

April 20, 2009

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

RE: PCAOB Rulemaking Docket Matter No. 025, *Proposed Auditing Standard - Engagement Quality Review*

Dear Sir:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the "Board") Release No. 2009-001: *Proposed Auditing Standard - Engagement Quality Review* (the "standard" or "proposed standard").

We support the Board's continuing effort to promulgate auditing standards that promote audit quality. We believe that robust and effective engagement quality reviews that focus on the significant judgments made and related conclusions reached by the engagement team further that purpose. We commend the Board for its consideration of the constructive comments made by its constituents during the formal comment period, and for exposing a significantly improved second proposal which takes into account many of the comments received on the first proposal.

Some areas where we believe the second proposal improves upon the first include: (1) providing an objective of the engagement quality reviewer in the standard; (2) appropriately limiting the scope of the applicability of the standard to audits and interim reviews; (3) removing the proposed requirement that in addition to all of the other engagement quality review procedures, the engagement quality reviewer 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; (4) clarifying the procedures expected to be performed and documented by the engagement quality reviewer; and (5) changing the description of the basis of the overall conclusion.

We have provided suggestions in the remainder of our letter that we believe will address our remaining concerns and further improve the standard. Additionally, although we acknowledge the Board's decision to depart from the International Standards on Auditing (ISAs) in both the original and revised proposals, we maintain our view, as expressed in our February 18, 2009 comment letter in response to the PCAOB's proposed risk assessment standards, that the Board should consider using the ISAs as the base from which to develop its standards, as other national standard setters are doing, and add to or modify the ISA wording for requirements and guidance only as the Board deems necessary for audits, including integrated audits, of issuers.

Objective of Engagement Quality Reviewer

As noted above, we support the Board's inclusion of an objective for the proposed standard, which we believe appropriately focuses the engagement quality review on matters relevant to audit quality. The objective helps to clarify that the standard does not aim to create an additional level of independent

substantive auditing procedures nor does it require the engagement quality reviewer to engage in substantive oversight of the audit engagement team, substantively evaluate the performance of the engagement team, or determine compliance with the audit documentation requirements. The objective also recognizes that the responsibilities of the engagement quality reviewer, an element of a firm's quality control, differ from those of the engagement partner.

We recommend, however, that the Board make one clarifying edit to the objective by stating that the review relates to the “significant judgments made by the engagement team, and the related conclusions reached.” We suggest that this same clarification be carried throughout the standard.

Engagement Quality Review Process for an Audit

Paragraphs 9 and 10 include procedures for conducting the engagement quality review of an audit. We agree with the changes in the revised proposal that clarify the extent of documentation that the engagement quality reviewer should review; however, we do not believe the language in paragraph 9 is sufficiently clear to communicate that engagement quality reviewers are able to complete the review by reviewing selected documentation. We note that Paragraph 11 refers to “engagement documentation...reviewed when performing the procedures required in paragraph 10.” We recommend that paragraph 9 also include language to make it clear that the engagement quality review is based upon review of “selected documentation, as considered necessary by the engagement quality reviewer.” In addition to being consistent with our understanding of the Board's intent, this change is also consistent with International Standard on Quality Control (ISQC) 1(R) paragraph 37.

Further, we believe that the procedures set forth in paragraphs 10.e. and 10.f. which require the reviewer to “determine if appropriate matters have been communicated, or identified for communication” and “determine if appropriate consultations have taken place on difficult or contentious matters” could be interpreted to require procedures that go beyond the other requirements of the standard that are focused on the evaluation of the work performed by the engagement team. We therefore suggest that the procedures in paragraphs 10.e and 10.f. of the standard be modified as follows to indicate that the engagement quality reviewer should make an evaluation of the appropriateness of such matters based upon performing the other procedures set forth in the standard:

e. ~~Determine if~~ Evaluate whether appropriate matters that are identified through the performance of the other engagement quality review procedures have been communicated, or identified for communication to the audit committee, management, and other parties, such as regulatory bodies.

f. ~~Determine if~~ Evaluate whether appropriate consultations have taken place on difficult or contentious matters that are identified through the performance of the other engagement quality review procedures. Review the documentation, including conclusions, of such consultations.

