



## Mayer Hoffman McCann P.C.

An Independent CPA Firm

2 Venture, Suite 450  
Irvine, CA 92618  
949-450-4400 ph  
949-450-0694 fx  
www.mhm-pc.com

April 21, 2009

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

Re: PCAOB Rulemaking Docket Matter No. 025

We are pleased to have this opportunity to present the comments of Mayer Hoffman McCann P.C. (MHM) in response to the questions raised in the PCAOB's revised proposed auditing standard for engagement quality review included in PCAOB Release No. 2009-001 issued on March 4, 2009. Though MHM, in association with CBIZ, is listed by Accounting Today as the eighth largest accounting services provider in the U.S., we are a relatively new entity representing an amalgamation of many smaller CPA firms. We have a growing SEC practice and are committed to maintaining the high level of service we offer to our existing and future clients. We have created a culture revolving around a strong national office group which is actively involved in the designation of audit shareholders and concurring (engagement quality) reviewers for each of our SEC clients. We continue to agree with many of the concepts discussed in the release and are pleased that many of the comments we expressed in our letter dated May 9, 2008, were addressed by the PCAOB in the revised proposal on which the content of this letter relates.

As you have requested, we will follow the format of your questions and provide our comments in what we believe is the appropriate response to the question.

### **Applicability of the EQR Requirement**

**Question 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 believe that an EQR should be performed for other types of engagements. As mentioned in the PCAOB's release, the primary engagements excluded from the scope of the new proposal are engagements performed under Auditing Standard No. 4, "Reporting on Whether a Previously Reported Material Weakness Continues to Exist" (AS 4) and engagements required by the SEC's Regulation AB. As our firm does not currently participate in engagements under Regulation AB, we have no specific comment on the scope of the EQR relative to those

engagements. In matters related to reports issued pursuant to AS 4, we believe that the EQR should be required to do the following (at a minimum):

1. From discussions with the engagement team:
  - a. Obtain an understanding of the nature of the material weakness(es) previously reported
  - b. Obtain an understanding of the changes in internal controls made by the company to remedy the material weakness(es) and how those changes are expected to eliminate the internal control deficiencies
  - c. Obtain an understanding of the engagement team's planned approach, expected scope and the extent of available evidence from the company
2. Evaluate the information obtained in step 1 (above) and the engagement team's judgments as to the sufficiency of the planned approach
3. Evaluate the engagement team's judgments with respect to the impact of the changes made by the client to the design and operating effectiveness of the internal controls and their related impact on the previously reported material weakness(es)
4. Discuss, with the engagement team, the results of the tests performed and the conclusions reached
5. Read the related report(s) to be issued
6. Evaluate sufficiency of documentation, as appropriate
7. Concurring approval of issuance of the report

We support a quality review, tailored to the related service or reporting being performed, for all PCAOB engagements.

### **Objective of the Standard**

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

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

In our initial letter of comment, we supported the idea that an overall objective would be of significant benefit to ensure that the EQR achieves its intended result. We believe the proposal adequately articulates the purpose and overall role of the EQR and that the objective will contribute to a more thoughtful and effective EQR.

### **Qualifications of the Engagement Quality Reviewer**

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

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

**Question 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 believe a reviewer should have a strong background in accounting and auditing that can be supplemented by available literature and consultation with experts in specialized industries. In addition, it is important that the reviewer be of a similar level of authority as the engagement partner as it relates to matters affecting the conduct of the audit or review. We believe that it is more important to describe the characteristics of the reviewer and the expectation as to the level of authority required for audit matters rather than to specifically state that the individual must be a partner of a firm or “in an equivalent position.” There are many types of legal structures of accounting firms and even more differences in the design of how firms operationally structure their audit departments to ensure audit quality. At issue is how to make sure that qualified people perform the EQR role and that these qualified individuals are of sufficient authority within the firm issuing the report to be effective in eliminating audit deficiencies before the report is issued.

