



November 25, 2009

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
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Washington, DC 20549-1090

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RE: File No. PCAOB 2009-02; Release No. 34-60903 Public Company Accounting Oversight Board; Notice of Filing of Proposed Rule on Auditing Standard No. 7, *Engagement Quality Review*

Dear Ms. Murphy:

We appreciate the opportunity to comment on Auditing Standard No. 7 (AS 7), *Engagement Quality Review*. We support the Public Company Accounting Oversight Board's ("Board" or "PCAOB") mission to develop auditing standards that promote audit quality. In our opinion, an objective engagement quality review performed in accordance with AS 7, will accomplish that purpose. Accordingly, we support the U.S. Securities and Exchange Commission's approval of AS 7.

We understand that the PCAOB received many comment letters on both the first and second releases of the proposed engagement quality review standards. We appreciate the PCAOB's careful and thoughtful consideration of those comments. However, we have a few remaining comments that we would like respectfully to bring to your attention prior to your approval.

Due professional care

We agree with paragraph 12 of AS 7, which requires the engagement quality reviewer to perform the review with due professional care. However, we believe the Board has introduced confusion in the release, which states: "A qualified reviewer who has done so will, necessarily, have discovered any significant engagement deficiencies that could reasonably have been discovered under the circumstances." Some may interpret this as redefining "due professional care." We do not believe that the Board should set requirements in the standards, and then, in the release imply that the words in the standards do not mean what they say.

To clarify that due professional care, as defined in AU sec. 230, *Due Professional Care in the Performance of Work*, does not guarantee that any or all significant deficiencies will be detected, but rather that the engagement quality reviewer will have reasonable, but not absolute

assurance, that significant engagement deficiencies have been discovered in the review, we suggest the following amendment to the language on page 19 of the release:

“A qualified reviewer who has done so will **have reasonable assurance (as defined in AU sec. 230), necessarily, have discovered that** any significant engagement deficiencies that ~~exist could reasonably have been~~ **are discovered in the review under the circumstances.**”

Significant deficiencies

By linking significant deficiencies to the standards of the PCAOB, the note to paragraph 12 of AS 7 implies that significant deficiencies are those that are of such importance to individual assertions or audit objectives that the engagement team does not have a basis for concluding on those assertions or objectives. We believe that significant deficiencies are those that are of such importance that the engagement team does not have a sufficient evidential base to form an opinion on the financial statements *taken as a whole*. Therefore, we recommend the following amendment to the note to paragraph 12 of AS 7:

“A significant engagement deficiency in an audit exists when (1) the engagement team failed to obtain ~~sufficient~~ appropriate evidence **sufficient to provide a basis for forming an opinion on the financial statements, taken as a whole ... in accordance with the standards of the PCAOB,**”

Documentation

We believe that documentation requirements that parallel those in Auditing Standard No. 3 (AS 3), *Audit Documentation*, are appropriate. However, there is a statement on page 21 in the release that states that the documentation should include any “significant [engagement] deficienc[ies] identified, how the reviewer communicated the deficienc[ies] to the engagement team, why such matter was important, and how the reviewer evaluated the engagement team’s response.”

The statement in the release seems to envisage a situation where the engagement quality reviewer comes in when the audit is completed and notes any deficiencies. In reality, the engagement quality review often occurs throughout the audit. Many of the “deficiencies” that the engagement quality reviewer identifies may exist simply because the audit is not complete. We believe that the requirements in AS 7 should parallel those in AS 3, which does not require the documentation of interim conclusions arrived at during the audit.

Concurring approval of issuance

On page 16 of the release accompanying the first proposal, it is acknowledged that differences of opinion could occur between the engagement team and the engagement quality reviewer, and that, if those differences have not been satisfactorily resolved, the engagement quality reviewer must not provide concurring approval of issuance. We continue to believe that this resolution of differences is an important contributor to audit quality, but the concept is not addressed in AS 7. We suggest that the standard state that, if one of the four conditions in paragraph 12 of AS 7 exists, and those differences have not been satisfactorily resolved, the engagement quality reviewer must not provide concurring approval of issuance.

Content and structure of the standards

In the context of providing comments on the PCAOB's proposed standard, we supported the proposal to limit the application of this standard to audit engagements and engagements to review interim financial information. We did so because we believe that the requirements in AS 7 are so specific to those engagements that it would be difficult to adapt them to other types of engagements. Furthermore, we believe that, because it is contained in the auditing standards, it should only apply to the engagements to which the auditing standards apply. The logical extension of this approach would be, if the Board believes engagement quality reviews are desirable for attestation engagements, those requirements should be established in an attestation standard rather than an auditing standard.

However, we believe the engagement quality review should be considered in the context of all the elements of quality control, for example, consultation, supervision, and training, and not as an independent issue. We believe it would be appropriate for the standards on those topics to be included together in the quality control standards. We believe that keeping this proposed standard in the auditing standard perpetuates the misperception that the engagement quality review compensates for lapses in other aspects of quality control.

As a result, we also would support updating the PCAOB's Interim Quality Control standards, which establish standards regarding a firm's responsibilities for its system of quality control. Examples of requirements that would be appropriate to house in the Quality Control standards are:

- The requirement for the tone set at the top of the firm to encourage and support the performance of objective engagement quality reviews, which will be "lost" when this proposed standard supersedes SECPS Requirements of Membership §100.08(f); and
- The requirement for the firm's quality control policies and procedures to include provisions to provide the firm with reasonable assurance that the engagement quality reviewer has sufficient competence, independence, integrity, and objectivity to perform the engagement quality review in accordance with the standards of the PCAOB, which is misplaced in a note to paragraph 4 of AS 7.

We believe that housing the firm's requirements in the Quality Control standards, and the auditor's requirements in the auditing standards and the attestation standards, as appropriate, lends clarity to the requirements, and in particular, who is responsible for compliance with the requirements, in the respective standards.

We would be pleased to discuss our comments and recommendations with you. If you have any questions, please contact Mr. John L. Archambault, National Managing Partner of Professional Standards, at (312) 602-8701.

Sincerely,