As an alternative to these revisions, the Board could include these two procedures in a new paragraph which would follow paragraph 10 and clarify that these evaluations should be made based upon the results of all other procedures performed.

We also suggest that the Board modify paragraphs 10.a., 10.b. and 10.d. to make clear that these procedures are intended to apply to significant judgments made by the engagement team. This change is consistent with the direction provided in paragraph 9 and will add appropriate clarity to the requirements. Additionally, to clarify the intended extent of review of planning and the risk assessment process, we suggest that the Board edit paragraphs 10.a. and 10.b. as follows:

a. Evaluate significant conclusions made during engagement planning, including those resulting from the engagement team's –

- ~~The~~ consideration of the firm's recent engagement experience with the company and risks identified in connection with the firm's client acceptance and retention process,
- ~~The~~ consideration of the company's business, recent significant activities, and related financial reporting issues and risks, and
- ~~The~~ significant judgments made about materiality and the effect of those judgments on the engagement strategy.

b. Evaluate the engagement team's identification risk assessments and audit responses, including the identification of significant risks, including fraud risks, and the engagement procedures performed in response to significant risks.

Engagement Quality Review of a Review of Interim Financial Information

As proposed, in a review of interim financial information, the engagement quality reviewer must read the engagement report only if it is filed with the SEC. The final standard should require the engagement quality reviewer to read such a report if one is issued.

Documentation of an Engagement Quality Review

Paragraph 19.c. requires that the engagement documentation include the 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. We believe the requirement is burdensome and unnecessary, and will result in additional costs that are not likely to provide a commensurate benefit to audit quality. As a result, we recommend it be deleted. For example, an engagement quality reviewer frequently has discussions with the engagement team during the course of an engagement. At the time of each discussion, the engagement quality reviewer may believe it is necessary to document such discussions to ultimately demonstrate compliance with the engagement quality review standard when in fact many of those discussions in retrospect may not be considered to be significant discussions.

The engagement team's existing obligation to prepare documentation consistent with the objective and requirements of PCAOB Auditing Standard No. 3 *Audit Documentation* (AS No. 3), when combined with the proposal's requirement to indicate which documents were reviewed by the engagement quality reviewer and his or her assistants, should provide adequate documentation of the basis for the engagement quality reviewer's compliance with the standard.

Furthermore, we observe that the engagement partner has ultimate responsibility for ensuring that engagement documentation supports the significant judgments made and conclusions reached in accordance with AS No. 3. We do not believe that a requirement in the engagement quality review standard to separately document or supplement documentation of the engagement team's basis for significant judgments made and conclusions reached is necessary or appropriate.

If the Board continues to believe that it is necessary to document oral discussions involving the engagement quality reviewer, we recommend that paragraph 19 be revised to include an explanation of what constitutes a "significant discussion."

Competence of Engagement Quality Reviewer

We agree with the Board that the engagement quality reviewer competency requirement should be “principles-based” and that a general competence standard setting a minimum requirement for the engagement quality reviewer is appropriate. However, we do not believe the language in paragraph 5 of the proposed standard achieves the Board’s intent to establish “a principles-based” requirement. Paragraph 5 does not make it clear that the reviewer’s competence is not required to match that of the engagement partner, and we are concerned that paragraph 5 may have the unintended consequence of prohibiting qualified persons from performing engagement quality reviews. Many judgments are made in the assignment of an engagement quality reviewer including, but not limited to, consideration of the qualifications, experience, and knowledge of both the engagement partner and the potential engagement quality reviewer. As currently worded, paragraph 5 seems to limit the ability to apply such judgment. Furthermore, as indicated in the note to paragraph 6, the engagement quality reviewer is able to obtain assistance from others not associated with the engagement to supplement his or her knowledge. Therefore, we believe that the standard should make clear that the competence requirements contemplate the combined skills of the engagement quality reviewer and any assistants.

