

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

24 November 2009

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:

We appreciate the opportunity to respond to the SEC's Notice of Filing of the Public Company Accounting Oversight Board's (PCAOB) Proposed Rules on Auditing Standard No. 7, Engagement Quality Review (EQR), and Conforming Amendment (the PCAOB Standard). 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 previously commended the PCAOB for the modifications and clarifications made to its original proposal. The PCAOB Standard more appropriately defines the requirements of the EQR than the PCAOB's earlier proposals. However, we have some observations and concerns regarding the following aspects of the Release to the PCAOB Standard.

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 care¹ 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 Audit Work*, and is consistent with the objective of an effective EQR. However, we believe interpretations of the meaning of due professional care should be made from the extant standard and 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.

¹ See AU sec. 230, Due Professional Care in the Performance of Work

Documentation of the EQR

Paragraph 19 of the PCAOB Standard indicates that documentation of an EQR should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer to comply with the provisions of the standard, including information that identifies the engagement quality reviewer, the documents reviewed by the engagement quality reviewer and the date the engagement quality reviewer provided concurring approval of issuance of the auditor's report. We believe these documentation requirements for the EQR are appropriately defined and are consistent with the objectives of the EQR. We further agree with the statement in the Release to the PCAOB Standard that these documentation requirements are generally consistent with the documentation requirements included in PCAOB Auditing Standard No. 3, *Audit Documentation (AS 3)*.

Our general agreement with the PCAOB Standard notwithstanding, we are concerned that the example on page 38 of the Release to the PCAOB Standard indicating the documentation should include "the significant [engagement] deficiency 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," may indicate that the PCAOB expects an evaluation and documentation of those matters identified by the engagement quality reviewer that, if not addressed by the engagement team, would represent significant engagement deficiencies. In particular, we are concerned that the example illustrates an expectation about documentation evidencing the EQR that, in our view, is inconsistent with the requirements of paragraph 19 and with certain aspects of AS 3, and that could produce behavior and unnecessary documentation that do not improve audit quality.

It is our experience that review activities associated with an EQR often occur throughout the conduct of the audit and, as a result, the engagement quality reviewer may identify any number of comments, observations and/or questions for the engagement team to address at various stages 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 matters communicated serve as timely feedback as to the clarity of the documentation gathered or prepared or otherwise communicate how the audit documentation could be improved. Therefore, many of the matters raised as part of the EQR are preliminary observations about work that may or may not be complete or that require follow-up discussions with the engagement team.

Evaluating whether comments and observations made by the reviewer should be documented in the manner suggested by the example on page 38 of the Release to the PCAOB Standard might frequently entail evaluation of work that is preliminary or incomplete and would be inconsistent with the overall objective of the EQR. Such evaluation also would necessarily entail judgments regarding whether the engagement team would have addressed the issue identified during the normal course of the audit had the engagement quality reviewer not made an observation, a process that could result in potentially adverse effects on the level of collaboration between the engagement quality reviewer and the engagement team. In addition, documentation of such matters would not appear to be consistent with guidance in AS 3², which does not require evidence of interim conclusions reached in arriving at final conclusions during the course of the audit. We believe such a requirement would result in

² See Paragraphs A30 – A32 of AS 3

additional documentation that would not enhance the quality of the review. Therefore we believe it should be made clear that the PCAOB Standard and AS 3 set forth the applicable requirements for documentation rather than the example in the Release to the PCAOB Standard.

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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.

Very truly yours,

Ernst + Young LLP