

RSM International

20 January 2004

RSM International
186 City Road, London EC1V 2NU, England
T: +44 (0)20 7865 2492 F: +44 (0)20 7865 2404
www.rsmi.com

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. 012

RSM International appreciates the opportunity to comment on the Public Company Accounting Oversight Board's proposed Auditing Standard, *Audit Documentation*, and proposed amendment to the interim auditing standard *Part Of Audit Performed By Other Independent Auditors*.

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.

RSM International supports the PCAOB in its efforts to enhance the quality of financial reporting, corporate governance and auditing to restore public trust in the capital markets. We believe that some enhancements may be addressed immediately. However, other enhancements will require short-term solutions while further research and thought is pursued to develop workable long-term solutions.

We support a long-term solution that improves the quality of audit engagements for multi-national SEC registrants by imbedding quality, objectivity and competence into the audit process utilized by international audit firms, or networks of audit firms. To us, this means ensuring that these organizations (i) consistently maintain the appropriate tone at the top, (ii) are staffed with highly competent professionals who are supported by comprehensive audit tools and training programs, (iii) maintain robust audit and independence policies and practices that are current with professional standards and changing times, and (iv) maintain a comprehensive monitoring system to ensure compliance with professional standards and organization quality assurance policies and practices.

1

This approach could mitigate, but not totally eliminate, the need for redundant reviews, duplicate workpaper copies and multi-lingual auditors. We also believe this approach is in line with the PCAOB's planned inspection program for all auditors of SEC registrants. However, we recognize that the implementation of this recommendation will require the efforts and cooperation of professionals, registrants and regulators across many borders. Unfortunately, this may be difficult to achieve unless we all focus on the needs of the public investor and work together to craft reasonable solutions.

We admit we are challenged to provide reasonable short-term solutions, which adequately consider the realities of differences in culture, language and laws and the costs and complexities of global logistics. To that end, we encourage the PCAOB to consider utilizing a series of steps that enhance audit quality for multi-national SEC registrants instead of requiring a major shift that is not realistically achievable over night.

We offer the following comments for your consideration in finalizing these two auditing standards. The comments relate primarily to those aspects that affect auditors outside the United States of America.

Detailed comments on the proposed new Auditing Standard, *Audit Documentation* Paragraph 16 and the proposed amendment to paragraph 12 of AU 543

When portions of the audit work is performed by a firm other than the principal auditor (such as affiliated firms or other independent auditors), paragraph 16 requires the principal auditor issuing the audit report to retain the original audit documentation or copies of such documentation for the work performed by other auditors. The proposed amendment to paragraph 12 of AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, goes on to state that, when the principal auditor decides not to make reference to the work of the other auditor, the principal auditor should:

- Review the audit documentation of the other auditor to the same extent and in the same manner as the audit work of all those who participated in the engagement is reviewed, and
- Incorporate sufficient audit documentation of the work performed by the other auditor so as to meet all the requirements of the proposed Audit Documentation Standard, as if the principal auditor had performed the work himself or herself.

Where the principal auditor does not intend to refer to the work of other auditors in the audit report for a multi-national SEC registrant, we believe that it will be very difficult in the short-term for the principal auditor to comply with the proposed review and document retention requirements. Our experience is that there are numerous practical and legal obstacles to compliance with these requirements which have not yet been resolved at the local country level. Some of these obstacles are briefly summarized below, followed by our suggestions on how they can be addressed.

- **Legal regulations in many countries that restrict access to audit working papers** - We understand that auditors in many European and Asian countries are prohibited from sending their original audit documentation, or even copies, to a principal auditor in the USA.
- **Language barriers on international engagements** - In the short term, it may be difficult for the principal auditor to locate persons with the requisite foreign language capabilities and auditing expertise to review audit documentation prepared by other auditors to the extent required by the proposed standard and amendment. We also believe that it will not be possible or beneficial to require auditors in other countries to prepare their working papers in the language of the principal auditor. This is primarily because of the legal requirement in certain countries to document audit work in the local language. Additionally, documenting audit work in a second or third language for some auditors could reduce the quality of the audit documentation in some circumstances.
- **The cost and logistical difficulties involved in the principal auditor reviewing and retaining all the audit documentation on a multi-location audit** – This is probably not a significant concern where improving audit quality is concerned, but we believe it will be costly and logistically difficult in terms of time and travel costs for the principal auditor to review all the work done by the other auditors given the global reach of certain SEC registrants. It would also be costly to acquire and retain all of the documentation from other auditors. These problems can and should be addressed in the interests of audit quality, but will create an immediate problem if the current implementation date is retained.
- **The cost and logistical difficulties involved in the principal office having to retain either the original or copies of the audit documentation produced at all locations** - On an international or large multi-locational engagement, it would be logistically challenging and

costly to house all of the audit documentation in one central location and to store such large volumes of paperwork for a minimum of 7 years.

