

# RSM International

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Office of the Secretary,  
Public Company Accounting Oversight Board,  
1666 K Street, N.W.  
Washington, D.C.  
20006-2803  
USA

Dear Sir,

## **PCAOB Rulemaking Docket Matter No. 013**

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's proposed rules relating to the Oversight of Non-U.S. Public Accounting Firms.

RSM International is the world's sixth largest affiliation of independent accounting and consulting firms. Our members operate in more than 70 countries and employ over 19,000 individuals in over 500 offices. RSM International member firms provide a full range of audit and advisory services to clients domestically and internationally. A number of the non-U.S. members of RSM International are planning to register with the Board and are interested in this proposed rule.

RSM International supports the Board in its efforts to find a practical and efficient way to implement its oversight responsibilities for the audit of U.S. and foreign SEC registrant companies by non-U.S. public accounting firms. We believe that the Board's cooperative approach is a reasonable long-term solution to protecting investors, improving audit quality, ensuring effective and efficient oversight of non-U.S. firms and helping to restore public faith in the accounting profession. We encourage the Board to partner with other foreign regulators to design and adopt consistent rules across the globe, which will enhance the efficiency and consistency of compliance and simplify training and monitoring by regulators and audit firms.

We are uncertain that the Board's proposal will provide an efficient and effective short-term solution. We are concerned about the time and complexity of the work involved to establish an agreement with non-U.S. regulators and legislators. Cooperation with regulatory institutes alone may not resolve all of the legal restrictions, including access to working papers. We believe that changes may, in some cases, require legislative action. As in the U.S., legislative action can require a longer period of time. As a result, it may be necessary to develop a phased approach to the Board's implementation plan.

## **The Board's Proposed Rule on Registration (Rule 2100)**

We support the Board's proposal to extend the registration date for non-U.S. firms. However, we have limited basis to conclude that an extension to 19 July 2004 will be adequate for all non-U.S. public accounting firms that want to register with the PCAOB, particularly those firms requiring significant translation assistance.

## **The Board's Proposed Rule on Inspections for Non-U.S. Registered Firms (Rule 4001)**

### Overview of the Proposed Rule

We are supportive of the Board's proposal to place reliance, where possible and appropriate, on a non-U.S. public accounting firm's home country system. We offer the following comments for the Board's consideration in finalising this rule:

- The proposed rule requires that each non-U.S. public accounting firm that petitions the Board to place reliance on its home country system, must provide a detailed description of its home country system's laws, rules and/or other information. This information has to be provided in English to assist the Board in evaluating such system's independence and rigor.

We do not believe that this requirement is the most practical or efficient way to obtain the necessary information. We believe the proposed approach will be time consuming, redundant and costly and may result in the Board receiving inconsistent information. Additionally, it may put the non-U.S. public accounting firm in the difficult position of making judgments about the very systems they must comply with and the individuals responsible for those systems. In our opinion, the Board should invest the necessary time and resources to obtain the local country regulatory information directly from the home country regulators. This approach will allow the Board to thoroughly understand local country systems and to be in a better position to assess the quality of such systems and to work with such regulators to address any required or recommended enhancements.

Furthermore, we believe that the Board should clarify the required timing for a non-U.S. public accounting firm to submit a petition for reliance on its home country system. Additionally, the Board should provide guidance on the information required where the regulatory system in a country is changing or is expected to change soon.

- We recommend that the proposed rule and related release outline how the Board plans to fulfil its oversight role when a home country system is deemed by the Board to be inadequate and where there are legal restrictions on access to working papers. This situation is particularly relevant to SEC registrant companies with multi-national operations and who utilize local country auditors for legal, licensing, language and logistical reasons.
- In the interests of transparency and fairness, we recommend that the Rule be amended to require the Board to provide the foreign oversight system regulator and the non-U.S. public accounting firm with an explanation of a Board decision not to place any reliance on that oversight system. In addition, we recommend that the Rule provide for a right of appeal of the Board's decision.
- We recommend that the proposed rule consider the quality of a non-U.S. firm's audit methodology and related monitoring systems along with the home country regulatory system. Similar to the requirement for SEC registrant companies to have effective systems of internal control, audit firms should have robust quality assurance policies, practices and monitoring systems. In particular, we believe that the Board should encourage international networks of firms to adopt robust quality assurance policies and practices and related monitoring procedures to ensure compliance with those practices.

## Principles for determining the Independence and Rigor of a Non-U.S. System under the Proposed Rule

The proposed rule states that, in determining the degree to which the Board may rely on the non-U.S. inspection, the Board will evaluate any other information that it may obtain concerning the degree of the non-U.S. system's independence and rigor. We recommend that the Board take the following into account:

- a) In assessing the integrity of the system, we suggest that the Board specifically consider the competence and experience of individuals used as inspectors within that system.
- b) In assessing the independence of the system, we suggest that the Board reconsider its criterion that the majority of individuals with whom the system's decision-making authority resides do not hold a license or certification authorising them to engage in the business of auditing and accounting for at least the last five years. We believe that this criterion is unduly restrictive and are concerned that very few regulatory authorities would meet this criterion.

## Agreed-Upon Work Programs under the Proposed Rule

The proposed rule provides that, in jurisdictions with the highest level of independence and rigor in a home country system, 'the inspection work-program would be executed by the local inspecting body with the participation of experts designated by the Board'. We recommend that the Board clarify whether it envisages any specific cases where full reliance could be placed on the home country system. For example, after participation of PCAOB experts in the first inspection of a registered non-U.S. accounting firm, might the PCAOB participate in future inspections of the firm on a rotational basis following agreement to the scope of the work-program and agreement to full access to inspection working papers and the inspection report?

## **Section C - Board's Proposed Rule on Investigation of Non-U.S. Registered firms**

We have no comments to make on this proposed Rule.

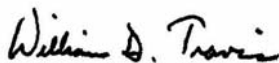
## **Cooperation by the Board with Respect to its Non-U.S. Counterparts' Auditor Oversight Responsibilities**

We welcome the Board's cooperative approach and its willingness to work with its foreign counterparts in exercising their oversight responsibilities. We believe that a cooperative approach will result in the most effective and efficient process and, as a result, will benefit investors globally by establishing consistent expectations on audit quality.

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Please contact Kevin Chowdhay (+44 (20) 7865 2321) if you would like to discuss any of these comments.

Yours faithfully,



William D. Travis

Chairman, Transnational Assurance Services Executive Committee, RSM International