



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

ANDRES GIL
DIRECTOR

1615 H STREET, NW
WASHINGTON, DC 20062-2000
(202) 463-5555
agil@uschamber.com

July 29, 2015

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: 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 (PCAOB Release No. 2016-002, April 12, 2016) (PCAOB Rulemaking Docket Matter No. 042)

Dear Ms. Brown:

The U.S. Chamber of Commerce (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 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. The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation.

The CCMC supports efforts to improve audit quality and effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“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* (the “Proposal”).

The Proposal would supersede or amend various existing PCAOB auditing standards related to the lead auditor’s supervision of other auditors who are not part of the audit firm issuing the audit report (whether other independent accounting

firms, including international network firms, or other individual accountants) and dividing responsibility for an audit with another accounting firm.

The CCMC has concerns about both the rationale for and approach of the Proposal, as well as the specifics regarding sufficiency determinations.

Discussion

Rationale

The Proposal intends to provide for a more risk-based supervisory approach and improve the integration of PCAOB auditing standards (such as those focused on risk, planning, and supervision) with the standard on supervision of audits involving other auditors. We agree that this seems a sensible updating of PCAOB auditing standards.

Another rationale for the Proposal is to incorporate into PCAOB auditing standards some “best practices” in the supervision of audits that involve other auditors, in particular by many of the larger audit firms that are part of international networks. In this regard, the Proposal intends to bring uniformity and consistency to the approaches used by all PCAOB registered firms.¹ We appreciate there may be potential benefits in doing so. Nonetheless, it raises concerns that the Proposal will impose different and greater costs on smaller audit firms, which require careful consideration by the PCAOB, including in its economic analysis.

Further, the Proposal intends to incorporate many of the concepts currently included in International Standard on Auditing (“ISA”) 600 on group audits promulgated by the International Auditing and Assurance Standards Board (“IAASB”). We applaud this thrust, as the CCMC has long advocated that the PCAOB should work with other standard setters, including the IAASB, on global convergence of auditing standards.

¹ For example, see the statement by Board Member Jay Hanson at the PCAOB open board meeting on April 12, 2016.

However, the IAASB is currently considering ways to strengthen its standards on group audits.² Thus, even with this Proposal, the PCAOB's auditing standards related to supervision of other auditors should still consider similar work being done at the IAASB level (and vice-versa), including comments that are received on IAASB's consultation.

In addition, we recognize that the PCAOB is now implementing recommendations made by a consultant. However, we understand that these changes are focused on improving the PCAOB's internal process for and workflows in developing auditing standards. Thus, we would suggest more substantial and overarching changes need to be made in order for PCAOB audit standard setting to keep pace. In this regard, the CCMC strongly recommends the PCAOB develop a path for working with other standard setters to achieve global convergence of auditing standards.

Approach

The Proposal is premised on putting the onus on the lead auditor for all aspects related to supervision of other auditors. In this regard, the CCMC questions whether the Proposal strikes the right balance. Relatedly, we strongly recommend that the PCAOB's economic analysis rigorously assess the unintended consequences of the Proposal, including whether the Proposal inappropriately undermines the responsibilities of other auditors.

The CCMC recommends that the Proposal take a more holistic approach. To illustrate, the Proposal does not appear to sufficiently appreciate the role of other auditors' quality control systems (including network-wide audit methodologies and policies, as well as integrated independence, ethics, and training compliance functions), which are also inspected by the PCAOB. The Proposal also does not address, or risk-adjust the expectations where the other auditor is a member of the lead auditor's international network. For example, it would seem that the lead auditor should be able to place some reliance on the other audit firm's quality controls for independence, particularly if they are subject to both PCAOB and internal inspection

² For example, see the IAASB Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (December 2015).

programs and comply with PCAOB quality control standards. In addition, the PCAOB has a project in process to revise the quality control standards. In turn, this raises a question about whether the Proposal should work in tandem with other PCAOB projects and, therefore, is premature at this time.

We also believe that the Proposal does not strike the right balance between the level and extent of supervision required here. A prescriptive approach may not lead to an efficient allocation of oversight. Instead, permitting an auditor to exercise professional judgment in determining the extent of supervision required would encourage greater consideration to areas and components that are more likely to contain risks of material misstatements.

Sufficiency Determination

Lastly, the CCMC is concerned about aspects of the Proposal involving sufficiency determinations, including the determination as to whether the firm can serve as lead auditor. For example, the Proposal states:

In an audit that involves other auditors or referred-to auditors, the engagement partner should determine whether the participation of his or her firm is sufficient for the firm to carry out the responsibilities of a lead auditor and to report as such on the company's financial statements. In making this determination, the engagement partner should take into account the risks of material misstatement associated with the portion of the company's financial statements for which the engagement partner's firm performs audit procedures (which includes considering the portion's materiality), in comparison with the portions for which the other auditors perform audit procedures or the portions audited by the referred-to auditors.³

This requirement would be a substantial change in practice and, as proposed, seems vague. We question whether this aspect of the Proposal is workable or practicable. The CCMC is also concerned that it will result in determinations that run afoul of requirements for audit firm licensure and practice embedded in state laws.

³ See the Proposal, page A1-14.

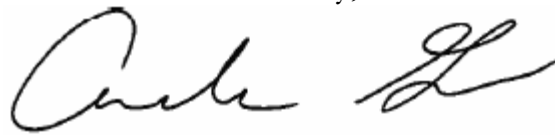
Ms. Phoebe W. Brown
July 29, 2016
Page 5

In conclusion, the CCMC appreciates the opportunity to comment on the Proposal. While we support efforts to improve audit effectiveness, we strongly urge the PCAOB to undertake a more holistic approach that incorporates the work of international standard setters and thoroughly analyzes economic costs from potentially unintended consequences.

The CCMC stands ready to assist in these efforts and would be happy to further discuss these matters.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Andres Gil". The signature is fluid and cursive, with the first name "Andres" written in a larger, more prominent script than the last name "Gil".

Andres Gil