



4 March 2008

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

By email

Dear Sir

PCAOB Release No 2007- 011 Proposed Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the proposed Policy Statement: Guidance Regarding Implementation of PCAOB Rule 4012 published by the PCAOB in December 2007.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

We are wholly supportive of the PCAOB's desire to move towards full reliance on foreign audit oversight entities. Cost-effective co-operation with such entities is in the interests of US and non-US investors, the companies listed on the US market and their auditors, the PCAOB itself and the foreign audit oversight entities on which it seeks to place reliance. We therefore welcome the opportunity to comment on the proposals with a view to ensuring that the proposals stand the best possible chance of achieving the shared objectives of the PCAOB and foreign audit oversight entities.

Our comments have been prepared with the help of our many members working around the world who have detailed knowledge and practical experience of US, EC and other regulatory regimes. We set out our main comments, comments on the principles and criteria and answers to the PCAOB's specific questions below.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely



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Main Comments

1. Full reliance

We acknowledge the PCAOB's definition of full reliance and are cognisant of the need for the PCAOB, in the interests of protecting US investors, to retain the right to observe portions of the field work of the oversight entity. However, we believe that the PCAOB risks over-caution in this area. Observation is described as involving accompanying the non-US inspection team to the audit firm for interviews with key firm personnel and permitting PCAOB inspectors to review audit firms' working papers, after the joint inspection process has been completed. This implies more significant involvement by PCAOB staff than full reliance warrants. ***The PCAOB should consider clarifying the fact that only in exceptional circumstances would it seek to accompany the non-US inspection team to the audit firm or inspect audit working papers.***

2. Principles and essential criteria

The PCAOB has made it clear that it is not seeking replication of the US regulatory model as a condition for full reliance. Nevertheless, the detailed nature of the 'essential criteria for full reliance' set out under the five principles betray a seeming lack of confidence in any systems that do not very closely resemble the US system. In particular, the apparent equal ranking of all of the stated criteria as 'essential;' seems unnecessarily prescriptive and burdensome: there are 11 essential criteria under principle 1. The PCAOB will need to consider very carefully whether the *principles*, rather than the essential criteria, have been met by foreign audit oversight entities. The certainty provided by compliance with so many essential criteria might be spurious and recognition of the fact that there is a need to balance weaknesses and compensating strengths in foreign audit oversight entities is likely to better serve the interests of US investors. ***We urge the PCAOB to view its criteria as indicative of what is required to achieve the principles, rather than essential as this would serve the interests of US investors by taking into account that the principles can be met in different ways. Alternatively, the PCAOB should consider categorising or weighting its criteria or order to enable foreign audit oversight entities to see more clearly those aspects of their regimes that are of particular importance to the PCAOB. The PCAOB should also make it clearer that its decisions regarding full reliance may take account of matters other than those set out in the criteria if they are relevant to the principles.***

3. Significant subsidiaries of US issuers

We read the proposed Policy Statement as applying to auditors of US issuers rather than their significant subsidiaries, despite the fact that their auditors are also required to register with the PCAOB. It would be helpful if the PCAOB made it clearer that full reliance should also be placed on the work of foreign audit oversight entities in relation to the auditors of significant subsidiaries of US issuers, where appropriate.

4. Public inspection reports

We welcome the fact that public inspection reports on individual firms issued by foreign audit oversight entities:

- will not be published under a full reliance approach;
- need not follow the format of reports issued by the PCAOB or separately identify issues relating to US issuers; and
- dealing with uncorrected deficiencies in a firm's quality control systems will obviate the need for the PCAOB to publish such deficiencies.

5. Reciprocity and data protection issues

Reciprocity issues in the form of information that the PCAOB may share with other regulators are relevant to full reliance. Data protection issues concerning reviews of audit firms' working papers have implications for EU requirements relating to the transfer of audit working papers. The statement in footnote 13 to the effect that data protection issues will be taken on a bi-lateral basis understates the potential extent of this issue. These matters need to be considered carefully before the finalisation of this Policy Statement and it is important that the clear distinction is maintained between the inspection of an audit firm by a foreign audit oversight entity and reliance on the work of the foreign oversight entity.

