

March 17, 2014

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](mailto:comments@pcaob.org)

Dear Mr. Baumann,

**Re.: PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No.  
2013- 009, December 4, 2013  
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**

The IDW would like to thank you for the opportunity to comment on the above mentioned Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit, released December 4, 2013 (hereinafter collectively referred to as the "reproposals").

It has long been a legal requirement in Germany for auditors to sign the auditor's report in their individual names in addition to disclosing the name of the audit firm. This is also currently a requirement for all statutory audits in the European Union, following the transposition of the Statutory Audit Directive into national law. The IDW does not possess sufficient expertise as to the legal situation and liability regime prevalent in the U.S. to enable us to make informed comments on this aspect of the reproposals and their application in the U.S. We therefore do not comment on the proposed disclosure of the name of the engagement partner in this letter. We would, however, like to express our concerns as to certain other matters addressed in the reproposals.

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page 2/6 to the comment letter to the PCAOB dated 17 March 2014

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. We would like to stress that our concerns do **not** relate to the disclosure of the name and location of other auditors when under PCAOB Standards there is a division of responsibility through the auditor's reference to the work of other auditors. **Our concerns relate solely to the application of the proposed requirements in those situations in which the principal auditor assumes responsibility for the entire audit or for a specific part of the audit and uses the work of other auditors in so doing, but therefore by definition does not refer to the work of those other auditors.**

We are aware that the PCAOB has experienced considerable practical problems in regard to its mandate to inspect non-U.S. audit firms, and that the idea that other auditors might be named and their locations disclosed in the auditor's report may have originated, in part, from this situation and the PCAOB's desire to ensure that all auditors who play a significant role in the audit of SEC issuers are subject to appropriate oversight. Hence, the PCAOB initiative may in part be intended to facilitate some change in the audit market and oversight practices in particular jurisdictions. The question arises whether naming other auditors when the principle auditor has taken full responsibility for the entire audit is an appropriate response to these issues.

#### ***Alignment with Standards Promulgated by the IAASB***

As the PCAOB is aware, the ISAs promulgated by the IAASB neither require disclosure in the auditor's report of the names, locations and extent of participation of other public accounting firms and locations and extent of participation of other persons not employed by the auditor who performed procedures on the audit, nor is such disclosure currently proposed. These issues were debated in some depth during relevant consideration of revisions to particular standards during the IAASB's so-called "Clarity Project". The IAASB reaffirmed its previous stance that the potential for inclusion of such information to detract from a proper understanding of the auditor's sole responsibility for the audit outweighed any benefit to users of such disclosure; a conclusion we believe remains valid.

page 3/6 to the comment letter to the PCAOB dated 17 March 2014

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

We do not believe the disclosure in the auditor's report of the names of other independent public accounting firms who participated in the audit – in the manner proposed – will enhance audit quality, nor that the benefit to investors would outweigh the various potentially detrimental consequences, which we discuss below.

Our concerns are twofold. Firstly, disclosure of names of other firms could have an adverse impact on perceptions of the principal auditor's responsibilities. Secondly, such disclosure could constitute interference in the audit market in specific locations, which might be particularly detrimental to less well-known and smaller and medium-sized practices and firms (SMPs), even when they perform their audit work up to standard. We discuss each of these aspects below:

Given that, other than when a division of responsibility exists, when reference is made to other firms in the auditor's report one auditor assumes full responsibility for the audit of a particular issuer, investors ultimately need to have sufficient confidence in the proper conduct of the entire audit by that auditor; the principal auditor. The PCAOB's Auditing Standards establish what "proper conduct" for the principal auditor shall encompass. The PCAOB inspections mandate serves to ensure that the independent public accounting firms that audit the financial statements of an issuer or otherwise play a substantial role in such an audit comply with these Standards. Any perceptions that the principal auditor's responsibility may be less than clear cut could introduce unease within both the market for audit services and the capital market, as it would blur the distinction between the division of responsibility and sole responsibility.

In our view, disclosure of the names of certain other firms will not help issuers in assessing the quality of the audit in the way which they may need to, i.e., such disclosure cannot answer questions as to whether a proper audit as a whole was performed. Nor do we believe that merely naming other participating firms will drive a change in behaviour in the manner anticipated on page 20 of the Release: "Transparency could discourage practices that would not withstand scrutiny to go unchallenged, at least until they are discovered by regulators". Clearly transparency cannot be an acceptable substitute for oversight; nor, in our view, should it be directed towards forcing behaviour in particular jurisdictions. Far more effective action will be needed to address significant problems remaining unresolved in respect to specific jurisdictions.

page 4/6 to the comment letter to the PCAOB dated 17 March 2014

At best – when the name of the other independent public accounting firm is known to investors and the firm enjoys a good reputation – the proposed disclosure may lend some confidence to investors in regard to the audit. However, at worst – when a firm is unknown and investors are uninformed as to that firm – it could undermine confidence in the entire audit and ultimately impact the audit market in the specific location, even when such lack of confidence is unjustified. As a result, investor pressure could lead to substitutions of firms that are unwarranted. Indeed, the Release itself points out that similar behaviour has already been observed in a study based on Form 2 disclosures. We believe the repropoals would likely exacerbate this scenario, and would be particularly detrimental to SMPs that perform audits up to standard.

