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PIERCY BOWLER TAYLOR & KERN
Certified Public Accountants • Business Advisors

April 13, 2009

To: Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
Transmitted by e-mail to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 025 — Engagement Quality Review

As we did in our letter of April 28, 2008, in response to the Board's Release 2008-002 (the first Release), we are pleased to respond again in this letter to its revised proposal contained in Release 2009-001 (the second Release) regarding engagement quality reviews (referred to as EQRs), previously termed "concurring partner reviews." As noted in our earlier response, we understand the Board's concerns about the consistency from firm to firm and from engagement to engagement of the application of a standard for EQRs and the ability of the Board's inspectors to evaluate the scope of a given review in relation to such a standard.

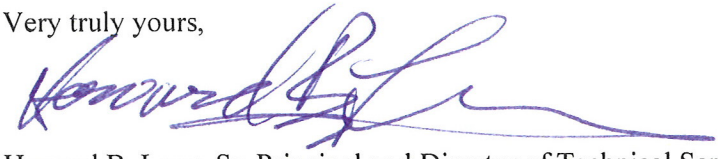
We appreciate and respect the Board's apparent responsiveness to the 38 letters of comment it received with regard to the first Release and its decision to expose a revised proposal for comment. We regret to note, however, that it appears from some of the explanatory discussion in the second Release that some of the issues may have been preliminarily resolved for reproposal purposes based more on the weight of the number of respondents favoring one position over another rather than the relative merit of the alternative views expressed and considered.

Except for our general observations in the paragraph immediately following we have included all of our concerns, observations and comments, with some overlap, in our numbered responses to the questions posed by the Board in the second Release. These are identified as **Q1-Q11** in our detailed responses on the pages that follow the executive summary of our key positions on pages 2-3, which we have prepared for the convenience of the Board and the staff. Our most critical concerns are set forth under **Q1**, **Q4**, **Q6** and **Q8-Q11**.

As we observed in our response to the first Release, we believe there is useful guidance contained outside the body of the current proposed standard that should be incorporated into either the body of the final standard itself or in the footnotes thereto. For example, certain guidance and definitions are contained only in footnotes 24, 28, 36 to the second Release rather than to the proposed standard. Also, we would like to convey that, unlike several commentators to the first Release, we do not support the notion that the Board should allow itself to be influenced to conform to, or converge with, international standards and should remain steadfast in its leadership.

Thank you for this opportunity to comment. We hope the Board finds our comments useful in its deliberations on this important matter.

Very truly yours,



Howard B. Levy, Sr. Principal and Director of Technical Services
Piercy Bowler Taylor & Kern, Certified Public Accountants

Below is a classified summary of the key positions of our firm on the issues upon which the Board requested comments. For the convenience of the Board and other readers, these summary position statements are also included on the following pages in boldface type preceding our detailed comments made in response to the specific questions raised in the second Release, which detailed responses also contain support for these positions.

A. Applicability of the EQR Requirement

- The EQR requirements should apply only to audits, as prescribed by Congress, and not to reviews primarily because they would likely lead to excessive user reliance on the review process in relation to the scope of the underlying work.

B. Objective of the Standard

- The core of the stated objective should more closely track Rule 2-01(f)(7)(ii)(B) of Regulation S-X, supplemented by interpretive language explaining the basis, nature and limitations of the additional assurance provided and clearly distinguishing the reviewer's responsibilities and those of the engagement partner.

- The objective should be accompanied by clear statements that it does not contemplate either (a) a review of all judgments and work of others (and excludes any original substantive work by the reviewer), or (b) an assessment of the design or degree of compliance with the firm's quality controls.

C. Qualifications of the Engagement Quality Reviewer

- We would agree with the proposed qualifications if (a) the terms "partner" and "equivalent position" were expressly linked in the standard to the definition of "audit partner" in Rule 2-01(f)(7)(ii) of Regulation S-X, and (b) it were made clear that those terms refer to the nature of responsibilities and not to equity ownership.

- We believe the standard should acknowledge that authority should be a consideration in assigning reviewers but state that it should rarely be a problem if the firm has an appropriate disagreement policy and tone-at-the-top.

- We object to the statement on pp. 7-8 of the second Release that "the Board believes that application of this requirement would rarely, if ever, allow a manager or other non-partner in an accounting firm to perform the EQR" because we believe this reference to "other non-partner" has an extremely high potential of inappropriately biasing the judgments of PCAOB inspectors, other regulators and triers of fact. We believe the statement should be expressly withdrawn with an explanation.

