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

**Re: PCAOB Rulemaking Docket Matter No. 025
Proposed Auditing Standard—Engagement Quality Review**

Deloitte & Touche LLP (“D&T”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB”) on its *Proposed Auditing Standard on Engagement Quality Review*, PCAOB Rulemaking Docket Matter No. 025 (Feb. 26, 2008).

If you have any questions or would like to discuss these issues further, please do not hesitate to contact Robert Kueppers at (212) 492-4241, James Schnurr at (203) 761-3539, or John Fogarty at (203) 761-3227. We thank you for your consideration of this matter.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: PCAOB
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Daniel L. Goelzer, Member
Bill Gradison, Member
Charles D. Niemeier, Member
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I. INTRODUCTION

D&T strongly supports the function of engagement quality review (“EQR”) and is committed to an effective EQR that promotes audit quality, focuses on significant judgments made and conclusions reached by the engagement team, and preserves the benefits that EQR provides as an objective review of the financial statements and the audit reports thereon. D&T recognizes that, with the adoption of a new standard, the responsibilities of audit firms with respect to EQR will change to some degree and that an increase in procedures performed and level of resources may be appropriate and necessary based on a new standard. As explained below, however, we have significant reservations about several aspects of the PCAOB’s proposed standard on EQR (*Proposed Auditing Standard on Engagement Quality Review*, PCAOB Rulemaking Docket Matter No. 025 (Feb. 26, 2008) (the “Proposal”). The Proposal would depart from current and international standards and practices, and impose obligations that would not bring corresponding improvements in audit quality and, in several respects, would be unworkable.

First, the Proposal would dramatically recast the standard for concurring approval, imposing a “knows, or should know” standard. Second, the extent of procedures contained in Paragraphs 8, 9, and 10 of the Proposal could result in a significant expansion in the scope of EQR and fundamentally change the manner in which EQR is conducted, without a commensurate benefit to audit quality. Taken together, these proposed requirements would likely impose unduly harsh consequences, including: (1) increasing the level of responsibility and of associated risk for EQR reviewers; (2) increasing the amount of time, effort, and resources needed to conduct an EQR; (3) unnecessarily increasing audit costs; and (4) making it difficult to issue reports in a timely manner. The Proposal would have EQR reviewers conduct procedures that duplicate in many respects those performed by the engagement team, and that far

exceed the procedures that are required by existing professional auditing standards and the proposed international standards for a concurring review. As a result, the Proposal dramatically alters the nature and function of EQRs.

In these respects, the Proposal also is at odds not only with the interim standard, but with the proposed international standards for EQR and the efforts toward and recognized advantages of a convergence of global standards and development of a single set of standards.¹ *See, e.g.,* Bill Gradison, PCAOB Member, Remarks at Conference of the American Accounting Association Public Interest Section and the Academy of Accounting Historians (Apr. 11, 2008) (suggesting “that we move towards ‘convergence’ (or, if you prefer, ‘harmonization’) with International Standards of Auditing”). The final EQR standard should avoid creating unwarranted, substantive differences in standards that govern the profession.

D&T’s comments on the Proposal, as set forth below, reflect the judgment and experience of numerous partners within D&T, including a significant number of partners who currently perform EQRs. We first provide our general comments on the Proposal, and then provide responses to the specific questions contained in the Release. In so doing, we suggest alternatives that we believe should be effective in promoting audit quality through EQR, while avoiding costly and unwieldy implementation problems.

¹ The proposed international standards are intended to “facilitat[e] the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.” *See* Int’l Auditing & Assurance Standards Bd., *Terms of Reference* ¶¶ 1.0-3.0 (Mar. 2006).

II. GENERAL COMMENTS

A. The PCAOB Should Adopt An EQR Standard That Is Based On Current Practices And The Proposed International Standards.

Concurring review, or EQR, has long been recognized as an integral part of the audit process, and standard setters and audit firms have expended considerable efforts through the years to establish high-quality EQR processes. The PCAOB's efforts to develop a new EQR standard therefore do not take place in a vacuum, but in the context of existing domestic and international standards and practices. *See* PCAOB Release No. 2008-002, at 5 (Feb. 26, 2008) ("Release"). The PCAOB's existing interim standard on concurring review was adopted from the American Institute of Certified Public Accountants ("AICPA") SEC Practice Section requirements, which embody professional standards that have long served public companies and investors. *See* SEC Practice Section §§ 1000.08(f), 1000.39 (Appendix E) ("Interim Standard"). Concurrent with the PCAOB Proposal, international authorities are advancing proposed changes to auditing standards and quality control standards encompassing EQR that also reflect longstanding practices. *See* Proposed Redrafted Int'l Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements* (Int'l Auditing & Assurance Standards Bd. 2007) ("Proposed ISA"); Proposed Redrafted Int'l Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (Int'l Auditing & Assurance Standards Bd. 2007) ("Proposed ISQC").²

² *See also* Int'l Standard on Auditing (ISA) 220, *Quality Control for Audits of Historical Financial Information* (Int'l Auditing & Assurance Standards Bd. 2006); Int'l Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of*

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These proposed international standards have garnered widespread support in the European Union, Asia, and the United States (e.g., by the AICPA’s Auditing Standards Board). *See, e.g.,* Kelly Ånerud, *Harmonization of Financial Auditing Standards in the Public and Private Sectors—What Are the Differences?*, *Int’l Journal of Gov’t Auditing* (Oct. 2007). Indeed, the PCAOB consulted the proposed international standards in developing its Proposal, and has noted various similarities. *See* Release at 5, 9 n.17, 13; *see also* Thomas Ray, PCAOB Chief Auditor and Director of Professional Standards, Remarks at PCAOB Board Meeting (Feb. 26, 2008) (in developing the Proposal, “the staff evaluated the Board’s interim requirement and the similar requirements of the International Auditing and Assurance Standards Board, the IAASB, of the International Federation of Accountants, and the AICPA auditing standards board”).

Collectively, these standards, the professional experience upon which they draw, and the guidance that has developed around them reflect several interrelated principles that should guide the formulation of the PCAOB’s final EQR standard. First, concurring review serves an important, yet limited purpose: to provide an “objective ‘second look’ at the engagement.” Release at 2; *see also* Robert D. Potts, Exchange Act Release No. 39,126, 1997 WL 690519, at *1 (Sept. 24, 1997) (opinion of the Commission) (concurring review provides a “second level of review”). Second, consistent with this limited purpose, a concurring reviewer’s responsibility should not be the same as the audit engagement partner’s responsibility. This is because, in part, “[i]n most cases, the concurring reviewer lacks an opportunity to review all of the client’s records, engage in discussions with the client’s management, or observe the client’s actions and

[Footnote continued from previous page]

Historical Financial Information, and Other Assurance and Related Services Engagements (Int’l Auditing & Assurance Standards Bd. 2006).

attitudes.” *See, e.g., Barry C. Scuttilo*, 74 S.E.C. Docket 1944, 2001 WL 461287, at *2 n.3, *48 (May 3, 2001) (stating also that there is “no accounting literature to suggest that . . . a concurring reviewer’s responsibility is the equivalent of the audit engagement partner’s responsibility”).

