Federation of European Accountants
Fédération des Experts comptables Européens

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

7 December 2011

Ref.: AUD/PRJ/HBL/LAN/SHA

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 and Form 2

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2.

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 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 and the signature of the engagement partner responsible for the audit will contribute to achieve this. The disclosure requirements should clearly state that only the names 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.
2. FEE does not believe that the proposal to disclose "*…the percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit…*" will help to improve audit quality and strongly urges the PCAOB not to go down this route.

Engagement partner's signature on the audit report – Questions 1 – 11

FEE fully supports the aim of improving transparency of audits and has expressed this view in our recent response to the PCOAB consultation on Reports on Audited Financial Statements.

In Europe, the signature of the audit partner on audit reports is required by the 2006 Statutory Audit Directive. European Member States may allow the signature not to be disclosed in exceptional circumstances, namely if the inclusion of it could lead to an imminent and significant threat to the personal security of that person.

FEE agrees that the name of the engagement partner, as proposed in questions 1-3, adds to the transparency of the audit. The perception is that the explicit signature does enhance the accountability of the signing party and therefore implicitly contributes to audit quality. The requirement to include the name of the engagement partner in the audit report is therefore from our viewpoint an appropriate approach.

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 the signature itself would be required. The signature should therefore clearly 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 is not perceived as diminishing the role of the audit firm as it is commonly understood that the engagement partner is carrying out the audit on behalf of the audit firm that is normally the party appointed by the shareholders.

The signature required in Europe is given under the provisions of the various European liability regimes for auditors and/or audit firms at national level, as also mentioned in Questions 7-11, and does not diminish the responsibility of the audit firm to establish appropriate quality control systems. The ISAs also underline this point with ISQC 1[1] establishing quality control requirements for the audit firms and ISA 220[2] setting out the quality control requirements for the engagement partner at the engagement level. In addition, ISA 700[3] requires the auditor or the audit firm, depending on national laws, to sign the audit report. Inclusion of the signature is therefore the most appropriate way to increase transparency in this regard.

The proposal in Questions 4-5 to make the signing auditor responsible for only the current year's audit contradicts the financial reporting requirements as, at least under IFRS, the financial reporting framework requires disclosures of comparative information. The scope of the audit requirement is normally "*the financial statements as a whole*", and thus includes any comparative information required by the financial reporting framework. Whether or not the engagement partner was the same for the previous year should not matter as the signing auditor should be responsible for the full financial statements. Not including such statements about who is responsible for subsections and who is not responsible would avoid inclusion of boilerplate information in an already lengthy audit report as well as avoiding giving the impression that the signing auditor is not responsible for the whole audit. Additional information about the audit team can be given outside the audit report, if found relevant.

<u>Disclosures on percentage of hours by other participants in the audit – Questions 26-30</u>

FEE does not believe that the proposal in Questions 26-30 to disclose "*…the percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit…*" will help to improve audit quality and strongly urges the PCAOB not to go down this route. Although percentages in general are a comparable measure, the criteria for calculating such a percentage will be difficult to define and therefore the information will not always be comparable.

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[1] ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
[2] ISA 220 Quality Control for an Audit of Financial Statements
[3] ISA 700 Forming an Opinion and Reporting on Financial Statements

Even within the same industry sector, the number of hours spent by "*other participants in the audit*" will differ from audit engagement to audit engagement and will depend on:

- Whether or not the audit firm has members in the engagement team that have additional competences in specialised areas;
- The structure of the engagement teams;
- The business model of the audited entity and its complexity; and
- The location and number of subsidiaries of the audited entity.

Therefore, FEE cannot see how such a disclosure can be of value to the users as it will not be possible to design the criteria for the calculation of the percentages.

Disclosure when Assuming Responsibility – Questions 16 - 25

PCAOB proposes to disclose "*Other Participants in the Audit and Referred-to Accounting Firms*". The proposal[4] is to disclose *"… other independent public accounting firms and other persons not employed by the auditor that took part in the most recent period's audit* (emphasis added)*",* as referred to in Question 16.

If this requirement is only to apply in an environment where divided responsibility between two or more auditors is possible, the proposal should be fully aligned with the proposal for the engagement partner to sign the audit report as discussed above.

The European requirements explicitly require sole responsibility of the group auditor of consolidated financial statements. 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). Only names of those that have responsibility for the audit should be disclosed through the signature in the audit report in order not to give the perception of a dilution of responsibility. Such an approach with signatures of more than one auditor on the same audit report is seen in practice, where more than one auditor is appointed to perform the audit jointly under the requirement of sole (and therefore joint) responsibility.

For multinational audits, disclosures of those that took part in the audit, but are not employed by the audit firm, could amount to hundreds of names even if "*experts*" need not be disclosed. Such disclosure would in our view be clearly counterproductive to the aim of improving transparency of audits and is likely to blur the key messages that the audit report is to convey to its users.

FEE agrees with the proposal not to include names of experts in the audit report, as referred to in Question 19. Such disclosure will undermine and contradict the sole responsibility of the engagement partner that signs the audit report on behalf of the audit firm. Each audit engagement will vary and require a different mix of skills and expertise, on matters such as taxation, pensions, investment and asset valuations, etc. The composition of the engagement team needs therefore to

[4] As per PCAOB proposal in Appendix C, AU sec. 508 Reports on Audited Financial Statements, paragraph. 11

be a key judgment for the engagement partner, but should not be explicitly mentioned in the audit report.

With reference to Question 21, we do not believe that the disclosure in the audit report of the number of subsidiaries the auditor is responsible for would add any value to transparency. This is dependent on the structure and geographical reach of the group and under the concept of sole responsibility the group auditor is responsible for the audit of the entire consolidated financial statements.

For further information on this FEE[5] letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,

Philip Johnson
President

[5] 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 of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.
FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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