

April 20, 2009

Via e-mail: comments@pcaobus.org

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

**Re: PCAOB Release No. 2009-001, Rulemaking Docket Matter No. 025**  
***Proposed Auditing Standard – Engagement Quality Review***

Dear Board Members and Staff:

BDO Seidman, LLP appreciates the opportunity to provide comments on the repropoed auditing standard, *Engagement Quality Review* (the “proposed standard”). We commend the Board for its careful consideration of comments received on the previously proposed standard and its reproposal in light of the significant revisions made. We support the issuance of enhanced guidance that contributes to an effective engagement quality review (“EQR”) process, as such a process is fundamental to audit quality.

While we support the issuance of this proposed standard, we continue to believe that the best approach to the development of high quality auditing standards is to work with the International Auditing and Assurance Standards Board (“IAASB”) and to converge with the International Standards on Auditing (“ISAs”) when appropriate in the context of the U.S. public company environment. Such an approach would be consistent with convergence efforts of the Auditing Standards Board and other standard setters and ensure the development of a single set of standards for use around the world. We encourage the Board to consider the benefits of convergence in relation to this proposed standard and in the development of all other standards. As we more fully describe in later sections of this comment letter, choosing to select only specific attributes of the ISAs into the proposed standard, such as inclusion of an objective, without the context and authority within which the objective is considered, presents certain complexities in implementing the standard.

Our comments to the questions posed in the Release accompanying the proposed standard (the “Release”) are provided below for your consideration.



Public Company Accounting Oversight Board  
April 20, 2009  
Page 2

## A. Applicability of the EQR Requirement

### 1. Should the standard require an EQR for other kinds of engagements performed according to PCAOB standards? If so, what type of engagements should be included and what should an EQR of such engagements entail?

We support restricting the applicability of the proposed standard to audits and reviews of interim financial information. While we believe that investors and other users of financial information expect that any engagement performed according to the Board's standards should be subject to a quality control review by an objective and qualified professional outside the engagement team before issuance, the construct of the proposed standard is such that it is tailored to audits and interim reviews and accordingly should apply only to these specific types of engagements. To ensure the proper attention to quality in other types of engagements (e.g., attestation engagements), we recommend the development of separate engagement quality control standards for these types of engagements.

## B. Objective of the Standard

### 2. Is the objective in the repropoed standard appropriately formulated? Does it articulate the purpose of an EQR?

As set out in our comment letter on the original proposed EQR standard, dated May 9, 2008, we support including an explicitly stated overall objective of the engagement quality review in the proposed standard. The inclusion of an objective supports the principles-based audit approach and, as stated in the Release, serves to focus the auditor's attention on the "big picture."

While we support the use of objectives in all auditing standards, we believe that the current formulation may not be as clear as it might be and suggest the following revisions to more clearly focus the objective. (Deletions are shown as strikethrough text and additions in italics.)

The objective of the engagement quality reviewer is to:

- (a) ~~perform an~~ *evaluate* ~~ion~~ of the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued; ~~and in order to determine~~



Public Company Accounting Oversight Board  
April 20, 2009  
Page 3

- (b) *assess the appropriateness of providing ~~whether to provide~~ concurring approval of issuance based on such an evaluation, using due professional care.*

**3. Will this objective contribute to a more thoughtful and effective EQR?**

Objectives provide a framework for the auditor to assess whether or not in his or her judgment the procedures performed were sufficient to satisfy the stated objective, even when all required procedures as set out in the standard were performed. The clear articulation of an objective of an EQR provides the context within which the auditor exercises professional judgment in the performance of review procedures.

However, as stated in the forepart, we believe that to achieve the full benefit of using objectives within this and any other standards promulgated by the PCAOB, the authority of the objective needs to be defined within the context of a broader standard, and we recommend the development of such a standard. The IAASB has accomplished this through the issuance of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*. (See also our response to question 9 below.)

**C. Qualifications of the Engagement Quality Reviewer**

**4. Is it appropriate to explicitly require a reviewer from within the firm to be a partner or an individual in an equivalent position?**

We continue to believe that paragraph 5 seems to imply that the engagement quality reviewer's skills are expected to match those of the engagement partner. While the Release indicates that the engagement quality reviewer's skills are not required to identically match those of the engagement partner, this is not clear in the language of the standard. In any event, we suggest that a better approach would be to define the attributes of an engagement quality reviewer, similar to what is done in International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

We agree that it is appropriate to explicitly require a reviewer from within the firm to be a partner; however, we are unsure about the meaning of the phrase "or an individual in an equivalent position." While we recognize that this phrase is used in Regulation S-X, its meaning is not sufficiently clear. For instance, does this phrase mean that a director (a non-partner position) in a firm that is organized as a



Public Company Accounting Oversight Board  
April 20, 2009  
Page 4

partnership would qualify as a reviewer? The discussion at the open Board meeting held on March 4, 2009, to consider reproposing this EQR standard, seemed to suggest that the phrase “or an individual in an equivalent position” only pertained in the circumstance where the firm structure was not a partnership. If this is the intention, we suggest providing a footnote to the phrase “the engagement quality reviewer would be another individual in an equivalent position in the firm” that clarifies that this situation would arise only in situations where the firm structure is not a partnership.

**5. Should the standard allow qualified accountants who are not employed by an accounting firm to conduct the review?**

As set out in the proposed standard, we believe that it is appropriate to allow qualified accountants who are not employed by an accounting firm to conduct an EQR. This provision is consistent with the existing interim standards and is necessary to accommodate smaller and medium-sized firms where there may not be other partners with sufficient experience in a particular industry or who meet the independence or objectivity criteria to conduct the review. As the proposed standard is principles-based, the general competence requirement as set out in paragraph 5 of the proposed standard, amended as provided in our response to question 4 above, would provide the basis for selection of an appropriate engagement quality reviewer from outside the firm.<sup>1</sup> The general competence requirement in the proposed standard provides a sufficiently high competency standard while providing flexibility in the selection of appropriate reviewers.

