

American Federation of Labor and Congress of Industrial Organizations



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Via Electronic Mail

May 12, 2008

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

Re: PCAOB Rulemaking Docket Matter No. 025

Dear Sir or Madam,

I am writing on behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"). Union-sponsored pension funds have over \$450 billion in assets, and benefit funds investing on behalf of union members hold in excess of \$5 trillion. The 10 million members of the AFL-CIO, their benefit funds and their unions have a vital interest in the effectiveness of public company audits.

At the time of establishment of the PCAOB, the PCAOB was granted to power to write standards for the auditing of public companies because Congress found that standards written by the auditors themselves through the AICPA had proven to be inadequate. However, as a practical matter, it was necessary at the inception of the PCAOB to readopt those AICPA standards to provide for continuity in the regulation of public company auditing. It was anticipated that the PCAOB would then review and revise those standards with an eye to strengthening them in the public interest.

For a variety of reasons this process has taken longer than anyone at the time expected. This proposed amendment to the PCOAB's interim quality control standards in the area of engagement quality review is an important step forward in this central process of updating and strengthening the PCAOB's auditing standards. The AFL-CIO strongly supports the proposed standard.

In particular, the proposed standard addresses the responsibility of the partner that reviews the work of the engagement partner in a public company audit. This review process is a

Letter to PCAOB
May 12, 2008
Page Two

critical aspect of audit quality control. Its objective should be to identify and correct audit deficiencies before the conclusion of the audit. If the process works successfully, it should address many audit problems that otherwise would have to be addressed by the PCAOB, or could lead to false and misleading financial statements, investor losses and litigation. All parties to the audit—the audit firm, the public company client, and the investing public, have a strong interest in the engagement quality review being robust and effective.

In particular, the new standard requires more than passive review of the audit by the engagement quality reviewer. It requires the reviewer to make inquiries into the audit to satisfy the requirement that the audit not be approved if there was information that the reviewer knew or should have known that evidenced either a failure on the part of the engagement team to obtain sufficient competent evidence, the drawing of an inappropriate conclusion based on that evidence, or a failure of auditor independence. This modest duty of inquiry is critical to making the engagement quality review something more than a “hear no evil, speak no evil” exercise.

Questions have been raised about the level of documentation that should be required of the engagement quality review. While it should be sufficient to inform reviewers such as the PCAOB staff, the Board should be careful not to make the engagement quality review an exercise comparable to the audit itself in formality.

The AFL-CIO appreciates the opportunity to comment on this new standard and commends the PCAOB for its work in this area.

Sincerely,

A handwritten signature in black ink, appearing to read "Damon Silvers", with a long horizontal flourish extending to the right.

Damon Silvers
Associate General Counsel