



United States Government Accountability Office
Washington, DC 20548

April 16, 2009

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

Subject: PCAOB Rulemaking Docket Matter No. 025: PCAOB Release No. 2009-001,
Proposed Auditing Standard -- *Engagement Quality Review*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) proposed revisions to the auditing standard on Engagement Quality Review (EQR).

We appreciate the PCAOB's efforts to establish auditing standards on engagement quality review for registered companies and agree that this process is a critical element of an entity's quality control system. Holding the April 2, 2009, Standing Advisory Group (SAG) meeting during the exposure period and including discussion of the proposed standard was especially helpful in improving the transparency of the standard-setting process and developing a broad consensus on the issues discussed. We encourage the PCAOB to hold a SAG meeting whenever proposing a major standard.

We continue to believe that the public interest would be better served if the PCAOB adopted the standards of the International Auditing and Assurance Standards Board (IAASB), or the AICPA's Auditing Standards Board (ASB), and added incremental standards as necessary and appropriate for audits of U.S. registered companies. The PCAOB's 2009 proposed standard is more consistent with international standards than its previous draft; however, we believe the public would be better served by having the PCAOB adopt International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Systems*, or the corresponding proposed Statement on Auditing Standards (SAS) to eliminate remaining differences which, we believe, are significant. The PCAOB could then supplement the general principles and guidance in the ISA if they consider it necessary and appropriate.

We are concerned that important differences remain between the PCAOB's 2009 proposed standard and the IAASB's audit and quality control standards. The ISA and the related International Standard on Quality Control (ISQC) focus more appropriately on the substance of an engagement quality review and the general principles to be applied, while this PCAOB draft addresses specific requirements and processes for an EQR. This difference in approach is particularly noticeable in the following areas: (a) reviewer qualifications, and (b) documentation.

(a) Reviewer Qualifications (Questions 4, 5, and 6)

The PCAOB's 2009 proposed standard includes a prescriptive, detailed list of reviewer requirements. While the introductory material emphasizes the importance of considering the authority of the reviewer, this essential qualification is not discussed in the standard. Instead, the standard requires a partner (or equivalent) to perform an engagement quality review.

By contrast, ISA 220 is a more principles based standard. The ISA indicates in paragraph 7(c) that an engagement quality control reviewer is "A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report." Similarly, ISQC 1, paragraphs A47-51 provide broad guidance for evaluating reviewer expertise, experience, authority, and objectivity.

(b) Documentation (Question 11)

The PCAOB's 2009 proposed standard, specifically paragraph 19 b and c, includes specific documentation requirements that appear to overlap and duplicate the documentation requirements in PCAOB's AS No. 3, Audit Documentation, as the audit team would also document such matters.

Paragraph 19: Documentation of an engagement quality review should be included in the engagement documentation and should contain sufficient information to identify:

- a. The engagement quality reviewer and others who assisted the reviewer,
- b. The documents reviewed by the engagement quality reviewer and others who assisted the reviewer,**
- c. The significant discussions held by the engagement quality reviewer and others who assisted the reviewer, including the date of each discussion, the specific matters discussed, the substance of the discussion, and the participants, and**
- d. The date the engagement quality reviewer provided concurring approval of issuance or, if no concurring approval of issuance was provided, the reasons for not providing the approval. [bolding added for emphasis]

We believe that the EQR documentation requirements in ISA 220 are more appropriate, as they document satisfaction of the objectives of the EQR, rather than the detailed issues discussed and process of the EQR. ISA 220 paragraph 25 states that:

Paragraph 25: The engagement quality control reviewer shall document, for the audit engagement reviewed, that:

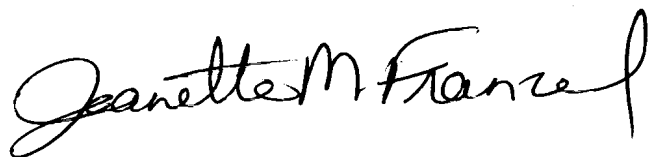
- a. The procedures required by the firm's policies on engagement quality control review have been performed;
- b. The engagement quality control review has been completed on or before the date of the auditor's report; and
- c. The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Finally, inconsistencies between the PCAOB 2009 proposed standard and the accompanying introductory material may result in confusion and misapplication of the standard. For example, while the standard states in paragraph 3 that a reviewer may be a partner or partner equivalent, indicating that this is a qualification for firms to consider, the introductory material states that "the new standard explicitly requires a reviewer who is employed by the firm issuing the report to be a partner (or a person in an equivalent position)."[underlining added for emphasis] A similar inconsistency exists between the discussion in paragraph 12 of the standard on due professional care, which refers to the generally accepted standard in AU sec. 230, and the guidance on page 24 of the introductory material, which states that "the requirement to exercise due professional care imposes on a reviewer essentially the same requirement as the "knows, or should know based on the requirements of this standard" formulation in the Board's original proposal."

If the Board believes, based on its inspections, that additional requirements or guidance is necessary, the PCAOB should develop clear, incremental standards and explain why they believe such incremental standards are necessary and appropriate for engagement quality reviews of audits of U.S. registered companies.

We thank you for considering our comments on this very important issue.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive, flowing style.

Jeanette M. Franzel
Managing Director
Financial Management and Assurance

Enclosures

cc: The Honorable Mary L. Shapiro, Chairman
Securities and Exchange Commission

The Honorable Mark W. Olson, Chairman
Public Company Accounting Oversight Board

James L. Kroeker, Acting Chief Accountant
Securities and Exchange Commission

Mr. Harold Monk, Jr., Chair
Auditing Standards Board