



CENTER FOR CAPITAL MARKETS
C O M P E T I T I V E N E S S

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November 15, 2017

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Supplemental Request for Comment on *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors* and *Proposed Auditing Standard on Dividing Responsibility for the Audit with Another Accounting Firm* (PCAOB Release No. 2017-005, September 26, 2017) (PCAOB Rulemaking Docket Matter No. 042)

Dear Ms. Brown:

The U. S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.¹ CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation.

CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB”) Supplemental Request for Comment on *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors* and *Proposed Auditing Standard on Dividing Responsibility for the Audit with Another Accounting Firm* (PCAOB Release No. 2017-005, September 26, 2017) (PCAOB Rulemaking Docket Matter No. 042) (the “Supplemental Request”).

¹ The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

The Supplemental Request presents revisions to the PCAOB's April 2016 Proposal. CCMC provided comments on the April 2016 Proposal² and appreciates that the Supplemental Request responds to some of the concerns we raised.

Nonetheless, CCMC continues to have concerns about whether the revisions now being considered by the PCAOB strike the right balance on the responsibilities of the lead auditor. Further, the Supplemental Request lacks any updated discussion of economic impacts – especially a fulsome consideration of the costs to companies and consequences for smaller audit firms. We also discuss other matters, including the PCAOB's proposed approach for determining an effective date for any ultimately adopted and approved standard.

Responsibilities of the Lead Auditor

Our July 2016 letter highlighted that the initial Proposal put the onus on the lead auditor for all aspects related to supervision of other auditors. We emphasized the importance of PCAOB auditing standards appropriately balancing the responsibilities of lead and other auditors to avoid undermining incentives for other auditors to conduct high quality audits.

The Supplemental Request recognizes that our concerns were likewise expressed by a number of others. In response, the Supplemental Request states that the PCAOB plans to add a reminder that other auditors are responsible for conducting audits with due care.³ Unfortunately, any such reminder would not change the proposed requirements for lead auditors or counterbalance the consequences of the amendments proposed in the Supplemental Request.

Thus, CCMC continues to question whether the amendments to auditing standards currently being considered by the PCAOB are properly calibrated with regards to the responsibilities of the lead auditor vis-à-vis other auditors. Similar concerns as to this balance apply to the proposed requirements on multi-tiered audits where the lead auditor directs another auditor to perform supervisory procedures with respect to a second other auditor on behalf of the lead auditor.⁴

² See the July 29, 2016 letter from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on PCAOB *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm* (April 12, 2016).

³ See the Supplemental Request, pages 18-19.

⁴ See the Supplemental Request, page 23.

Relatedly, CCMC is concerned about portions of the Supplemental Request that ignore relevant components of audit firm quality control systems and extend the lead auditor's responsibilities to the engagement level (rather than firm level). For example, the Supplemental Request states that the PCAOB is considering placing responsibilities on engagement teams for understanding other auditors' processes for determining compliance with independence and ethics requirements; understanding the knowledge, skills, and ability of other auditors who assist the lead auditor in planning or supervising the audit; and inquiring about other auditors' policies and procedures related to the training of all personnel who work on audits performed under PCAOB standards and the assignment of personnel to PCAOB audits.⁵

Compliance with independence and ethics requirements and the assignment, supervision, and training of personnel are all components of audit firm quality control systems. The PCAOB's standard-setting authority includes quality control standards. Moreover, PCAOB inspections include audit firm quality control systems, as do audit firms' internal inspection processes. Further, affiliated audit firms in global networks are often subject to additional firm requirements in regards to these matters. Engagement teams should be able to look to these audit firm processes and not have to make their own annual assessments of processes, policies, and procedures for independence, ethics, knowledge, skills, ability, training, and supervision on every audit for each and every other auditor – especially in regards to these aspects for network affiliate firms.

Moreover, it is not clear whether or how audit quality would be enhanced with these duplicative efforts by lead auditor engagement teams. Thus, it appears that the Supplemental Request includes proposed amendments to auditing standards that do not advance audit quality, while involving duplicative and unnecessary costs that will likely be passed on to companies via higher audit fees.

Otherwise, the PCAOB has a long-standing initiative to consider revising its quality control standards. According to a September 30, 2017 update from the Office of the Chief Auditor:

The staff is exploring whether there is a need for changes to PCAOB quality control standards – including improvements related to assignment and documentation of firm supervisory responsibilities – that could prompt firms to improve their quality control systems

⁵ See the Supplemental Request, pages 12, 15, and 15, respectively.

