

April 15, 2009



California
Society
Certified
Public
Accountants

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

Re: Response to PCAOB Rule-Making Docket Matter No. 025

Transmitted by email to: comments@pcaobus.org

To the Members of the PCAOB:

The Accounting Principles and Auditing Standards Committee (the AP&AS "Committee") of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Public Company Accounting Oversight Board (PCOAB) on PCAOB Rule Making Docket Matter No. 025, "Proposed Auditing Standard Engagement Quality Review."

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

The Committee has submitted its response in the following order: First, the Committee has provided its response to the PCAOB's questions set forth on pages 8-26 of the Release. Second, the Committee has provided certain other observations for the PCAOB's consideration.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions further, should the PCAOB have any questions or require any additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "M. Wille".

Mark F. Wille, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

1235 Radio Road
Redwood City, CA
94065-1217

(800) 922-5272
www.calcpa.org

COMMENTS REGARDING THE PCAOB'S
REVISED PROPOSED AUDITING STANDARD
ENGAGEMENT QUALITY REVIEW

The Committee supports the overall direction of the repropoed Standard, as the PCAOB was responsive to the strong sentiments expressed in the comment letters received last year. It is clear the term "robust review" included on page 3 of the Release was implemented in the detail procedures set forth in the Standard.

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?

Response: The PCAOB identified two primary types of engagements excluded from the scope of the Standard: (1) engagements performed pursuant to Auditing Standard No. 4, Reporting on Whether a Previously Reported Material Weakness Continues to Exist, and (2) engagements required by the SEC's Regulation AB. The Committee believes that audit firms who perform attestation engagements under Regulation AB routinely include such engagements under their firm's quality review program. Accordingly, the Committee supports expanding EQR standards to engagements other than audits and interim reviews. However, the Committee suggests the PCAOB address this issue in a separate standard to facilitate timely release of the current repropoed Standard.

Question 2: Is the objective in the repropoed standard appropriately formulated? Does it articulate the purpose of the EQR?

Response: The Committee believes that the Standard is best stated in terms of the clear objectives of the EQR process and the qualifications of the reviewer. The reviewer should then work to achieve the objectives of the EQR. The Committee believes that to mix the objectives of the EQR with the objectives of the reviewer in achieving them is not useful, and could lead to a reviewer narrowing the scope of the EQR to meet the stated objectives of the reviewer rather than broader objectives of the EQR. Further, the Committee does not believe the emphasis of the responsibilities of the reviewer that the Board is seeking by phrasing the objectives of the EQR as objectives for the reviewer is necessary; a qualified reviewer will clearly understand those responsibilities.

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

Response: The Committee believes the repropoed Standard will provide clarity to the EQR process within audit firms, thus providing a more thoughtful and effective EQR.

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?

Response: The Committee believes the person ultimately responsible for the quality review can delegate portions of the review to a non-partner in the firm, working under the supervision of the assigned quality reviewer. The level of knowledge required for a quality reviewer might, in part, be held by other persons participating in the review under the supervision of the quality reviewer. The engagement partner can rely on others for knowledge, and the quality reviewer should similarly be able to rely on others for knowledge.

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

Response: Use of outside, qualified, personnel may be critical if smaller registered accounting firms are to continue to perform PCAOB audits. In that regard, the Committee recommends the PCAOB clarify the term "associated person" with regard to how a registered accounting firm might utilize the contract services of an individual outside the registered accounting firm, as set forth in paragraph 3 of the Standard. The second sentence of paragraph 3, of the proposed Standard uses the phrase "associated person of a registered public accounting firm." The Committee recommends that the Board add, by way of a footnote, the definition of "associated person" or a cross-reference to where it is defined. It would also be helpful to use the phrase "person associated with a registered public accounting firm" which is the term used in Form 1.

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?

Response: The Committee disagrees with the PCAOB's adoption of a two year hiatus between functions when the engagement partner has served less than five years in that function. The existing partner rotation standard of five years on and five years off the engagement ought to be applied, irrespective of whether the individual served in the capacity of engagement partner or concurring reviewer during the maximum permitted five year relationship period. Including this additional, two year period as a requirement will unduly impact the smaller registered accounting firm's ability to assign qualified partner-level personnel to the engagement. The Committee is not aware of any empirical evidence to suggest that prior service as an engagement partner will taint the objectivity of that person performing the quality review in the following year.