Therefore, we do not believe that explicitly stating that the EQR must be performed by a partner or “another individual in an equivalent position in the firm” is appropriate. Given the diversity of legal structure and operational design described in the paragraph above, we believe that there will be varying interpretations of what is meant by “an equivalent position.” For example, it is possible that the use of the phrase “an equivalent position” of a partner could be interpreted to be someone with the same authority in matters relating to the firm as a whole (as opposed to matters related to the conduct of audits and reviews) and this interpretation would preclude certain otherwise qualified individuals from performing the EQR in some firm structures simply because they did not have the authority a “partner” would have in the firm (e.g., ability to vote on partnership matters, ability to bind the firm to legal agreements, etc.). While we acknowledge that, in many structures, the level of experience and authority necessary to conduct an EQR will rest with individuals who hold the title of “partner” (or their equivalents in other types of legal structures such as shareholders in a professional corporation such as our firm), we do not believe that this is always required in order to develop an effective EQR. Consider a firm that chooses to establish a separate quality control department staffed with highly technical and experienced auditors and with sufficient authority over audit matters such that the firm cannot issue a report without the quality control department’s approval. Consider further that, for business and economic reasons, the firm may not choose to make these individuals “partners” of the firm nor an equivalent of a partner. In our view, the issue centers around having the appropriate level of authority within a firm’s structure to ensure that the EQR is in a position to provide the necessary experience and technical competence as well as to provide an effective independent review of the work performed by the engagement team. If a firm provides the appropriate authority to this quality control department, the fact that the individuals are not partners or the equivalent of partners (e.g., shareholders in a professional corporation, etc.) should not preclude such a structure from being used to meet the PCAOB’s objectives. An explicit statement of who can perform the EQR will potentially limit certain firms (and in particular, smaller firms or firms who centralize their quality review function) from meeting the spirit of the PCAOB’s intent in creating this standard.

We also believe that individuals outside the firm should be available to firms to accomplish the EQR function. This is especially important with smaller firms where there are a limited number of personnel employed by the firm with the appropriate expertise. In order to create a competitive environment and level playing field among providers of audit services, there needs to be an ability for firms to use qualified accountants to perform the EQR regardless of whether they are employed by the firm. We also see a potential ancillary issue in smaller firms where the number of personnel with a particular industry or subject matter expertise is limited. We recognize the PCAOB's view, as stated in the release, that in order to perform an effective EQR where industry expertise is important for the engagement team to have, so too should the EQR have similar expertise. We believe that smaller firms could be challenged to a detrimental degree if there is confusion about what is meant by the EQR (and anyone working on behalf of the EQR) being "independent" when performing their review. Consider the example where the engagement team consults on an issue with its national office (or in our case, Professional Standards Group). Can the EQR consult with the same people in the national office as the engagement team consulted or must the EQR use separate and independent industry and subject matter experts to evaluate the engagement team's conclusion? Our contention is that the Professional Standards Group personnel (or national office) are not members of the engagement team and therefore are available to both the engagement team and EQR as being "independent." Would the PCAOB agree with this assertion? If so, we believe that this nuance is not readily apparent in the definitions of independent in Item 6 "Independent, Integrity and Objectivity" of the release and should be clarified.

Lastly, we believe that it is necessary for the engagement partner to refrain from acting as the EQR for a period of time following their last year as the engagement partner. Currently, the rules require that the engagement partner and concurring reviewer must rotate off the engagement for a period of 5 years. The new proposal suggests that a 2 year period would be sufficient. We believe that the number of years is somewhat arbitrary but it should be substantive enough such that a new engagement team can exercise judgments that are free from the influence of the prior engagement team to avoid a continuation of potential bias toward decisions made in previous periods. As a result, this time period must, at a minimum, be more than one year and we believe that a 2 year period would be sufficient to allow the new engagement team to offer a fresh, objective look at the client.

## **EQR Process**

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

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

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

We believe that the procedures, as proposed, will result in a high quality EQR and that they are appropriately tailored to address areas of high risk and to meet the different needs of an audit and an interim review.

### **Concurring Approval of Issuance**

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

We believe that the standard appropriately describes the concurring approval.

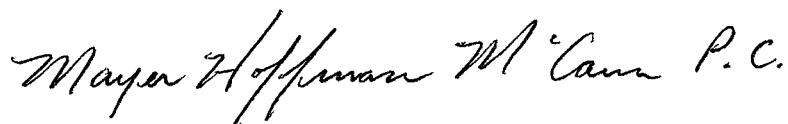
### **Documentation of the EQR**

**Question 11** – *Are the documentation requirements in the reposed standard appropriate? If not, how should they be changed?*

We believe the documentation requirements are reasonable.

If you have any questions regarding our comments, please contact Rich Howard, Regional Attest Practice Leader – West region at (949) 450-4402 or Ernie Baugh, National Director of Professional Standards at (423) 870-0511.

Very truly yours,

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C.".

Mayer Hoffman McCann P.C.