**6. Should the standard prohibit the engagement partner from serving as the reviewer for a period of time following his or her last year as the engagement partner? If so, is two years sufficient, or should it be extended?**

We agree that the standard should prohibit the engagement partner from serving as the reviewer for a period of time following his or her last year as the engagement partner to ensure the appropriate level of objectivity in the review process. While recognizing that the experience gained as an engagement partner on a specific engagement provides a unique perspective a reviewer can draw upon, we believe that a two year period following serving as the engagement partner is a reasonable time period for promoting objectivity.

---

<sup>1</sup> Paragraph 5 of the proposed standard states, “The engagement quality reviewer must possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement.”



Public Company Accounting Oversight Board  
April 20, 2009  
Page 5

#### **D. EQR Process**

- 7. Are the descriptions of the scope and extent of EQR procedures contained in the repropoed standard appropriate? Will the performance of these procedures result in a high-quality EQR? If not, how should these procedures be revised?**

We agree that the scope and extent of EQR procedures described in the proposed standard are appropriately focused on the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement. As currently drafted, we recognize that the reviewer is not expected to obtain “independent evidence” or perform procedures that duplicate those performed by the engagement team in order to evaluate the significant judgments and conclusions made by the engagement team, but rather is expected to identify and evaluate these matters through discussion with the engagement partner and team members as necessary and by reviewing documentation; we support such an approach.

However, as noted in our comment letter on the previously proposed EQR standard dated May 9, 2008, we believe that additional guidance is necessary with respect to a mechanism for the resolution of disagreements between the engagement partner and the engagement quality reviewer. We believe that this guidance should require any conclusions reached to be documented in accordance with the provisions of AS No. 3, paragraph 8, and that the report should not be issued until the matter is resolved in accordance with a firm established framework for the resolution of such differences.

We also believe that that the standard should encourage timely involvement of the engagement quality reviewer as the engagement progresses. This would tend to promote identification and resolution of significant issues early in the engagement.

- 8. Are the specifically required procedures appropriately tailored to reflect the difference in scope between an audit and an interim review?**

We agree that the specifically tailored procedures set out in the proposed standard are appropriately tailored to reflect the difference in scope between an audit and an interim review.



Public Company Accounting Oversight Board  
April 20, 2009  
Page 6

**9. Do the specifically required procedures sufficiently focus the reviewer on areas of highest risk? Are there other procedures that should be required?**

We believe that the procedures specifically required in paragraph 10 for an audit and paragraph 15 for a review of interim financial information appropriately focus the reviewer on the areas of highest risk and that other procedures are not required to meet the objective of the EQR. While the specific procedures described in the standard are required in all circumstances, the use of the objective within the standard provides the “big-picture” perspective whereby the reviewer would assess whether additional procedures were necessary to meet that objective. While we believe that this perspective is necessary, we do not believe that the current structure of the PCAOB standards supports the functioning of the objective such that it provides for the performance of additional procedures when such procedures are necessary to achieve the objective. To realize the full benefit of including an objective within the standard we believe that an ISA 200-like standard is necessary and should be developed.

**E. Concurring Approval of Issuance**

**10. Is the standard for the engagement quality reviewer’s concurring approval of issuance appropriately described in the repropoed standard? Is the first condition appropriately tailored to reflect the difference in scope between an audit and an interim review?**

We agree that the due professional care standard is the correct standard to use in the context of determining whether a reviewer has a sufficient basis to make a meaningful decision about whether to provide concurring approval of issuance. The use of the phrase “knows or should know based upon the requirements of the standard” in the previously proposed standard was sufficiently vague in that it created the potential for second guessing about what a reviewer should have known before providing concurring approval of issuance. However, since the Release itself essentially equates “due professional care” with a “knows or should have known...” criterion, our previously expressed concerns have not been addressed satisfactorily.

In addition, the first item included within the note to paragraph 12 relating to an audit and paragraph 17 relating to a review, regarding the existence of significant deficiencies, are appropriately tailored.



Public Company Accounting Oversight Board  
April 20, 2009  
Page 7

## **F. Documentation of the EQR**

### **11. Are the documentation requirements in the repropoed standard appropriate? If not, how should they be changed?**

We agree that generally the documentation requirements presented in the proposed standard have appropriately replaced the somewhat broad documentation requirements of the previous proposal, such that there is more specificity about what needs to be documented in order to ensure that both the Board, as part of their inspection responsibility, and firms are able to understand how an EQR was conducted and how significant issues were resolved by the engagement team through review of documentation. However, we believe the requirement in paragraph 19(c) to document discussions between the engagement quality reviewer and the engagement team is not necessary and would not be cost-effective. The engagement quality reviewer ordinarily has numerous discussions with members of the engagement team during the course of an audit. It is not always practical to document such discussions on a timely basis. Moreover, the issues discussed already should be documented in the workpapers subject to his or her review and the requirement in paragraph 19(b) would document the engagement quality reviewer's review of those workpapers. Therefore, the additional documentation called for by 19(c) would be redundant.

\*\*\*

We appreciate your consideration of our comments and suggestions, and would be pleased to discuss these with you at your convenience. Please direct any questions to Wayne Kolins, National Director of Assurance at 212-885-8595 ([wkolins@bdo.com](mailto:wkolins@bdo.com)) or Susan Lister, National Director of Audit Policy at 212-885-8375 ([slister@bdo.com](mailto:slister@bdo.com)).

Very truly yours,

*/s/ BDO Seidman, LLP*

BDO Seidman, LLP