Third, and also consistent with this limited function, as the PCAOB has recognized, “the engagement quality reviewer’s role is not to perform procedures amounting to a re-audit.”

Release at 16; *see also Scuttilo*, 2001 WL 461287, at *48 (the concurring reviewer “is not expected to do the audit all over again”); *Potts v. SEC*, 151 F.3d 810, 813 (8th Cir. 1998) (“[A] concurring reviewer is not expected to do the audit all over again”), *cert. denied*, 526 U.S. 1097 (1999). Accordingly, in this “second-level review,” the concurring reviewer is not responsible “for searching out additional matters to be considered by the engagement team” that the engagement team did not itself identify in the course of the audit. *Scuttilo*, 2001 WL 461287, at *2 n.3, *48.

B. The Proposal Would Depart From Existing Standards And Could Fundamentally Change The Nature And Function Of EQR.

An EQR is and ought to be an objective, second-level review. The Proposal, however, departs from this precept in several important ways. First, the Proposal includes a “new standard” for concurring approval that is different from the interim standard and the proposed international standards. Release at 16 (“The proposal would establish a new standard that the engagement quality reviewer must meet in order to provide a concurring approval of issuance.”). Among other things, the new standard would require EQR reviewers to arrive at a conclusion based not only on what they know, but also on what they “should know.” In our view, this is unworkable.

Second, additional procedures mandated by the Proposal would dramatically expand the scope of an EQR, increasing audit costs and presenting challenges for completing audits in a

timely manner. The costs associated with the expanded scope of EQR are compounded when considered in light of the manner in which reviews would necessarily be conducted if a “should know” standard is imposed. EQR reviewers will feel compelled to move beyond the “second look” role they now perform, and move instead to performing many of the same procedures performed by the engagement team. This would seemingly be inconsistent with the PCAOB’s stated view—which we share, and which is consistent with current practices and the proposed international standards—that “the engagement quality reviewer’s role is not to perform procedures amounting to a re-audit.” *Id.*³

1. The Proposed “Knows, Or Should Know” Standard Represents An Unprecedented Departure From Current Practices.

Under the proposed international standards, as well as current practices, the EQR reviewer’s conclusion is based on what has come to the reviewer’s attention during the course of the review—that is, what the reviewer *actually knows* based on the procedures performed. Based on this knowledge, the EQR reviewer provides assurance that the reviewer is not aware of any audit or other relevant deficiencies. Proposed ISA 220, ¶ 27; Proposed ISQC 1, ¶ 49; Interim Standard at section (b). This level of assurance is appropriate given the objective of an EQR and the extent of the procedures that an EQR reviewer should be expected to perform. Under the Proposal, however, the EQR reviewer would be required to provide assurance based not only on

³ If the PCAOB ultimately decides to adopt the Proposal, the PCAOB should state more clearly why it has elected to chart a different course. We recognize that, in formulating its standard, “the Board considered information on this topic from PCAOB inspections” and “findings from recent PCAOB enforcement cases,” Release at 4; however, the PCAOB has not described findings that would justify imposing such a dramatically different approach to EQR. Nor has the PCAOB presented findings on why the deficiencies it says it has identified are best addressed by a new EQR standard rather than recommending other quality-control measures.

what the reviewer knows, but also on what the reviewer *should know*. Proposal ¶ 12. This represents a significant recasting of the EQR reviewer’s role, which heightens the level of responsibility for EQR reviewers and would have profound implications for the conduct of EQR.⁴ The significance of the shift to the “knows, or should know” standard is illustrated by the fact that this standard is not currently used in PCAOB auditing and professional standards—even for the engagement partner—including in those standards developed in the first instance by the PCAOB (e.g., PCAOB Auditing Standard (AS) No. 5).

The “should know” standard is illogical—and thus unworkable—because a reviewer cannot reasonably be asked to make a representation (e.g., provide a concurring approval) based on what he or she “should know,” as opposed to what the reviewer actually knows. This is not to suggest that what an EQR reviewer actually knew may not later be reviewed by a third party, who may assert, in retrospect, that the reviewer could have done more work and should have known more on which to have based the earlier concurring approval.⁵

Also disconcerting is the inexorable link between a level of assurance premised on what the reviewer “should know” and the expanded scope of the EQR reviewer’s responsibilities

⁴ This increased responsibility would be accompanied by an increased level of exposure. Although it may be argued that this risk could be mitigated by reliance on more procedures—a position that is itself in tension with the concept of EQR—in a highly litigious environment, the “should know” standard will inevitably distort the conduct of EQRs.

⁵ While the SEC applies a form of a “knows, or should know” standard in evaluating cases of alleged professional misconduct under SEC Rule 102(e), the Rule 102(e) analysis is meant to discern the degree of departure from the underlying professional standard; it does not itself purport to describe the conduct prescribed and proscribed by the standard. Consequently, by way of example, the Staff of the SEC may inquire on a retrospective basis whether, in making a judgment with respect to an issuer’s receivables, the auditor should have known—and was reckless in not knowing—more about the aging of the receivables. But generally accepted auditing standards do not require an auditor to base conclusions on what he or she “should know.”

under the Proposal. As discussed in the next section of this letter, the scope of procedures to be performed by the EQR reviewer is greatly expanded. At the same time, there are various ambiguities as to just what is required, and the EQR reviewer will exercise significant judgment in determining what work to do. Specifically, the Proposal’s “should know” language captures information that would be obtained as a result of performing the extensive procedures described in Paragraphs 7 through 10 of the Proposal,⁶ procedures that suggest that the EQR reviewer should acquire the same, or a substantially similar, depth of knowledge about the audit as the engagement partner. Consequently, the scope of what a reviewer “should know” when providing concurring approval may appear to some EQR reviewers to be virtually without bounds, and they will feel compelled to perform a broad array of additional procedures in order to obtain more and more information and to discourage second-guessing about whether the EQR reviewer knew enough.

This incentive to conduct such protective procedures raises several concerns. Performing additional procedures would be more time consuming and would impose additional costs. The time required to perform these procedures, combined with the expanded scope of review as described in the Proposal, will impose a heavy additional burden on EQR reviewers. This additional work will fall squarely on the shoulders of the EQR reviewer, who retains overall responsibility for the EQR. Release at 10. The significant increase in the amount of work to be performed, and the responsibility of providing concurring approval under the “should know”

⁶ While Paragraph 7 appropriately reflects EQR as it is now conducted—and as it is contemplated by the proposed international standards—Paragraph 9, Paragraph 10, and parts of Paragraph 8 add significantly to the task as discussed in Section II.B.

standard, may cause reluctance on the part of those who will be called upon to conduct EQR reviews to participate in the EQR process.

Finally, these protective procedures would be inconsistent with the current understanding of the EQR as a “second look.” They also would run counter to the PCAOB’s expressed goal that an EQR reviewer is not to “perform procedures amounting to a re-audit.” *Id.* at 16. Indeed, the degree of involvement that would be necessary to meet the “knows, or should know” threshold would affect the ability of the EQR reviewer to take that necessary “step back” and conduct the review from the perspective of an outsider “looking in.” *Id.* at 10.

