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## REQUEST FOR COMMENT

### POST-IMPLEMENTATION REVIEW OF AUDITING STANDARD NO. 7, *ENGAGEMENT QUALITY REVIEW*

APRIL 6, 2016

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#### I. Introduction

The Public Company Accounting Oversight Board ("Board" or "PCAOB") has established a program under which the staff of the PCAOB Center for Economic Analysis conducts post-implementation reviews of PCAOB rules and standards.<sup>1</sup> Under the program, the staff of the Center for Economic Analysis is conducting a post-implementation review to evaluate the overall effect of Auditing Standard No. 7, *Engagement Quality Review*, ("AS 7") which was adopted by the Board in July 2009. The Board expected AS 7 to provide for a rigorous review that serves as a meaningful check on the work performed by the engagement team and increases the likelihood that a registered public accounting firm will catch any significant engagement deficiencies before it issues its audit report.<sup>2</sup> Further information regarding AS 7 is provided in Section IV. below.

To perform the review of AS 7, the staff intends to gather and analyze data from a number of sources. The staff is seeking comment from interested members of the public in this release. The staff will also analyze data collected through the PCAOB inspection and enforcement programs, review relevant academic literature, and convene focus group meetings to obtain input from interested parties and experts including audit firms, investors, public companies, academics, and other interested groups. The PCAOB has collected, through its oversight activities, a substantial amount of information regarding engagement quality reviews that the staff intends to analyze as

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<sup>1</sup> Further information on the PCAOB [post-implementation review](#) program is available on the PCAOB website.

<sup>2</sup> PCAOB Release No. 2009-004 at 2.

part of the review. This includes, for example, information on engagement quality review hours and certain professional characteristics of reviewers. Upon completion of the review, the staff will report its observations to the Board. The Board intends to make the results of the review public. Because AS 7 only recently became effective for audits of brokers and dealers and related attestation engagements, the staff is not, at this time, including these audits and engagements in the scope of the post-implementation review of AS 7.

## **II. Request for Comment**

The staff seeks comment on the overall effect of AS 7, including with respect to any or all of the following questions:

- Has AS 7 accomplished its intended purpose? In particular, has the implementation of AS 7 increased the likelihood that a registered public accounting firm will detect significant engagement deficiencies before the audit report is issued? Do engagement quality reviews performed under AS 7 provide for a meaningful check on the audit work performed by the engagement team?
- Do users of financial statements believe that the implementation of AS 7 has affected the credibility of financial reporting?
- What have been auditors' experiences with implementation of AS 7? How did the implementation of AS 7 change practice? Has the implementation of AS 7 given rise to any unintended consequences or changes?
- What have been preparers' and audit committees' experiences with the implementation of AS 7? How did the implementation of AS 7 change practice from their perspectives? Has the implementation of AS 7 given rise to any unintended consequences or changes?
- What have been the initial and recurring costs and benefits associated with the implementation of AS 7 from the perspectives of auditors, preparers, audit committee members, investors and other users of financial statements?
- Could AS 7 be refined or improved to better achieve its intended purpose? If so, how?

The staff encourages commenters to provide available data or evidence and, where possible, specific examples in support of comments.

### III. How to Comment

The staff encourages all interested parties to comment. Comments should be submitted through one of the following methods:

- By email to [comments@pcaobus.org](mailto:comments@pcaobus.org)
- Through the PCAOB website at [www.pcaobus.org](http://www.pcaobus.org) or
- By postal mail to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803.

All comments should refer to Post-Implementation Review No. 2016-01 *Engagement Quality Review*, on the subject or reference line and should be submitted no later than July 5, 2016. All comments received in response to this request for comment will be made available to the public and posted on the PCAOB website. You are encouraged, but not required, to provide your name and professional affiliation. In general, the PCAOB will post comments as they are received. Questions regarding this request for comment should be directed to:

- Patricia Ledesma, Program Leader and Chief Economist, Research and Economic Tools, Center for Economic Analysis (202-591-4389, [ledesmap@pcaobus.org](mailto:ledesmap@pcaobus.org)).
- Michael Gurbutt, Senior Advisor to the Program Leader, Center for Economic Analysis (202-591-4739, [gurbutm@pcaobus.org](mailto:gurbutm@pcaobus.org)).

