and (2) assess the likelihood that such plans can be effectively implemented.

Proposed Amendments to PCAOB Standards

The proposed amendments to AU sec. 722.34 would require the auditor, when conducting a review of interim financial information, to determine whether any of the matters described in the proposed auditing standard, as they relate to interim financial information, have been identified. If such matters have been identified, the accountant would be required to communicate them to the audit committee. We suggest this amendment be clarified to indicate that the auditor is not required to repeat communications that were made as part of the annual audit.

In addition, the implementation of the proposed amendments to AU sec. 722 prior to the time of the auditor's required annual communications under the proposed standard likely would result in a significant increase in the required communications related to the auditor's review of interim information. Accordingly, we recommend that the proposed amendments to AU sec. 722 only become effective for interim periods following the annual period in which the proposed standard becomes effective.

Comments Regarding the Audits of Brokers and Dealers

The SEC's proposed rule, *Broker-Dealer Reports*, in Release No. 34-64676 states there are 5,063 registered broker-dealers, of which 528 broker-dealers clear transactions or carry customer accounts. The remaining 4,535 broker-dealers are referred to as *introducing brokers* (IBs). Such IBs are generally smaller entities that typically would not have complex operations and would have relatively straightforward books and records. In addition, these IBs typically would have a very simple management structure and not have (a) an audit committee, board of directors, or equivalent body or (b) an individual other than the chief financial officer/controller who would be different than "those persons designated to oversee the accounting and financial reporting processes of the company and audits of the financial statements of the company" – *i.e.*, they would be one and the same. Therefore, the potential incremental benefits resulting from additional auditor communications with audit committees would not justify the additional costs of providing such communications to the "audit committees" of IBs. A practical example of such an additional cost is the difficulty of providing these communications prior to the issuance of the auditor's report because all of the IBs' financial statements must be filed with the SEC within 60 days of fiscal year end. Accordingly we recommend that the proposed communication requirements only apply to clearing and carrying firms (and proprietary trading firms, if those are not included therein).

The PCAOB's proposed standard requests comment on whether there are any communication requirements specific to the audits of brokers and dealers that should be added to the new proposed standard. We suggest that Appendix B to the Proposed Standard ultimately be updated to reference SEC Rule 17a-5 and the PCAOB's proposed attestation standards, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, and *Review Engagements Regarding Exemption Reports for Brokers and Dealers* that would require additional communications for brokers and dealers when they become effective.

Closing Comments

Notwithstanding our clarifying comments above regarding certain sections of the proposed standard, of utmost importance in the application of this standard will be the auditor's ability to use professional judgment in determining the nature and extent of the required communications. This is vital, for example, in allowing the auditor to determine which matters meet the thresholds of communication for "difficult," "contentious" or "significant" matters. The use of auditor judgment also is important in allowing the auditor to decide which items *not* to communicate, which will result in less use of boilerplate language. Further, it will allow the auditor to make the most appropriate communications to audit committees of smaller reporting companies and smaller brokers and dealers. Ultimately, the application of auditor judgment is critical to providing meaningful communications of the most important matters that are relevant to the audit committee and avoid boilerplate discussion that dilutes the effectiveness of the communication. We suggest that language be added to the introductory paragraph of the standard acknowledging the importance of exercising professional judgment in achieving effective communications between the auditor and the audit committee.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Scott Pohlman, National Director of SEC Services, at 952-921-7734.

Sincerely,

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

McGladrey & Pullen, LLP