Comments on Principles and Criteria

Principle 1: Adequacy and integrity of non-US system

Essential Criteria Nos. 5 and 6: Expertise in US law, regulations and standards

The requirement for inspections staff to have 'sufficient expertise in US law, regulations and standards' implies a different standard to that likely to be required. We therefore suggest that the requirement be for staff to have 'adequate knowledge and experience of US law, regulations and standards in order to perform inspections of audits of relevant US issuers.'

Principle 2: Independence of non-US system

Essential Criteria No. 1: Composition of governing body

Whilst a non-practitioner majority on the governing body of the oversight system is a key element of many oversight systems, the prohibition on *former* accountants or auditors seems an unnecessary restriction (and might deprive smaller foreign audit oversight bodies of valuable expertise), especially if a 'cooling off' period, of, say, three years, were mandated. Many of those with highly relevant expertise from business may have trained as accountants or auditors decades before in their careers but, never, post-qualification, engaged in public practice. We believe that it would be appropriate for former accountants or auditors to bring their experience to governing bodies; furthermore, there is little consistency between this criteria and essential criteria 2 under principle 1 which requires the body to be populated with persons knowledgeable in accounting and auditing.

Essential Criteria No. 5: Prohibitions against conflicts of interest

This criterion is vague. Conflicts of interest are context -specific. The effective management of conflicts of interest is usually based on overarching principles underpinned by threats and safeguards, some of which may be absolute prohibitions. This is an example of an area in which, as noted above, the PCAOB could take decisions regarding full reliance based on matters other than those set out in the essential criteria if they are relevant to the principles.

Answers to Specific Questions

1. If a non-U.S. auditor oversight entity meets the essential criteria set forth in the proposed Policy Statement, are there reasons why the Board should not increase its level of reliance on inspections conducted by such an independent non-U.S. oversight entity?

No. However, the benefits of full reliance will be only achieved if there is reciprocal reliance by oversight bodies in different jurisdictions, including the EU.

What are the benefits and costs of full reliance?

The principal benefits are regulatory efficiencies and cost savings. All regulatory costs are ultimately borne by US investors. The costs of full reliance are the costs of working with foreign audit oversight entities but the benefits outweigh those costs.

2. Are the essential criteria set forth in section III.C. of the Policy Statement appropriate? Are there additional factors that should be considered? Should the criteria be modified in any way?

See our comments on principles and criteria above. There are no additional factors that should be considered.

3. Would meeting the essential criteria set forth in section III.C along with a satisfactory on-site assessment by the Board of the entity's inspection practices through a period of joint inspections – provide sufficient assurance that the oversight entity's inspection program merits full reliance?

Yes.

4. The Board has carefully balanced the requirements of the Act and those of non-U.S. jurisdictions (including laws related to data protection, confidentiality and other important legal requirements). Are there additional differences between U.S. and non-U.S. auditor oversight regimes that should be considered? Would those differences suggest greater or less reliance?

The PCAOB should not under-estimate the extent to which the details of its Statement will be read differently in different jurisdictions. Those differences suggest neither greater nor less reliance but rather the need for very careful consideration of whether the principles, rather than the essential criteria, have been met by a foreign audit oversight entity.

5. As described in section III.B. of the Policy Statement, does the Policy Statement establish the appropriate nature and level of reliance?

We encourage the PCAOB to have confidence in its own ability to decide whether or not a foreign audit oversight entity is worthy of full reliance, and to place fuller reliance on such entities than that envisaged by the

proposed Policy Statement. For example, our main comment on full reliance above suggests that the PCAOB should only envisage seeking to accompany the non-US inspection team to the audit firm or inspect audit working papers in exceptional circumstances.

6. 6. Will the proposed approach adequately protect the interests of investors in U.S. issuers audited by non-U.S. audit firms?

Yes.