In conclusion: we believe that requiring the principal auditor perform the audit to a suitably high standard, which would include an appropriate level of involvement on the part of the principal auditor in audit work performed by other firms, would be a far more effective way protecting investors' interests than simply naming other firms, their respective locations and participation levels.

***Proposed Threshold for Disclosure as to Other Participants in the Audit***

Although we certainly appreciate the need to address situations such as those described on pages 19 and 20 of the Release, where the auditor signing the report performed little or none of the audit directly, these are extreme cases, which certainly do not appear to warrant the significantly lower threshold for naming other audit firms currently proposed. For these reasons, the proposed threshold for disclosure of other participants in the audit at 5 % of total audit hours is not appropriate. Audit hours, in any case, are not likely to be the most suitable criterion for gauging the significance of participation, since routine detailed work performed at a junior level is likely far more time intensive than e.g., high-level considerations by the engagement partner. We would also question the usefulness of disclosure at the level of detail proposed (e.g., proposed paragraphs 14C et seq. of AU sec. 508 "Reports on Audited Financial Statements"). In our opinion, the proposed disclosure does not appropriately reflect the relative significance of participation in the audit, and is unlikely to serve investors' needs adequately.

Although we do not see merit in introducing the disclosure thresholds proposed in respect of either other firms or other persons participating in the audit, we do, however, appreciate that investors may be interested in having easier access to information about those firms that played a substantial role in an individual audit.

page 5/6 to the comment letter to the PCAOB dated 17 March 2014

Notwithstanding our concerns as to the impact of naming other firms in the auditor's report explained above, we accept that information about firms that play a significant role in the audit of an issuer may indeed be of interest to many investors. These firms are already required to be registered with the PCAOB and are subject to PCAOB oversight. The definition of substantial role also takes the significance of the firm's role to the entire audit into account; whereas audit hours do not. This information is, however, already publically available on Form 2 that each PCAOB-registered firm is required to submit annually. It is not currently straightforward for investors to see which firm plays a substantial role for any given issuer. In our opinion, disclosure of this information could be useful, but, as mentioned above, a medium other than the auditor's report would be more appropriate.

#### ***Change of Proposals in Respect of Expertise, Affiliates and Offshoring***

We note that in its 2012 Release the Board did not originally propose disclosure of persons engaged by the auditor with specialized skills or knowledge in a particular field other than accounting or auditing. The reproposals now include disclosure of the fact of such involvement, its location and the extent of participation, but without identification of the specialist by name or any indication of the area of expertise. We are not convinced as to the usefulness of this information, and do not believe the focus on location is likely to be helpful. In our opinion, a risk-based approach aimed at ensuring the principal auditor's involvement in the audit is appropriate, and in total would be more beneficial to investors in terms of its impact on audit quality.

#### ***Role of the Audit Committee***

Issues associated with the involvement of other firms in each individual audit may not be clear-cut. Accordingly, those charged with governance may well need more detailed information than the name, location and percentage of hours worked to make rational decisions related to the suitability of other participating firms, and by deduction of the principal auditor.

We note that PCAOB AS No.16 paragraphs 10(d) and (e) already ensure a high degree of transparency in the auditor's communications between the (principal) auditor and the audit committee concerning audit participation. In particular, this enables members of the audit committee to make an informed decision in their auditor selection procedures. In our opinion, the audit committee is the most appropriate body to benefit from this level of detail, because the audit committee is also in a position to ask the principal auditor for further information, clarify any

page 6/6 to the comment letter to the PCAOB dated 17 March 2014

potential misunderstandings and, where appropriate, address any difficulties or allay any concerns etc. In contrast, investors and the general public will not generally be able to engage in two-way communication. Thus, as we have discussed above, investor pressure to the extent that is based on uninformed assumptions or prejudices could potentially have an unwarranted impact on the audit markets within and outside of the U.S.

We hope that our views will be helpful to the PCAOB. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours very truly,

Klaus-Peter Feld  
Executive Director

Gillian Waldbauer  
Technical Manager