PCAOB
Public Company Accounting Oversight Board

1666 K Street NW, 9th Floor
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

MARCH 4, 2009 OPEN MEETING

PROPOSED AUDITING STANDARD -- ENGAGEMENT QUALITY REVIEW

Statement of Daniel L. Goelzer

The revised standard on engagement quality review -- EQR -- that the Board is considering today is an important step in fulfilling the our mandate to further the public interest in the preparation of informative, accurate, and independent audit reports. I want therefore to begin by thanking Greg Scates and Dima Andriyenko in the Office of the Chief Auditor, and Jake Lesser in the Office of the General Counsel, for their diligent and thoughtful efforts in bringing this revised standard to the Board. And, special thanks to Tom Ray -- who will be leaving the Board at the end of this week -- for his leadership of the Office of the Chief Auditor during the past three years.

Completing the EQR project is a priority. Congress expressly directed the Board to require a qualified person to provide "concurring approval" of the issuance of every audit report filed with the SEC. Based on nearly six years of inspections experience, it is clear that engagement quality reviews have the potential to reduce the number of audit failures. The Board's inspections staff routinely identifies audit deficiencies that a properly performed concurring partner review should have detected and caused to be remedied before the audit report was issued. However, since beginning operations in 2003, the Board has been relying on the concurring partner requirements developed by the AICPA before the Board's creation. Those rules are not applicable to all firms that prepare audit reports for Commission filers.

To address these concerns, last year the Board published for comment a proposal that sought to create a robust, risk-focused EQR framework that all PCAOB-registered firms could apply. That proposal was intended to strengthen concurring reviews. However, it was not intended to radically alter the basic nature of the reviews performed under the existing rules, to substantially increase the cost of public company auditing, or to delay the completion of audits.

We received nearly 40 comments on the 2008 proposal. Few questioned the importance of EQR to audit quality or the desirability of enhancing the existing standard. However, many were critical of the proposal and thought that certain elements were either not workable or would result in a process that was more costly and cumbersome than necessary.

Today's revised proposal resulted from the staff's consideration of the public comments. It addresses many of the concerns expressed without compromising the basic goal of increasing the likelihood that reviewers will identify any significant engagement deficiencies before audit reports are issued to the investing public. The number of changes that have been made to the 2008 proposal is significant, and the range of issues addressed is large. Two examples illustrate how the revised proposal deals with topics that were of particular concern to commenters:

- The original proposal required the reviewer to assess whether there were areas in the engagement that posed a higher risk of audit failure and to evaluate the response to those risks. Some commenters were concerned that this, in effect, would require the reviewer to perform a kind of second audit. The re-proposal achieves the same objectives by instead focusing the reviewer on evaluating the *engagement team's* risk assessment and on the procedures the team employed.

- The original proposal stated that the reviewer could not provide concurring approval of the audit report if he or she "knows, or should know" certain things that would make the audit report incorrect or inappropriate. Many comments raised questions about how a "should know" standard would work in practice. The revised proposal replaces that test with a requirement that the reviewer may provide concurring approval only if, after performing the required review with "due professional care," he or she is not aware of a significant engagement deficiency. The result should be the same, but the concept of acting with due professional care has long been embedded in auditing and is more familiar to the profession.

Re-proposing the EQR standard and considering a second round of public comments will, of course, add to the length of this already lengthy project. It also pushes further into the future the day on which all audits of SEC-registered public companies will be subject to pre-issuance concurring review. I believe, however, that the two-comment-period approach will result in a better, more workable standard. It is also more likely to accomplish the positive goals Congress had in mind when it directed the Board to require EQR and less likely to engender unintended, negative consequences.

As I said last November when the Board voted to propose risk assessment standards, we need to be open to measures -- like second comment periods -- that promote transparency in our standard-setting and help to ensure that we get the full benefit of different perspectives on the impact of our standards. For a project of the importance of EQR, investors and the profession should understand what we are seeking to accomplish and, before we take final action, we should take all reasonable steps to obtain input on the practical consequences of the new standard.