



Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington DC 20006-2803
USA

22 January 2014

Ref.: AUD/AKI/HBL/NRO/EBL

Dear Sir or Madam,

Re: FEE Comments on PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

FEE¹ (the Federation of European Accountants) welcomes the opportunity to comment on the PCAOB's repropoed auditing standard: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*. FEE already commented on the proposal in 2011²: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*.

FEE acknowledges the improvements that have been made to the original proposal. Please note that we have not expressed views on issues that focus on purely national US matters. Our general comments to the issues raised in the PCAOB proposed rulemaking

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all 28 EU member states. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700,000 professional accountants working in different capacities in public practice, small and large firms, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

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http://www.fee.be/images/publications/auditing/PCAOB_111207_Improving_Transparency_of_Audits7122011151629.pdf

that are relevant from a European or international perspective are set out below and can be summarised as follows:

1. FEE fully supports the aim of improving transparency of audits and believes that including the name of the engagement partner responsible for the audit will help achieve this objective. The disclosure requirements should clearly state that only the name(s) of those that have responsibility for the audit should be disclosed in the audit report in order not to give the perception of dilution of responsibility for the audit. In order to be entirely clear about this, FEE thinks this objective could be achieved more effectively if the name be disclosed at the end of the report in the 'signature zone'.
2. FEE is not convinced of the value of disclosure in the audit report of other participants in the audit and is concerned about unintended consequences. We have noted that, whilst the PCAOB provides many economic analyses to support their proposal for naming the audit partner, virtually none are provided for this part of the proposal. FEE does not think that these disclosures will help improve transparency and strongly urges the PCAOB not to go down this route. Our detailed comments are set out below in paragraph 2.

1. Engagement partner's signature on the audit report

FEE agrees that disclosing the name of the engagement partner adds to the transparency of the audit. The perception is that the explicit naming does enhance the accountability of the engagement partner which could therefore implicitly contribute to audit quality. Although the disclosure of the name of the engagement partner is a step in the right direction, FEE believes that such disclosure would more appropriately improve transparency for users if it were disclosed at the end of the report in the 'signature zone' itself.

The name of the engagement partner – with or without the physical signature – should appear at the bottom of the audit report in connection with the name of the audit firm on behalf of which the audit is carried out. In Europe, the signature of the audit partner on audit reports is required by the 2006 Statutory Audit Directive and is reconfirmed by its current revision of which official publication is imminent. European Member States may allow the signature not to be disclosed in exceptional circumstances if the inclusion of it could lead to an imminent and significant threat to the personal security of that person.

Nevertheless, FEE acknowledges that the liability position of auditors in the US is different from auditors in Europe and we may not fully appreciate the liability implications for audit partners signing reports used in the US. The signature required in the EU is given under the provisions of the various European liability regimes for auditors and/or audit firms at national level and does not diminish the responsibility of the audit firm to establish appropriate quality control systems.

2. Disclosure of Certain Other Participants in the Audit

FEE is not convinced about the usefulness of the disclosure of certain other participants in the audit even if it is in general terms without naming the persons involved.

FEE believes that, for multinational audits, disclosures of those that took part in the audit, but are not employed by the audit firm, will likely be extensive and make audit reports significantly longer. Such extensive disclosures would detract from the key messages that audit reports are intended to convey to users. Whether it is in an environment of sole or divided responsibility, the disclosure should clearly distinguish between those that have responsibility for the audit and those that took part in the audit (as members of the engagement team, whether employed or not by the audit firm).

FEE notes the circumstances that underpin these PCAOB proposals, but is concerned about any deviation from international standards, especially those in connection with auditor's reporting. These new PCAOB requirements to disclose certain other participants in the audit may undermine the perception of responsibility of the group auditor and the consistency with the IAASB standards, especially ISA 600 'Special Considerations - Audits of Group Financial Statements' and ISA 700 'Forming an Opinion and Reporting on Financial Statements'.

One of the principal concerns of the PCAOB appears to be where substantially all of the work is done by another firm. To tackle this issue, it would be better to focus on these specific cases in order to avoid adding further to audit reports that – under the PCAOB's other proposals – will already be significantly longer.

This could be done for instance by having a much higher threshold than the 5% proposed. In addition, it may make sense to link any disclosure requirement to the requirements included in paragraph 10 of Auditing Standards No. 16. These cover the requirements to communicate to the audit committee the planned level of involvement of others in the audit and the basis for the auditor's determination that the auditor can serve as principal auditor. Therefore, the disclosure in the audit report could be limited to the cases where there is a need for explanation about this determination to be able to serve as the principal auditor.

Apart from the usefulness of the disclosure, FEE has several other concerns regarding this requirement:

- The use of hours for determining the participants that should be disclosed: whilst we recognise that it is difficult to find the ideal metric, some financial measure based on the accounts that are being audited is preferable. Would an investor not be more concerned that significant profits and assets were audited by other firms? Additionally, a sole focus on hours implies that all hours are equal, which is patently not the case. Having said that, the use of ranges for disclosure – as included in the Reproposal – might obviate the issue.

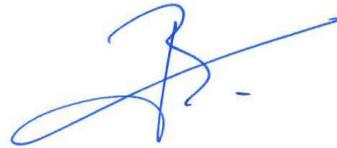
- The treatment of offshoring arrangements: we would recommend that the Board does not require disclosure when offshored work is subject to the direct supervision and review of the principal auditor (in that case, the principal auditor retains details of the work performed in its home country). In our view, there is a significant difference between a situation where an auditor has performed work offshore and all working papers produced by that offshore team are sent to the head office team and reviewed by the lead partner as compared to a situation where the working papers are retained in the offshore location.
- Last but not least, we cannot identify any value in disclosing details of other participants in the audit without any information on the work performed. We struggle to see what value a reader would gain, for instance from the examples on page A3-23.

For further information on this FEE letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert at +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE Team.

Yours sincerely,



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President



Olivier Boutellis-Taft
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