

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

By E-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

April 20, 2009

Dear Sir(s):

**Re.: PCAOB Rulemaking Docket Matter No. 025  
PCAOB Release No. 2009-001  
Reproposed Auditing Standard – Engagement Quality Review**

The Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany], appreciates the opportunity to comment on the above-mentioned Reproposed Auditing Standard – Engagement Quality Review (hereinafter referred to as the “reproposed standard”).

We support the Board’s revising the draft standard issued for comment in 2008, and on the whole, agree that the changes now proposed constitute significant improvement. We continue to share the Board’s view that well-performed engagement quality reviews are an important element in establishing a basis for investor reliance on audits and agree with the aims of the reproposed PCAOB auditing standard. Nevertheless, we do have some major residual concerns which we discuss below. In the Appendix to this letter we respond to the questions posed by the Board.

## **Major concerns**

### *Applicability*

In our comment letter dated May 12, 2008, relating to the proposed Auditing Standard on Engagement Quality Review, PCAOB Release No. 2008-002 of the same docket number, we had commented on the applicability of the proposed

Institut der Wirtschaftsprüfer  
in Deutschland e.V.

Wirtschaftsprüferhaus  
Tersteegenstraße 14  
40474 Düsseldorf  
Postfach 32 05 80  
40420 Düsseldorf

TELEFONZENTRALE:  
+49 (0)211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:  
+49 (0)211 / 454 10 97

INTERNET:  
[www.idw.de](http://www.idw.de)

E-MAIL:  
[info@idw.de](mailto:info@idw.de)

BANKVERBINDUNG:  
Deutsche Bank AG Düsseldorf  
BLZ 300 700 10  
Kto.-Nr. 7480 213

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB CPA;  
Manfred Hamann, RA

**Page 2 of 7** to the letter dated April 20, 2009, to the PCAOB

standard, comparing the [then] proposed applicability: "...for each engagement performed and completed in accordance with the standards of the PCAOB" to the approach taken by the IAASB in its quality control standard. The approach in the repropoed standard seems to be somewhat arbitrary in requiring an engagement quality review be performed for all audit engagements and all reviews of financial information ("interim reviews") but *no* other engagements carried out in accordance with the standards of the PCAOB. We continue to believe there may be merit in adopting a more risk-based approach in a manner similar to that adopted by the IAASB, and, in this context, would like to refer to our earlier letter.

#### *Reviewer qualifications*

We had also commented on this issue in the afore-mentioned letter, as follows:

"We support the proposal that suitably qualified persons both not necessarily at partner level and also external to the firm may perform engagement quality reviews. This allows more flexibility than current PCAOB's interim requirements, and is likely to be particularly helpful to smaller foreign registered firms seeking suitable engagement quality reviewers.

However, we note that the levels of knowledge and competence that an engagement quality reviewer must possess according to the proposed standard are more stringent than those stipulated in the PCAOB's interim requirements and by the IAASB in its counterpart standards<sup>1</sup>. The proposals require the experience of the quality control reviewer to be sufficient to enable him or her to serve as engagement partner in the specialized industry (we refer to page 9 of the Release). This may be problematical for foreign audit firms, and in particular smaller firms, where the "pool" of potential engagement quality reviewers may be limited".

We are concerned as to the changes made to paragraph 3 (formerly paragraph 2), which now clarify that "another individual in the firm" has to be "in an equivalent position in the firm" to that of the engagement partner. The Board's argument that only a partner or another individual in an equal position in the firm will have requisite authority does not seem to us to be sufficiently persuasive, since a partner within the same firm as the engagement partner may be subject to the

---

<sup>1</sup> [Proposed] ISQC 1 (Redrafted) paragraph A42 states that for an audit of a listed entity the engagement quality control reviewer "... would be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities."

**Page 3 of 7** to the letter dated April 20, 2009, to the PCAOB

same firm internal pressures. In addition, it is questionable why a reviewer from outside the firm can – per se – be considered to have the requisite level of authority which a non-partner from inside the firm would lack. We believe that both technical expertise and experience ought to remain prerequisites for reviewers, as is the case currently. Indeed, in our opinion, the necessary practical experience ought to be appropriate but also recent. The examples cited on page 12 of the release: “retired partners, professors of auditing, or other qualified accountants” will not necessarily fulfill such criteria.

