

## Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Proposals issued for comment by the Public Company Accounting Oversight Board (PCAOB Rulemaking Docket Matter No. 029)

Comments from ACCA  
3 February 2014

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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ACCA welcomes the opportunity to comment on the *Proposed Amendments to PCAOB Auditing Standards to Provide Disclosures in the Auditor's Report of Certain Participants in the Audit* (PCAOB Rulemaking Docket Matter No. 029).

Members of the ACCA Global Forum for Audit and Assurance<sup>1</sup> have considered the matters raised in the proposals and their views are represented in the following.

Our comments draw upon our world-wide membership, which includes significant numbers of members working in all aspects of the financial reporting supply chain in a wide range of industries, the public sector and public practice.

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## GENERAL COMMENTS

Audit has a very important place in society. It provides public value through increasing confidence in financial reporting. For global capital markets this facilitates the efficient allocation and use of capital. The report of the auditor is the most visible output of the audit process.

Over the last five years, ACCA has participated in research and outreach events that have consistently confirmed the appetite of investors for additional disclosures from auditors.

We welcome, therefore, the initiative of the PCAOB to improve the auditor's report in terms of its usefulness and relevance to shareholders and investors. These repropoed amendments to PCAOB standards should be considered in the context of current wider efforts, not least of the PCAOB itself, to improve audit transparency and enhance the decision making of investors.

There is a tension between increasing the information in the auditor's report and the length of that report: the longer a report becomes, the greater is the likelihood that it contains information that is not significant for users.

It is the responsibility of the standard setter (if not laid down in legislation) to interpret the needs of a theoretical construct – the intended users of the auditor's report – and to set appropriate standards to meet a further theoretical construct – the reasonable needs – of the intended users. This judgement of the standard setter must also be informed by the societal value of meeting those needs and the estimated cost of doing so. This balancing of value against cost is not just in dollar terms; it must encompass all the wider factors relevant to financial reporting and the operation of capital markets.

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<sup>1</sup> <http://www.accaglobal.com/en/research-insights/global-forums/audit-assurance.html>

The reasonable needs of the intended users of the auditor's report will change over time because the actual needs of actual users will change; making it necessary to re-evaluate the (operationalised) theoretical construct. Indeed the actual users may also change, making it necessary to reevaluate that theoretical construct– the intended users of the auditor's report. The responsibility of the standard setter is to monitor factors relevant to determining the theoretical constructs that underpin the standard setting process and to adjust those constructs and the resulting standards as necessary.

ACCA believes that the events of recent years constitute a significant shift in actual needs of actual users. These are challenging times for standard setters and it must be recognised that, however much effort and expertise is employed, however much research is carried out and assessed, however much consultation and education is done, the standards produced may not always meet all the information needs of all stakeholders. And if this is the case today, it may be even more so tomorrow, because circumstances change faster than necessary due process can accommodate.

ACCA strongly supports the use of standards that are global and that are principles-based. The reasons for this that are relevant to the current consultation are set out below.

Concerning global standards – for significant capital markets the intended users of the auditor's report and their reasonable needs should be determined on a global basis. The current degree of globalisation of capital markets and the speed of communication have rendered other approaches obsolete.

Concerning principles-based standards – their flexibility ensures that, to some extent, the same standard can remain relevant as circumstances change. A standard full of bright line rules has a much shorter shelf life.

As we said in our recent response to Rulemaking Docket 034: *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, 'recognising that the IAASB standards have to be written so that they may be applied in many jurisdictions and that the PCAOB standards reflect the requirements of the U.S. federal securities laws and rules, we nevertheless continue to recommend that the PCAOB develops standards with a view towards long-term convergence with those of the IAASB.'

In order to avoid differences being introduced when both PCAOB and the IAASB are proposing changes to auditor reporting standards, we support the inclusion in the PCAOB standards of a requirement to identify the engagement partner but we opposed disclosure of other participants in the audit.

Many of the other arguments, for or against the conclusions we reach, are well presented in the consultation document and the PCAOB is well aware of them and indeed the differences in view between, for example auditors and investors. We see little point in revisiting those arguments here.

We caution instead that recent work on audit quality has highlighted its many-faceted nature and the current fragmentation of our knowledge of the drivers of quality and their potential relevance to, for example intended users of the auditor's report (if there were to be associated transparency). The last few years have yielded an impressive number of relevant research papers.

We do not believe that at this time investors have developed their own thinking sufficiently to determine their needs for transparency of the auditor, the particular audit and the financial and non-financial reporting (seen through the auditor's lens). Standard setters should not endeavour to solve problems too precisely when the subject matter is relatively undeveloped. A debate about whether a threshold for disclosure is 3 per cent or 5 per cent is much less important than achieving a workable and globally consistent consensus.

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## SPECIFIC COMMENT

Section VII of the Release sets out 25 questions for commenters. In view of our general comments and the fact that some of the questions are best answered by other stakeholders we only answer question 1.

**Question 1 Would the repropoed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information?**

For the reasons set out in our general comments we believe that disclosure of the engagement partner's identity would be useful but information about other participants would not.

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