- The standard should include qualitative and quantitative criteria as to recent audit experience in addition to "associated person" status for reviewers from outside the audit firm.

- The standard should not expand upon the current rotation requirements by prohibiting an engagement partner who has not served his or her allotted five years from serving as a reviewer for two years after his/her last service as an engagement partner.

D. EQR Process

- Except for some relatively minor editorial suggestions, the proposed scope requirements for audits appear adequate.

- An EQR should not be required for a review, but if it were to be required, the proposed scope and concurring approval for issuance would be excessive.

E. Concurring Approval of Issuance

- It appears, but is not clear, that the Board intends that a positive approval be issued for audits based on negative assurance. Sample wording for such an approval should be provided in the standard.

- The statements made in the second Release and accompanying materials equating the "due professional care" formulation with the previously proposed "knows or should know" formulation is erroneous and poses litigation risks to auditors. It should be expressly withdrawn.

- A concurring approval for issuance should not be required for a review.

F. Documentation of the EQR

- The proposed requirements of paragraph 19b and c are excessive. We generally prefer the documentation proposal in the first Release, subject to certain modifications, most significantly, to eliminate the proposed vague requirement to document the "results."

SEE DETAILED COMMENTS BEGINNING ON PAGE 4.

A. Applicability of the EQR Requirement

- **The EQR requirements should apply only to audits, as prescribed by Congress, and not to reviews primarily because they would likely lead to excessive user reliance on the review process in relation to the scope of the underlying work.**

Q1 ─ *Should the standard require an EQR for other kinds of engagements performed according to PCAOB standards? If so, what types of engagements should be included and what should an EQR of such engagements entail?*

From the way the question is framed, it appears that the Board is interested only if commentators believe the proposal in the second Release should be expanded beyond what is proposed to other types of services performed under PCAOB standards. It remains our view, however, as we set forth in our April 28, 2008, letter in response to the first Release, that the proposed requirement should not be expanded from what it is in the SECPS §1000.08(f) and §1000.39 (Appendix E, item d) of the PCAOB's Interim Quality Control Standards (IQCS). We mean it should be limited to audits (except to the extent it now applies to interim reviews, *i.e.*, a passive role for the reviewer to participate in timely discussions initiated by engagement team members about matters identified in the review that are perceived to involve a significant risk of material misstatement).

As noted in our response to the first Release, we understand that the stated objective of Section 103 of the Sarbanes-Oxley Act of 2002 (the Act) was for the PCAOB to include in its auditing standards a requirement for EQRs, that was to be applicable to all audits of issuers (as defined in the Act). We also share the Board's apparent view of the importance of the contribution to audit quality that such a standard can and should make. We recognize that Section 103(a)(2)(A)(ii) of the Act is the only statutory reference therein to an EQR (albeit by its previous name) and note, however, that by its language (as acknowledged by the Board in footnote 26 to the second Release), the requirement for an EQR is limited in its applicability only to audits (the vague parenthetical expression "and other related information" therein notwithstanding). Although the Board's authority to go beyond the minimum statutory requirements of Section 103(a)(2) is clearly set forth in Section 103(a)(3)(A)(i) of the Act and, therefore, not subject to question, we believe it is doubtful that Congress ever intended the ECQ requirement to be extended to interim reviews conducted pursuant to AU Sec.722, "Interim Financial Information," of the PCAOB's Interim Auditing Standards (IAS). Accordingly we question the statutory basis and intent for the SEC's unexplained references in Rule 2-01(f)(7)(ii)(B) of Regulation S-X to the review service.

Moreover, we believe the following considerations make the Board's proposal to apply active EQR procedures to interim reviews to be inherently impractical and counterproductive:

- We reiterate (as also noted in our response to the first Release) that we do not believe the imposition of a mandatory, active EQR of any scope is warranted by the limited assurance provided or implied, or by the nature and extent of the procedures performed in support thereof, in an IAS AU Sec. 722 review. Accordingly, we believe that investment community knowledge of an expanded EQR requirement applicable to interim financial information will likely lead to widespread misunderstandings consisting of an exaggerated sense of reliability ascribed to such information that is considerably more than is reasonably warranted in relation to the limited scope of the underlying work currently prescribed pursuant IAS AU Sec. 722. (This point considers the fact that IAS AU Sec. 722 requires only analytical procedures and inquiries for a review service and does not, in any circumstances, require one to obtain any supporting evidence for client assertions, a condition not likely to be well-known by financial statement users because review reports are rarely included in filings.)

