

# CENTER FOR CAPITAL MARKETS COMPETITIVENESS

OF THE

UNITED STATES CHAMBER OF COMMERCE

DAVID T. HIRSCHMANN  
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May 12, 2008

Mr. J. Gordon Seymour  
General Counsel  
Office of the Secretary and General Counsel  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

RE: Release No. 2008-002; Rulemaking Docket Matter No. 025  
“Proposed Auditing Standard – Engagement Quality Review”

Dear Mr. Seymour:

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region. The reliability and efficiency of the audit process is imperative to maintaining the competitiveness of our nation's capital markets. We have been an advocate for the issuance of clear and effective auditing standards by the Public Company Accounting Oversight Board (“PCAOB”) and we appreciate the opportunity to comment on this proposed standard for engagement quality review.

Engagement quality review, conducted contemporaneously with the engagement, is an essential component of an effective audit process. This function was designated by Section 103 of the Sarbanes-Oxley Act of 2002 (“SOX”) as one of three areas for which the PCAOB should provide specific auditing standards. In April 2003, the PCAOB adopted its interim auditing standards which remain effective today, including a standard for conducting engagement quality reviews. Unfortunately, we are concerned that several aspects of the proposed standard are unclear and would result in unnecessarily expansive interpretations. Consequently, applying these vague provisions will result in a substantial increase in engagement quality review work and audit costs without a corresponding benefit to companies or investors.

First, the proposed standard does not state an overall objective of an engagement quality review. This is particularly troubling when considering that the

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standard contains requirements that exceed international auditing standards and the PCAOB's current interim standard. We believe that modifications to the engagement quality review process should be supported by well-defined objectives and clear guidelines that focus on the most significant judgments made by an engagement team. Thus, the specific objectives sought to be achieved through this increase over current and similar standards should be clarified.

Second, paragraphs seven and eight of the proposed standard, which prescribe general standards and specific procedures for conducting the engagement quality review, in some instances suggest that the reviewer is required to duplicate the work of the engagement team or to make independent judgments about matters that are the responsibility of the engagement team. This would require new and independent evaluations by the engagement quality reviewer, rather than a review of evaluations that have already been made by the engagement team. For the engagement review process to remain efficient and effective it must focus on identifying material risks that the engagement team might not have identified. Therefore, the proposed standard should clarify that an engagement review should not consist of additional auditing procedures that are already the responsibility of the engagement team.

Third, the proposed standard identifies specific areas that the engagement quality reviewer must assess to provide concurring approval and increases the previous basis for concurring to a "knows or should know" standard. This will undoubtedly result in the performance of substantial new work due to the concern of engagement quality reviewers about being second-guessed as to what they "should have known." As was the case with Auditing Standard No. 2, before it was replaced with Auditing Standard No. 5, these additional procedures will increase costs without providing a corresponding benefit for investors relying on audit reports. Furthermore, this broadened standard – and potential increase in litigation risk – will likely result in smaller firms having difficulty engaging third parties to conduct engagement quality reviews. This may result in anti-competitive consequences contrary to the intentions of the PCAOB.

Fourth, the proposed standard requires that the engagement quality reviewer evaluate the engagement documents in accordance with the PCAOB's documentation standard, Auditing Standard No. 3. Under the current standards, compliance with this requirement is already the responsibility of the engagement partner. This extensive document review process would result in substantial additional work, which is

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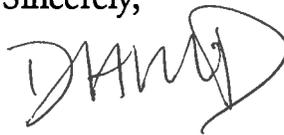
repetitive of work that is already required, and is not likely to enhance the overall quality of the audit engagement. These unnecessary increases in workload required under the proposed standard could also affect the issuer's ability to meet SEC filing deadlines.

Finally, the proposed standard requires the engagement quality reviewer to "maintain objectivity with respect to the engagement team." This vague requirement could be interpreted in a manner that would constrain the reviewer from engaging in constructive consultation with the engagement team. The information exchange between the reviewer and engagement team is an essential component of the audit process. Any limitations on this function would result in a deterioration of the quality of the overall auditing engagement.

The PCAOB has made commendable strides towards optimizing audit standards to ensure a sound and efficient audit process within the appropriate cost-benefit framework. Despite this progress, the provisions in this proposed audit standard will create inefficient and unnecessary requirements for the engagement quality review process. This will result in increased costs – for companies and their shareholders – that are highly disproportionate to any benefit that could be realized by investors or the broader business community.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Hirschmann", written in a cursive style.

David T. Hirschmann

cc: Hon. Mark W. Olson, Chairman, PCAOB  
Hon. Daniel L. Goelzer, Member, PCAOB  
Hon. Bill Gradison, Member, PCAOB  
Hon. Charles D. Niemeier, Member, PCAOB