

May 4, 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. 038

McGladrey LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed Auditing Standard – Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards*. McGladrey LLP is a registered public accounting firm serving middle-market issuers, brokers, and dealers. We support the PCAOB's proposed auditing standard and related proposed amendments to other auditing standards intended to strengthen existing audit procedures for identifying, assessing, and responding to the risks of material misstatement associated with a company's related party transactions. However, we have the following comments related to specific paragraphs of the proposal that we believe should be clarified or modified.

Proposed Standard, *Related Parties*

Objective

We believe the objective in paragraph 2 of the proposed standard should be clarified to read as follows (additions are in bold and deletions have been stricken through):

The objective of the auditor is to obtain sufficient appropriate audit evidence to determine whether related parties **have been identified** and relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.

Identifying Related Parties and Obtaining an Understanding of Relationships and Transactions with Related Parties

Paragraph 3 of the proposed standard requires the auditor to perform procedures to identify the company's related parties. We believe the first clause in the first sentence of paragraph 3 should be revised to require the auditor to perform procedures to determine that management has identified the company's related parties. Our recommendation for the modification is as follows:

The auditor should perform procedures to ~~identify~~ **determine whether** the company's **has properly identified its** related parties . . .

Responding to the Risks of Material Misstatement

Paragraph 15 of the proposed standard requires the auditor to perform certain procedures for each related party transaction, or type of related party transaction, that is either required to be disclosed in the financial statements or determined to be a significant risk. However the required procedures in paragraphs 15.a., b. and d. refer to "the transaction," which could be interpreted to suggest that all

transactions comprising a “type” must be subjected to the required procedures. We believe these paragraphs should be clarified to indicate that testing transactions from each “type” of related party transaction is sufficient.

If the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists, paragraph 17.e. requires the auditor to perform the procedures required by paragraph 15 of the standard, treating the related party transaction as a significant risk. We believe paragraph 17.e. should be revised to allow for the auditor to evaluate the reason for and the significance of the nondisclosure and exercise professional judgment in determining an appropriate audit response.

We are unclear as to the meaning of paragraph 17.g., which seems to imply that the auditor’s assessment of inherent and control risk should be reconsidered. We believe the risk of the possible existence of other transactions with the related party previously undisclosed to the auditor is addressed in paragraphs 17. a. – d., and the risk of failing to properly account for and disclose such transactions is addressed in paragraph 17.e. We believe paragraph 17.g. should be deleted and the first sentence of paragraph 17.h. should be revised to read as follows:

Evaluate the implications for the audit ~~if~~ **of** management’s nondisclosure to the auditor of a related party or relationship or transaction with a related party ~~indicates that fraud or an illegal act may have occurred.~~

Communications with the Audit Committee

We believe all required auditor communications with the audit committee should be codified in one standard. Therefore, we suggest the requirements in paragraph 20 of the proposed standard be moved to the Board’s *Proposed Auditing Standard on Communications with Audit Committees*. The proposed standard on related parties could then include a cross-reference to the requirements in the Board’s *Proposed Auditing Standard on Communications with Audit Committees*.

We believe the “and” between the (i) and the (ii) in paragraphs 6.f., 7 and 20.b. of the proposed standard should be changed to “or”.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to John Keyser, National Director of Assurance Services, at 702-759-4046.

Sincerely,



McGladrey LLP