

August 20, 2015

Mr. Martin F. Baumann
Chief Auditor and Director of
Professional Standards
Public Company Accounting Oversight Board
c/o Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803
USA

By e-mail: comments@pcaob.org

Dear Mr. Baumann,

**Re.: PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No. 2015- 004, June 30, 2015
Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form**

The IDW would like to thank you for the opportunity to comment on the above mentioned Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form, released June 30, 2015 (hereinafter referred to as the “supplemental request”).

We provided comments on the previous Release under this docket number in a letter dated March 17, 2014, and now refer to certain aspects of that letter in the context of our comments concerning the supplemental request, where appropriate.

For the reasons explained in our previous letter, the IDW has elected not to comment on the proposed disclosure of the name of the engagement partner. We do, however, have certain concerns as to some of the other matters addressed in the supplemental request. We again stress that these concerns relate solely to the situation where the (principal) auditor assumes responsibility for the entire audit or for a specific part of the audit, and uses the work of others in so doing.

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In this letter we have chosen not to respond to individual questions raised, but to comment instead on those areas with which we have concerns.

Disclosure of the Names of Other Audit Firms – Alternative Proposals

In the U.S. three possibilities are currently under discussion in regard to the disclosure of other participants in the audit. In addition to the PCAOB's current debate as to whether audit firms might be required to submit certain information to the PCAOB using a new form, the supplemental request indicates that the PCAOB continues to consider that firms might also choose to include information in the auditor's report.

On July 1, 2015 the SEC introduced a third possibility in issuing a Release on Possible Revisions to Audit Committee Disclosures¹. Amongst other things, the SEC Release builds upon the fact that PCAOB Standards already require the auditor provide certain information to the audit committee and discusses whether the Commission should require audit committees to make additional disclosures pertaining to other firms involved in the audit. Indeed, this SEC Release acknowledges that some commenters on the PCAOB's earlier proposals suggested it may be more appropriate for any requirement for such proposed disclosures to be considered by the Commission rather than the PCAOB. However, the PCAOB's supplemental request indicates no willingness to explore whether it might be more appropriate for the auditor to provide this information to the audit committee and for that body to report publically in the context of their oversight responsibilities for the audit and the appointment of the auditor as an alternative to its own proposals. In our view, and given our previous comments on this issue, such exploration would be appropriate.

As we have previously stated, we believe that, in view of their access to comprehensive information pertaining to the audit, it is the members of the audit committee who are better placed to benefit from the detailed information concerning other participants in the audit proposed in the 2013 Release. Such information would directly assist audit committees in making an informed

¹ Specifically in question 48 of its release the SEC asks: "For example, should the names of the other independent public accounting firms and other persons involved in the audit be disclosed? Should the extent of involvement by these other participants be disclosed? Why or why not?" and question 49: "Should the names of other participants be included in the required disclosure instead of in the auditor's report? Should the names be disclosed elsewhere? If so, why? Would investors benefit from having all the information located in the audit committee report?"

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decision in their auditor selection procedures and in their oversight of the audit. In contrast, the public would lack the essential contextual information for such disclosure to be of true value, and making such disclosure publically available without the context could even have drawbacks as discussed in the next section of this letter.

For this reason, we suggest that public reporting by the audit committee on the audit with details on aspects such as other participants in the audit would be a preferable alternative to the PCAOB's proposals. The audit committee could provide an appropriate and sufficient level of contextual detail in justifying the selection of the auditor and in explaining its own oversight of the audit. This would inform the public as to audit participants in an appropriate context and also increase the public's trust in the role of the audit committee for appropriate auditor selection at the same time. We recognize that this would require SEC, rather than PCAOB, rulemaking.

Disclosure of the Names of Other Audit Firms – Implications for the Audit Market

We appreciate that investors have an interest in learning which firms have played a significant role in the audit via a medium other than the auditor's report. However, we remain of the opinion that requiring the auditor to provide detailed information about participants in the audit along the lines – and, more specifically, to the degree of detail – originally proposed and for that information to be made publicly available by the PCAOB is not the most appropriate solution.

To the extent the proposals may have originally been designed to address the situation the PCAOB encountered vis a vis access to enable inspection of non-U.S. audit firms, we had also previously stated that we considered the proposals as having detrimental effects on the audit market beyond the U.S.; effects that may actually decrease audit quality.

As our previous letter explained, requiring the auditor to provide detailed disclosure as to other audit firms (i.e. using a threshold well below the Board's "significant role" definition) may result in unjustified investor pressure to use well-known firms, rather than firms with the greatest expertise in a certain market. To the extent that such pressure were to be based on lack of information – because such disclosure cannot be accurately evaluated without knowledge of the appropriate context – or prejudices, it would potentially have an inappropriate impact on the audit markets within and outside of the U.S. that may be detrimental to audit quality.

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We fear that such impact would likely be particularly detrimental to less well-known and smaller and medium-sized audit practices and firms (SMPs) within and especially beyond the U.S. – firms that deliver high quality audits. We refer to the detailed comments submitted in our previous letter in this context.

Disclosure of Nonaccounting Firm Participants

As previously stated we are not convinced as to the usefulness of the proposed disclosures. We again suggest the Board consider a risk-based approach aimed at ensuring the principal auditor's involvement in the audit is appropriate overall, as we believe that such an approach would be more beneficial to investors in terms of the impact on investors' perceptions of audit quality. In those cases where significant audit work is undertaken by nonaccounting firm participants, we believe that the audit committee would be an appropriate party to evaluate and, where appropriate, report on this aspect of the audit.

If you have any further questions about our comments, we would be pleased to discuss our comments with you.

Yours very truly,

Klaus-Peter Feld
Executive Director

Gillian Waldbauer
Head of International Affairs