

November 25, 2009

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File No. PCAOB-2009-02, *Engagement Quality Review*

Dear Ms. Murphy:

PricewaterhouseCoopers ("PwC") appreciates the opportunity to provide our perspectives on the Public Company Accounting Oversight Board's (PCAOB or the "Board") *Proposed Auditing Standard - Engagement Quality Review* (the "standard" or "proposed standard").

As we discussed in our response letter to the PCAOB dated April 20, 2009, we support the Board's continuing effort to promulgate standards that promote audit quality. We believe that robust and effective engagement quality reviews (EQRs) that focus on the significant judgments made and related conclusions reached by audit engagement teams further that purpose. We commend the Board for its consideration of the constructive comments made by constituents during two formal comment periods, and for releasing a significantly improved standard which takes into account many of the comments received on both of the earlier proposals. We have provided our observations about certain aspects of the proposed standard as modified from the earlier exposure drafts in the remainder of our letter.

Due Professional Care

The proposed standard requires an engagement quality review and concurring approval in connection with each audit and interim review engagement conducted pursuant to the standards of the PCAOB. Paragraph 12 of the standard provides that the engagement quality reviewer may provide concurring approval of issuance of an audit report or interim review "only if, after performing with due professional care the review required by this standard, he or she is not aware of a significant engagement deficiency." The standard cites AU sec. 230, *Due Professional Care in the Performance of Work*, which defines the "due professional care" that auditors are required to exercise in performing an audit. The Board indicates in the second paragraph on page 19 of its adopting release that it "is not redefining due professional care in the context of the EQR standard." Moreover, the Board emphasizes that it "intends the term to mean 'reasonable care and diligence' as described in AU sec. 230."

PwC agrees that the "due professional care" standard, as defined in AU sec. 230, and as explained in the second paragraph on page 19 of the release, is appropriate for conducting an engagement quality review. We suggest, however, that some of the Board's additional commentary following the second paragraph on page 19 goes well beyond, and may be inconsistent with, AU sec. 230. Because the commentary appears largely to be a response to certain comments on the reproposing release, we do not believe this commentary is controlling with respect to application of AU sec. 230. Rather, we expect the Board will apply AS 7's "due professional care" standard in accordance with the terms of AU

sec. 230 itself, as suggested by the Board's statements about its intended meaning that we have referenced in the preceding paragraph of this letter.

Documentation of Significant Engagement Deficiencies

We note that the PCAOB's adopting release provides an example illustrating the Board's expectation that the documentation evidencing the EQR should include any "significant deficienc[ies] identified, how the reviewer communicated the deficiency to the engagement team, why such matter was important, and how the reviewer evaluated the engagement team's response." We believe this example could be interpreted in a manner that is inconsistent with the requirements of the standard and, if so, could result in unintended consequences in the performance of an engagement quality review.

An EQR is an iterative process that frequently takes place throughout the course of an engagement, and an engagement quality reviewer frequently has discussions with the engagement team during the course of an engagement. Most of these interactions are considered a normal part of the audit and EQR quality control processes, and would not be, nor should be, considered to be indicative of the existence of a "significant engagement deficiency." Paragraph A30 of PCAOB Auditing Standard No. 3, *Audit Documentation* (AS No. 3) describes "preliminary conclusions that were part of a thought process that may have led them to a different conclusion" and notes that commenters feared that "an unqualified requirement to document procedures performed, evidence obtained, and conclusions reached without allowing the use of auditor judgment would increase the volume of documentation but not the quality." In response to these concerns, paragraph A32 of AS No. 3 specifically notes that "This standard does not require that the auditor document each interim conclusion reached in arriving at the risk assessments or final conclusions. Conclusions reached early on during an audit may be based on incomplete information or an incorrect understanding." We believe that these same concepts should apply relative to the appropriate and timely conduct of an engagement quality review and the judgmental determinations that are necessary to evaluate and determine which matters rise to the level of a significant engagement deficiency.

We believe that an engagement team's existing obligation to prepare documentation consistent with the objective and requirements of AS No. 3, when combined with the proposal's requirement to indicate which documents were reviewed by the engagement quality reviewer and his or her assistants, will provide adequate documentation of the basis for the engagement quality reviewer's compliance with the standard.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the SEC staff or the Board may have. Please contact Michael Gallagher (973-236-4328), Brian Richson (973-236-5615) or Brian Croteau (973-236-4345) regarding our submission.

Sincerely,

