

July 28, 2009 OPEN MEETING

AUDITING STANDARD NO. 7 – ENGAGEMENT QUALITY REVIEW

Statement of Steven B. Harris

Thank you, Mr. Chairman. I support the adoption of Auditing Standard No. 7 – the Board's Engagement Quality Review (EQR) Standard. As I said when this standard was re-proposed last March, Congress had the investing public in mind when it directed the PCAOB to require a second-partner review for every audit of a U.S. public company under section 103(a)(2)(A)(ii) of the Sarbanes-Oxley Act.

I believe that the requirements of this standard make important improvements to our existing interim standard, and that with the adoption of this standard, the quality of the EQR process will improve substantially. I also am confident that, given time, the number of concerns related to poorly performed second-partner reviews identified during our inspection process will diminish. In short, the EQR Standard will give investors added confidence in the quality of the audits of financial statements filed with the SEC.

I also believe that this standard improves upon comparable standards issued by other standard-setting bodies. Appendix 3 of the standard was added to help demonstrate key differences between the EQR Standard and equivalent standards issued by the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB).

For example:

The EQR Standard requires concurring approval of issuance by the engagement quality reviewer before an audit firm can grant permission to the client to use the audit report.

- Neither of the comparable standards issued by the IAASB or ASB require the same level of assurance.
- The EQR Standard requires that appropriate documentation of the EQR process – including the documentation that is specifically described in the standard – be included as a part of the engagement documentation, and that the requirements be followed in AS No. 3: **Audit Documentation**, related to subsequent changes to audit documentation and document retention. These requirements are in direct response to documentation deficiencies related to second-partner reviews identified by the PCAOB inspection process.
- There are no provisions specifically related to subsequent changes to, or retention of, the EQR documentation in either the IAASB or the ASB standards.

- The EQR Standard includes a requirement that the reviewer evaluate whether the engagement documentation (1) indicates that the engagement team responded appropriately to significant risks; and (2) supports the conclusion reached by the engagement team.
- Although the IAASB standards contain a similar documentation review requirement, the ASB standard does not contain an equivalent requirement.
- The EQR Standard requires the engagement quality reviewer to be an associated person of the accounting firm and comply with all applicable independence requirements. In addition, the standard prohibits the engagement quality reviewer from having had overall responsibility for the audit client for at least two years prior to serving as the review partner.
- Neither the IAASB nor the ASB standards require the engagement partner reviewer to comply with the two-year “cooling-off” period, nor do they require the reviewer to be an associated person of the firm.
- Finally, the IAASB standards do not include reviewer independence requirements.

I would like to thank Marty Bauman, in his new role as Chief Auditor, for ensuring that this comparison in Appendix 3 is available to provide examples of how this EQR standard provides investors with a higher level of confidence in audits of U.S. publicly traded companies. This is a valuable new initiative of the Chief Auditor and I look forward to seeing this type of comparison included in future standards issued by the PCAOB.

Since the release effectively describes the changes made to the proposed standard in response to comments received, I do not feel the need to comment on them here, except to say that I believe that the staff has appropriately made revisions where warranted.

In closing, I would like to make the observation that, by considering concerns identified during our inspection process and soliciting input from our Standing Advisory Group, as well as the public at large through our proposal process, the PCAOB was in the unique position to make important improvements to the engagement review process. By enhancing the review performed by a second partner, investors will now have greater assurances that audits performed by registered accounting firms are at their highest level of audit quality.



I would like to thank staff for their work on this standard, in particular, Greg Scates and Dima Andriyenko in the Office of the Chief Auditor, and Jake Lesser in the Office of the General Counsel.