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STAFF QUESTION AND ANSWER

AUDITING STANDARD NO. 7, *ENGAGEMENT QUALITY REVIEW*

February 19, 2010

Summary: Staff questions and answers set forth the staff's opinions on issues related to the implementation of the standards of the Public Company Accounting Oversight Board ("PCAOB" or "Board"). The staff publishes questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

The following staff question and answer related to Auditing Standard No. 7, *Engagement Quality Review* was prepared by the Office of the Chief Auditor. Additional questions should be directed to Dima Andriyenko, Associate Chief Auditor (202/207-9130; andriyenkod@pcaobus.org) or Greg Scates, Deputy Chief Auditor (202/207-9114; scatesg@pcaobus.org).

Auditing Standard No. 7

On January 15, 2010, the U.S. Securities and Exchange Commission ("SEC") approved Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7,"), which was adopted by the PCAOB on July 28, 2009.^{1/} AS No. 7 supersedes the Board's interim standard,^{2/} applies equally to all registered firms,^{3/} and requires an engagement quality

^{1/} See SEC Release No. 34-61363 (Jan. 15, 2010); PCAOB Release 2009-004, *Auditing Standard No. 7, Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards* (Jul. 28, 2009) (the "adopting release").

^{2/} Requirements of Membership of the Securities and Exchange Commission Practice Section ("SECPS") of the American Institute of Certified Public Accountants ("AICPA") Section 1000.08(f).

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review ("EQR") and concurring approval of issuance for each audit engagement and for each engagement to review interim financial information conducted pursuant to the standards of the PCAOB.^{4/}

In its order approving AS No. 7, the SEC encouraged the PCAOB to provide further implementation guidance on the documentation requirements of the standard in light of comments the SEC received during its comment period. The following staff question and answer provides implementation guidance.

Documentation of an EQR

Q. Page 21 of the adopting release provides the following example of the application of the standard's documentation requirements:

[I]f a reviewer identified a significant engagement deficiency to be addressed by the engagement team, the engagement team should document its response to the identified deficiency in accordance with [Auditing Standard No. 3, *Audit Documentation*]. Because AS No. 7 does not require duplication of documentation prepared by the engagement team, the engagement quality reviewer does not have to separately document the engagement team's response. Rather, the EQR documentation should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand, e.g., the significant deficiency identified, how the reviewer communicated the deficiency to the engagement team, why such matter was important, and how the reviewer evaluated the engagement team's response.

Does this example suggest that the standard requires documentation of all of the interactions between the engagement quality reviewer and the engagement team, including all of the interactions before a matter is identified as a significant engagement deficiency?

^{3/} The Board's interim standard applied only to registered firms that were members of the SECPS as of April 16, 2003.

^{4/} See paragraph 1 of AS No. 7.

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A. No. The example in the adopting release illustrates how the documentation requirements of AS No. 7 should be applied once a reviewer concludes that a significant engagement deficiency exists.

Paragraph 19 of AS No. 7 establishes a requirement^{5/} that “[d]ocumentation of an engagement quality review should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, and others who assisted the reviewer, to comply with the provisions of this standard....”

^{5/} Specific documentation requirements are also set forth at Paragraph 19a-c.