We agree with the PCAOB that an EQR reviewer should conduct a more limited second-level review that is conducted by taking a “step back,” rather than a review that, in effect, duplicates much of the work of the engagement partner. But that is not how the Proposal has been drafted. To address this disconnect, the PCAOB should adopt the following language in lieu of Paragraph 12; this language retains the Proposal’s structure while narrowing the scope of the EQR reviewer’s determination to the significant facts that have come to the reviewer’s attention during the EQR:

The engagement quality reviewer must not concur with the issuance of an engagement report if, based on information that comes to his or her attention in his or her review in accordance with this standard, the reviewer believes that (1) the engagement team failed in any material respect to obtain sufficient competent evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the firm’s report, if a report is to be issued, is not appropriate in the circumstances, or (4) the firm is not independent of its client.

In the alternative, the PCAOB should adopt the IAASB’s standard, under which EQR reviewers must state that they are “not aware of any unresolved matters that would cause [them] to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.” Proposed ISA 220, ¶ 27; Proposed ISQC 1, ¶ 49.

If the PCAOB declines to adopt either of the above approaches, the Proposal—at a minimum—should be modified to omit the “should know” language to reflect that the EQR reviewer’s knowledge of the audit is necessarily limited to what the reviewer has learned based on the procedures required to be performed and that the reviewer cannot reasonably be asked to make a representation based on what he or she “should know.” In short, the EQR reviewer’s responsibility should not extend beyond the scope of the reviewer’s actual knowledge.

2. The Proposal Could Significantly Increase The Scope Of EQR Without A Commensurate Benefit To Audit Quality.

The scope and extent of the procedures contained in Paragraphs 8, 9, and 10 of the Proposal would likely result in substantial changes to the existing scope of EQR and the manner in which it is conducted. Specifically, Paragraph 8 contains a long list of “procedures” that the EQR reviewer should conduct during the course of a review, some of which extend beyond current practice. Moreover—and separate from the additional procedures provided for in the paragraph—because many of the proposed “procedures” are vaguely worded, the resulting uncertainty as to what work must be done would add significantly to the work performed under current practices and the proposed international standards. Paragraph 9 requires EQR reviewers to supplement their EQR procedures with an additional “risk-based” analysis, but its scope is also unclear, and it would lead to the performance of unintended, unnecessary or redundant procedures. Finally, Paragraph 10 requires an extensive review of engagement team working papers that is not consistent with the limited role of an EQR. Each of these issues is discussed in more detail below.

Also, contrary to the PCAOB’s expectation that the Proposal would avoid unnecessary costs, *cf.* Release at 6 (“[T]he Board . . . endeavored to draft a standard that would avoid imposing any unnecessary costs.”), the scope of the Proposal as described above would require

significantly more time, effort, and resources to complete a qualifying EQR, and would lead to significant increases in audit costs.⁷ The additional time would have to be expended largely by the EQR reviewers themselves, many of whom are among our most experienced partners. They constitute a resource whose availability is limited and which would be extremely difficult to augment in the short term.⁸ The PCAOB's expectation that the Proposal would impose only minimal incremental costs is without foundation.

a. Paragraph 8 Appears To Expand Areas Subject To Review.

Paragraph 8 of the Proposal sets forth ten broad “procedures” that EQR reviewers are expected to complete as part of conducting the EQR. Many of them are vaguely described; there is little guidance as to how they are supposed to be conducted; and collectively, they would significantly expand the scope of the review. Both subparagraphs 8(a) and 8(b), for example, require the EQR reviewer to “[o]btain an understanding” of various audit-related matters, including the audit firm’s relationship with the client and the client’s significant financial reporting issues and risks. Each of these represents a significant undertaking, and is more an objective than a procedure. In any event, the Proposal does not explain how the EQR reviewer is to obtain such understandings. “Obtain an understanding” is a broad concept that could be viewed to require the EQR reviewer to undertake—at a minimum—an exhaustive review of the

⁷ Based on our experience, we estimate that the Proposal, as written, would require the EQR reviewer to spend significantly more time on EQR—likely a multiple of the number of hours that are spent under current practices. Additionally, other members of the engagement team are likely to spend additional time as a result of the increased scope of the EQR and increased responsibilities of the EQR reviewer.

⁸ Based on data from our internal time reporting system, audit partners (which includes individuals serving as engagement partners and/or EQR reviewers) worked on average approximately sixty hours per week from the middle of January through the first week of March 2008. Significantly increasing the workload for these same individuals during this time frame would detract from audit quality rather than improve it.

working papers and other materials not in the working papers, and to conduct extensive interviews with a broad array of engagement team members and possibly client personnel. Absent guidance, it will be difficult for the EQR reviewer to determine what steps are sufficient to meet the requirements.

In the face of this uncertainty, the EQR reviewer may feel compelled to perform all procedures that the standard could be interpreted to require, and thereby unnecessarily expend time, effort, and resources on an EQR that goes well beyond what the PCAOB may have intended. These expanded efforts would be at odds with the proposed international standards, current practices, and the PCAOB's Release, which provide that EQR is, and should remain, a limited second-level review. *See, e.g., Scuttillo*, 2001 WL 461287, at *2 n.3, *48; Proposed ISA 220, ¶¶ 20-23; Proposed ISQC 1, ¶¶ 42-44; Interim Standard at section (b); Release at 2.

The PCAOB should revise the requirements of Paragraph 8, and provide guidance as to the scope of its various subparts, so that it is consistent with the established tenets of concurring review. A more extensive discussion of the specific provisions of Paragraph 8 and the clarifications we recommend are set forth in Section III.D.

b. Paragraph 9 Requires Additional And Unnecessary Analysis.

Paragraph 9 of the Proposal states that the EQR 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.” As drafted, Paragraph 9 is subject to different interpretations and could be read to impose requirements that are largely duplicative of other provisions of the Proposal and thus unnecessary.

First, Paragraph 9 could be read to focus the EQR inappropriately on an assessment of, and the risks associated with, the engagement team's performance as opposed to the areas of risk that exist in the client's financial statements. Focusing on possible shortcomings of the

engagement team would detract from consideration of the areas of the financial statements that present the greatest risk of material misstatement, and would not be an effective means of improving audit quality. Such a focus also could unnecessarily generate a tension between the engagement team and the EQR reviewer that would be counterproductive to the EQR and the audit. The EQR reviewer should be perceived as a resource for enhancing audit quality, not as an intrusive factor interfering with the audit in real time.

Second, current practice requires the EQR reviewer to “review . . . matters that were considered significant by the engagement team in conducting the audit” and provides that “the concurring partner reviewer is not responsible for searching for additional matters to be considered by the engagement team.” Interim Standard at section (b). By contrast, this interpretation of Paragraph 9 would effectively require that the reviewer undertake to identify audit risks that were not identified by the engagement team. A requirement to look for unidentified risks would place the EQR reviewer in the shoes of the engagement partner and have him or her re-perform the risk identification and assessment process on the engagement. Such a process would further increase the level of effort required to perform an appropriate EQR, is inconsistent with the concept of concurring review, and is unnecessary to achieve the objectives of EQR.

