



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

20 April 2009

Our ref: ICAEW Rep 44/09

Office of the Secretary
PCAOB
1666 K Street,
N.W.
Washington
D. C. 20006-2803.

By email: *PCAOB Rulemaking Docket No. 025*

Dear Sir

PCAOB RELEASE NO 2009 - 001: RE-EXPOSURE OF PROPOSED AUDITING STANDARD – ENGAGEMENT QUALITY REVIEW:

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the PCAOB's re-exposure of the proposed auditing standard *Engagement Quality Review*

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

Our comments have been prepared with the help of our many members working around the world who have detailed knowledge and practical experience of US, EU and other regulatory regimes.

We applaud the decision of the PCAOB to propose amendments to and re-expose this standard in the light of comments received; it demonstrates a strong commitment to the public interest and a level of responsiveness that will enhance both acceptance of the final standard and the reputation, credibility and standing of the PCAOB itself.

The proposed amendments represent a significant improvement to the original proposals and we are particularly relieved to see the removal of the 'knows, or should have known' formulation together with a replacement based on the auditor's duty to exercise due professional care.

Our outstanding concerns are set out below and we believe that if they are properly addressed, the standard will provide a sound foundation upon which auditors can develop their engagement quality review policies and procedures.



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We remain concerned that a number of administrative issues, including the proposed applicability of the requirements which we referred to in point 4 of our response to the original exposure, do not appear to have been addressed at all. These issues have not gone away and represent genuine problems for auditors. Guidance from the PCAOB in these areas will help prevent confusion, inconsistencies in approach and problems further down the line. We re-iterate these issues below. **Furthermore, the effective date remains problematic. It seems wholly impracticable for this standard to be mandated for 2009 audits that have already started.**

I would be happy to discuss any of the points raised in this response.

Yours faithfully

Katharine E Bagshaw FCA
Manager, Auditing Standards
ICAEW Audit and Assurance Faculty
T + 44 (0)20 7920 8708
F + 44 (0)20 7920 8754
E: kbagshaw@icaew.com

Questions and Answers

1. 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?

No. The scope is appropriate in the absence of a full framework for audit and assurance engagements in which the PCAOB would need to consider and cover a wide range of engagements to which an EQR might be applicable.

2. Is the objective in the reproposed standard appropriately formulated? Does it articulate the purpose of an EQR?

No. While we are aware that we are in a minority of commentators, we remain of the view that the standard should not state an objective, because it has not been formulated within a framework in which the role and status of objectives are clear. While auditing standards are generally improved by the inclusion of a clear objective, the development of objectives on an *ad hoc* basis is not appropriate. We noted in our response to the original exposure that if an objective is considered necessary, the PCAOB should consider explicitly aligning it with ISAs: ISA 220 requires the engagement quality reviewer to perform an *objective* evaluation.

3. Will this objective contribute to a more thoughtful and effective EQR?

Yes. We concede that the shift of focus from the *process* of the EQR, to the *outcome* that should be achieved is an improvement. The objective refers to significant judgements made by the team rather than (by implication) detailed discussions and procedures.

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

Yes. It should be made clear that equivalence is a matter of substance and refers to the sufficiency of appropriate experience and authority in the individual concerned, as required by ISA 220, rather than mere technical equivalence.

The role of persons performing filing reviews, as we note below under *Administrative Matters*, overlap with those of EQRs. Filing reviews under Appendix K of the AICPA SECPS Reference Manual may be performed by individuals who are not partners.

5. Should the standard allow qualified accountants who are not employed by an accounting firm to conduct the review?

Yes. However, paragraph 3 of the proposed standard requires that only associated persons of registered public accounting firms are eligible for appointment as engagement quality reviewers. This appears to conflict with the suggestion on page 12 of the release that reviewers may be retired partners, professors of auditing, or other qualified accountants. It would be helpful if this apparent inconsistency were removed or clarified.

6. 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?

Yes. We have no objections to this proposal.

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

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

Yes. The proposed changes to paragraph 10 no longer require the engagement quality reviewer to 'understand' various matters but instead to 'evaluate' work performed by the engagement team in the relevant area. This is an improvement, however,

- there should be more emphasis on the significant judgements brought to the engagement quality reviewer's attention by the engagement partner or team, which would draw attention to matters that might not have been envisaged in the planning, and would align the standard more closely with ISAs
- the 'read', 'review', and 'evaluate' requirements in paragraph 10 are not dealt with by PCAOB Rule 3101: *Certain Terms Used in Auditing and Related Professional Practice Standards*. The PCAOB should consider the need to at least describe the meaning of these terms. 'Review' and 'evaluate' are particularly close terms and 'read' in 10 (g) in particular means little out of context and gives no indication as to the depth of reading required. 'Determine' can be read as requiring or permitting a disproportionately wide range of activities and enquiries.

8. Are the specifically required procedures appropriately tailored to reflect the difference in scope between an audit and an interim review?

Yes.

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

Yes.

11. Are the documentation requirements in the repropoed standard appropriate? If not, how should they be changed?

No. Paragraph 19 (c) requires detailed documentation of significant discussions. Avoidance of excessive documentation would be aided by a note to the effect that the 'specific matters discussed' and the 'substance of the discussion' do not require a verbatim record of discussions. Furthermore, in many cases we would expect the

implementation of this standard to result in the audit team documenting more, rather than the engagement quality reviewer filling in the gaps or providing a roadmap as to how the final documentation has evolved.

We also note that the term 'significant' is used liberally in PCAOB standards and is a broad term. Matters of significance, including significant risks, can be straightforward. The focus should be more on significant judgements which may well be more important. The page 17 discussion on 'significant matters' explains significant judgements and this might be brought into the body of the standard.

Administrative Matters

Our response to the original proposals raised concerns and requested clarification on the overlap of the role of the engagement quality reviewer and the filing reviewer under Appendix K of the AICPA SECPS Reference Manual, on component audits, and on the role of inter-office and inter-network/alliance firms. These issues which we summarise below remain unresolved.

- *Overlap of the EQR and the filing review under Appendix K of the AICPA SECPS Reference Manual,*

PCAOB rules currently require certain review procedures to be performed at networked audit firms which are not members of the AICPA. These reviews focus on the application of US accounting audit, disclosure and independence requirements where they are not the usual framework for the reporting firm. The EQR and this review overlap and the PCAOB should give some guidance on how these two requirements can fit together without unnecessary duplication. See also our answer to question 5, above.

- *Referred reporting engagements*

Referred reporting engagements often involve the component auditor confirming that work has been conducted in accordance with PCAOB standards. The proposed standard would require EQRs for component audits. However, in many cases, such judgements are best provided by instructing offices rather than by involving new partners in the reporting office at component level. We recommend that the proposed standard should not apply to component audits.