- We further believe that adding another level of review that necessarily requires significant time expenditure by a reviewer impair issuers' ability to cope with the additional constraints for timely

reporting applicable to interim financial reporting (especially for accelerated filers) with no measurable improvement to the reliability of such reporting.

Accordingly, as set forth in the first paragraph, above, we continue to believe that the EQR requirement for interim reviews should remain limited as it now is to a passive responsibility to participate in timely discussions initiated by engagement team members about matters identified in the review that are perceived to involve a significant risk of material misstatement. We believe such limitation on the EQR requirement to be consistent with the limited scope of the review service, reasonable investor expectations based thereon and the time constraints inherent in interim reporting; therefore, it is the only practical choice.

B. Objective of the Standard

- **The core of the stated objective should more closely track Rule 2-01(f)(7)(ii)(B) of Regulation S-X, supplemented by interpretive language explaining the basis, nature and limitations of the additional assurance provided and clearly distinguishing the reviewer's responsibilities and those of the engagement partner.**

- **The objective should be accompanied by clear statements that it does not contemplate either (a) a review of all judgments and work of others (and excludes any original substantive work by the reviewer), or (b) an assessment of the design or degree of compliance with the firm's quality controls.**

Q2 ─ *Is the objective in the reproposed standard appropriately formulated? Does it articulate the purpose of an EQR?*

We fail to see the benefit to be achieved from stating the objective as that of the reviewer rather than of the EQR, itself, the latter of which we believe is more appropriate (although both alternatives should be virtually the same and, therefore, inseparable). We disagree with the Board's expressed belief that framing the objective as one of the reviewer effectively emphasizes "the responsibilities placed on a reviewer by this proposed standard," nor do we believe that such emphasis is needed. Moreover, the proposed objective, as framed in paragraph 2 of the current proposed standard, appears merely to be an extremely brief and overly mechanical summary of the procedures to be employed and conclusions to be reached and, as written, does not add anything useful or meaningful to the proposed standard.

We frankly believe the core and essence of an explicit statement of objective of the review, of which we are absolutely in favor, should be broader, less procedural and more qualitative than that proposed by more closely tracking the language embodied in Rule 2-01(f)(7)(ii)(B) of Regulation S-X (excluding the references to reviews), with suggested qualifying additional language shown in bold italics, *i.e*., "to provide additional assurance that the financial statements subject to the audit … are in conformity with generally accepted accounting principles and the audit … and any associated report are***, in all significant respects,*** in accordance with ... auditing standards and rules promulgated by the Commission or the Public Company Accounting Oversight Board." This core statement should be supplemented with proximate interpretive language in the body of the standard (rather than in an accompanying release) as discussed below in our response to **Q3**.

Q3 ─ *Will this objective contribute to a more thoughtful and effective EQR?*

To be clearer, and to enable a more rigorous or robust, thoughtful and effective EQR, we believe the core statement of objective suggested in our response to **Q2**, above, should be supplemented with interpretive language in the body of the standard explaining briefly but more specifically what should be the basis and nature of the added assurance to be afforded by the EQR, possibly combining words such as those used in IQCS SECPS §1000.39 with those contained in paragraph 20 of Redrafted ISA 220, with suggested qualifying additional language shown in bold italics, *e.g*., "...an objective evaluation***, in accordance with the***

applicable standard of the PCAOB, of significant auditing, accounting, and financial reporting judgments made by the engagement team and the conclusions reached in formulating the audit report."

Additionally, we believe the portion of the final standard containing the stated objective should also articulate the key limitations of the EQR process. For example, the body of the final standard should clearly state, in close proximity to the objective now in paragraph 2, that:

- The term "additional assurance," as used in Rule 2-01(f)(7)(ii)(B), does not mean absolute assurance.

- The EQR "reviewer's responsibility is not the equivalent of the engagement partner's responsibilities" (as is now stated in IQCS SECPS §1000.39, paragraph b).

- The reviewer's participation does not relieve the primary engagement partner or equivalent from the final responsibility for issuing the firm's report(s).

