

April 28, 2008

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

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

We are pleased to respond in this letter to the cited proposal contained in PCAOB Release 2008-002 (the Release).

We understand that the stated objective of Section 103 of the Sarbanes-Oxley Act (the Act) of 2002 is for the PCAOB to include a requirement for a concurring review in its auditing standards applicable to audits of issuers (as defined in the Act), and we share the Board's apparent view of the importance of the contribution to audit quality that such a standard can and should make.

We also understand the Board's concerns about the consistency of application of such a standard from firm to firm and from engagement to engagement and the ability of its inspectors to evaluate the scope of a given review in relation to such a standard. We believe our comments address these concerns consistently with the implied primary objective of the standard, which we take to be providing reasonable assurance of uniformly high quality engagement quality reviews in terms of their scope and execution.

In addition to responding below to the questions posed by the Board in the Release, we point out that the proposed standard (Appendix 1 to the Release), itself, is quite brief. We believe there is useful guidance in the Release but outside the proposed standard and that the final standard would be improved if some of that guidance were to be incorporated therein. For example, part B3 on p. 12 of the Release provides guidance as to how a contracted outside reviewer might become an "associated person of a registered public accounting firm."

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 a stated objective for "engagement quality reviews" (as they are now proposed to be and hereinafter are called) would be an essential element in meeting the implied primary objective of the standard itself, as stated above.

Despite any stated objective of an engagement quality review, we believe that at the point of stating the objective, there should be a direct and proximate reference to the statement that appears in paragraph 6 of the proposed standard that the engagement quality reviewer does not relieve the primary engagement partner or equivalent from the final responsibility for issuing 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 the final standard should clearly state that an engagement quality review is required only for (a) audits of the financial statements of issuers (as defined), (b) other attest services resulting in opinions intended for filing with the SEC or public distribution, (c) audits of the financial statements

(or financial statement information) of nonissuers that have a material effect on the financial statements of issuers, such as significant subsidiaries (including consolidated variable interest entities) and unconsolidated investees that are carried on the equity method of accounting, and (d) to enable approval of the issuance or updating under PCAOB Interim Auditing Standard AU sec. 711 (or a successor standard) of a consent intended for inclusion of an audit report in a federal securities filing. Significance of subsidiaries and unconsolidated investees that are carried on the equity method of accounting should be determined in such regard objectively by a definition containing criteria similar to those in Rule 1001(p)(ii) applicable to the phrase "play a substantial role in the preparation or furnishing of an audit report."

We believe the final standard also should state that engagement quality review procedures are not required to support or approve the issuance of a comfort letter to underwriters or others under PCAOB Interim Auditing Standard AU sec. 634 (or a successor standard) unless required by the underwriter or other intended recipient or by the issuing firm's quality control policies.

We also do not believe it is apparent by the language in Section 103 of the Act that Congress intended auditor services to undergo engagement quality reviews if the services do not involve issuance of an audit or attestation opinion, or a consent to include a report containing such an opinion in a federal securities filing. We further believe that (a) the level of assurance indicated or implied that results from a review of interim financial information conducted under PCAOB Interim Auditing Standard AU sec. 722 (or a successor standard) warrants the imposition of a mandatory engagement quality review and that (b) the additional constraints for timely reporting applicable to interim financial information would make it impractical to add another level of review. Therefore, for reviews of interim financial information, we are in favor of retaining only the burden of timely consultation with the assigned quality reviewer about matters identified in the review that involve a significant risk of material misstatement that is now set forth in SECPS §1000.39, Appendix E, item d.

We believe that an engagement quality review for audits of financial statements of other nonissuers conducted in conformity with PCAOB standards should be optional because we believe such a distinction as to the applicability of this requirement would be consistent with the intent of Congress as expressed in Sec. 103 of the Act and with the associated risks and needs of different classes of users.

