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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. 018
Proposed Auditing Standard, *Reporting on the Elimination of a Material Weakness*

Dear Mr. Secretary:

McGladrey & Pullen, LLP is pleased to submit written comments on the proposed auditing standard, *Reporting on the Elimination of a Material Weakness.* McGladrey & Pullen, LLP is a registered public accounting firm serving middle-market issuers. We support the PCAOB's efforts in responding to concerns expressed by registered public accounting firms as well as users of the audited financial statements with regard to this topic. However, we have identified certain issues that we believe require additional consideration by the PCAOB.

Achievement of Control Objective

We do not believe that a report on elimination of a material weakness is the appropriate place to introduce the concept of control objective. While we agree that a control objective can be thought of as the converse of "what can go wrong", we are concerned about introducing this concept in this report when it was not included in the auditor's report on internal control that originally reported the material weakness. However, if it is included, the report should be expanded to discuss the fact that control deficiencies, including significant deficiencies, can exist and the control objectives can still be met.

Paragraph 8 of Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*, (AS 2) states that a deficiency in the design of a control exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is *not always met*. It should also be noted that neither the definition of a significant deficiency (AS 2.9), nor the definition of a material weakness (AS 2.10) refer to whether or not the control objective has been met.

We believe that the linking of the elimination of a material weakness with the stated control objective *being met* is misleading to users of such reports. In fact, we believe there will be many instances where an issuer will put new controls in place that serve to lessen the severity of a control deficiency below that of a material weakness, but where a control deficiency or significant deficiency still remains. We are concerned that a user of such reports might infer from the wording of the opinion paragraph that the new controls operate at a level of effectiveness such that not only has the material weakness been eliminated, but also that no control deficiencies related to the control objective remain.

Material Weaknesses Resulting From Aggregation of Significant Deficiencies

Paragraph 14 of the proposed auditing standard states:

> "If a material weakness has previously been reported, a necessary control objective (or objectives) has not been achieved. A *stated control objective* in the context of an engagement to report on the elimination of a material weakness is the specific control objective identified by management that, if achieved, would result in the material weakness being eliminated."

We believe that additional guidance is needed in the proposed auditing standard to address situations where the previously reported material weakness resulted from an aggregation of significant deficiencies. For example, if a previously reported material weakness resulted from the aggregation of three significant deficiencies related to a specific account balance or class of transactions and each of the significant deficiencies resulted from the failure to meet different control objectives, would all three control objectives need to be met in order for the material weakness to be eliminated? We believe that in these circumstances, all control objectives related to the previously reported material weakness (aggregated) would need to be met in order for the material weakness to be eliminated.

Definition of Material Weakness

We believe that the sample auditor's report included in the proposed auditing standard does not clearly describe the results of the engagement because no definition of a material weakness is provided in the sample auditor's report. We believe that if an auditor is reporting on the elimination of a material weakness, that a definition of what has been eliminated should be included in the auditor's report. We believe that the inclusion of the definition of a material weakness in the auditor's report is needed to most clearly communicate the results of the engagement because the user of such reports needs to understand that the elimination of a material weakness simply means that the issuer has placed new controls in operation that results in the likelihood that a *material misstatement* of the annual or interim financial statements occurring has been reduced to remote.

Reasonable Assurance

Unlike the auditor's report on the audit of internal control, the sample auditor's report on the elimination of a material weakness does not include the concept of "reasonable assurance." We believe that in order for the auditor's report to clearly communicate the results of the engagement, the opinion paragraph of the auditor's report should reflect the concept of reasonable assurance.

Reporting When the Auditor Disagrees With Management's Assertion that a Material Weakness Has Been Eliminated

Paragraph 53 of the proposed auditing standard states that in situations where the auditor determines that the material weakness has not been eliminated as asserted by management, that the auditor is not required to issue a report, but rather could only communicate, in writing, his or her conclusion to the audit committee. We believe that would only be appropriate if management does not make an assertion in any SEC filing that the material weakness has been eliminated. However, if management makes such an assertion in any filing with the SEC and the auditor does not agree that the material weakness has been eliminated, we believe that the auditor should be required to issue a report containing an adverse opinion.

Obtaining Sufficient Knowledge of the Company's Business and Internal Control

Paragraph 23 of the proposed auditing standard provides guidance for situations where a successor auditor performs and engagement to report on the elimination of a material weakness as his or her initial engagement. We believe that the example provided in paragraph 23(a) is confusing. For example, a material weakness related to IT user access controls (an IT general control), while certainly having a pervasive effect, may not require a more extensive understanding of internal control over financial reporting in order to determine that the material weakness had been eliminated. Further, paragraph 23(a) of the proposed auditing standard directs the auditor to paragraphs 47 through 51 of AS 2, which states that the auditor must obtain an understanding of each of the five components of the COSO framework for internal control over financial reporting. The paragraph then continues by saying that the extent of understanding of internal control required depends on the nature of the material weakness on which the auditor is reporting. We believe that further clarification is needed with respect to paragraph 23 and that the example provided in the latter part of paragraph 23(a) is not useful in clarifying the intent of the paragraph.

Using the Work of Others

Paragraph 35 of the proposed auditing standard states, in part, that "the auditor *should* perform any walkthroughs himself or herself because of the degree of judgment required in performing this work." However, paragraph 36 of the proposed auditing standard provides an example that states, "The auditor *might* perform a walkthrough of the reconciliation process himself or herself." We believe that the auditor should always perform walkthroughs himself or herself, and thus the wording in paragraph 36 should be changed to "should" to be consistent with paragraph 35 of the proposed auditing standard.

Reference to a Predecessor's Auditor's Report Where a Material Weakness Has Been Identified

Paragraph 47(b) of the proposed auditing standard states that in situations where a predecessor auditor's report on management's most recent annual assessment of the effectiveness of internal control over financial reporting identified a material weakness, the successor auditor's report on the elimination of the material weakness should refer to the predecessor auditor's report *if necessary*. We believe that the successor auditor's report on the elimination of a material weakness should directly refer to predecessor auditor's report (unless the material weakness was identified as of an interim date).

Thank you for the opportunity to comment on the proposed auditing standard. Questions concerning our comments should be directed to Leroy Dennis (952.921.7627), Bruce Webb (515.281.9240) or Bob Dohrer (952.921.7762).

Very truly yours,

McGladrey & Pullen, LLP