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T 206-302-6800

F 206-652-2098

April 17, 2009

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

Via e-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: Request for Public Comment: *Proposed Auditing Standard – Engagement Quality Review, PCAOB Rulemaking Docket Matter No. 25***

Dear Office of the Secretary:

We appreciate the opportunity to share our views on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposed Auditing Standard on *Engagement Quality Review*, and Conforming Amendment to the Board's Interim Quality Control Standards (the proposal or proposed standard).

We would like to take this opportunity to recognize the significant effort of the Board and its staff in developing the proposed standard. We believe a well performed engagement quality review enhances audit quality. We further believe that extending the requirement to other firms that previously were not members of the AICPA's SEC Practice Section is an appropriate step to ensure consistent quality control standards for audits of public companies.

We also appreciate the PCAOB's willingness to expose a revised proposal. In comparing the proposed standard with the initial proposal we support the changes made by the PCAOB, most notably to (1) clarify that applicability is limited to audit engagements and engagements to review interim financial information, (2) add an objective to enable the engagement quality reviewer to better assess when he or she has fulfilled the objective and (3) eliminate from the proposal the requirement for the reviewer to affirmatively conclude that there is nothing he or she "knows or should know" in order to provide concurring approval of issuance. While we generally support these and other changes made by the Board, we believe further changes are necessary to clarify the Board's intent and to enable us to effectively implement the proposed standard. Our comments and recommendations are provided in the remainder of this letter.

**Objective of the Engagement Quality Reviewer**

As noted above, we support the addition of an objective to the proposal. However, we believe the objective would be improved if it clarified that an evaluation of the conclusions reached are those that relate to the significant judgments in an engagement. We do not believe the Board intended that



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the engagement quality reviewer review *all* of the conclusions reached during an engagement. Accordingly, we recommend paragraph 2 be revised to clarify that the objective is meant to indicate a review of the “...*significant judgments made by the engagement team and the related conclusions reached...*”.

### **Engagement Quality Review Process**

We believe the proposal does not put appropriate limits on the extent of the activities of an engagement quality reviewer. We recommend that the Board clarify that the engagement quality reviewer uses his or her professional judgment when performing the role, in the context of due professional care. We believe such a change will enhance engagement quality, promoting the focus of the engagement quality reviewer on the significant judgments and related conclusions made by the engagement team. In this regard, we believe further clarifications in paragraphs 9 and 10 are necessary.

For example, paragraph 9 of the proposal requires that, “*to identify and evaluate the significant judgments and [related] conclusions, the engagement quality reviewer should perform the procedures described in paragraph 10 by holding discussions...and by reviewing documentation.*” We believe these requirements, as written, are too open-ended. In this light, we believe it important that the Board clarify that the engagement quality reviewer need not review all file documentation or hold discussions with all engagement team members, but that he or she complete these procedures based on his or her professional judgment. The open-endedness of these procedures is especially concerning given the Board’s statement on page 24 of the proposal’s release that “*the requirement to exercise due professional care imposes on a reviewer essentially the same requirement as the ‘knows, or should know based on the requirements of this standard’ formulation in the Board’s original proposal,*” as we further comment below.

Accordingly, we believe that the engagement quality reviewer should review *selected* documentation that he or she believes is necessary to perform the role. Additionally, we believe that the engagement quality reviewer should hold discussions with other personnel involved in the engagement, including members of the engagement team or personnel involved in consultations, when, based on his or her professional judgment, he or she believes it is necessary. We recommend the following revisions to paragraph 9:

In an audit engagement, the engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming an overall conclusion on the engagement and in preparing the engagement report. To identify and evaluate the significant judgments made by the engagement team and related conclusions, the engagement quality reviewer should perform the procedures described in paragraph 10 by holding discussion with the person with overall responsibility for the engagement, by holding discussions with other members of the engagement team and other personnel involved in any significant consultations as considered necessary by the engagement quality reviewer, and by reviewing selected documentation as considered necessary by the engagement quality reviewer.

We also suggest conforming changes to paragraph 14 of the proposal with those noted above.

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Also, we believe the procedures listed in paragraphs 10.e. and 10.f. (for audits) and paragraph 15.b. (which incorporates the requirements of paragraphs 10.e. and 10.f.) (for interim reviews) of the proposal could be interpreted by an engagement quality reviewer to require separate stand alone “determinations” rather than an evaluation of the significant judgments and related conclusions reached by the engagement team. We strongly recommend that paragraphs 10.e. and 10.f. of the proposal be modified to clearly indicate that the procedures noted therein are to include an evaluation of the information learned through the performance of the other engagement quality review procedures in the standard.

Furthermore, we believe certain aspects of paragraphs 10.a., 10.b. and 10.d. (for audits) and paragraphs 15.a. and 15.b. (which incorporates the requirements of paragraph 10.d.) (for interim reviews) of the proposal could be interpreted by an engagement quality reviewer to require a detailed review in contrast to focusing on the significant judgments and related conclusions reached by the engagement team. We suggest the Board modify these paragraphs to clarify that these procedures are intended to apply to significant judgments made by the engagement team. We believe that this change, in combination with the changes to paragraphs 9 and 14 suggested above allowing the engagement quality reviewer to review selected documentation necessary to fulfill his or her responsibility, will result in the appropriate level of involvement of the engagement quality reviewer.