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

We do not think so. The predecessor version of the proposed standard that is contained in SECPS §1000.39, Appendix E, that is incorporated by reference into §1000.08(f) and the PCAOB's Interim Quality Control Standards sec. QC 20.18, clearly required (and in our opinion, without justification) a concurring reviewer to be an equity owner (partner or shareholder) of the firm. To its credit, paragraph 2 of the proposed standard, however, states (although too subtly, in our view) that the engagement quality reviewer need not be an equity owner. Rather, paragraphs 3, 4 and 6 emphasize correctly that the critical attributes of the engagement quality reviewer are (a) competence and (b) independence, integrity and objectivity. However, Rule 2-01(f)(7)(ii)(B) of Reg. S-X similarly does not require equity ownership but does require that both engagement "partners" and concurring reviewers have "equivalent authority" to that of an equity partner. We believe the final version of the new standard should also require that an engagement quality reviewer possess the equivalent professional authority (but not the financial interest) of an equity owner to assure his or her independence, objectivity and the level of respect from the engagement partner that are necessary to function effectively. We believe that our concerns about clarifying the fact that equity ownership is not required and referencing the need for partner-equivalent authority to be consistent with Rule 2-01(f)(7)(ii)(B) might best be met, for example, by changing the words in paragraph 2 from:

"... may be a partner of the firm that issues the engagement report (or communicates an engagement conclusion, if no report is issued), another individual in the firm or an individual outside the firm. The engagement quality reviewer must be an associated person of a registered public accounting firm."

to:

“... may be any individual either in or outside the firm that issues the engagement report (or communicates an engagement conclusion, if no report is issued), who is an associated person of a registered public accounting firm, who possesses the equivalent professional authority of an equity owner in such firm, and who meets the other qualifications described in paragraph 3, below.”

As pointed out on page 9 of the Release, we note that the predecessor standard required that “the reviewer possesses knowledge of both relevant specialized industry practices and SEC rules and regulations in areas pertinent to the engagement but that the proposed standard, on the contrary, contains the less specific requirement only that reviewers “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.” However, we believe that to better assure that engagement quality reviews will add quality to audits as intended, the final standard should (a) set a minimum competence or experience level for reviewers that is clearly at a higher level than the minimum level that would ordinarily apply for assignment as the engagement partner for a similar engagement, and (b) provide more specific guidance in that regard than the general guidance that is currently available elsewhere, either in the competency standard contained in Ethics Interpretation 201-1 or in PCAOB Interim Quality Control Standard sec. QC 40.04-.08.

We point out that f/n 18 (also on p. 9) states, also quite broadly without specificity, that the “determination of what constitutes the appropriate level of knowledge and competence should be based on the circumstances of the engagement, including the size or complexity of the business.” Accordingly, we do not believe the objective stated on p. 9 in part B1 of the Release of establishing “more clearly the level of expertise and experience that is necessary to perform an objective engagement quality review” is likely to be met by the language in the proposed standard, and we believe this language in f/n 18 is so broad as to provide little or no assurance of consistent application and invites differences in judgment that are likely to cause disputes between firms and PCAOB inspectors.

While we do not believe the qualifications for reviewers set forth in the final standard should be so rigid and restrictive as to remove all need for judgment and tailoring to the circumstances, we nevertheless believe that references both to knowledge of SEC reporting requirements (possibly with some minimum experience levels stated) and to some minimal extent of any applicable specialized industry practices (clearly requiring less than demonstrated “expertise” or even prior experience with the industry but rather which could be obtained through the use of others to assist) should be reinstated from the predecessor to the final standard.

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?*

We believe that the final standard should both permit and encourage an informal, ongoing dialog between the engagement partner and the engagement quality reviewer in which advice and guidance of the reviewer is sought and given, for example, as to such matters as what will satisfy the reviewer’s requirements at the time his or her approval will be needed or what literature should be consulted to resolve a question. We believe such dialog would contribute to a higher quality audit with fewer back-end issues that result from “second-guessing” and tend to delay its completion, make the audit inefficient or worse, poses an unacceptable risk of compromise in the face of a deadline or a budgetary constraint. We believe that contributing to the overall quality of the audit should outweigh any competing concerns for protecting the objectivity of the reviewer.

Therefore, we believe the final standard should distinguish such informal dialog clearly from the activities that would otherwise be prohibited by the proposed language in paragraph 6 such as “supervise the engagement team.” Unless such dialog is permitted, subject to such an expressed distinction in the standard, it will be virtually impossible for auditors to comprehend how the reviewer’s approval could be reasonably assured when planning and conducting the audit thereby avoiding the back-end problems described in the preceding paragraph.