  (This notion is more or less effectively carried over from the IQCS to the current proposed standard in paragraph 7, which reads "[t]he person who has overall responsibility for the engagement remains responsible for the engagement and its performance, notwithstanding the involvement of the engagement quality reviewer," but should be relocated to reside in the discussion of the objective of the EQR.)

- The objective calls for a review of only the significant, but not all, judgments and work of others and does not call for any original substantive work by the reviewer, and lastly,

- The objective does not contemplate that the EQR is shall be intended for the purpose of assessing the design or degree of compliance with the firm's quality controls (although it may result in the identification of needs for improvement therein).

C. Qualifications of the Engagement Quality Reviewer

- **We would agree with the proposed qualifications if (a) the terms "partner" and "equivalent position" were expressly linked in the standard to the definition of "audit partner" in Rule 2-01(f)(7)(ii) of Regulation S-X, and (b) it were made clear that those terms refer to the nature of responsibilities and not to equity ownership.**

- **We believe the standard should acknowledge that authority should be a consideration in assigning reviewers but state that it should rarely be a problem if the firm has an appropriate disagreement policy and tone-at-the-top.**

- **We object to the statement on pp. 7-8 of the second Release that "the Board believes that application of this requirement would rarely, if ever, allow a manager or other non-partner in an accounting firm to perform the EQR" because we believe this reference to "other non-partner" has an extremely high potential of inappropriately biasing the judgments of PCAOB inspectors, other regulators and triers of fact. We believe the statement should be expressly withdrawn with an explanation.**

- **The standard should include qualitative and quantitative criteria as to recent audit experience in addition to "associated person" status for reviewers from outside the audit firm.**

- **The standard should not expand upon the current rotation requirements by prohibiting an engagement partner who has not served his or her allotted five years from serving as a reviewer for two years after his/her last service as an engagement partner.**

Q4 ─ *Is it appropriate to explicitly require a reviewer from within the firm to be a partner or an individual in an equivalent position?*

Our answer to **Q4** depends on what is intended to be meant by the terms "partner" and "equivalent position." As we noted in our response to the first Release, the SEC's Rule 2-01(f)(7)(ii) of Regulation S-X does not require or even suggest that an audit partner, including one described in Rule 2-01(f)(7)(ii)(B) who performs an EQR in accordance with PCAOB rules, needs to have any equity ownership in the firm to function effectively in such "partner" role. (This fact is acknowledged in footnote 15 to the second Release, which reads "...but they do not prohibit non-partners from performing that function" but which is too far removed from the standard, itself.) We believe a clear statement that equity ownership is not required should appear in the body of the final standard, rather than in accompanying release, along with definitions of "partner" and "equivalent position" that are consistent with Rule 2-01 (f)(7)(ii) of Regulation S-X but more specific with respect to EQR reviewers.

In defining such "partner" roles and setting forth their qualifications, Rule 2-01 rightfully speaks only to the nature of responsibilities. We believe that the SEC position as stated in Rule 2-01(f)(7)(ii) essentially already requires that a reviewer be in an equivalent position as that of an audit partner, but only as defined therein (without regard to equity ownership), and that to require equity ownership is both unnecessary and unduly burdensome on smaller firms that do not have the depth of resources at the equity partner level of the larger firms.

We note that there are no professional standards that define the qualifications of an engagement partner. Such qualifications and assessments of competence are left to the professional judgment of individual firms to determine and are subject to periodic critical evaluation by PCAOB inspectors. In that regard, we believe the allocation of equity interests in a firm is often solely an economic decision that has (and should have) little or nothing to do with, and is an independent consideration from, those involved in assigning responsibilities or authority and evaluating professional competence. We believe that a reasonably robust standard for qualifying EQR reviewers will serve an effective quality control over the selection of both engagement partners and reviewers without any dependency on their status as equity-holding partners. This should be made clear in the final standard.

By way of example, as the PCAOB was made aware in connection with our two inspections, our firm (like many similarly small firms, we believe) is structured with both shareholders and nonequity-holding principals, the latter of whom are judged upon their promotion to such status to have sufficient experience and professional competence to enable them to function effectively at the "partner" level, as described in Rule 2-01(f)(7)(ii) of Regulation S-X, on many engagements for both issuers and nonissuers alike. These nonequity-holding principals and shareholders are all subjected to another evaluation of their competence and experience at the engagement principal level, and are both held to the same standard, before being assigned to perform an EQR.