Third, Paragraph 7, with its focus on evaluating the engagement team’s “significant judgments” and pertinent conclusions, already focuses the EQR reviewer’s attention on the most important aspects of the audit, and in so doing embodies an adequate risk-based approach. Paragraph 8, as discussed above, already contains an extensive catalog of procedures to be followed and objectives to be achieved. To the extent Paragraph 9 adds another layer to the EQR process, it would be redundant and costly. Indeed, in light of the extensive procedures separately

required by other aspects of the Proposal, Paragraph 9 is inconsistent with a true risk-based approach that aims to “center the engagement quality reviewer’s attention on higher-risk areas” because it would have the EQR reviewer focus on so many areas, regardless of the perceived risk. *See* Release at 6.

For these reasons, Paragraph 9 does not appear to advance a true risk-based approach. To the contrary, it could seriously detract from an efficient and effective risk-based approach focused on the areas of higher-risk. We therefore recommend omitting Paragraph 9 from the final standard and including language specifying that the EQR reviewer should discuss with the person having overall responsibility for the engagement, any previously unidentified risks that have come to the attention of the EQR reviewer as a result of performing the procedures in Paragraphs 7 and 8. (This language could be incorporated into Paragraph 7.) This would result in a standard that is more consistent with the proposed international standards. *See, e.g.*, Proposed ISA 220, ¶ 20; Release at 13 (noting that Paragraph 7’s “requirement to evaluate significant judgments is similar to the requirements of the related standards of the IAASB”).

c. Paragraph 10 Adds Extensive Documentation Review Requirements.

The Proposal would increase the obligations of EQR reviewers even further by requiring an extensive review of audit documentation, an undertaking that also is contrary to basic precepts of concurring review. Paragraph 10 of the Proposal requires the EQR reviewer to evaluate the audit documentation relating to all “matters that were subject to” the EQR procedures, which is a substantially different and broader set of materials than the documentation the EQR reviewer currently reviews in connection with the EQR procedures. Such matters would include all of the areas encompassed by Paragraphs 7, 8, and 9, which, as described above, together would significantly expand the EQR reviewer’s obligations independent of the documentation review

requirement. Consequently, Paragraph 10's documentation evaluation requirement could be interpreted broadly to require the EQR reviewer to review *virtually all of an audit's underlying working papers*. That simply would be impractical. An EQR reviewer would typically need a team of reviewers to gain comfort that the Proposal's requirements have been satisfied. This level of proposed document review would present significant challenges for timely completing EQRs, and, as a result of the resources needed to accomplish the document review, the Proposal would increase audit costs.

The Paragraph 10 review also requires the EQR reviewer to determine whether the applicable engagement team's documentation "[i]s appropriate in the circumstances and consistent with the requirements of PCAOB Auditing Standard No. 3, *Audit Documentation* ('AS No. 3')." Such a documentation review by the EQR reviewer would be duplicative of the review performed by the engagement partner, who has primary responsibility for the performance of the audit and who must be satisfied that the audit documentation contains sufficient appropriate audit evidence. Further, although the auditor must have completed the EQR prior to the release of the auditor's report (Proposal ¶ 11), and "must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report," the final assembly of audit documentation is not required to be completed until forty-five days *after the report is issued*. AS No. 3, ¶ 15. This sequence will affect the EQR reviewer's ability to assess fully the sufficiency of what appears to be virtually all of the audit's underlying working papers—including those that may not yet have been finalized. We recommend that the PCAOB modify the final standard to make it clear that the EQR reviewer should exercise professional judgment in selecting for review the working papers that relate to the significant judgments the engagement team made and the conclusions it reached—which, as a practical matter, are

completed *before* the issuance of the audit report—and to recognize that certain working papers that are selected for review may not yet have been finalized. This approach would be consistent with AS No. 3 and the proposed IAASB standards. *See* Proposed ISA 220, ¶ 21; Proposed ISQC 1, ¶ 44.

In the alternative, the Proposal should identify specific documents to be reviewed during an EQR—for example, the financial statements, the engagement completion document, and other documents provided to the EQR reviewer by the engagement team that, in the EQR reviewer’s judgment, relate to significant judgments made and the conclusions reached.

3. The Proposed Effective Date Is Unworkable And Should Be Modified.

The PCAOB has proposed that the standard be effective “for engagement reports issued . . . on or after December 15, 2008.” Release at 18. This effective date is unworkable for several reasons. First, because the PCAOB contemplates that EQR be “conducted contemporaneously with the engagement,” *id.* at 2, a fully compliant EQR simply cannot be conducted for an engagement that is underway before the final standard is issued. Consistent with the PCAOB’s expressed preference for contemporaneous EQR, concurring review procedures are conducted throughout the course of the engagement. Therefore, for fiscal years that have begun prior to issuance of the final standard, it is not reasonable to expect that EQRs will have been conducted pursuant to an unreleased final standard. In addition, even engagements that are currently being planned cannot be expected to anticipate the requirements of the final standard. The PCAOB should adopt an effective date that is tied to the beginning of an engagement period, which will allow audit firms to plan and implement an EQR that complies with the final standard from the start of an engagement to its conclusion.

The effective date also could cause other transition issues. If the proposed effective date (i.e., for reports issued on or after December 15, 2008) is adopted in the final standard, it appears that, if a report is re-issued after the effective date, and the EQR of the audit was performed under the prior standard, then the report would not be in compliance with the requirements of the standard. The PCAOB should clarify that this is not its intent.

Furthermore, the Proposal's new and extensive requirements make it very unlikely that firms could change their practices in time to meet the December 15, 2008 effective date. To allow compliance with the requirements of the standard, as proposed, D&T would have to train its partners and professional employees, re-deploy resources, and create the tools necessary to assist in the conduct of a compliant EQR. There would not be sufficient time to implement these steps.

For these reasons, the new EQR standard should apply to audit reports issued for fiscal years beginning twelve months after the date the SEC approves the final standard. This would allow sufficient lead time to take necessary measures to comply with the requirements of the standard, and would minimize the impact of the other transition issues addressed herein.

III. RESPONSES TO SPECIFIC QUESTIONS

The specific issues on which the PCAOB has sought comments are discussed below. In several of these areas, we suggest alternative approaches that we believe will serve the PCAOB's goals while avoiding costly or unwieldy implementation problems. Many of these suggestions are based on the proposed international standards that address EQR. While we generally support consistency between PCAOB standards and the proposed international standards, we also recognize that the United States regulatory environment makes additional guidance and specificity appropriate in particular circumstances identified below.

A. The Proposal Should State An Objective.

Question No. 1. The proposed standard does not explicitly state an overall objective of an engagement quality review. Should this standard state such an objective? If so, what should be included in the objective?

Stating an objective would provide a yardstick against which the final standard's effectiveness can be measured, and would facilitate an understanding of the standard's provisions. An objective therefore would be of assistance both to those implementing the standard and those enforcing it. We suggest that the PCAOB adopt the following:

The objective of the EQR is to provide for an independent, objective consideration of significant auditing, accounting, and financial reporting matters, including significant judgments made and conclusions reached by the engagement team, to determine whether the EQR reviewer concurs with the issuance of the engagement report.⁹

This recommendation is consistent with the prevailing understanding of concurring review as a "second look" and that "the engagement quality reviewer's role is not to perform procedures amounting to a re-audit." Release at 16. By focusing the EQR on "significant" matters, it makes clear that the EQR reviewer is not to perform substantive procedures or a complete inspection of the engagement team's work, and thus distinguishes between the roles of engagement partner and EQR reviewer. The language we propose contemplates that the EQR reviewer will question and challenge the engagement team's judgments where appropriate, and reach a conclusion whether to concur based on the relevant facts and circumstances of which the reviewer has knowledge.