In order to provide appropriate flexibility in assigning qualified engagement quality reviewers and provide a principles-based standard that sets a minimum requirement, we suggest paragraph 5 be worded as follows:

The engagement quality reviewer must possess or obtain through utilizing assistants, 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 or similar types of engagements. The appropriate level of knowledge and competence depends on the circumstances of the engagement including the size and complexity of the engagement and the engagement quality reviewer's intention and ability to utilize assistants.

Due Professional Care

The proposed standard requires an engagement quality review and concurring approval of issuance for each audit and interim review engagement. The proposed standard indicates that 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 agree with this description of the basis for conclusion, which is consistent with the Board’s interim standard and the overall conclusion of an engagement quality review. The proposal also requires that the engagement quality review be conducted with due professional care. Although we believe the Board’s proposal of a “due professional care” standard of performance is preferable to the “knows or should know” standard of performance previously proposed, we have concern with how “due professional care” has been described by the Board. We respectfully disagree with the Board’s suggestion 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.” Additionally, as explained in our comment letter on the original proposal dated May 12, 2008, we remain concerned that “know or should know” imposes additional responsibilities on a reviewing partner beyond those implied by a “due professional care standard.”

Potts v. SEC, 151 F.3d 810 (8th Cir. 1998), which the Board cites, discusses a standard that resembles the “due professional care” standard proposed by the Board (“Having taken on the

concurring review task, Potts also shouldered the duty to perform that task professionally”¹). However, nothing in that decision suggests that due professional care includes engaging in procedures to ensure that there is nothing the reviewing partner “should have known.” Indeed, the SEC’s and the appellate court’s decisions were based on findings that “[Potts] had acted with *reckless disregard* of his duties as an independent auditor”²(emphasis added). His conduct amounted to “an egregious refusal to see the obvious, or to investigate the doubtful.”³ Because its holding was predicated on recklessness, the court had no occasion to consider whether a concurring partner could be liable where he or she “should have known” (but did not “recklessly disregard”) matters that would have caused him or her to withhold concurring approval.

We support the Board’s decision to propose this more preferable *auditing* standard of performance for engagement quality reviewers. The due professional care standard is a standard with which auditors are familiar. It is a clear improvement over the *legalistic* “know or should know” standard previously proposed and avoids the risk of confusing engagement quality reviewers attempting to satisfy it. In light of these considerations, we believe that it is inappropriate for the Board to read into the due professional care standard an element that is not established by precedent and would continue to raise concerns among engagement quality reviewers about the Board’s intent for their performance obligations.

Effective Date of the Proposed Standard

As proposed, the standard would be effective for audits of fiscal years ending on or after December 15, 2009, and for interim reviews in fiscal years beginning after December 15, 2009.

We continue to believe that the proposed effective date would not permit sufficient time for registered public accounting firms to implement the new engagement quality review requirements. Further, we believe that the new standard should be finalized prior the beginning of engagement periods to which it will apply so that the new requirements would (1) be known and anticipated as of the beginning of the engagement period, (2) allow the assigned engagement quality reviewer to comply with the requirements throughout engagement planning and execution, and (3) be in place for each quarterly review conducted under SAS No. 100, *Interim Financial Information*. In this manner, adoption of the new standard would be more effective and efficient.

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We appreciate the opportunity to provide our perspective to the Board. We would be pleased to discuss our comments and to answer any questions that the PCAOB staff or the Board may have. Please contact Vin Colman (973-236-5390), Jorge Milo (973-236-4300) or Brian Croteau (973-236-4345) regarding our submission.

Sincerely,



¹ See Potts v. SEC, 151 F.3d 810 (8th Cir. 1998). at 813.

² See Id. at 812

³ See Id.