We generally support the introduction of the new restriction in paragraph 8 of the repropoed standard as we appreciate the considerations relating to objectivity and the familiarity threats that may arise. However, we would like to point out that both IFAC’s IESBA and IAASB have adopted a more flexible approach in addressing this issue. For example, section 290.154 b of the IFAC Code of Ethics stipulates: “Such an individual [engagement partner or individual responsible for the engagement quality control review] rotating after a pre-defined period should not participate in the audit engagement until a further period of time, normally two years, has elapsed.” Section 290.157 recognizes: “When a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality control review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard.” ISQC 1 requires the firm to establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer. These can be tailored to the individual circumstances of the firm. Therefore, we suggest that it may be appropriate for the Board to include some degree of flexibility in a similar manner.

#### *Respective Authorities*

We are concerned that the repropoed standard still does not clarify the respective responsibilities of the engagement partner and the engagement quality reviewer, nor does it stipulate how conflicting views between the engagement quality reviewer and the engagement partner are to be dealt with such that the firm will be in a position to grant permission to the client to use the engagement report. In this context we also refer to the afore-mentioned letter in which we commented on these issues in more detail.

**Page 4 of 7** to the letter dated April 20, 2009, to the PCAOB

We would be very pleased to be of further assistance if you have any questions or comments about the content of our letter.

Yours truly,



Klaus-Peter Feld  
Executive Director  
541/500



Ulrich Schneiss  
Director Auditing

Encl.: Appendix

Page 5 of 7 to the letter dated April 20, 2009, to the PCAOB

## **APPENDIX**

### **Specific questions raised by the PCAOB in PCAOB Release No. 2009-001:**

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?*

We refer to our comments on major concerns in the accompanying letter.

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

We note that the IAASB's recently revised and redrafted ISQC 1 defines an engagement quality control review as "A process designed to provide an objective evaluation...". In our opinion, in view of the fact that the engagement quality reviewer must be an associated person of a registered firm, it is important to stress that the evaluation by a quality reviewer of those significant judgments and related conclusions reached by an engagement team needs to be objective. We therefore suggest this aspect be made clear in the objective paragraph 2. This is in line with paragraph 6 which states: "... the engagement quality reviewer must ... maintain objectivity in performing the review."

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

As stated in our previous letter we support the inclusion of an objective.

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

We refer to our comments on major concerns in the accompanying letter.

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

We refer to our comments on major concerns in the accompanying letter.

**Page 6 of 7** to the letter dated April 20, 2009, to the PCAOB

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?*

We refer to our comments on major concerns in the accompanying letter. We also agree that the cooling-off period should not exceed two years.

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?*

In stipulating the procedures to be performed in paragraphs 9, 10, 14 and 15 the Board makes no specific mention as to how the reviewer should take account of materiality.

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

In our opinion, paragraph 15 needs to be more closely brought in line with the procedures required in an engagement to review interim financial information. For example, given the fact that a review is likely to be less effective than an audit in respect of fraud identification, it is not clear to us why the Board requires the engagement quality reviewer to concentrate on “identified risks of material misstatement due to fraud” (3<sup>rd</sup> bullet in paragraph 15.a.) when, according to the PCAOB’s interim standard, the reviewer is required to have “sufficient knowledge of the entity’s business and its internal control to identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence”. Furthermore, rather than simply including the procedures in paragraphs 10.c.-f. within paragraph 15.b. as quality review procedures for interim review engagements, we suggest there is a need for similar procedures tailored to interim reviews. In particular paragraph 10.d. needs to be aligned to the work performed in an interim review engagement. As the relevant Board’s interim standard states: “A review is not designed to provide assurance on internal control or to identify significant deficiencies. However, the accountant is responsible for communicating with the audit committee or others with equivalent authority or responsibility, regarding any significant deficiencies that come to his or her attention.” Review engagements may not identify control deficiencies as would be the case in an audit such that evaluation of judgments made about the severity and disposition of identified control deficiencies cannot be comparable in reviewing an audit, and a review engagement respectively.

**Page 7 of 7** to the letter dated April 20, 2009, to the PCAOB

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

We refer to our response to question 8.

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?*

We would like to point out that the wording of paragraphs 13 and 18 respectively may cause some confusion, since both refer to the firm granting permission to the client to use the engagement report rather than the firm issuing the engagement report. It begs the question can the report have been previously issued pending such permission prior to completion of the engagement quality review? We presume that this is not the Board's intention.

In our opinion, the differentiation is appropriate.

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

In our opinion, the documentation requirements are appropriate.