



July 8, 2014

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. 040

Dear Office of the Secretary:

McGladrey LLP appreciates the opportunity to comment on the *Supplemental Request for Comment for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* dated May 7, 2014 (Supplemental Request).

We are encouraged by the refinements to the framework that are reflected in the Supplemental Request. We understand that the Board is continuing to evaluate the original 19 comment letters on the *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules* and support the Board's efforts to make further improvements to the framework and its implementation.

Proposed Approach

We found the on-line demonstration materials provided in conjunction with the Supplemental Request to be useful in reviewing the proposed framework. We identified possible ways to improve the structure and usefulness of the framework as described below.

Aligning the Numbering Convention for Interpretations with the Related Standards

In the demonstration version, Auditing Interpretations are numbered sequentially from 10 through 28 and the titles of the Auditing Interpretation describe the specific auditing standard the interpretation relates to. Both the standards of the International Auditing and Assurance Standards Board ("IAASB") and the Auditing Standards Board of the American Institute of Certified Public Accountants ("ASB") use a numbering convention that links the interpretation number to the actual standard. For example, in the ASB's methodology Auditing Interpretation 9500 relates to AU-C 500, *Audit Evidence*. We believe that aligning both the numbers and the titles of the auditing interpretations with their underlying standard will facilitate appropriate linkages by users among the different sections of the standards and facilitate compliance with the standards as a whole. As such, we recommend that the Auditing Interpretations be renumbered from what is included in the Supplemental Request. The renumbering could adopt the same convention as the IAASB and ASB through use a "9" prefix and the related standard number to refer to the interpretation. For example, interpretation 9-1205 or simply 91205 could be used to refer to the interpretation to AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

Cross Reference Table Showing PCAOB Standards to ASB and IAASB Standards

The on-line cross-reference tool was useful for the purposes of looking up a specific standard, but a complete table that lists the PCAOB standards in numeric order with the aligned ASB and IAASB standards, in addition to the on-line lookup, would also be a valuable reference tool. Ideally, this tool would be provided also with ASB and IAASB standards in numeric order aligned to the PCAOB standards. This presentation will be particularly useful when access to the on-line tool is not possible.

AU Sec. 532, *Restricting the Use of an Auditor's Report*

In the Supplemental Request, the Board requested specific examples of situations, other than those covered by other PCAOB standards, for which rescinding AU sec. 532 would result in an inappropriate outcome. Our concern with rescinding AU sec. 532 is that this standard is foundational in nature and establishes the basic concepts for restricting the use of the auditor's reports that are referred to in other PCAOB auditing standards. Among other things, AU sec. 532

- provides the basic premise of restricted use reports (paragraph .03);
- describes situations involving both restricted and non-restricted information (paragraphs .12 and .13);
- discusses adding other specified parties (paragraphs .14-.16); and
- provides the basic report language (paragraph .19)

Therefore, rescinding AU sec. 532 would require further revisions to other auditing standards to replace these foundational requirements and guidance.

Comments regarding next steps

The Supplemental Request indicated that “various commenters suggested a variety of individual changes to the titles, order, groupings, or numbering sequence of the reorganization framework. … However, there was little commonality among the suggested changes.” We are concerned that this statement implies that comments that individually have merit are not being considered because there was not unanimity among the comments received. We encourage the Board to conduct further dialogue or outreach as necessary to aid in the Board’s consideration of the comments received. Thoughtful evaluation of the merits of all comments received will enhance the usability and implementation of the Proposed Framework. We would be happy to participate in any discussions with the Board and other stakeholders to increase the level of consensus around specific comments related to the Proposed Framework.

The Supplemental Request provided additional insight into the Board’s thoughts on future phases of the reorganization project that build on the improvements from the initial phase. Although intended to be informational rather than descriptive of specific action plans, we encourage the Board to also consider the following matters as it determines which aspects of the project that should be addressed in the initial phase and which should be addressed at a future date:

- The Supplemental Request describes a future phase that “might address potential reorganization of content in existing standards. For example, standards that cover multiple aspects of the audit could be disaggregated and topics moved to other sections to further align with the flow of the audit process.” A specific example of this opportunity is Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS 5). Because AS 5 contains requirements that permeate all aspects of an integrated audit, we recommend this standard be incorporated into other standards as part of the initial phase of the reorganization of the Proposed Framework rather than as a supplementary project. To illustrate, this would be accomplished by separating AS 5 into the applicable sections of the proposed framework, such as moving AS 5 paragraph 9 into 2101, *Auditing Planning*, moving AS 5 paragraphs 10-12 into proposed 2110, *Identifying and Assessing Risk of Material Misstatement*, and moving AS 5 paragraph 20 into 2105, *Consideration of Materiality in Planning and Performing an Audit*.

Clearly this would require additional effort on the part of the PCOAB staff and the Board. However, we believe the benefits of having the Proposed Framework codified completely in alignment with the execution of an audit would be worth any necessary related delay in releasing the framework. The Board noted certain one-time costs to registered firms for updating references within firm methodologies, related reference materials, and practice aids to reflect the

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new citations to PCAOB auditing standards. Moving content, such as that in AS 5, to other standards after the initial release of the framework will require a duplication of these efforts and therefore result in additional costs that would otherwise be avoidable.

- As mentioned in our letter dated May 28, 2013, we believe it would be very helpful for the Board to provide an analysis of the incremental PCAOB requirements that are applicable when auditors are asked to audit financial statements in accordance with the standards of the PCAOB, which previously were audited in accordance with standards of the IAASB or the ASB. Converting from one set of auditing standards to another can occur in several situations, including when a client that had terminated its SEC registration decides to become registered again, when an existing private client decides to file with the SEC and all periods presented are required to be audited in accordance with PCAOB standards or when a privately held client is acquired by an SEC registrant and is required to guarantee the debt of the registrant. Providing this type of guidance would assist auditors in focusing on matters that the PCAOB views as incremental to other standards.

We appreciate this opportunity to provide feedback on the Supplemental Request and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Mike Campana, Partner - National Professional Standards Group, at 612.455.9414.

Sincerely,



McGladrey LLP