



November 25, 2009

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

**Re: File No. PCAOB-2009-02: Notice of Filing of Proposed Rules on Auditing Standard No. 7, *Engagement Quality Review*, and *Conforming Amendment***

Dear Ms. Murphy:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA). The CAQ appreciates the opportunity to respond to the SEC's Notice of Filing of the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposed Rules on Auditing Standard No. 7, *Engagement Quality Review (EQR)*, and *Conforming Amendment* (the PCAOB Standard). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

We strongly support auditing standards that promote audit quality and believe that a robust and effective EQR that focuses on significant judgments made and the related conclusions reached by the engagement team furthers that purpose. We commended the PCAOB for considering feedback from stakeholders on its original proposal and for exposing a revised proposal. We believe that compared to the original proposal and the revised proposal, the PCAOB Standard more appropriately defines the requirements of the EQR. However, we have some observations and concerns regarding the following aspects of the release to the PCAOB Standard and have organized our comments around the following topics:

- Due Professional Care
- Documentation of an EQR

### **Due Professional Care**

Paragraph 12 of the PCAOB Standard indicates that the engagement quality reviewer “may provide concurring approval of issuance only if, after performing with due professional care<sup>1</sup> the review required by this standard, he or she is not aware of a significant engagement deficiency.” We agree that the EQR should be conducted with due professional care as required by existing professional standards. We believe the language in paragraph 12 appropriately establishes the expected standard of performance of the engagement quality reviewer through its reference to AU Section 230, *Due Professional Care in the Performance of Work*, and is consistent with the objective of an effective EQR. However, we do not believe the language in the release to the PCAOB Standard should be relied upon to interpret the meaning of due professional care beyond its description in AU Section 230.

### **Documentation of an EQR**

Paragraph 19 of the PCAOB Standard requires auditors to maintain documentation that is sufficient to “enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, and others who assisted the reviewer, to comply with the provisions of this standard...” As stated in the release to the PCAOB Standard, this guidance is generally consistent with the documentation requirements included in PCAOB Auditing Standard No. 3, *Audit Documentation* (AS 3).<sup>2</sup> We agree that maintaining similar documentation requirements for the engagement quality reviewer as those required for the audit engagement team is appropriate.

However, page 38 of the release to the PCAOB Standard provides an example illustrating the Board’s expectation that the documentation evidencing the EQR should include any “significant [engagement] deficiency[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.” As discussed further below, we believe this example could be interpreted in a manner that is inconsistent with the requirements included in the PCAOB Standard and could result in unintended consequences in the performance of an EQR.

Review activities associated with EQRs typically occur during multiple stages of the audit. As part of his or her review, an engagement quality reviewer will typically identify any number of comments, observations and/or questions for the engagement team to address as part of the review and at various points in time as the

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<sup>1</sup> See AU Section 230, *Due Professional Care in the Performance of Work*.

<sup>2</sup> As indicated in the release to the PCAOB Standard, paragraph 6 of PCAOB Auditing Standard No. 3 requires the auditor to “document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.”

review activities are conducted to coincide with the progress of the audit. In some cases, the matters noted by the engagement quality reviewer may have already been contemplated or addressed by the engagement team. In other instances the items communicated serve as ways in which the audit evidence or documentation could be improved.

Given the above, many matters raised as part of the EQR are likely to be based on observations of the engagement that reflect preliminary conclusions or work that is incomplete. We are concerned that the example provided in the release to the PCAOB Standard (as referred to above) may indicate that the PCAOB expects an evaluation of such issues and documentation of those that, if unaddressed by the engagement team, would represent significant engagement deficiencies. Evaluations on work that is preliminary or incomplete would be inconsistent with the overall objective of the EQR.<sup>3</sup> Such evaluations would necessarily entail judgments regarding whether the engagement team would have addressed the issue identified during the normal course of the audit, a process which we believe would not provide an incremental benefit to the quality of the EQR and would appear to be inconsistent with the overall objective of the EQR.

In addition, documentation of such matters would not appear to be consistent with guidance in AS 3, which does not require documentation of interim conclusions reached in arriving at final conclusions during the course of the audit.<sup>4</sup> We believe such an expectation would result in additional documentation that would not enhance the quality of the review.

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We appreciate the opportunity to comment on the PCAOB Standard and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

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<sup>3</sup> As outlined in Paragraph 2 of the PCAOB Standard, the overall objective of the EQR is to “perform an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement...”

<sup>4</sup> See Paragraphs A30 – A32 of AS 3.

cc: SEC

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