### IV. Background Information

The Sarbanes-Oxley Act of 2002 directed the Board to include in the auditing standards that it adopts requirements that a qualified person associated with the public accounting firm provide a concurring or second partner review and approval of issuance of audit reports filed with the SEC.<sup>3</sup> The Board adopted AS 7 in July 2009 and the standard became effective for engagement quality reviews of audits and interim reviews

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<sup>3</sup> Section 103(a)(2)(A)(ii) of the Sarbanes-Oxley Act of 2002.

for fiscal years beginning on or after December 15, 2009.<sup>4</sup> The standard superseded a concurring partner review requirement that was originally established by the auditing profession in the 1970s and which the Board adopted shortly after its formation, on an interim basis.

Among other things, in AS 7 the Board required that all registered firms perform engagement quality reviews for each audit engagement and engagement to review interim financial information conducted pursuant to PCAOB standards.<sup>5</sup> The PCAOB's interim standard had applied only to registered firms that were members of the AICPA's Securities and Exchange Commission Practice Section ("SECPS") as of April 2003. Registered firms that were not members of the SECPS – generally non-U.S. firms and some smaller firms – were not subject to the interim requirement.

Compared to the interim standard, AS 7 describes in more detail the objective of the review and the procedures that should be performed to meet this objective.<sup>6</sup> Although the auditing profession's concurring partner review requirements did lay out a number of procedures that the reviewer was required to perform, the overall objective of the review was described in terms of reviewing significant auditing, accounting, and financial reporting matters that "come to the reviewer's attention." The review process described in AS 7 is intended to effectively target areas of greatest risk while avoiding duplication of the audit engagement team's efforts. AS 7 also strengthened previous requirements related to the qualifications of the engagement quality reviewer, in

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<sup>4</sup> PCAOB Release No. 2009-004 (July 28, 2009). Rulemaking releases, rule filings, comment letters, and other supplemental materials related to Auditing Standard No. 7 are available at [PCAOB Docket 025](#).

<sup>5</sup> AS 7, para 1.

<sup>6</sup> AS 7, para 2, 9-11, and 14-16. According to para 2 of AS 7, the objective of the engagement quality reviewer is to perform an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance.

particular regarding the level of expertise required and, for a reviewer from within the firm, regarding his or her level of authority.<sup>7</sup>

AS 7 also established a new standard that engagement quality reviewers must meet in determining whether to provide concurring approval of issuance of an audit report filed with the Securities and Exchange Commission. Under AS 7, a reviewer may provide concurring approval "only if, after performing with due professional care the review required by [AS 7], he or she is not aware of a significant audit deficiency."<sup>8</sup> A firm may grant permission to the client to use the engagement report only after the engagement quality reviewer provides concurring approval of issuance.<sup>9</sup> The standard also establishes documentation requirements for the engagement quality review.<sup>10</sup>

In December 2013, the PCAOB issued a report to provide information regarding firms' implementation of and compliance with AS 7 based on 2011 inspections of registered public accounting firms.<sup>11</sup> The post-implementation review of AS 7 is intended to complement the December 2013 report and provide an opportunity to more broadly evaluate the overall effect of AS 7, including through economic and statistical analysis of internal and external data relating to periods both before and after adoption.

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<sup>7</sup> AS 7, para 3-8.

<sup>8</sup> AS 7, para 12 and 17.

<sup>9</sup> AS 7, para 13 and 18.

<sup>10</sup> AS 7, para 19-21.

<sup>11</sup> See ["Observations Related to the Implementation of the Auditing Standard on Engagement Quality Review" \(Dec. 6, 2013\)](#).