### **Concurring Approval of Issuance**

We observe that paragraphs 12 and 17 of the proposal indicate “*the engagement quality reviewer may provide concurring approval of issuance 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.*”

We support the negative form of assurance and the requirement to exercise due professional care in performance of the role, both of which concepts are consistent with the Board’s interim standards. We believe the requirement to conduct the engagement quality review with due professional care is an improvement over the legalistic “knows or should know” standard of the original proposal. However, we are concerned by and disagree with the Board’s comments in its release on page 24, wherein the Board suggests that “*the requirement to exercise due professional care imposes on a reviewer essentially the same requirement as the ‘knows, or should know based on the requirements of this standard’ formulation in the Board’s original proposal.*” We are not aware of precedent that would cause the standard of due professional care to be an equivalent to the Board’s previously proposed “knows or should know” standard. If precedent exists or if the Board is attempting to redefine due professional care, we ask that the Board provide additional clarification, and to propose a re-definition of the term in the Board’s interim standard AU Section 230, *Due Professional Care in the Performance of Work*. Otherwise, we believe this constitutes a significant conflict between the proposal and the proposal’s release, and between the proposal’s release and existing auditing standards, that should be resolved by the Board in its final standard to prevent unnecessary concern and confusion when performing an engagement quality review.

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### **Documentation of an Engagement Quality Review**

We believe the requirement in paragraph 19(c), which would require documentation of “*significant discussions held by the engagement quality reviewer and others who assisted the reviewer, including the date of each discussion, the specific matters discussed, the substance of the discussion, and the participants,*” is overly prescriptive, cumbersome and burdensome to the engagement process. Consequently, we recommend that the Board remove the requirement in paragraph 19(c) from the proposed standard.

The engagement quality reviewer has frequent discussions with members of the engagement team during the course of an engagement. It is unreasonable to expect that an engagement quality reviewer would be able to determine which discussions would qualify as “significant discussions” on a real time basis without the benefit of hindsight and without transcribing each discussion. As such, this requirement would necessitate documenting the details of each discussion with other members of the engagement team and therefore, result in significant time, effort and cost. We believe the costs of attempting to comply with this detailed requirement would significantly outweigh any of the intended benefits.

It is also unclear to us how this documentation requirement would serve to improve engagement quality. The additional time and costs to be incurred when attempting to comply with the details of this requirement may have the unintended consequence of creating barriers to the timing and frequency of discussions between the engagement quality reviewer and engagement team during the course of an engagement. Further, the engagement team is required to prepare audit documentation in accordance with PCAOB Auditing Standard No. 3, *Audit Documentation*. This documentation should be a sufficient basis for demonstrating the engagement quality reviewer’s compliance with the proposed standard, which should include the significant judgments and related conclusions reached by the engagement team during an engagement. If in forming an overall conclusion the engagement quality reviewer believes that the engagement documentation does not support the significant judgments and related conclusions reached during an engagement, he or she should not provide his or her concurrence until such documentation is included or appropriately modified as required by paragraph 16 of the proposal. Accordingly, we believe requiring additional documentation of discussions with the members of the engagement team is unnecessarily redundant and does not improve engagement quality.

### **Effective Date of the Proposed Standard**

We believe that the proposed effective date for audits of fiscal years ending on or after December 15, 2009, will not permit sufficient lead time to implement the proposed standard in an efficient and effective manner. A final standard is not likely to be adopted until well into calendar year 2009. By that time, auditors will have completed a significant amount of work on annual audit engagements. The changed responsibilities of the engagement quality reviewer would be effective for work already performed or underway. We believe implementing this change well into an audit cycle will cause inefficiencies and might detract from the effectiveness of interim reviews during that period. In this regard, we believe that the effective date of the proposed standard should be linked to the beginning of an audit engagement period. An effective date that is linked to the beginning of an audit period, rather than the end, will allow us to adhere to the new requirements during the entire audit engagement period, including each interim review within the period.

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### **Convergence with Other Standards Setters**

Similar to the recommendations made in our letter dated February 18, 2009, to the Board on its proposed risk assessment standards, we continue to encourage the Board to leverage as much as possible from existing standards adopted by the International Auditing and Assurance Standards Board (IAASB). We suggest the Board use the International Standards on Auditing (ISAs) as a common base for current and future standards-setting, modifying them as it sees fits for a public company audit. We believe a higher degree of convergence will lead to higher quality and more efficient audits.

In a firm our size or smaller, the public company audit practice often represents a smaller part of the firm's client base, and as such the audit approach for the entire firm is not strictly designed around PCAOB standards. It is difficult for a firm and practitioners to incorporate into their audit approach multiple sets of standards that vary from each other either slightly or completely, without a full understanding of the reasoning for the differences. In this regard, we believe it would be helpful if the Board included a comparison between the ISAs and its engagement quality review proposal to assist firms with effective and efficient implementation.

### **PCAOB's Standard Structure**

*Firm quality control* - We observe the proposed *auditing* standard includes presumptively mandatory requirements related to a registered firm's system of quality control in the note to paragraph 4. We believe it is preferable for the Board to include requirements for registered public accounting firms in quality control standards and to only include auditor requirements in the auditing standards.

*Structure of the Board's standards* - We see a lack of consistency in how definitions are presented in the proposal. Definitions are included in the proposal's release and in "Notes" included in the proposal. This lack of consistency makes it more difficult to know how to interpret the proposed standard. For example, it is not clear to us if definitions included in the proposal's release are intended to be authoritative. We believe all definitions, if intended to be authoritative, should be included in the auditing standard, and in a consistent manner. We also find the use of "Notes" confusing. We do not understand why the Board is using "Notes" instead of including the text within a paragraph of the proposal. We recommend the Board discontinue the use of "Notes" or provide additional clarification why the proposal includes "Notes" and how we are to interpret and apply the "Notes". In this light, we believe the Board would benefit by implementing standards of organization and structure for use in its auditing standards, such as that recently implemented by the IAASB in its Clarity Project.

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We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff. If you have any questions, please contact Jeff Brown, Director of Assurance Services (206-302-6814) or Fred Frank in our Professional Practice Group (206-302-6915).

Very truly yours,

*Moss Adams LLP*