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To: Office of the Secretary, Public Company Accounting Oversight Board

Re: Horwath International's comments on PCAOB's Rule Making Docket Matter No. 025- Engagement Quality Review

We applaud the Board's efforts to enhance the quality of the auditing standards for audits of US public entities. We have seen the 2nd partner/reviewer process evolve since its inception in the 1980's and believe it to be a meaningful and necessary procedure which provides some added assurance about specific engagement performance and the functionality of a firm's quality control process at the engagement level.

We understand the PCAOB's objectives to make the engagement quality review process more consistent and effective within firms and between firms, and, to address such reviews done in small audit firm environments. Our comments and observations are embedded in our responses to the question section of the release below.

Question 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?

*We believe an objective would be useful for several reasons. To quote the Board's language on page 14 of the draft (in a discussion of audit documentation) "...quality audit documentation is a record of the actual work performed, which provides assurance that the auditor accomplished the **planned objectives**. (our emphasis). Without stated objectives the purpose of the review will be viewed very differently by firms and by reviewers themselves. Many will consider the review to require the reviewer to provide in depth review of the work in many areas as they might do as a principal reviewer thereby losing perspective in the process. Objectives would help focus the review and help define the reviews purpose to others outside the audit firm.*

We believe a general purpose statement describing the purpose of the review, its scope and the limitations of the review, and, the importance of using professional judgment in evaluating what to review. Also the objective should include a statement that the review does not relieve the engagement partner/director from the final responsibility for the firm's report(s).

Question 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 the involvement in AU Sec 711 procedures (specifically with respect to the use of the auditor's report) by an engagement quality reviewer for an issuer undertaking a filing under the Securities Act of 1933 is a natural extension of the quality review process. The involvement of an engagement quality reviewer for SAS 100 reviews for interim filings is a cost/ benefit consideration. We believe the costs and the logistics of an engagement quality review for this purpose is tenuous at best, although notification by an engagement partner of significant matters encountered in SAS 100 reviews to an engagement quality reviewer who may later be involved in the annual audit would be beneficial.

Question 3- Are the qualifications of an engagement quality reviewer appropriately described in the proposed standard? If not, how should they be revised?

Yes, we believe the level of qualification as related to the competencies of the engagement partner is generally an appropriate benchmark. However, we note the discussion in the introduction on page 9 which drives to industry competency. We believe small firms with public company audits may be significantly handicapped being able to obtain outside quality control reviewers with competencies in specialized industries, since specialized industries tend to have a smaller cadre of servicing firms. If an experienced auditor/ reviewer attends relevant training courses and seeks assistance from other individuals to supplement his or her skill levels when necessary, this individual should be able to provide the quality review for such a firm.

Question 4 – Should the proposed standard allow the engagement team to consult with the quality reviewer during the engagement? Would such consultation impair the reviewer's objectivity?

Consultations should be permitted since they provide insights into appropriate solutions. If the reviewer is objective and is not sure of his or her response, then the appropriate firm or other resource will be called on. It's the same as the client consulting on the auditor with an issue. The reviewer should be advised not to initiate the solution as that would bias the review.

Question 5 – Are the descriptions of the scope and the extent of engagement quality review procedures contained in the proposed standard appropriate? If not how should they be changed?

Yes. We think the level and description of recommended procedures is appropriate and the discussion incorporating risk is supportive of the review's objectives.

Question 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 standard be changed?

Not entirely, we think that the risk based approach to audit results (response, conclusions, and documentation) is fine; however, the question posed is the sufficiency of problem identification. It is our experience that problem identification in financial statement audits is best addressed in the planning phase. For this purpose we will define planning to include all processes through the preparation of the audit plan. We think it would be appropriate to provide guidance in this section (paragraph 9) which references to paragraph 11 timing of the review. We believe in high risk engagements (overall risk) that the quality reviewer look at planning documents before the further audit procedures are completed. If problems are identified during this phase of the engagement then more time and effort can be spent more effectively by engagement personnel. Perhaps these two paragraphs can be combined with planning emphasis in the quality review for high risk engagements.

Question 7 – Are the proposed requirements for the review of the engagement team’s documentation appropriate? If not how should they be changed?

We think the proposed standard in the area is fine for now. As auditor’s become more proficient in documenting their work under AS-3 a firm’s own review process will be able to address deficient documentation and this part of the proposed standard may be able to be reduced at some future date due to redundancy of this procedure.

Question 8 – Is the description of the timing of the engagement review as proposed appropriate? If not how should it be changed?

See Question 6 above.

Question 9 – Is the standard for the engagement quality reviewer’s concurring approval of issuance appropriate? If not, how should it be changed?

*No. We found this to be the most problematic issue in the proposed standard. We agree with the matters that are the basis for the reviewer’s conclusion. We do not agree with the language that the reviewer cannot approve if he or she **should have known** (our emphasis) about deficiencies in the basic audit requirements. “Should have known” is included in definitions of simple negligence. How does one evaluate what they should have known? By signing the approval if anything goes awry the reviewer is negligent. It seems that this standard would exceed the professional standards that the engagement partner is held to. We do not believe this approval, under this language, to be better than the limited or the negative assurance being provided under the existing standard. If a reviewer knows of an unresolved significant issue then he or she cannot approve the report(s). If “should have known” relates to any undetected issue it’s very problematical.*

Question 10 – Are the documentation requirements for an engagement quality review appropriate? If not, how should they be changed?

The items included in paragraph 14 of appendix 1 in the proposed standard are sufficient to document the nature timing and extent of the procedures performed. It will be difficult for a reviewer to document situations where detail review was done for certain

subsidiaries in several accounts or financial transaction cycles and not in other similar subsidiaries, perhaps, just as a sampling procedure.

We believe that in many cases the focus of the review would be changed based on the assessment of the competencies and experience of the engagement team and of its supervision. A likely situation might be where the reviewer ran into several issues that were unacceptable or were marginally acceptable, in that case as in an audit, the reviewer would have several alternatives, including stopping the review, or expanding the review to ascertain the existence of other problematic matters, and their cause. The third bullet –documenting the procedures performed by the reviewer would then become a more sensitized matter. The level of documentation or its content would likewise become sensitized and raise the level of skepticism amongst others including post issuance and outside reviewers.

The question that needs to be addressed is the level of detail that is needed. We believe the level of detail should be sufficient to understand that other procedures were required by the reviewer and what transpired (file revision, expansion of procedures, firm consultation, etc). We suggest some guidance be placed in this section of the proposed standard.

If a significant overlay of documentation extends to the quality control review, we believe it would exceed documentation requirements specific to the review process performed by engagement partners/directors.

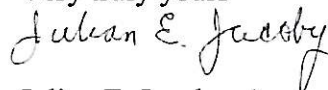
*Some of the most effective review we have experienced is what is not in the work papers and financial statements but what **should be** in them (our emphasis). The documentation follows the result.*

Question 11 – Should the proposed standard require documentation of the engagement quality review with other provisions contained in AS-3? If so which provisions should be applicable?

The proposed standard requires that AS-3 provisions related to subsequent changes and file retention be followed. We think these requirements are a suitable reminder. Significant issues that arise from the review will of necessity be incorporated in the significant issues documentation requirement or in other documentation that fall under AS-3.

Thank you for your kind attention.

Very truly yours



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