

September 29, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on the PCAOB's *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (Concept Release). Our comments are organized by those that are general in nature, followed by those that relate to the specific potential alternatives for changes to the auditor's report presented in the Concept Release.

General Comments

We agree that the PCAOB should explore potential changes to the auditor's reporting model. Improvements should be considered for the auditor's communications to investors regarding the work performed by the auditor under the current framework for the audits of the financial statements and internal control over financial reporting. This should include communicating additional information to investors within the parameters of PCAOB auditing standards and SEC disclosure requirements. In that regard, we believe the PCAOB should first focus on improvements to the current auditor's reporting model. Consideration of areas where auditors could provide assurance on information outside of the financial statements should be a secondary future project.

While investors, analysts and other users of the financial statements have expressed a desire and need for more information regarding certain aspects of the issuer's financial statements and business operations, it is important that management or the audit committee remain the source of such information. As discussed below, we believe that the auditor should not be the original source of disclosure of information about the issuer. However, if changes were made to SEC disclosure requirements whereby management or the audit committee were required to disclose additional information about the issuer, or even the nature of discussions with the auditor, we would support the auditor reporting on the accuracy of those disclosures as long as the information was not overly subjective in nature.

Clear objectives for any changes to the auditor's reporting model should be established and clearly communicated to issuers, auditors and users of financial statements. Regardless of the changes ultimately made to the auditor's reporting model, it will be important that investors and other financial statement users are educated on the changes and the implications of those changes.

Comments on Specific Potential Alternatives for Changes to the Auditor's Report

Auditor's Discussion and Analysis

Our Firm believes the PCAOB should not consider a revised auditor's reporting model that would include a supplemental narrative report, referred to in the Concept Release as an Auditor's Discussion and Analysis (AD&A). We believe the responsibility for disclosure of any information about an issuer's financial statements should continue to be initially communicated by management or the audit committee.

Any analysis of the financial statements by the auditor could compete with management's disclosures, or shift the responsibility for accounting and disclosure away from the issuer and to the auditor. Further, auditors should not be the original source of disclosure about an issuer as this is contrary to the auditor's established role of attesting to information that is provided by management or the audit committee.

Not only would an AD&A be contrary to the auditor's established role, it also could create uncertainty on the part of users if such analysis was contradictory to that of management. If, on the other hand, the AD&A was consistent or nearly consistent with management's discussion and analysis in the issuer's annual report, there would be redundancy in disclosures resulting in additional disclosure overload. It therefore seems that the time involved by the auditor in drafting and reviewing an AD&A about information in the issuer's financial statements would result in additional costs that may not be commensurate with the potential related benefits.

If the AD&A provided information about the audit as opposed to a discussion about the financial statements, such a narrative report also would have the potential for disclosure overload and investor confusion. It would be nearly impossible for the auditor to succinctly discuss audit procedures that were responsive to significant risks identified by the auditor, why the procedures were responsive to such significant risks, and the results of those procedures. A discussion of such matters at a high level would provide no meaningful information to investors as it would become boilerplate. In addition, the time required to draft and review the AD&A would further condense the limited time available under existing SEC filing deadlines for the execution of existing audit responsibilities. Whenever additional work is required to be performed in an unchanging timeframe, a higher likelihood of error and mistakes exists resulting in possible negative effects on overall audit quality.

Required and Expanded Use of Emphasis Paragraphs

The required and expanded use of emphasis paragraphs could be a viable approach to providing additional information that might be useful to investors and other financial statement users. We believe such emphasis paragraphs should be objective, fact-based discussions of the most significant matters in the financial statements and should make specific reference to where such items appear in the financial statements. This approach would be beneficial in that it would highlight areas of audit emphasis in the auditor's report so that investors could refer to the related financial statement disclosures made by management. This method retains the auditor's established role of attesting to information provided by management.