⁹ "[S]ignificant auditing, accounting, and financial reporting matters" is defined in the interim standard as "matters involving a significant risk of material misstatement of financial statements, including a material disclosure deficiency in the footnotes to the financial statements." Interim Standard at introduction n.2.

Finally, the proposed objective is consistent with the concept of EQR as one integral part of a broader system of quality control, including engagement performance, firm-wide monitoring, and retrospective reviews. This proposed objective thus is also consistent with the proposed international standards. Proposed ISA 220, ¶¶ 20-23 (delineating a complementary but separate role for the concurring review partner vis-à-vis the engagement partner); Proposed ISQC 1, ¶¶ 42-44 (same).

B. The Application Of The Proposal To Interim Reviews And Attestation Engagements Should Be Modified.

Question No. 2. Should an engagement quality review be required for all engagements performed in accordance with the standards of the PCAOB? If not, when should an engagement quality review be required?

We believe that EQR should be required on all engagements performed in accordance with the PCAOB's standards. As discussed below, however, the PCAOB should modify the intended application of the Proposal to interim reviews and attestation engagements. First, consistent with the more limited scope and objective of a review of interim financial information, the EQR procedures performed for such reviews should similarly be circumscribed. Second, an EQR requirement for attestation engagements should not be codified among the PCAOB's audit standards, but should be made part of the PCAOB's attestation standards.

1. Interim Reviews

We agree that EQR procedures should be performed in connection with reviews of interim financial information. The Proposal, however, does not differentiate between the EQR procedures to be performed for audits of annual financial statements and for reviews of interim financial information, even though the objective, scope, and degree of assurance provided by interim reviews are obviously different from those of audits. As the PCAOB is aware, interim

reviews are limited in scope and consist of procedures that are significantly narrower than those performed in an audit. As discussed in PCAOB Interim Standard AU 722.07, interim reviews consist principally of performing certain analytical procedures and making inquiries. Several of the procedures set forth in the Proposal cannot be reconciled with the work performed for a review of interim financial information. Engagement planning, for example, including the related identification of fraud risks and planned audit responses to them, often will not be completed at the time a review of a company's first quarter financial statements is performed and concurred upon. Nevertheless, the Proposal appears to require concurring review procedures related to such engagement planning. *See, e.g.*, Proposal ¶¶ 8-10. In some respects, the Proposal appears to require the EQR reviewer to obtain more evidence and to provide a higher level of assurance than the engagement team when performing a review of financial statements. This is not appropriate, and presumably unintended.

The PCAOB, therefore, should limit the breadth of EQR procedures required for interim reviews and should modify the conclusion to be reached by the EQR reviewer in connection with such interim reviews. Specifically, the PCAOB should include in the final standard an additional section, analogous to Paragraph 7, that states that the EQR reviewer, in a review of interim financial information, should “discuss significant matters identified and addressed in connection with the [interim] review.”

Similarly, the final standard should require that only certain procedures set forth in Paragraph 8 (specifically those set forth in subparagraphs 8(g), 8(h), and 8(i), as revised pursuant to the suggestions herein) be completed for interim reviews. Finally, the standard should clarify

that the EQR reviewer is required to provide only a level of assurance of concurring approval that is consistent with the overall conclusion of an interim review.¹⁰

2. Attestation Engagements

The Release states that the proposed audit standard would apply to *attestation* engagements, such as agreed-upon procedure engagements. *See* Release at 8. The PCAOB, however, has separate attestation standards. *See* Interim Attestation Standards § 101 *et seq.* (PCAOB 2003). Accordingly, any EQR standard that is intended to apply to attestation engagements should be proposed in connection with, and adopted separately and incorporated within, those separate attestation standards. It is counterintuitive to include requirements for attestation engagements within the auditing standards. We therefore recommend that any final EQR audit standard not apply to attestation engagements. This change to the PCAOB’s Proposal would ensure that the practitioners performing attestation engagements under PCAOB standards would be aware of the relevant requirements, avoiding confusion. It also would ensure that any standard that eventually may be adopted for attestation engagements is appropriately tailored to the unique aspects of those engagements.

C. The Proposed Qualifications Of The EQR Reviewer Require Clarification.

Question No. 3. Are the qualifications of an engagement quality reviewer appropriately described in the proposed standard? If not, how should they be revised?

We agree that EQR reviewers should exhibit “competence, independence, integrity, and objectivity.” Proposal ¶ 3. These attributes are cornerstones of the auditing profession. We are

¹⁰ This modification is more consistent with the Sarbanes-Oxley Act of 2002, which contemplates a concurring review only for audit reports, not interim reviews. *See* 15 U.S.C. § 7213(a)(2)(A)(ii) (“concurring or second partner review and approval of such *audit report*”) (emphasis added).

concerned, however, that the Proposal’s descriptions of the “competence” and “objectivity” requirements, in particular, could lead to confusion and difficulties in implementation, undermining the PCAOB’s goal to “establish more clearly the level of expertise and experience that is necessary to perform an objective engagement quality review.” Release at 9. First, we believe that the “competence” requirement may be interpreted to require that the EQR reviewer and the engagement partner have the identical knowledge and skills. Second, we believe that the “objectivity” requirement, as proposed, could be read to prohibit common—and important—EQR reviewer tasks, including consulting with members of the engagement team. Each of these concerns can be readily addressed.

1. Competence

The Proposal requires that the EQR reviewer “possess the level of knowledge and competence related to accounting, auditing, and financial or other reporting *required to serve* as the person who has overall responsibility for the same type of engagement.” Proposal ¶ 4 (emphasis added). The Release provides that “competence” would encompass not only technical accounting, auditing, and financial reporting expertise, but also specialized industry knowledge: “For example, a person assigned to perform the engagement quality review for an audit of a public company engaged in oil and gas exploration and development should have experience *sufficient to serve* as the engagement partner for the audit of a public company in this specialized industry.” Release at 9 (emphasis added). The phrases “required to serve” and “sufficient to serve” in the Proposal are likely to be interpreted to require the EQR reviewer to have the *same* level of competence—that is, technical expertise *and* specialized knowledge—as the engagement partner. This goes beyond the interim standard, which requires “sufficient technical expertise and experience to achieve the purposes” of the concurring review, and which “contemplates knowledge of relevant specialized industry practices.” Interim Standard at section (a).

