

March 7, 2008

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

PCAOB Rulemaking Docket Matter No. 025

Dear Secretary:

This letter includes my comments on PCAOB Rulemaking Docket Matter No. 025, "Engagement Quality Review." As noted in the proposal, this proposal mainly updates and formalizes the Board's Interim Quality Control Standards with respect to a requirement for concurring partner reviews. As such, the principal objective seems to be to extend the concurring partner review requirement to certain smaller accounting firms that weren't previously members of the AICPA's SEC Practice Section. This is an appropriate step to ensure reasonably consistent quality controls for the audits of all public companies. As such, I concur with the basic conclusions of the proposal. However, I have two matters for your consideration.

Paragraph 9 of the proposed rule states that "Based on the procedures performed in accordance with paragraphs 7 and 8, and other relevant knowledge possessed by the engagement quality reviewer, the engagement quality reviewer should assess whether there are areas within the engagement that pose a higher risk that the engagement team has failed to obtain sufficient competent evidence or reached an inappropriate conclusion." This strikes me as overly broad as nearly any area of an audit might involve insufficient evidence or inappropriate conclusions, and this won't necessarily be clear from the procedures in paragraph 8. One result may be that concurring partners feel it necessary to repeat a high percentage of the review work of the engagement partner, resulting in unnecessary costs

and perhaps a delay in finalizing year end audits. Another result may be that PCAOB inspectors, having reviewed all of an engagement's working papers, may find fault with the more limited work of a concurring partner because they think he or she should have looked at areas they found deficient through their comprehensive inspection. Neither of these seems to be a positive outcome.

The best way to address this problem would be to simply eliminate paragraph 9 as paragraphs 7 and 8 specify both the overall approach and specific procedures that are to be followed by the concurring partner reviewer. However, it may be possible to address the problem by expanding on paragraph 7 to clearly state what the objective of the concurring partner review is. The present draft of the standard does not specify what is supposed to be accomplished by the concurring partner review and that seems like a glaring omission.

Another matter for your consideration is the relationship of the concurring partner review and the company's audit committee. At a minimum, I believe that the standard should encourage accounting firms to clearly communicate with audit committees on the purpose and timing of this review. In my experience on audit committees, I've found that accounting firms don't normally say much about the independent review unless I ask about it. As a best practice, I think the reviewer should meet with the audit committee at least once a year and his or her role should be explained. Otherwise, there's a chance that a last minute problem or delay in the audit can occur because of concerns expressed by the reviewer without the audit committee even knowing that this procedure has to be performed.

Please let me know if you'd like to discuss my comments.

Sincerely,

Dennis R. Beresford
Ernst & Young Executive Professor of Accounting