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Accountability \* Integrity \* Reliability

Comptroller General  
of the United States

United States Government Accountability Office  
Washington, DC 20548

March 4, 2008

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

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

This letter provides the U.S. Government Accountability Office's (GAO) comments on the PCAOB's proposed policy statement on implementing Rule 4012.

We support the Board's efforts to coordinate its work with its counterparts in other countries in carrying out its oversight responsibilities and to establish cooperative arrangements for oversight of firms that audit public companies. The PCAOB's proposed policy statement—which articulates criteria for increasing its level of reliance on the inspection systems of non-U.S. oversight entities based on the level of independence and rigor of the system in each country—is intended to help the PCAOB achieve its goal of satisfying the inspection and enforcement requirements of the Sarbanes-Oxley Act of 2002 efficiently and effectively. Although we support the approach used by the Board in the proposed guidance, we have concerns about the criteria that if not appropriately addressed could prevent the guidance from achieving its objectives.

Detailed below are our views on the questions on pages 4 and 5, Part IV of the release that accompanied the proposed policy statement.

**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? What are the benefits and costs of full reliance?**

Satisfying the essential criteria of the five broad principles of Rule 4012 is important but, in itself, may not be sufficient reason for the Board to increase its level of reliance. Other factors, such as the risk or sensitivity of a particular circumstance may require increased PCAOB oversight. In addition to the criteria proposed, the Board should use the information obtained from its substantial dialogue with the non-U.S. oversight entity to evaluate the risks and threats related to full reliance on inspections performed by non-U.S. oversight entities as well as any related mitigating factors, as discussed in our responses to questions 2 and 3 below.

**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?**

The essential criteria set forth in section III.C. of the Policy Statement seem appropriate. However, when assessing the independence of the non-U.S. oversight entity and the system within which it operates, as discussed in the essential criteria of Principle 2, an additional factor the Board should consider is whether the non-U.S. oversight entity has sufficient safeguards to protect it from political pressure and allow it to conduct inspections and report findings, opinions, and conclusions objectively. This criterion would include consideration of whether the oversight body is free from interference or undue influence from government bodies and special interest groups.

**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?**

If an oversight entity's inspection program satisfies the essential criteria, then the Board should evaluate whether to grant the program full reliance, considering additional factors, such as the risk or sensitivity of a particular circumstance, and any other relevant factors known to the Board.

The proposed Policy Statement does not address the need for the PCAOB to monitor whether a non-U.S. oversight entity that has qualified for full-reliance continues to satisfy the essential criteria of the five principles in subsequent years. Footnote 12 on page A1-10 of the proposed Policy Statement refers to a bilateral agreement between PCAOB and the non-U.S. oversight entity that would among other things “set forth the non-U.S. oversight entity's commitment to maintain the essential criteria on an ongoing-basis and the opportunity for the Board to observe as described above.” However, it is unclear whether or how the PCAOB would monitor or perform periodic assessments of each non-U.S. oversight entity that had qualified for full-reliance. We believe that PCAOB's periodic monitoring of the oversight entity's continued compliance with the essential criteria is critical for the success of this approach and should be discussed in the document.

**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?**

It is difficult to generalize about all the other oversight regimes and the auditing profession throughout the world. However, some differences and risks may include:

- pressure on the regulator from the government or related business interests,
- the nature and extent of auditor education (not all are trained in U.S. GAAP and PCAOB standards),

- whether auditor certification programs test knowledge of U.S. GAAP and PCAOB standards, and
- the availability of qualified staff that have the skills to perform inspections (especially in smaller countries.)

These differences and risks would all suggest less reliance.

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

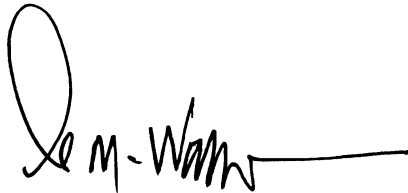
While we are generally in agreement with the nature and level of reliance as discussed in Section III.B. of the Policy Statement, we believe that the term “full reliance” may be misunderstood and should be replaced with “relying to the maximum extent possible.” This revised term will help convey the PCAOB’s continued involvement in the oversight of non-U.S. entities, as discussed in the last paragraph of page A1-8 of the proposed Policy Statement.

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

Yes, if the recommendations in this letter are adopted, the proposed approach is consistent with protecting the interests of investors in U.S. issuers audited by non-U.S. firms.

We thank you for considering our comments on this important issue.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

cc:

The Honorable Christopher Cox, Chairman  
Securities and Exchange Commission

The Honorable Mark W. Olson, Chairman  
Public Company Accounting Oversight Board

Mr. Harold Monk, Jr., Chair  
Auditing Standards Board