The Proposal essentially requires that a “clone” of the engagement partner be selected to be the EQR reviewer; however, it will not always be possible for the EQR reviewer to have the same qualifications or same level of experience and expertise as the engagement partner. It is not realistic to expect an EQR reviewer, who may conduct a number of reviews each year for clients in different industries, to acquire the same degree of in-depth knowledge regarding the business of each client as the engagement partner, whose role requires more time focusing on the business of a particular audit client. As businesses become increasingly specialized, it will become even more difficult to identify EQR reviewers with sufficiently specialized knowledge to meet the Proposal’s test. Moreover, there may be times when an EQR reviewer without substantial knowledge of the relevant specialized industry may be better suited to conduct an EQR than someone with specialized knowledge, perhaps because he or she has particular expertise or experience dealing with the accounting principles that are implicated by issues likely to arise in the audit. Or, to take another example, a partner who has experience in serving a quality control function within the firm (and as a result is highly skilled at addressing the risks associated with a particular engagement) may be best suited in a particular case to be the EQR reviewer, even though this person may not have experience in the particular industry. An EQR reviewer’s years of experience and breadth of knowledge are valuable resources that should not be diminished by focusing solely on technical expertise and industry expertise. Audit firms should have sufficient discretion to match the skills of the EQR reviewer with appropriate audits.

The difficulty in identifying enough EQR reviewers to satisfy the Proposal’s definition of “competence” is compounded by existing auditor independence requirements relating to the rotation of audit partners. Both the engagement partner and the concurring review partner must rotate off an engagement after five years of service and may not act as an EQR reviewer on that

engagement in the following five years. *See* 17 C.F.R. § 210.2-01(c)(6)(i).¹¹ The rotation rules thus limit the pool of candidates who may serve as an EQR reviewer. In addition, the office that conducts the audit often also conducts the EQR until a rotation occurs. If there is not another partner in that office who can conduct the EQR, it must then be assigned to partners in other offices. This poses obstacles to communication and coordination that make EQR more difficult to perform effectively. Adding to these challenges by requiring that the EQR reviewer have the same degree of technical expertise *and* specialized knowledge as the engagement partner would further limit the pool of potential EQR reviewers.¹²

The final standard should dispel any notion that the engagement partner and the EQR reviewer must have the same degree of technical expertise and specialized knowledge, and make it clear that audit firms may exercise discretion in assigning EQR reviewers based on the facts and circumstances of the particular engagement. This can be accomplished most readily by stating in Paragraph 4 that “considerations in evaluating competence include, but are not limited to, technical expertise, experience, knowledge of SEC rules and regulations pertinent to the engagement, and industry knowledge,” and by incorporating into the final standard Footnote 18 of the Release, which states that competence should be assessed “based on the circumstances of

¹¹ Under this rule, an individual may serve as the engagement partner for three years, and then as EQR reviewer for two years, before rotating off the engagement for five years. The interim standard adds an additional rotation requirement that “a prior audit engagement partner should not serve as the concurring partner reviewer for at least two annual audits following his or her last year as the audit engagement partner.” Interim Standard at section (a).

¹² Indeed, the requirement that audit partners rotate off of an engagement makes it more difficult to acquire and maintain the degree of specialized knowledge that appears to be contemplated by the Proposal. The Proposal appears not to recognize the significance and effect of the rotation requirement.

the engagement, including the size or complexity of the business.” Consistent with these changes, the PCAOB also should omit the example on page 9 of the Release regarding EQR for an oil and gas exploration and development company. *See* Release at 9 n.18. This approach also would be consistent with the proposed IAASB standards. *See, e.g.*, Proposed ISQC 1, ¶ A42 (“What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement.”).

2. Objectivity

The Proposal requires the EQR reviewer to perform the review with objectivity. *See* Proposal ¶¶ 3, 5, 6. In order to preserve objectivity, the EQR reviewer is not to “make decisions on behalf of the engagement team, assume any of the responsibilities of the engagement team, or supervise the engagement team.” *Id.* ¶ 6 (formatting omitted). Again, we agree that the reviewer must approach the prescribed tasks objectively. However, as discussed below in response to Question 4, the Proposal may discourage the EQR reviewer from obtaining information through consultations with members of the engagement team, potentially undermining the quality of the EQR. The Proposal also may discourage communications between a client’s management and/or audit committee and the EQR reviewer that can serve to enhance audit quality. Finally, the Proposal departs from the proposed international standards. We recommend revisions to address these issues below.

a. Consultations With The Engagement Team

Question No. 4. Should the proposed standard allow the engagement team to consult with the engagement quality reviewer during the engagement? Would such consultation impair the reviewer’s objectivity?

We believe that the standard should not only allow but *encourage* consultations between the engagement team and the EQR reviewer. Such consultations are likely to foster more timely and effective auditing on the part of the engagement team members by bringing to bear the

experience and expertise of the EQR reviewer on matters under discussion. Frequent consultations increase the likelihood that issues that should be addressed in the audit will be identified more quickly. This is just one of many ways in which timely consultation between the engagement team and the EQR reviewer improves audit quality and allows for effective consideration of significant matters that arise during the course of an audit, and does so without adversely affecting the objectivity of the EQR reviewer.

For example, in situations involving complex accounting judgments, it is important for the engagement team to consult with the EQR reviewer throughout the audit process. Such consultations help the EQR reviewer to consider whether relevant issues and guidance have been considered, whether appropriate resources or specialists have been involved, and whether the engagement team has made appropriate judgments. They also help provide that the EQR reviewer's questions are properly addressed. Such consultations are particularly helpful when new accounting or auditing standards are being implemented—when the EQR reviewer may be able to provide unique insights based on knowledge of the firm's positions and on how those positions are applied in the firm's practice.

It may be particularly helpful for the EQR reviewer to discuss specific matters with specialists employed by the engagement team. When the EQR reviewer has questions regarding a complicated valuation issue, for example, the most knowledgeable person often is the valuation specialist who assisted the engagement team. Such consultations enable the EQR reviewer to understand the procedures performed, the judgments involved, and the conclusions drawn. The EQR reviewer's objectivity should not be questioned simply because of these consultations with the valuation specialist. Consultations between the engagement team and the EQR reviewer

ultimately contribute to audit quality, and should not be deemed to compromise the reviewer's objectivity with respect to the audit.

Although the Proposal does not prohibit consultations between the EQR reviewer and the engagement team, the standard contains language that could inappropriately discourage such communications. We recommend the revisions described below to clarify the acceptable bounds of reviewer-engagement team consultations.

i. Clarification Is Needed Regarding Consultations With The Engagement Team.

The note to Paragraph 6 provides, “[t]he engagement team may consult with the engagement quality reviewer on matters during the course of the engagement,” but goes on to warn that “[w]hen participating in such consultations, the engagement quality reviewer should not participate in a manner that would compromise his or her objectivity with regard to the engagement.” (Emphasis added). Neither the Proposal nor the Release specifies what it means to participate “in a manner that would compromise his or her objectivity” As a result, the emphasized provision may have the unintended consequence of discouraging beneficial communications between the engagement team and the EQR reviewer. We therefore recommend omitting the emphasized language in the note to Paragraph 6.

ii. The Proposal's Definition Of "Objectivity" Could Cause Confusion.