We do not believe emphasis paragraphs should include auditor's comments on the key audit procedures pertaining to the identified matters. It would be nearly impossible for the auditor to succinctly comment on such audit procedures, and a discussion of such matters at a high level would provide no meaningful information to investors as it would become boilerplate.

If the Board decides to adopt required and expanded use of emphasis paragraphs, the resulting standard would need to include clear implementation guidance to help the auditor in assessing and consistently determining the types of matters that should be identified for emphasis.

Auditor Assurance on other Information outside the Financial Statements

Another alternative to enhance the auditor's reporting model could be to require auditors to provide assurance on information outside the financial statements, such as MD&A. This approach would allow the auditor to continue in its established role of attesting to information provided by management and also could provide more information for investors. One alternative for consideration in providing assurance on information outside the financial statements would be to require auditors to provide a separate attestation report on the examination of the completeness and accuracy of the issuer's critical accounting estimate disclosures in its MD&A. This alternative would be responsive to suggestions made by investors regarding the need for more information about important judgment calls made by management in preparing the financial statements. It should be noted, however, that the time required to perform an examination of the completeness and accuracy of the issuer's critical accounting estimate disclosures in its MD&A could detract from the limited time available under existing SEC filing deadlines for the execution of existing financial statement audit responsibilities.

With regard to the potential for auditor involvement with earnings releases, often the auditor performs procedures on these management communications prior to public distribution to assess the consistency of the financial information contained therein with the audit in process. We believe that the only potential engagement that might be performed on earnings releases prior to completion of the audit would be pursuant to existing PCAOB standard AT 201, *Agreed-Upon Procedures Engagements*. Such engagements however require that this type of report be restricted for use to specified parties. Given that earnings releases are by their very nature intended for general distribution, the PCAOB attestation standards would have to be modified for such a report to be of value to users of the earnings releases.

Clarification of Language in the Standard Auditor's Report

In addressing whether there should be clarification of language in the existing standard auditor's report, the question of whether the current model for the auditor's report should be retained should first be addressed. We support the retention of the current auditor's report as the issuance of an unmodified opinion continues to provide investors a measure of comfort with respect to the issuer's financial statements. However, we believe the addition of clarifying language to the standard auditor's report would be beneficial in enhancing the understanding of the auditor's role and responsibilities. Such clarifying language should be standardized, rather than tailored, so as to not create inconsistency and potential investor uncertainty.

We believe the addition of clarifying language to the following matters identified in the Concept Release could be beneficial:

- "Reasonable assurance about whether the financial statements are free of material misstatement" – Define the terms "reasonable assurance" and "material misstatement."
- Auditor's responsibility for fraud – Include a statement that the auditor is responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether caused by error or fraud.
- Auditor's responsibility for financial statement disclosures – Specifically state that the financial statement footnotes are an integral part of the financial statements and are covered by the audit report.
- Management's responsibility for the preparation of the financial statements – Expand this concept to include management's responsibilities for the Form 10-K. Also consider including a brief description of the audit committee's responsibilities.
- Auditor's responsibility for information outside the financial statements – Describe the auditor's responsibility for information outside the financial statements.
- Auditor's independence – Explicitly state that the auditor is independent of the issuer under all relevant SEC and PCAOB rules.

Also, we believe the addition of clarifying language to the following additional matters could be beneficial:

- Auditor judgment – Highlight the necessary use of professional judgment in making decisions regarding risk assessments and the selection of audit procedures.
- Scope limitations and non-compliance with U.S. generally accepted accounting principles (GAAP) – Summarize the auditor's responsibility in situations where the audit scope is limited or when it is determined that the financial statements are not in accordance with GAAP.
- Networks – If applicable, describe the accounting firm's network structure, the responsibility of the member firm signing the audit report, and the participation of other member firms in the audit.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Bob Dohrer, National Director of Assurance Services at 919-645-6819.

Sincerely,

McGladrey & Pullen, LLP

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