

**July 28, 2009 OPEN MEETING**

**CONCEPT RELEASE REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE  
AUDIT REPORT AND AUDITING STANDARD NO. 7 – ENGAGEMENT QUALITY  
REVIEW**

**Statement of Mark W. Olson**

Good morning and welcome everyone. This is an Open Meeting of the Public Company Accounting Oversight Board on July 28, 2009. We welcome those of you who have joined us today, both in person and listening to the Webcast of this meeting.

Today, the Board will consider a recommendation to adopt an auditing standard that would supersede the Board's interim concurring partner review requirement.

In addition, the Board also will consider a recommendation to issue a Concept Release on requiring the engagement partner to sign the audit report.

Before we proceed with the specific agenda items, I will note for the record that all members are present at today's meeting.

**Engagement Quality Review**

The first order of business before the Board today is a staff recommendation that the Board adopt a new auditing standard on Engagement Quality Review and a conforming amendment to the Board's interim quality control standards.

Before I turn to my fellow Board members for comment, I would like to thank Marty Baumann, Greg Scates and Dima Andriyenko and their colleagues in the Office of the Chief Auditor for their hard work on this new standard. I also want to thank Jake Lesser and his colleagues in the Office of the General Counsel, who continue to provide our standard setters with wise counsel.

My initial interest in this issue was stimulated in 2006 by my first meetings with our inspections staff in the PCAOB regional offices. As part of those meetings with inspectors, I would inquire as to which audit issues they found most problematic. Among the most frequently mentioned issues of concern was the wide range in quality and rigor of the concurring partner or second partner reviews.

The Board initially proposed this auditing standard in February 2008. In response to feedback and numerous comments on the proposed standard, the Board repropose the standard with revision in March 2009. The Board's objective in developing a new

EQR standard was to strengthen the review procedures and develop a more meaningful EQR process. As I mentioned at that meeting, because of the importance that the PCAOB places on engagement quality review, this strong second set of eyes on the audit is critical to audit quality.

At the same time, the EQR is not intended to become a second audit. As Marty, Greg and Dima have described, this approach appropriately focuses the review procedures on the areas of a particular audit that are more likely to have significant engagement deficiencies. The reviewer is required to evaluate the significant judgments made and related conclusions reached by the engagement team and to evaluate the engagement team's assessment of and responses to significant risk, including fraud risk.

The standard also takes into account concerns expressed by smaller accounting firms with limited resources. In particular, the standard allows firms the flexibility to use a qualified reviewer from outside the firm. The standard also exempts certain small firms from the two-year cooling-off period. These aspects are not detrimental to the quality of the EQR, however; any reviewer a firm uses must meet the qualification requirements of the final standard.

The final standard also adopts the concurring approval of issuance requirements as included in the repropoed standard. The Board and staff have carefully considered the comments and robust discussion on the requirement for the reviewer to conduct his or her work with due professional care. Conducting the review with reasonable care and diligence is an appropriate prerequisite to providing concurring approval of issuance.

Section 103 of the Sarbanes-Oxley Act mandated that the PCAOB adopt a requirement that each registered public accounting firm provide a concurring or second partner review of each audit report. The standard before us today is the culmination of two rounds of public comment, input from our Standing Advisory Group, observations from our inspections and enforcement staff, and a review of the current standards' requirements of the International Auditing and Assurance Standards Board (IAASB). The final standard has benefitted from and been improved as a result of the 68 comments received over in both public comment periods. The net result is a standard that is robust and viable. I support the issuance of Auditing Standard No. 7 today as an important and tangible enhancement to audit quality.

### **Engagement Partner Signing the Audit Report**

The staff recommendation before the Board today is a Concept Release on whether to require the engagement partner to sign the audit report. The Board is seeking public comment on this Concept Release.

I would like to thank Bella Rivshin in the Office of the Chief Auditor and Jake Lesser and Mary Peters in the Office of the General Counsel for their research and efforts in preparing this Concept Release.

This issue has been discussed for several years, including by our own Standing Advisory Group (SAG), and more recently, by the U.S. Treasury's Advisory Committee on the Auditing Profession. There are many legitimate and strong arguments on both sides of this issue and robust debate as to whether it would improve audit quality.

Beginning with the passage of the Sarbanes-Oxley Act in 2002, Wall Street and the public have come to better understand the vital role of the audit profession in this country and around the world. There is increased scrutiny of audit firms and the audit process by all stakeholders who have an interest in financial statements. While legitimate questions have been raised about the wisdom of requiring engagement signatures, my current belief is that the benefits from the increased transparency would outweigh any negatives. I see wisdom, however, in today's initiative being a Concept Release and look forward to the Board benefitting from a robust and informative comment period at this time.