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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

**RE: Rulemaking Docket Matter No. 025
Proposed Auditing Standard – Engagement Quality Review**

Members of the Board,

I appreciate the opportunity to submit my comments to the Board with respect to the proposed auditing standard on engagement quality review. I retired from public accounting in 2007 after 27 years at Deloitte & Touche LLP and am currently a full-time faculty member at the University of Notre Dame teaching undergraduate and graduate courses in accounting and auditing.

My comments are as follows:

Question 1: I believe the standard should include an overall objective. Such objective should be consistent with the Board's goal of continually improving the quality of audits of public companies by ensuring registered public accounting firms have appropriate procedures in place to help provide those firms with reasonable assurance that their professionals are complying with PCAOB standards.

Question 2: I believe that an engagement quality review should be performed on all engagements conducted in accordance with PCAOB standards. I further believe that the engagement quality review standard should leave no doubt that such is the case. In particular, while the standard does state "engagements performed and completed in accordance with the standards" of the PCAOB in its very first paragraph, the tone of the standard is such that it appears to relate only to attest engagements related to financial statements and management's assertions regarding internal control. The quality review should apply to all deliverables provided to public company clients in accordance with PCAOB standards including management letters, communications with audit committees (both formal and informal), letters to underwriters, engagement letters and communications with other auditors. I believe the Board is committed to ensuring a culture of quality pervades all facets of the profession and the quality review process should be integral to that culture.

Question 3: While I appreciate the staffing issues of small registered public accounting firms, I have concerns about the provisions for quality reviews being performed by employees or others who are not at a level of authority in the firm comparable to the individual with final authority for the engagement. Apart from the potential human resource ramifications of subordinates being placed in the position of potentially exercising "veto power" over the engagement team, I am concerned such employees would not meet the standard's criteria of having the skills to perform in the role of the individual with final authority over the engagement being reviewed. An audit manager, for example, would likely not have the experience or judgment necessary to function as a signing partner for the audit of a registrant otherwise that individual would already be a

partner and have responsibility for his or her own engagements. If the Board believes this is appropriate, it should consider the need to ensure that employees placed in the quality reviewer position have the freedom within their organizations to perform this function without fear of adverse repercussions and should reconsider the requirement that the quality reviewer have the requisite skills to function as the individual with final authority for an engagement of the size and complexity as the engagement being reviewed.

Question 4: Having served as a quality reviewer for hundreds of engagements, I can state from experience that concurring reviewers regularly raise questions and provide comments to engagement teams that cause changes in audit approaches, conclusions and documentation. Just as there is no belief that auditors who propose adjustments to their clients as a result of errors detected in the course of an audit are no longer independent because they are performing “bookkeeping” for their clients, the standard should be clear that quality reviewers who correct, teach or otherwise cause changes to engagements to improve engagement quality in accordance with this standard have not acted in a manner that causes their objectivity to be impaired.

Question 5: The scope appears appropriately comprehensive. The Board may wish to consider providing guidance for those situations in which the quality reviewer is changed either during the course of the engagement or following the engagement. Successor quality reviewers may need to obtain the same working knowledge of the base engagement as their predecessor in order to provide the same quality review as the predecessor. For example, quality reviewers who assume that responsibility midway through an engagement would, of course, need the same level of knowledge as if they had been in that position from the beginning. However, a quality reviewer who must approve the reissuance of an audit report via consent for a former client’s filings with the SEC may not need the same level of knowledge as the quality reviewer who served in that capacity for the original filing. I believe this may also be a potential issue for small firms who will use quality reviewers outside their firms and may be faced with greater turnover in those individual quality reviewers than firms who have sufficient resources within. It may also adversely impact the willingness to serve in that capacity of those outside that small firm who are approached to be quality reviewers.

Question 6: The risk-based approach appears sufficient for the Board’s purposes.

Question 7: The requirements are appropriate; however the Board should consider specifying in paragraph 8 that the areas being reviewed specifically include the related documentation. While the Board does suggest that in paragraph 10, I believe specific reference in paragraph 8 would leave no doubt as to intentions of the standard. For example, 8.a. could read as follows: “Obtain and review the engagement team’s documentation of its understanding...” If it is the Board’s intent that the quality reviewer develop an independent understanding and compare that understanding to the engagement team’s documentation, I believe the Board should make that clear. Similarly, 8.c. could read “Review the engagement team’s documentation of its evaluation...” Again, if it is the Board’s intent that the quality reviewer perform an independent evaluation and compare that to the engagement team’s evaluation, I believe that should be stated.

Question 8: The specified timing is appropriate. The Board has left no doubt that engagements are not complete and conclusions cannot be delivered without the concurrence of the quality reviewer.

Question 9: The standard is appropriate; however I believe the perceived potential for “second guessing” may increase the exposure of prospective quality reviewers to a level that will make it more difficult for small firms who must obtain their quality review from individuals outside their firms to obtain those resources and thus continue as registered public accounting firms. While this potential should not take precedence over the Board’s goals in this area, the Board should consider any public policy issues that may be attendant on this possibility.

Question 10: The documentation requirements appear appropriate.

Question 11: For audits (including quarterly review procedures and audits of internal control), the required documentation of the quality review is clearly part of the documentation of the audit and is, therefore, subject to all the requirements of AS No. 3. Letters and reports that are incidental to those engagements (e.g., communications with audit committees) are likely also covered by AS No. 3. It is not clear that the Board has documentation standards explicitly related to other engagements subject to its standards (e.g., letters for underwriters). The Board may wish to consider the need to specify any particular documentation requirements it may have intended with respect to quality reviews of these other engagements.

Finally, I believe that the quality review process is a “second line of defense” in the area of engagement quality and the quality reviewer should not be portrayed as having joint and several responsibility with the individual having final authority for the engagement. Accordingly, I would encourage the Board to consider a project to address the qualifications and duties of the members of the engagement team – the “first line of defense” – with respect to engagement conduct and quality.

I appreciate the opportunity to offer my comments.

Sincerely,

s/ James L. Fuehrmeyer, Jr.

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