

# McGladrey & Pullen

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January 20, 2004

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. 012  
Proposed Auditing Standard, *Audit Documentation*  
Proposed Amendment to Interim Auditing Standards, *Part of Audit Performed by Other Independent Auditors***

Dear Mr. Secretary:

McGladrey & Pullen, LLP is pleased to submit written comments on the proposed auditing standard, *Audit Documentation* and the proposed amendment of interim auditing standards, *Part of Audit Performed by Other Independent Auditors*. McGladrey & Pullen, LLP is a registered public accounting firm serving middle-market issuers. We support the PCAOB's efforts to improve the quality of audits and generally support its proposals to strengthen existing audit documentation standards. However, we do have the following comments and suggestions for your consideration:

## **PROPOSED AUDITING STANDARD, *Audit Documentation***

### **Paragraph 5.b.**

In recognition of the fact that reviews - like audit procedures - may be performed over a period of time, we suggest replacing "the date of such review" with "the date such review was completed".

### **Paragraph 8**

The second sentence of this paragraph would cause a reference to central repositories to be included in the audit documentation on each and every audit engagement. We believe that requirement creates a costly and unnecessary administrative burden, with no corresponding improvement in the overall quality of audit documentation. We suggest this sentence be deleted.

### **Paragraph 15**

This paragraph would require that evidence obtained or documentation added after engagement completion indicate the date the information was added, by whom it was added and the reason for adding it. Paragraph 13 defines the date of completion of the engagement to be the date of the auditor's report, or

if no report is issued, the date that fieldwork was substantially completed. Paragraph 14 requires that a complete and final set of audit documentation be assembled for retention within 45 days after the auditor first grants permission to use his or her report in connection with the issuance of the financial statements.

Hypothetically, an auditor might complete fieldwork on February 20 and first grant permission to use his or her report on March 16. Under that scenario, the auditor would have until April 30 to assemble a complete and final set of audit documentation. However, any evidence obtained or documentation added after February 20 would need to indicate the date the information was added, by whom it was added and the reason for adding it. Often, significant activities (including engagement review activities) occur subsequent to the substantial completion of audit fieldwork and the date of the auditor's report. We believe that it is only necessary to indicate the date the information was added, by whom it was added and the reason for adding it for evidence obtained or documentation added after the auditor first grants permission to use his or her report.

In addition, paragraph 15 states that audit documentation must not be deleted or discarded. During the course of fieldwork, an auditor frequently accumulates audit documentation that is ultimately determined to be unnecessary and would not otherwise be required to be retained under the requirements of the proposed standard. We believe that, prior to the date the auditor first grants permission to use his or her report, he or she should be permitted to delete or discard information that he or she determines to be irrelevant or superfluous.

#### **Paragraph 16**

We see no reason that a multi-office firm using more than one office of the firm to perform an audit should be required to retain all audit documentation in the office that issued the report. As long as the offices are in the same firm, they would be subject to identical audit methodologies and quality control policies and procedures, and this requirement would represent an unnecessary and costly administrative burden. We will comment separately on how this requirement might apply to audit documentation prepared by other firms (including affiliated firms) in our comments on the proposed amendment.

#### **Paragraph 18**

Although some would argue that the proposed standard should not require a lengthy implementation period, the proposed date of engagements completed after June 15, 2004 is not reasonable. As a practical matter, many such engagements may have already commenced. Firms need a reasonable amount of time to incorporate changes in auditing standards into their audit methodologies, to train their staff, and to implement the standards on procedures performed in advance of year-end. As a result, it is extremely difficult for firms to comply with changes in auditing standards earlier than approximately nine months from the date they are issued. Based on the expected timing of the issuance of this standard, we believe it would be much more reasonable to require implementation for audits of financial statements for periods beginning after December 15, 2003.

#### **PROPOSED AMENDMENT TO INTERIM AUDITING STANDARDS, *Part of Audit Performed by Other Independent Auditors***

We agree that a principal auditor who assumes responsibility for the work of another auditor (including an affiliate) and decides not to make reference to the other auditor's work or report should have an obligation to review the other auditor's audit documentation to the extent necessary to provide reasonable assurance that such documentation meets the requirements of the PCAOB's standards. However, it is neither necessary nor practicable for the principal auditor to review the audit documentation of the other auditor to the same extent and in the same manner as the audit work performed by all those who

participated in the engagement. At most, the engagement and concurring partners should be required to review the audit documentation of the other auditor to the same extent and in the same manner as they would review the audit documentation of work performed in similar circumstances (based on an evaluation of audit risk, materiality, etc.) by another office of their firm. In addition, the proposed standard should acknowledge that the engagement and concurring partners might need to delegate some of their review responsibilities to others who possess a sufficient understanding of the applicable language and business environment. Finally, because auditing standards make no clear distinction between supervision and review, and the extent and manner of review procedures performed is largely a matter of audit judgment, it would not be practicable for an auditor to review all work (whether performed by the engagement office, another office in the firm, or another firm) to the same extent and in the same manner.

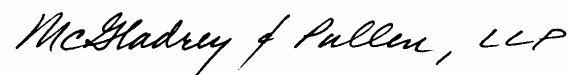
In the case of affiliated firms, common audit methodologies and quality control processes, including inspection, could also mitigate the need to review the work to the same extent and in the same manner. We are a member firm of RSM International, an affiliation of separate and independent legal firms. RSM International has made significant investments in common methodologies and processes and our firm has participated in the oversight of other members' inspection programs for several years. We believe that the proposed amendment does not give appropriate recognition to the safeguards over audit quality that result from these types of activities.

Similarly, we believe other less costly (and equally effective) alternatives exist to the proposed requirement that the principal auditor incorporate such documentation into his or her documentation. For example, the principal auditor could be required to obtain the other auditor's agreement to comply with the PCAOB's audit documentation standard, including the document retention standard, and to grant the principal auditor and the PCAOB access to the audit documentation.

We do not believe it would be reasonable to expect auditors to comply with the proposed amendment for audits of financial statements for engagements completed on or after June 15, 2004. At the very earliest, we suggest that the proposed amendment be effective for audits of financial statements for periods beginning on or after December 15, 2003. In any event, we believe that the implementation of the proposed standard should be delayed until a reasonable period of time after all significant legal issues related to the registration and inspection of foreign firms have been resolved. Principal auditors domiciled in foreign countries may need an even longer period to comply with the proposed amendment.

Thank you for the opportunity to comment on the proposed standard and the proposed amendment. Questions concerning our comments should be directed to Bruce Webb, National Director of Auditing (515.281.9240) or Leroy Dennis, Executive Partner – Audit & Accounting (952.921.7627).

Very truly yours,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP". The signature is written in black ink and is positioned to the right of the typed name "McGladrey & Pullen, LLP".