Paragraph 5 of the Proposal requires that the EQR reviewer “maintain objectivity with respect to the engagement *and the engagement team.*” (Emphasis added). Notwithstanding contrary text in the note to Paragraph 6, this language could be read to prohibit the EQR reviewer from consulting with members of the engagement team (or specialists employed by the engagement team) to supplement his or her knowledge regarding specialized issues in connection with an engagement. Footnote 19 of the Release reinforces this concern by warning that the

EQR reviewer may consult only with those who are “independent of the client, have integrity, and possess an appropriate level of competence and objectivity.” This language may discourage an EQR reviewer from speaking with a specialist who performed work for the engagement team because the specialist might not be considered to be “objective” with respect to that team. This could undermine the EQR and ultimately undermine audit quality. To avoid confusion, the final standard should omit Footnote 19 of the Release and clarify that the EQR reviewer is encouraged to consult with the members of the engagement team, including specialists, in order to gain an understanding about significant accounting and auditing matters relating to the engagement.

b. Communications With Management

The Proposal does not specifically contemplate communications between the EQR reviewer and management of the audit client. Without additional guidance, this omission could be interpreted as a change to current practices and discourage communications that can be beneficial to the client and the EQR reviewer. *See* Interim Standard at section (b) (providing for such communications under certain circumstances). The EQR reviewer can play an important role in facilitating candid and robust dialogue among the auditor, management, and the audit committee, allowing for a more effective audit. The Proposal should incorporate language to recognize that communications between the EQR reviewer and members of a client’s management and audit committee may take place.

c. Supervision Of Engagement Team

The Proposal would prohibit EQR reviewers from “[s]upervis[ing] the engagement team.” Proposal ¶ 6. This language departs from the proposed international standards. We suggest revising Paragraph 6 in accordance with the proposed IAASB standards, providing that objectivity may be maintained when the EQR reviewer “[d]oes not make decisions for the

engagement team” and “[d]oes not otherwise participate in the engagement during the period of review.” Proposed ISQC 1, ¶ A44.

D. The Proposal Could Be Read To Expand The Scope Of EQR Significantly.

Question No. 5. Are the descriptions of the scope and extent of the engagement quality review procedures contained in the proposed standard appropriate? If not, how should they be changed?

We addressed the substance of this question in Section II.B.2. above. There, we explained that the extent of the procedures contained in Paragraphs 8, 9, and 10 of the Proposal could result in substantial changes to the scope and manner of the conduct of an EQR, and we suggested alternative approaches better tailored to serve the goals of concurring review.

Below is a discussion of certain provisions of Paragraph 8, where we believe additional guidance is needed.

- Paragraph 8(a) requires the EQR reviewer to “[o]btain an understanding of the firm’s recent engagement experience with the company and risks identified in connection with the firm’s client acceptance and retention process.” However, the Proposal does not make clear how the EQR reviewer is to obtain that understanding, which makes it difficult for a reviewer to determine when he or she has completed steps sufficient to meet this requirement. Consistent with the existing standard and the proposed international standards, we therefore recommend that the PCAOB clarify this requirement by defining its parameters more precisely. Paragraph 8(a) should be revised to require the EQR reviewer to “obtain an understanding” of the risks identified as part of the firm’s client acceptance and retention process through “discussion with the engagement partner” and “review of selected working papers.” Proposed ISA 220, ¶ 21; Proposed ISQC 1, ¶ 44; Interim Standard at section (b).
- Paragraph 8(b) requires the EQR reviewer to “[o]btain an understanding of the company’s business, significant activities during the current year, and

significant financial reporting issues and risks.” As with Paragraph 8(a), it is not clear how the EQR reviewer is expected to achieve this objective. It could be difficult for the EQR reviewer to determine when he or she has acquired sufficient knowledge to fulfill the requirement. The final standard should make clear that the EQR reviewer can sufficiently obtain an understanding of the company’s business through “discussions with the engagement partner,” “review of certain working papers,” and performance of the other procedures enumerated in Paragraph 8.¹³

- Paragraph 8(c) requires the EQR reviewer to “[r]eview the engagement team’s evaluation of the firm’s independence in relation to the engagement.” Rather than setting forth steps to be performed, Paragraph 8(c) sets forth an objective to be achieved without explaining how to achieve it. We recognize that the proposed international standards include a similar requirement, *see* Proposed ISA 220, ¶ 22; Proposed ISQC 1, ¶ 45, but further clarification is needed in the context of the U.S. regulatory environment. The final standard should specify the independence issues that the EQR reviewer should evaluate. We believe the EQR should be limited to those issues that have been identified in the Independence Standards Board (ISB) Standard No. 1 letter, ISB Standard No. 1, *Independence Discussions with Audit Committees* (AICPA 1999), and such other matters deemed appropriate in the judgment of the EQR

¹³ Without clarification, this language may be interpreted similarly to the requirements under PCAOB Interim Standard AU 311.06: “The auditor should obtain a level of knowledge of the entity’s business that will enable him to plan and perform his audit in accordance with generally accepted auditing standards.” As a result, the EQR reviewer may interpret the Proposal as requiring extensive procedures similar to those performed by the engagement team in order to “obtain an understanding.” The Proposal’s “obtain an understanding” language should contain moderating language as proposed herein.

reviewer.¹⁴ The EQR reviewer should not be required to re-evaluate issues that are monitored through the firm’s centralized independence compliance processes.

- Paragraph 8(f) requires the EQR reviewer to “[d]etermine if appropriate consultations have taken place on difficult or contentious matters” and to “[r]eview the documentation, including conclusions, of such consultations.” Again, the Proposal does not specify how the EQR reviewer is to achieve this objective. We recognize that there is a similar requirement in the proposed international standards; however, here again, in the context of the U.S. regulatory environment, we believe further clarification is needed. Otherwise, as written, the Proposal could be interpreted to require that the EQR reviewer undertake extensive review of the working papers in order to identify the “difficult or contentious matters.” The PCAOB should clarify this requirement by explaining that, *based on the EQR reviewer’s understanding of the significant judgments made*, the EQR reviewer should consider whether appropriate consultations have taken place and review the related documentation of such consultations, including the conclusions.
- Paragraph 8(i) requires the EQR reviewer to “[d]etermine if appropriate matters have been communicated, or identified for communication to the audit committee, management, and other parties, such as regulatory bodies.” It is not clear how the EQR reviewer is supposed to determine whether all such appropriate matters have been communicated. Among other things, this requirement could be viewed to require the EQR reviewer to review a large volume of working papers. The PCAOB

¹⁴ The PCAOB recently adopted a new rule to replace ISB Standard No. 1. This new rule is substantially similar to ISB Standard No. 1 in many respects. *See* PCAOB Release No. 2008-003, at 1 (Apr. 22, 2008) (SEC approval pending).

should clarify that the EQR reviewer should consider, based on the procedures performed, whether appropriate matters have been communicated to management and the audit committee.

E. The Proposal Does Not Successfully Advance A “Risk-Based” Approach.

Question No. 6. Is the risk-based approach to the engagement quality review described by the proposed standard sufficient to identify significant engagement problems? If not, how should the proposed standard be changed?

We addressed the substance of this question in Section II.B.2.b. As discussed, it is not clear what the PCAOB intended to accomplish through the “risk-based” assessment proposed in Paragraph 9. We expressed concern that Paragraph 9 focuses the EQR inappropriately on the *engagement team* performance, rather than on risk of material misstatement in the client’s financial statements. We also noted that a Paragraph 9 assessment would achieve the same objective as the Paragraph 7 evaluation of significant judgments, and constitute a redundancy without an incremental value to the audit. We therefore recommend omitting Paragraph 9 from the final standard and specifying, perhaps in Paragraph 7, that the EQR reviewer should discuss with the person with overall responsibility for the audit any previously unidentified risks that come to the attention of the EQR reviewer as a result of performing the procedures in Paragraphs 7 and 8.