In order to address these obstacles, the PCAOB should consider issuing application guidance on the proposed standard and amendment. This guidance could consider the following proposals for each of the problems highlighted above:

- **Legal regulations** - We suggest the PCAOB issue recommendations on alternative types of arrangements that could be entered into between the principal and component auditors to minimize the legal restrictions relating to audit documentation. For example, it may be possible for the principal auditor to enter into an arrangement whereby the component auditor performs specified procedures on behalf of the principal auditor and then issues a summary report on their findings, together with copies of the working papers. This would not be a statutory audit engagement and some of the legal restrictions may be avoided. However, the principal auditor may need to perform additional audit procedures.
- **Language barriers** - We recommend that the PCAOB consider both a short-term and long-term solution to this problem. For the short-term, in situations where the principal auditor does not have the requisite language skills, we recommend that the principal auditor perform a robust dialog with the other auditor (i) during engagement planning about the subsidiary's business, risk matters, controls, culture, accounting policies, and about the audit plan, and (ii) during finalisation about findings, including unusual or unexpected items and their resolution, passed adjustments, etc. The primary auditor should document these matters and, if available, obtain copies of the other auditor's work.

For the long-term, we recommend that the PCAOB require the principal audit firm to employ the necessary language skills and to adopt and implement global quality assurance policies and practices.

- **Cost and logistical difficulties**- We believe further clarification would be useful on the extent of the review required by the principal auditor and which documents need to be retained by the principal auditor. In our view (i) the level of review to be performed on the work of other auditors should be based upon the judgment of the principal auditor after thoroughly considering the facts and circumstances, (ii) the documentation required to support the work of other auditors

would include copies of the planning, workpapers relating to material risk areas and workpapers relating to the finalisation of the audit, and (iii) there is no need for all of the workpapers of an audit engagement served by multiple offices of a single audit firm to be stored in a single location.

Alternative Proposals

We recommend that the PCAOB retain the existing principles of AU 543 with regard to assessing the independence, objectivity and professional competence of other auditors. We also suggest that these requirements be expanded to require the principal auditor to understand the system of quality control in place at the other auditor's firm, whether this system is subject to internal and external inspection, the results of those inspections and remedial actions taken. The principal auditor should then determine the extent of any reliance on the work of the other auditor and determine the level of review that should be performed on their work. This judgement process and information should be clearly documented in the principal auditor's working papers.

We also believe that the additional procedures set out in paragraph 12 of AU 543 could be enhanced to require:

- Greater involvement by the principal auditor in the planning process, the assessment of risks and the extent of audit procedures to be performed,
- More detailed reporting from the other auditor to the principal auditor, particularly with regard to areas of risk and how these were addressed during the audit.

We believe that these amendments, taken together with the existing requirements of AU 543, will help ensure the quality of audit work done by other auditors.

Paragraph 18

The proposed implementation date for the new statement is all engagements completed on or after June 15, 2004.

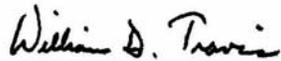
RSM International

RSM International
186 City Road, London EC1V 2NU, England
T: +44 (0)20 7865 2492 F: +44 (0)20 7865 2404
www.rsmi.com

If it is decided to retain the requirements of paragraph 16 in the proposed audit standard *Audit Documentation* and the requirements of the proposed amendment to AU 543, we recommend that the PCAOB reconsider the implementation date for these sections. We believe that until there is access to working papers in all countries outside the US, it will not be possible for a principal auditor to comply with the proposed requirements.

Please contact Tessa Rowland (+44 (20) 7865 2883) if you would like to discuss any of these comments.

Yours faithfully,



William D. Travis

Chairman, Transnational Assurance Services Executive Committee

RSM International