*and more proactively identify and address emerging risks and deficiencies, thereby enhancing audit quality.*⁶

CCMC encourages the PCAOB to focus on revising its quality control standards, rather than adding requirements for lead audit engagement teams to perform work that duplicates that of audit firms' quality control systems.

Economic Impacts

The Supplemental Request has a brief section on economic considerations that includes a paragraph on impacts describing the proposed revisions as “clarifying” and “modest.” Accordingly, the PCAOB omitted any updated economic analysis because: “The Board has preliminarily concluded that the impact of the revisions discussed in this release relative to the 2016 Proposal would be negligible from an economic perspective.”⁷

This conclusion seems inconsistent with the nature of the proposed revisions and the discussion of them in the Supplemental Request. While we appreciate that the Supplemental Request solicits additional information on economic considerations, CCMC strongly believes in the importance of the PCAOB doing an updated and robust analysis of economic considerations for any proposed amendments.

For example, as previously noted, it appears the proposed requirements will have a significant impact on companies and smaller audit firms. The PCAOB needs to consider these impacts. Further, in regards to smaller audit firms, the following language in the Supplemental Request appears to be anti-competitive:

*If some smaller firms decide to discontinue performing audits involving other auditors, the Board expects that most, if not all, of those firms are likely to continue to conduct audits in other segments of the market, including private company audits, and issuer audits that do not involve other auditors.*⁸

It seems problematic that the PCAOB would view it as appropriate to craft new requirements on the supervision of other auditors that would drive smaller audit firms out of the market for public company audits – especially given the PCAOB's inspection and enforcement processes available to address deficient audits.

⁶ See PCAOB Standard-Setting Update – Office of the Chief Auditor (September 30, 2017), pages 5-6.

⁷ See the Supplemental Request, page 42.

⁸ See the Supplemental Request, page 42.

Other Matters

CCMC would also like to comment on a few other aspects of the Supplemental Request related to documentation, effective date, and dividing responsibility.

As to documentation, the Supplemental Request states that the PCAOB is considering a requirement for lead auditors to obtain a summary memorandum from each other auditor. The summary memorandum would include a description of the other auditor's procedures, findings, conclusions, and, if applicable, opinion, in sufficient detail for the necessary level of supervision.⁹

While the PCAOB considers this requirement generally consistent with existing auditing practice,¹⁰ CCMC understands this is not necessarily the case. At a minimum, this suggests there is confusion over what the PCAOB intends for documentation. Thus, the PCAOB should clarify how the proposed supplemental memorandum would be incremental to current practice for engagement completion documents (e.g., summary review memorandum and the like now used by audit firms).

As to effective date, the Supplemental Request states:

The Board is considering whether compliance with an adopted standard and amendments should be required for audits of fiscal years beginning in the year after approval by the SEC (or for audits of fiscal years beginning two years after the year of SEC approval if that approval occurs in the fourth quarter).¹¹

CCMC strongly recommends an effective date for (all) audits of fiscal years beginning in the year at least two years after the year of approval by the Securities and Exchange Commission ("SEC"). The proposed amendments involve aspects of the "block and tackling" work of auditing and have global considerations. Audit firms need adequate time to implement new requirements on a global basis.

Lastly, on dividing responsibility, we appreciate that the PCAOB is proposing incorporating a threshold analogous to a quantitative one that appears in staff guidance set forth in the Financial Reporting Manual of the SEC. CCMC also appreciates that, consistent with current practice, the PCAOB recognizes this would

⁹ See the Supplemental Request, page 19.

¹⁰ See the Supplemental Request, page 19.

¹¹ See the Supplemental Request, page 44.

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not be a bright-line test, but would create a presumption which could be overcome in some circumstances.¹²

While we support a proposed amendment that incorporates existing requirements, it also provides an opportunity to recognize the importance of post-implementation review to ensure that existing SEC requirements are not altered by incorporating them in PCAOB auditing standards. More generally, post-implementation review of new requirements for the supervision of other auditors would help mitigate any other unintended consequences from *de facto* standard-setting through the inspection process.

Thank you for your consideration of these comments and we stand ready to discuss them with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long horizontal flourish.

Thomas Quadman

¹² See the Supplemental Request, page 10.