We, therefore, believe that if the final standard were to explicitly require a reviewer from within the firm to be a "partner or an individual in an equivalent position," the term "partner" should be explicitly defined in the standard by reference to the definition of "audit partner" in Rule 2-01(f)(7)(ii), and the term "equivalent position" should be expressly limited by a definition that refers only to responsibilities (as it is in Rule 2-01 (f)(7)(ii)) and, perhaps, authority, which is closely related. Moreover, it should be more clearly and directly articulated in the body of (or a footnote to) the standard that equity ownership is neither a requirement of the standard, nor should it be viewed necessarily as evidence of competence.

While we agree with the Board's statement in the second Release that "what constitutes authority is not easily defined," we firmly hold the view that a precise definition is not necessary in a standard but rather, the standard should state clearly that the firm's management is responsible for assuring that the reviewer has the appropriate level of authority to meet effectively the objectives set forth in the standard for performing an EQR. Like many

other requirements of many other standards, such determinations should be left to the judgment of management of the individual registered firms, subject to periodic evaluation by PCAOB inspectors.

We believe that it is inherently fallacious logic to conclude (as the Board seems to have done in the second Release) that "concerns about authority will most often arise when the reviewer is employed by the same firm as the engagement partner." We believe the contrary is more likely true. However, when the firm has, as part of its quality control structure, both a well-drafted and effective policy for resolving professional disagreements (pursuant to IAS AU Sec. 311.14) and an appropriate "tone-at-the-top" (note that §1000.39 states, "The tone set at the top of the firm should encourage and support the performance of objective concurring partner reviews"), there should never be any significant issues with authority in connection with an EQR, whether the reviewer comes from the same firm or not. We also believe that the substance of the foregoing sentence should be articulated in the body of or a footnote to the final standard.

Accordingly, we firmly object to the statement on pp. 7-8 of the second Release that "the Board believes that application of this requirement would rarely, if ever, allow a manager or other non-partner in an accounting firm to perform the EQR" because we believe the reference to "other non-partner" has an extremely high potential of inappropriately biasing the judgments of PCAOB inspectors, other regulators and triers of fact. Accordingly, we believe it is neither necessary nor appropriate for any standard, or the release accompanying the standard upon issuance, to contain such potentially prejudicial language. The facts and circumstance should be independently judged on their own in each case. Accordingly, we hope such prejudicial language will be expressly withdrawn, along with an appropriate explanation of the reason for such withdrawal, in the release that will accompany the final standard. We further believe that, to remove any doubts in this regard, the standard should explicitly state that a competent manager may serve as an assistant to the EQR reviewer, for example, to provide needed industry expertise, since the authority of the principal EQR reviewer will be attributed to all assistants.

Q5 ─ *Should the standard allow qualified accountants who are not employed by an accounting firm to conduct the review?*

If the question is intended to refer only to accountants not employed by the reporting firm, as it seems to be, our answer is yes. As stated in our response to **Q4**, above, we believe that when the firm has an adequate policy for resolving professional disagreements and an appropriate "tone-at-the-top" as part of its quality control structure, there should never be an issue with authority in connection with an EQR whether the reviewer comes from the same firm or not. Accordingly, provided the reviewer meets the proposed requirements relative to competence, independence, integrity and objectivity, with which we fully concur, we believe such individuals should be permitted to conduct EQRs.

If the question is intended to refer to accountants not employed by any accounting firm, our answer would be no. However, the language in paragraph 3 of the proposed standard requiring the reviewer to be "an associated person of a registered public accounting firm" (as that term is defined in PCAOB Rule 1001(p)(i)) would serve effectively to eliminate most accountants from consideration who are not currently engaged in accounting practice such as a professor, a retired partner or an accountant in industry. Nevertheless, there is somewhat contradictory language in the last paragraph of the discussion of competence on p. 8 of the second Release that suggests, without qualification, that EQR reviewers may, in fact, be professors or retired partners. Accordingly, we believe this contradictory language should be expressly withdrawn in the release accompanying the final standard. But considerably more significant in our opinion, is the fact that there is no assurance that even an "associated person," in fact, will be directly or indirectly involved in audit practice.

