

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

# BDO FLASH REPORT

## AUDIT MATTERS



### SUBJECT

## PCAOB ISSUES PROPOSALS TO IMPROVE TRANSPARENCY AND PROVIDE INSIGHT INTO AUDIT QUALITY

### SUMMARY

At the PCAOB's open meeting, held on June 30, 2015, the PCAOB announced plans for the release of two documents for public comment related to improving transparency and providing insight into audit quality.

#### Improving Transparency through Disclosure

The PCAOB has issued a Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form to solicit public feedback on an alternative to its 2013 repropounded rule "*Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits*" to require auditors to disclose the name of the engagement partner and information about certain other participants in the audit on a new PCAOB form: Form AP, *Auditor Reporting of Certain Audit Participants* ("Form AP") rather than disclosing such information within the auditor's report. Information filed on Form AP would be available in a searchable database on the PCAOB's website. In addition to filing Form AP, audit firms could also voluntarily provide similar disclosures in the auditor's report. A fact sheet on the proposal is accessible [here](#).

The PCAOB has proposed making requirements effective for auditor's reports issued or reissued on or after June 30, 2016, or three months after approval of the requirements by the SEC, whichever occurs later.

This supplemental request for comment should be read in conjunction with the [2013 Release](#), which describes the proposal to mandate disclosure in the auditor's report. The comment period on the supplemental request for comment ends August 31, 2015.

### BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice was developed to provide guidance to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

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On July 1, 2015, the SEC released [Concept Release 33-9862](#) as part of its own comprehensive review of audit committee reporting requirements that explores a number of ideas around how audit committee disclosures could be made more robust and more useful to shareholders and others who rely on them. The release further focuses on the audit committee's reporting of its responsibilities with respect to its oversight of the independent auditor, including whether the audit committee would disclose what the tenure of the audit firm is and who the engagement partner is. Refer to the related [BDO Alert](#) for further information.

### Audit Quality Indicators

The PCAOB has also issued a [Concept Release on Audit Quality Indicators](#). Within the 35-page release and 26-page appendix, the PCAOB has identified 28 potential quantitative audit quality indicators (AQIs) at both the firm and engagement level that are intended to provide additional information about whether audit work being performed is being conducted by the appropriate individuals with the requisite experience, skills, resources, and tools. The potential AQIs represent the following areas:

Audit Professionals - <i>measures relating to those performing the audit as to their:</i>	▶ Availability
	▶ Competence
	▶ Focus (e.g., allocation of audit hours to phases of the audit)
Audit Process - <i>measures relating to an audit firm's:</i>	▶ Tone at the top and leadership
	▶ Incentives
	▶ Independence
	▶ Infrastructure
	▶ Record of monitoring and remediation (e.g., internal quality review results)
Audit Results - <i>measures relating to:</i>	▶ Financial statements
	▶ Internal control over financial reporting
	▶ Going concern reporting
	▶ Communications between auditors and the audit committee
	▶ Enforcement and litigation

The PCAOB's potential AQIs are not intended to result in a comprehensive firm-wide scorecard but rather may provide benchmarks for comparison and a basis for more informed discussions between stakeholders, such as audit committees, and auditors. It is the intention of the PCAOB, based on public comment, to further reduce the number of AQIs to a more manageable and effective number for consideration in a future proposal.

In addition to the AQIs themselves, the PCAOB is seeking comments on how AQIs may best be used to promote audit quality and their potential availability and value to audit committees, audit firms, investors, and regulators, as well as other users (e.g., company management, the business press, academics, and the general public). The concept release further considers how such AQI data may be obtained and distributed, whether use of AQIs should be voluntary or mandatory, the scope of audits and firms that may be subject to AQI reporting, and the possibility of phasing-in steps toward AQI reporting and use.

A fact sheet on the concept release is accessible [here](#). The comment period ends September 28, 2015. The PCAOB intends to convene a public roundtable in the fall of 2015 for further discussion.

The Center for Audit Quality (CAQ) is currently completing its own audit quality indicator project being conducted with accounting firms and audit committees and is currently hosting several audit committee roundtables in the U.S. and abroad to finalize their recommendations in this area. Refer to the related [BDO Alert](#) for further information.

To listen to a podcast of the PCAOB's June 30 open meeting discussing both of the initiatives outlined above, refer [here](#).

## NEXT STEPS

Both the PCAOB's project related to transparency through disclosure and its project on AQIs are aimed, at least in part, at further focusing auditors' behavior on increasing their sense of accountability and providing greater transparency into what they do and the results of their actions. We encourage audit committees to explore the resources cited in this practice aid and determine how such proposed guidance may benefit your organizations and your relationships with your auditors or whether there are further considerations to be incorporated to achieve stated goals. For additional audit committee tools and resources, visit BDO's Board Governance page at: <https://www.bdo.com/services/assurance/board-governance/overview>.

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