

MARCH 4, 2009 OPEN MEETING

**PROPOSED AUDITING STANDARD --
ENGAGEMENT QUALITY REVIEW**

Statement of Steven B. Harris

Thank you, Mr. Chairman.

We are here today to discuss a very important issue for auditors and investors alike – the engagement quality review.

It is one of the primary methods many audit firms use to verify the quality of their own work.

It is also a quality assurance measure that allows investors to rely upon an audit opinion when making their investment decisions.

At year-end 2008, about 45 percent of all American households were invested in financial markets through mutual funds – that’s 92 million individual shareholders, according to a study released last month by the Investment Company Institute.

Congress had the investing public in mind, in 2002, when the Sarbanes-Oxley Act mandated a whole new slate of investor protections. One directed the PCAOB Board to require this quality assurance process -- a second-partner review and approval – for every audit of every U.S. public company.

The engagement quality review proposal we are reconsidering today has been underway for quite some time, and I am glad to see it finally nearing conclusion. Poorly performed second-partner reviews are among the more frequently observed concerns cited in the Board’s inspection reports.

The time and effort the Board and staff devoted to consideration of the comments received, when EQR was first proposed last February, is evident in the standard we are talking about re-proposing today. I want to thank the Standards team, led by Greg Scates and Dima Andriyenko, for all its hard work.

I also want to thank the public commentators who took the time to provide the valuable input and suggestions that are reflected in today’s proposal. Many commended the Board for proposing an EQR standard, and noted that a well performed engagement quality review is, in the words of one writer, a “pillar” of audit quality.

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The Board received a number of comments. A strong supporter of the original standard wrote, "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."

Other commentators, including some issuers and registered firms, were critical of the proposal. They believed it would significantly increase the time required to perform the review.

These commentators suggested that it would amount to a "re-audit." To correct this, they asked for clarifications on a number of the standard's requirements.

The revised proposal before us today makes clear that an engagement quality review is not intended to be a "re-audit." It directs the reviewer to evaluate the significant judgments made and conclusions reached by the engagement team, to hold discussions with the engagement team, and to review documentation.

The proposal also addresses the Board concerns about the performance of second-partner reviews that I mentioned are frequently cited in inspection reports. It specifies and enhances the reviewer's responsibility to validate audit quality.

By requiring registered firms to provide every audit engagement with a competent, independent reviewer – emphasizing the integrity and objectivity of the process -- this EQR standard would significantly further the Board's mission to protect investors.

The modifications to the original proposal respond to the comments we received by clarifying the requirements for the reviewer and the quality of the review.

For example, the revised proposal includes the following:

A clearly stated objective for the reviewer that is consistent with specific requirements for the engagement quality review;

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- A refinement of reviewer qualifications that requires the reviewer to be a partner or similar member of the firm, or to be unaffiliated with the firm;
- A requirement that an audit engagement partner be prohibited from serving as the reviewer on that engagement for at least two years;
- A requirement that EQRs for interim reviews be tailored to address the specific procedures performed during those reviews; and,
- A clarification of documentation requirements, including identification of the reviewer, the documents reviewed, a description of any significant discussions that took place, and the date a concurring approval was made.

This approach requires a thoughtful and meaningful review of the work performed by the engagement team.

For all these reasons, I support this proposal. I believe that it can improve audit quality and give investors the consistent and credible information they need to make informed judgments about their financial future.

As such, I am anxious to see the Board adopt a final standard as soon as possible, with the implementation of these new requirements no later than the end of the year.