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

Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations

RE: PCAOB Rulemaking Docket Matter No. 028

McGladrey & Pullen, LLP appreciates the opportunity to comment on the PCAOB's *Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations* (the Concept Release). McGladrey & Pullen is a registered public accounting firm serving middle market issuers.

OVERALL COMMENTS ON THE CONCEPT RELEASE

We support the PCAOB's potential standard-setting project to amend AU Section 330, *The Confirmation Process* and believe that soliciting input and feedback at an early stage of the standard-setting process will result in a more effective process. We support the PCAOB's use of Concept Releases to obtain input on relevant issues for use in drafting proposed standards or revisions to existing standards.

Principles-based standards that support professional judgment

We are concerned the Concept Release suggests the Board may be considering a prescriptive, more rules-based, approach. Some of the questions included in the Concept Release discuss the inclusion of potential new "requirements" as opposed to guidance that would allow auditors to exercise appropriate professional judgment. We encourage the Board to adopt suggested revisions of its confirmations standard that supports and enhances the use of auditors' professional judgment. Such an approach is consistent with encouraging the use of the auditor's professional judgment in planning and performing audit procedures that are appropriately responsive to risks the auditor has identified. Additionally, because third parties are not obligated to respond to an auditor's confirmation request, we are concerned about the Board furthering current unilateral requirements imposed solely on auditors (i.e., and not also on third parties from whom confirmations are sought).

Convergence of auditing standards

We support the Board's consideration of the work of both the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB). We are in favor of convergence of auditing standards by using the International Standards on Auditing (ISAs) as the base from which to develop standards (in this case, ISA 505 (Redrafted), *External Confirmations* (ISA 505)) and adding to or modifying the ISA wording for specific requirements and guidance deemed necessary for the purposes of auditing issuers.

We understand the PCAOB has considered the ASB's current project to converge its confirmations standard with ISA 505. The ASB will shortly expose a proposed standard for public comment and a number of the issues addressed in this Concept Release have been discussed by the ASB and related task forces. During its standard-setting process, we encourage the PCAOB to consider specifically the ASB's proposed standard and the existing guidance in AU Section 9330, *The Confirmation Process: Auditing Interpretations of Section 330*, of the AICPA Professional Standards (vol.1). This interpretation was issued as a result of some of these debates and addresses some of the challenges relating to electronic confirmations.

Further study of audit confirmation process

We recommend the PCAOB conduct studies regarding the efficiency, effectiveness, and reliability of confirmations, including third-party intermediaries, methods of increasing response rates and effects of technology. We believe the PCAOB should put together a group of auditors, issuers, banking regulators, bankers, other service providers and IT experts to discuss best practices available to auditors in improving the confirmation process, including designing confirmation requests, maintaining control over confirmation requests and responses and ensuring reliability of confirmation responses.

OTHER OBSERVATIONS AND CONCERNS

Objective and definition

The suggested objective in the Concept Release could be interpreted to mean that performance of a confirmation procedure would provide sufficient, competent audit evidence in all cases. We believe the objective should be that *when the auditor has determined that confirmations are appropriate*, the procedures are designed and performed to obtain reliable audit evidence.

We also recommend the Board provide guidance regarding evaluating the reliability of information obtained through the confirmation process, including practical examples. In considering this guidance, we recommend the Board refer to the guidance in ISA 505, paragraphs A12-14 and in AU Section 9330. Further, we recommend the Board seek to obtain input from specialists in electronic information exchange to identify potential avenues of manipulation in an exchange of information through direct online access, including how the occurrence of manipulation might be prevented or detected. Insights obtained might then be included in the guidance as part of the practical examples.

Determining when to use audit confirmations

We believe the Board should provide more guidance to auditors to assist in the determination of *when* confirmations might be used (i.e., when confirmations would provide an appropriate source of audit evidence given the facts and circumstances), instead of creating presumptive requirements. We do not believe the revised guidance should provide prescriptive requirements regarding what data should be confirmed. For example, we do not believe the requirement to confirm accounts receivable should be expanded to require in all circumstances confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions. Rather, the necessity of using confirmation procedures, as opposed to other available audit procedures, should be considered by the auditor using professional judgment based on risk assessments and the consideration of the potential sources of audit evidence. Additionally, the use of words such as "significant terms," "complex," or "unusual" are subjective in nature and very possibly may lead to inconsistent application by auditors.

Exceptions and non-responses

Auditors should be required to resolve exceptions and follow up on non-responses; however, the nature of those procedures should be left to the auditor based on facts and circumstances. We believe the revised standard should continue to allow for the omission of alternative procedures in the circumstances described in Footnote 40 of the Concept Release.

Consistent application of standards

In drafting a new standard, especially aspects that address recipient address validation, confirmation control, and authentication of responses, we recommend the PCAOB ensure consistency regarding the ultimate objectives for both manual and electronic confirmations. The objectives that should be achieved for electronic and manual communications are the same, although the techniques may vary. We believe the requirements in the revised standard should not be overly prescriptive or focused on the form of the confirmation.

Use of third-party intermediaries

The use of an intermediary introduces additional risk relating to the reliability of confirmations, including that the integrity of the information may be compromised. When a third party facilitates the confirmation process between the auditor and the respondent, the auditor should understand the role of the third party. The auditor may wish to evaluate and/or test controls when assessing the reliability of confirmations received through third parties. The Board should consider whether and how an assurance trust services report (for example, SysTrust), or another type of auditor's report on that process, may assist the auditor in assessing the design and operating effectiveness of the electronic and manual controls, and include appropriate guidance within its revised standard.

Management requests not to confirm

Because of elevated risk associated with a request by management not to confirm certain items, we support the inclusion of the procedures to consider as identified in ISA 505, paragraphs 8 and 9.

Disclaimers and restrictive language in confirmation responses

We believe that depending on the nature of the risk, a disclaimer or the use of restrictive language may limit the amount of evidence that is provided by a confirmation. While the standard should remind auditors of this, we are concerned that any new detailed requirements, which by their nature would not address all situations, might tend to supplant professional judgment. However, more guidance on how disclaimers and other restrictive language might affect the auditor's assessment of the relevance and reliability of audit evidence provided by confirmations would be useful.

Additionally, the fact that some respondents use disclaimers and other restrictive language indicates a flaw of imposing unilateral requirements on auditors without addressing respondents' obligations and mechanisms that might be put in place to reinforce their responsibilities relating to responding to confirmation requests. We encourage the Board to work with organizations that represent issuers, banking regulators, the SEC, and others to develop an approach that is in the public's best interest, while being sensitive to the respondents' liability concerns.

Negative confirmations

We believe the evidence provided by negative confirmations may be limited and might be less persuasive than the evidence provided by positive confirmations. However, we believe the use of negative confirmations should continue to be permitted because in certain circumstances, negative confirmations may provide an appropriate source of audit

evidence, and may be the only type of substantive procedure that could be performed without undue audit effort and associated cost.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to either Bruce Webb (515-281-9240) or Bob Dohrer (919-645-6819).

Sincerely,

McGladrey & Pullen, LLP

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