Accordingly, we believe the term "associated person of a registered public accounting firm" is far too broad to serve as a sufficiently selective criterion because we believe it is generally impossible for a person to meet the general competence standard and be "qualified" unless his or her experience in financial auditing meets both qualitative and quantitative criteria. Therefore, we believe that, in addition to the currently proposed

"associated person" criterion, the final standard should be expanded to require a currency of audit experience threshold (such as within the most recent year) and a definition of qualifying audit experience expressed in terms of activities. This is recommended, of course, because the challenges of modern financial auditing are too quickly growing and otherwise changing to permit someone with outdated experience to perform this critical quality control function.

Q6 ─ *Should the standard prohibit the engagement partner from serving as the reviewer for a period of time following his or her last year as the engagement partner? If so, is two years sufficient, or should it be extended?*

While we understand that the perceived benefit of the two-year "cooling off" period contained in paragraph 8 of the current proposed standard to be the "fresh look" objectivity of the reviewer for his or her first EQR (and we recognize that this requirement was a provision of the old standard embodied in paragraph a of IQCS SECPS §1000.39 but effectively superseded by the current rotation rules set forth in Rule 2-01(c)(6) of Regulation S-X), we firmly believe that such accelerated rotation would be unnecessary and in many cases would reduce audit quality. Our belief is based on the view that the benefit of familiarity with the client's business and industry that one gains from experience on an audit far outweighs the potential benefit of a "fresh look" for purposes of meeting the objectives of an EQR, including assuring the appropriate level of audit quality. We believe it is likely that the SEC staff wisely considered the relative weight of these offsetting benefits when it drafted the current rotation rules that do not require any "partner" rotation after less than five years on the audit, regardless of the partner's function.

We wish to point out further in this regard that it is common in practice to assign the engagement partner and reviewer in the same initial year (*i.e.*, when a new engagement is obtained) and thus face a need to rotate them both off the engagement concurrently five years later. We believe the sacrificing of experience and familiarity with the client caused by such a concurrent rotation severely reduces audit quality. By rotating the reviewer off and re-assigning the engagement partner to conduct the EQR in the fifth instead of the sixth year, the "fresh look" objective is met a year before it is actually required under present rules by the assignment of a new engagement partner, and this enables the staggering of mandatory rotations by one year thus avoiding the concurrent rotation of both the engagement partner and reviewer and the necessary consequential reduction in audit quality. Although this staggering could be achieved by larger firms without reassigning a new engagement partner to conduct the EQR in the fifth year, the proposed change in the rotation requirements would create a substantial burden for smaller firms that do not have the depth of resources in the number of qualified reviewers available and, we believe, result in a net loss, rather than a gain, in audit quality.

D. EQR Process

- **Except for some relatively minor editorial suggestions, the proposed scope requirements for audits appear adequate.**

- **An EQR should not be required for a review, but if it were to be required, the proposed scope and concurring approval for issuance would be excessive.**

Q7 ─ *Are the descriptions of the scope and extent of EQR procedures contained in the reproposed standard appropriate? Will the performance of these procedures result in a high-quality EQR? If not, how should these procedures be revised?*

Except as noted in the following paragraph, we believe that the nature and extent of ECQ procedures proposed to be employed for audits are both appropriate and appropriately described in paragraphs 9, 10 and 11 of the current proposed standard and, therefore, that they would likely result in a high quality EQR, given the competence, integrity and independence of the reviewer that should be reasonably assured by the operation of the standard and the firm's tone-at-the-top. Nevertheless, we believe this section of the final

standard should emphasize the need for the reviewer to exercise objective professional judgment as to the scope of the review procedures necessary to meet his or her EQR responsibility.

We have the following suggestions for improving paragraph 10 of the current proposed standard.

- Notably missing from paragraph 10 is any specific requirement to inspect and evaluate the documentation of the audit work supporting judgments and conclusions expressed or implied about significant risk areas of the audit for compliance with applicable PCAOB auditing standards. If this is to be implied from what is in paragraph 10, we believe it is too subtle.

- We believe the requirements of both subparagraphs e and f of paragraph 10 are too sweeping and should be expressly limited to the significant matters otherwise subjected to EQR attention. They also should be characterized as subjective "evaluations" or "assessments" rather than absolute "determinations."