F. The Requirement For The Review Of Engagement Documentation Is A Significant Change In Practice And Will Be A Time Consuming And Costly Process.

Question No. 7. Are the proposed requirements for the review of the engagement team’s documentation appropriate? If not, how should they be changed?

We addressed the substance of this question in Section II.B.2.c. While we recognize the need to provide that audits are appropriately documented, we noted that the Proposal would significantly increase the obligations of EQR reviewers by requiring an extensive review of audit

documentation that is contrary to the basic precepts of concurring review and would be duplicative of the engagement partner's responsibility.

We therefore recommend that the final standard make clear that the EQR reviewer should exercise professional judgment in selecting for review the working papers that relate to the significant judgments the engagement team made and the conclusions it reached. In the alternative, the Proposal should identify specific documents to be reviewed during an EQR—for example, the financial statements, the engagement completion document, and other documents provided to the EQR reviewer by the engagement team that, in the EQR reviewer's professional judgment, relate to significant judgments made and the conclusions reached.

G. Additional Work Required By The Proposal Will Make It Difficult To Meet Accelerated Filing Deadlines.

Question No. 8. Is the description of the timing of the engagement quality review, as proposed, appropriate? If not, how should it be changed?

Under the Proposal, an EQR reviewer must “complete his or her review prior to providing concurring approval of issuance.” Proposal ¶ 11. While we agree that the concurring approval should be completed prior to the issuance of the related report, as discussed in Section II.B.1.-2., the additional work required by the Proposal, including extensive review of audit documentation, together with the implications of the proposed “knows, or should know” standard—which collectively could require that the EQR reviewer conduct a review too closely resembling the audit procedures of the engagement team—would make it difficult for issuers and auditors to meet the accelerated filing deadlines. Accordingly, absent applicable changes to the standard, we recommend that the PCAOB confer with the SEC regarding issuers' ability to meet SEC filing deadlines and whether the deadlines, particularly for Form 10-K for large accelerated and accelerated filers, should be modified.

In addition, we have identified concerns with the proposed effective date, which are described above in Section II.B.3.

H. The Final Standard Should Not Adopt A “Should Know” Standard For Concurring Approval.

Question No. 9. Is the standard for the engagement quality reviewer’s concurring approval of issuance appropriate? If not, how should it be changed?

We addressed the substance of this question in Section II.B.1. There, we explained that the proposed “knows, or should know” standard goes well beyond traditional concepts of concurring review embodied in both the interim standard and the proposed international standards, and is unworkable in the context of an EQR reviewer reaching a conclusion. For the reasons discussed, a reviewer cannot be expected to provide concurring approval based on what he or she “should know.” We further explained that the Proposal would create an incentive to perform additional procedures in order to obtain information to blunt second-guessing about information that the EQR reviewer “should have known.” Such protective procedures would add disproportionately to the time and effort involved with the EQR and ultimately to audit costs. To address these concerns, the PCAOB should adopt the language proposed in Section II.B.1. In the alternative, the PCAOB should adopt the IAASB’s standard or, at a minimum, modify the standard to omit the “should know” language to reflect that the EQR reviewer’s knowledge of the audit is necessarily limited and that responsibility should not extend beyond the scope of the reviewer’s actual knowledge.

I. The EQR Documentation Requirements Are Unclear And Should Be Clarified.

Question No. 10. Are the documentation requirements for an engagement quality review appropriate? If not, how should they be changed?

Question No. 12.¹⁵ Should the proposed standard require documentation of the engagement quality review to comply with other provisions in AS No. 3? If so, which provisions should apply?

We appreciate the PCAOB's efforts at detailing EQR documentation requirements in Paragraphs 14 and 15. However, certain aspects of the Proposal, described below, should be clarified or modified to ensure that an EQR proceeds efficiently.

The PCAOB should clarify how detailed the required documentation is expected to be. For example, as currently drafted, subparagraphs (c) and (e) of Paragraph 14 require that EQR documentation include information regarding the procedures performed by the EQR reviewer and the "results of the review procedures." These subparagraphs could be interpreted to require the EQR reviewer to draft what is, in effect, a second audit summary memorandum. Such a requirement would be redundant and, by creating additional work, would delay the completion of the EQR and the issuance of the audit report, making it more difficult to meet filing deadlines. Moreover, we do not believe that increasing the documentation requirements for the EQR—in and of itself—is likely to improve audit quality. To the contrary, increased documentation requirements would distract the reviewer from important EQR procedures. The final standard should ensure that the reviewer's focus remains on the EQR rather than the documentation, and should clarify that the EQR reviewer is not expected to duplicate the work of the engagement team related to documentation. We believe that it is sufficient for the EQR reviewer to document that a review was done in compliance with the standard, and by whom, without the need for detailed listings of procedures performed and documentation reviewed.

¹⁵ The Release does not include a Question No. 11.

To this end, we recommend that the PCAOB adopt the IAASB’s approach, which would require documentation that: (1) the procedures have been performed; and (2) the EQR has been completed before the [issuance] of the report. *See* Proposed ISA 220, ¶ 27; Proposed ISQC 1, ¶ 49.

If the PCAOB chooses not to adopt the IAASB’s approach, it should make the following refinements to Paragraph 14 of the Proposal. Paragraph 14 requires that documentation of an EQR include information concerning, among other things, “[w]hen the review procedures were performed” and “[t]he results of the review procedures.” First, regarding subparagraph (d), the PCAOB should clarify that the EQR documentation should provide: (1) the date the EQR was completed; and (2) the date on which concurring approval was provided. This recommendation reflects the fact that review procedures may be performed over a period of time, and the date on which the review was completed and the date on which approval was provided may be different. Second, we suggest that the phrase “results of the review procedure” in subparagraph (e) be replaced with the more specific phrase “conclusion reached as a result of the review procedures.” The degree of detail with which one should specify “[t]he results of the review procedures” is difficult to discern. Without clarification, the term “results” could be interpreted broadly to require specific findings for each aspect of an audit (no matter how perfunctory or mundane), the totality of which composes the “conclusion.” To achieve this level of reporting, the EQR reviewer likely would have to perform procedures similar to those that have been performed by the engagement team.

Finally, any final standard should make clear that the *only* provisions of AS No. 3 that apply to EQR documentation are those “related to retention of and subsequent changes to audit documentation.” Proposal ¶ 15.

IV. CONCLUSION

While D&T supports efforts to strengthen EQR, we believe that the Proposal, in many respects, goes well beyond the established purpose of a concurring review; and together, these proposed requirements could have unnecessarily adverse consequences, including: (1) increasing the level of responsibility and associated risk imposed on EQR reviewers; (2) increasing the amount of time, effort, and resources required to conduct an EQR; (3) increasing audit costs; and (4) making it difficult to issue timely reports, all without providing a commensurate and corresponding improvement in audit quality. Nevertheless, we believe that the Proposal, if revised as we have suggested above and in light of the proposed international standards, could provide a substantial benefit to audit quality.