We also believe, however, that the engagement and engagement quality review objectives would best be met if more formal consultations with engagement quality reviewers continued to be permitted as they now are, provided proposed solutions are first developed and presented to the reviewer by other members of the engagement team for approval or revision such that the reviewer is not required to review and approve his or her own work.

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?*

We believe that paragraph 7-9 of the proposed standard adequately describe the appropriate scope of a typical engagement quality review. However, we have two comments about that:

- a. Paragraph 8j should be elevated to a higher position in the order presented such as between 8e and f, and
- b. Guidance setting forth the responsibilities of a lead reviewer to obtain communications from supporting reviewer(s) for circumstances when the engagement quality review is divided among several reviewers, for example, when multiple locations are involved, should be provided in the final standard.

A comment about paragraph 10 follows below under Question 7.

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?*

We believe the risk-based approach described in paragraphs 8 and 9 of the proposed standard, subject to our comments under Questions 4, 5 (item a), 8 and 9 herein, are appropriate.

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

We believe the guidance provided in paragraph 10 is adequate in all significant respects except that paragraph 10a should be expanded to include reference to “other documentation requirements of PCAOB standards relative to significant matters selected for review.”

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

We agree with the basic proposed requirement of paragraph 11 but believe that, as in the predecessor standard, the engagement quality reviewer's input and approval shortly after the engagement planning and strategy is relatively complete and in place, but before the bulk of the substantive auditing has begun should be more forcefully encouraged by the standard (without being required) particularly in certain designated circumstances (for example, for initial engagements or after a rotation of either the engagement partner or quality reviewer). This would afford better assurance that the significant risks of material misstatement are identified timely and that the major scope decisions will meet with the approval of the engagement quality reviewer at the end of the audit.

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

We have no problem with the proposed requirement of paragraph 12 to issue a concurring approval of issuance in accordance with Section 103 of the Act. However, we are seriously troubled by and object to the inclusion in the standard of the phrase “knows or should know.” Such a phrase resembles legal language used by adversaries to establish a case for negligence. It is inherently impossible for one to make a self-assessment as to what one

“should have known,” but to be nonetheless effectively required to do so by the operative standard might likely accomplish nothing more than (a) to help an adversary defeat a reviewer’s defense against civil or even criminal liability that is based on the good faith use of professional judgment, and (b) to establish a level of responsibility for the reviewer that exceeds that of the engagement partner in direct conflict with the statement to the contrary contained in paragraph 6 of the proposed standard. Moreover, the use of such language in the standard would be inconsistent with the risk-based principles inherent in the mandated approach to engagement quality reviews that effectively requires the reviewer to exercise his or her good faith professional judgment and is embodied in paragraphs 8-9 of the proposed standard.

Alternatively, we believe that, like its predecessor, the final standard should require that the reviewer’s conclusion supporting approval of issuance contain only negative assurance that is based on his or her direct representation of compliance with the standard as to scope and execution of the review.

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

We believe the documentation requirements outlined in paragraph 14 of the proposed standard are appropriate only if the final standard makes it clear that proposed requirement of paragraph 14c is intended only to call for broad, general descriptions of the procedures employed by the reviewer, such as those contained in paragraphs 8-10 and not by area or in the level of detail ordinarily expected for audit programs and other audit documentation.

In addition, the standard should clarify that the requirement in paragraph 14e may be met in the form of a standard conclusion (see our comments relative to Question 9, above) with exceptions and optional comments added if appropriate, and does not require any documentation of any specific or general deficiencies found that were corrected at the request of the reviewer prior to granting a concurring approval to issue the intended report or other communication.

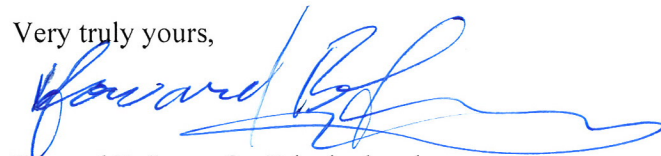
Question 11 – There is no question 11.

Question 12 – *Should the proposed standard require documentation of the engagement quality review with other provisions contained in AS No. 3? If so, which provisions should be applicable?*

We do not believe any other documentation requirements of AS No. 3 should be expressly extended and made applicable to the engagement quality review. While we have no objection to paragraph 15 in the proposed standard, we believe it is entirely unnecessary as it would obviously apply.

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

Very truly yours,



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