- Lastly, contrary to the view of the CAQ as expressed in its May 12, 2008, comment letter to the first Release, we believe it would be appropriate to add a subparagraph c to paragraph 11 that would call for evaluation of compliance with the requirements of AS No. 3 and any applicable documentation provisions of other standards, which evaluation, like subparagraphs a and b, would be limited to those areas subjected to review under paragraph 10.

In contrast to our support of the proposed requirements to be applicable to audits, however, we have serious reservations about the nature, extent and descriptions of ECQ procedures, if any, to be required, such as are proposed in paragraphs 14-16 for use in interim reviews and have set forth our reservations in our response to **Q1**, above and **Q8**, below.

Q8 ─ *Are the specifically required procedures appropriately tailored to reflect the difference in scope between an audit and an interim review?*

Based on the reasons set forth in our response to **Q1**, above (consisting principally of the lack of apparent evidence of Congressional intent to extend the EQR requirement to interim reviews, the low level of service provided and of assurance afforded, whether provided or implied, by an IAS AU Sec. 722 review, and the time constraints inherent in interim reporting, the last two of which make the Board's proposal impractical), we believe no EQR should be required for reviews. If an EQR were to be required, however, for the same reasons, we believe the general scope and specific procedures contained in paragraphs 14-16 (including those contained in paragraphs 10c-f that are incorporated by reference), and the concurring approval for issuance conclusion described in paragraph 17, of the current proposed standard for an interim review would be far in excess of what is warranted under the circumstances.

Q9 ─ *Do the specifically required procedures sufficiently focus the reviewer on areas of highest risk? Are there other procedures that should be required?*

Subject to our comments under **Q7**, above, we believe the specific procedures described in paragraph 10 of the current proposed standard do, in fact, sufficiently focus the reviewer on areas of highest risk in most circumstances, and we believe paragraph 10 needs to be supplemented only by cautionary language reminding reviewers to exercise objective judgment in determining scope.

E. Concurring Approval of Issuance

- **It appears, but is not clear, that the Board intends that a positive approval be issued for audits based on negative assurance. Sample wording for such an approval should be provided in the standard.**

- **The statements made in the second Release and accompanying materials equating the "due professional care" formulation with the previously proposed "knows or should know" formulation is erroneous and poses litigation risks to auditors. It should be expressly withdrawn.**

- **A concurring approval for issuance should not be required for a review.**

Q10 ─ *Is the standard for the engagement quality reviewer's concurring approval of issuance appropriately described in the reproposed standard? Is the first condition appropriately tailored to reflect the difference in scope between an audit and an interim review?*

Particularly in view of its controversial developmental history in this regard, we believe the standard is notably deficient by its omission of an illustrative example suggesting how one might word the required concurring approval of issuance for an audit. Most significantly, it is not clear from the words either in the second Release or the current proposed standard, itself (as it was in the first Release and accompanying proposed standard), if the Board still wishes to preclude the use of negative assurance. It appears (but is also not clear) from the language in paragraph 12 of the current proposed standard that it would be acceptable for a positive approval for issuance to be based on a form of negative assurance, *i.e.*, that, based on having performed the EQR with due professional care in accordance with the applicable PCAOB standard, the reviewer "is not aware of a significant engagement deficiency." As we have illustrated, we think the language used to support a concurring approval for issuance should be based on an assertion by the reviewer of compliance with the PCAOB standard for performance of an EQR, which should either state or imply and be understood to include the exercise of due professional care. We think this needs to be clarified.

Since we do not believe an EQR or a concurring approval of issuance should be required at all for an interim review, we refer you to our response to **Q8**, above.

Moreover, we believe the release that will accompany the final standard should contain language that explicitly withdraws statements made in and accompanying the second Release expressing the view that references to "due professional care" that were substituted for the "legalese" and objectionable, "knows or should know" language contained in the earlier proposal, in substance, means the same thing. In our opinion, and we believe most likely those of others who commented on the earlier proposal, it does not, and to allow such a suggestion to remain uncorrected on the public record could have the same damaging effect on practitioners in future litigation that was perceived by such commentators (including us) as would be if the objectionable language were to be left in the standard, itself.