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

Response: The Committee supports the separation between EQR procedures applicable to the audit and interim review processes. The descriptions, scope and extent of EQR procedures are adequately described. However, a relatively minor revision is suggested as follows: Substitute the term "firm's client" for the term "company" beginning in paragraph 10. a. on page A1-3 of the Standard, and make such change consistent throughout the remainder of the document. The Committee believes that "firm's client" is a more precise reference to the entity under audit or review than the term "company."

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

Response: The Committee agrees that the procedures are reasonably tailored between an audit and interim review. However, we would suggest specifically listing the procedures referred to in paragraph 15 b. on page A1-6 of the Standard, instead of referring the reader to the "procedures described in paragraphs 10.c through 10. f," which are applicable to an audit. For example, step 10.d. (2) on page A1-3 of the Standard requires the engagement reviewer to: "Evaluate judgments made about the severity and disposition of identified control deficiencies." We recommend this required procedure be redrafted to specifically apply to the more limited inquiries related to internal controls conducted in a review of interim information. The auditor's inquiries regarding internal controls during a review of interim financial information are generally limited to inquiries of management regarding identifying changes in internal controls, or the remediation or previously identified control deficiencies. Testing the effectiveness of internal controls based on management's assertions or identifying new control deficiencies are processes generally reserved for the integrated audit performed at the end of the fiscal year.

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

Response: The procedures as proposed provide sufficient flexibility under the stated objective of the EQR process to enable the reviewer to focus attention on areas of "significant judgments" reached by the engagement team. However, we have several specific observations:

Paragraph 10.h. would require the reviewer to read other information in documents containing financial statements to be filed with the Securities and Exchange Commission, with a footnote 3 reference to AU 550.04-.06 and AU 711. As written, this procedure imposes a task on the reviewer for filings under the Securities Act of 1933 that is beyond the requirements of existing auditing literature. It also imposes an unrealistic and unnecessary burden on the reviewer. This information is often voluminous, especially if one considers exhibits typically included or incorporated into SEC filings, and certain information in the body of a document may not be relevant or necessary to the EQR. The Committee strongly recommends that the procedure be changed from "read" to "consider."

AU 550.02 and .03 in defining the scope of "other information" specifically exclude other information included in filings under the Securities Act of 1933. The Committee recommends that footnote 3 be revised to include reference to AU 550.02 and .03 and that it be clarified that AU 550 and AU 711 specify the auditor's responsibility to consider other information. The

Committee suggests: "See paragraphs .01 .06 of AU sec. 550, Other Information in Documents Containing Audited Financial Statements; AU sec. 711, Filings Under Federal Securities Statutes for the auditor's responsibility to consider other information."

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

Response: The Committee believes the language of the repropoed Standard's focus on "due professional care" is an appropriate benchmark. However, the Committee is troubled by the PCAOB's inclusion of its view that: "While auditors should be more familiar with "due professional care" than the concurring approval standard in the original proposal, 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 (emphasis added)." This language, which was included on page 24 of the Release, will create practical confusion in the implementation of the repropoed Standard. This editorial amplification should be removed from the final standard.

The Committee supports the inclusion, in the same paragraph on page 24, of the following sentence: "At the same time, eliminating the phrase "should know" from the repropoed standard should alleviate commenters' concerns that the Board would evaluate decisions to provide concurring approval of issuance with the benefit of hindsight."

Question 11: Are the documentation requirements in the reported standard appropriate? If not, how should they be changed?

Response: The Committee agrees that the matters requiring documentation set forth in paragraph 19 on page A1-7 of the Standard are important to rectify certain apparent voids noted during the PCAOB's inspection of engagements. However, some examples of the means by which such documentation may be evidenced would help registered audit firms comply with the Standard. For example, the majority of registered audit firms utilize some form of paperless audit documentation. Accordingly, it is a common practice for the designated quality reviewer to evidence review of specific work papers by electronically "signing off" the binder index line item corresponding to the specific work paper. The Committee believes that such a sign off would constitute acceptable evidence of completing step 19. b. on page A-7 of the Standard. Therefore, The Committee suggests a statement be added to paragraph 19. permitting flexibility in the manner of documenting the required items.

Other Comments:

Effective Date: The Committee recommends that the effective date of the proposed EQR standard for audits be no sooner than years beginning thirty days after the issuance of a final EQR standard. As proposed, the EQR standard would be effective for audits for fiscal years ending on or after December 15, 2009. Audit planning and procedures for many audit engagements for fiscal years ending on or after December 15, 2009 will be well underway by the time a final EQR standard is issued. To have the EQR standard effective for audits commenced before issuance of the EQR standard may be unduly burdensome, especially in situations where the concurring partner currently assigned does not meet the new criteria of the new EQR standard.