F. Documentation of the EQR

- **The proposed requirements of paragraph 19b and c are excessive. We generally prefer the documentation proposal in the first Release, subject to certain modifications, most significantly, to eliminate the proposed vague requirement to document the "results."**

Q11 ─ *Are the documentation requirements in the reproposed standard appropriate? If not, how should they be changed?*

We note that in various places (including most explicitly in paragraph 7 of the current proposed standard), the Board acknowledges that the overall responsibility for the engagement and its performance, would still rest with the engagement partner, not the EQR reviewer. Yet, with regard to documentation requirements (particularly those set forth in paragraph 19b and c), the proposed standard appears to ignore this principle since they go substantially beyond those of PCAOB AS No. 3 and other standards that apply to the responsibilities of the engagement partner and other team members. The proposed requirements of paragraph 19b and c include making a record of the documents reviewed and documenting significant discussions held

during the review, "including the date of each discussion, the specific matters discussed, the substance of the discussion, and the participants." Specifically, our concerns are:

- The overriding sense one gets in reading paragraph 19b is that it will require a more intense and rigorous review of identified documents than may be warranted in any given circumstances, thus virtually eliminating any room for professional judgment as to degree of attention a reviewer needs give to the review of any specific documents (and the extent of documentation necessary or appropriate). We believe this will have the likely unintended effect of elevating the related responsibility of an EQR reviewer to a higher level than that of the engagement partner in direct contrast to the cited statement in paragraph 7. We believe the proposed requirement in paragraph 19b to identify the documents reviewed is too prescriptive and has no match in present standards applicable to an engagement partner.

- Apparently since the engagement partner's responsibility is for the overall engagement, there is no requirement in AS No. 3 or elsewhere in the currently applicable standards to match the proposed requirement in paragraph 19b for an engagement partner to identify all the documents reviewed. Paragraph 6b of AS No. 3 effectively requires that of the person taking specific responsibility for performing and reviewing the work (no mention of whether this should be the partner) done on a particular document. Ordinarily, an engagement partner will take the reviewer's responsibility under AS No. 3, paragraph 6b, when no other reviewer on the audit team is qualified to or has done so. Nevertheless, the engagement partner will apply some level of review to many significant documents without taking express responsibility as a reviewer by signing off on the document.

- To require specific identification of documents examined would be tantamount to requiring the reviewer to take express responsibility for the document. In general, to enable the engagement partner to take such express responsibility for reviewing specific documents, he or she can be expected to feel obligated to spend more time than might otherwise be warranted on it, for example, checking cross-references and mathematical computations. Such would be generally true for the EQR reviewer as well, thus adding substantial duplicative and, therefore, unnecessary time and costs to the audit and considerably slowing down the public release of audited financial information.

- Notably most troublesome to consider about the proposed requirement of paragraph 19b is the also unintended likely effect that such a requirement might, in fact, serve as disincentive for a reviewer to inspect one or more documents that he or she otherwise might or should, thus reducing the quality of the EQR.

- We likewise believe that the proposed requirements of paragraph 19c regarding "significant discussions" go far beyond any requirement that now applies under current standards to the engagement partner or any other member of the audit team and are, in our opinion, costly, inefficient and quite excessive. Moreover, it appears that compliance would add nothing to the quality of either the audit or the EQR and would serve no useful purpose other than to facilitate criticism of the EQR reviewer by potential adversaries, for example, as to the identification of what were, in fact, "significant discussions" requiring documentation or as to the content and quality of such documentation.

We believe these requirements will often have the effect of setting the reviewer up as a "straw man" to be readily blamed in any future adversary proceeding relating to the quality of the audit to a greater extent than the engagement partner merely because of the relative ease of asserting noncompliance with a written standard.

Accordingly, we strongly prefer, in general, the documentation proposal in the first Release, which was primarily to document the broad audit areas of the engagement subjected to the EQR, but as we stated in our response to the first release, only if the final standard (a) makes it clear that the requirement proposed in paragraph 14c of the earlier proposed standard were intended to call for only broad, general descriptions of the procedures employed by the reviewer, such as the descriptions contained in paragraphs 8-10 of the earlier

proposed standard, and not specifically by area or in the level of detail ordinarily expected for audit programs and other audit documentation, and (b) that the proposed requirement to document specific "results" of such procedures be removed because:

- It is inherently vague and seems tantamount to requiring the retention of review notes (an inherently unwise practice), and

- We believe such a documentation trail to be of no value once a final concurring approval for issuance has been either granted or denied).

- For reasons set forth in the preceding paragraph, we do not believe it is either necessary or desirable to make the earlier proposal more prescriptive or "clearer" in any other respect.