Accounting & Compliance Alert: Chamber of Commerce Seeks Bigger Voice for Business in Regulatory Decisions

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Summary: The U.S. Chamber of Commerce wants the PCAOB to set up regular discussions with businesses critical of the regulatory board's inspections process. The chamber says internal controls compliance costs have risen for public companies because auditors are being pressured by PCAOB inspectors to do unnecessary work. The chamber says a specialized advisory panel dominated by business representatives should be set up to help alleviate the concerns.

The U.S. Chamber of Commerce urged the PCAOB to set up a regular dialogue with businesses critical of the regulatory board's inspections process.

Companies are especially bothered by the board's long-running campaign to review audit work for compliance with Section 404(b) of the Sarbanes-Oxley Act of 2002. In their view, the effort is making it costlier for some companies to hire external auditors and complicating the dealings between companies and their outside auditors.

"Over the last couple of years or so, internal control costs of public companies have gone up significantly without any added benefit for investors," Tom Quaadman, vice president for the chamber's Center for Capital Markets Competitiveness, said on March 4, 2015.

Joseph Carcello, a professor of accounting at the University of Tennessee and a member of both the SEC's Investor Advisory Committee and the PCAOB's Investor Advisory Group, said the chamber didn't "offer evidence that institutional investors, in particular, are broadly concerned about excessive audit fees. I have heard nothing to this effect either from investor representatives" on the PCAOB and SEC advisory panels.

"The congressional mandate establishing the PCAOB speaks to the needs of investors—not to the needs of issuers," **Carcello** said.

The audit regulator's inspection staff has gotten better in detecting problems and is often credited for contributing to an overall improvement in audit quality. Yet internal control audits remain a problem area, and the board has publicly called on auditors to do a better job.

In spring 2014, PCAOB member Jay Hanson said audit firms are improving their techniques in identifying internal control problems, but the board wants to know whether the controls reviewed according to Auditing Standard (AS 5) No. 5,An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, are effective at stopping misstatements.

Internal controls are generally understood to be the company policies that prevent executives from entering fraudulent financial reporting information. The controls are instituted to prevent what are called management overrides of a company's financial reporting system, which are generally considered a red flag for accounting fraud.

After the accounting frauds at Enron, WorldCom, and other companies were unmasked in 2001-2002, Congress passed Sarbanes-Oxley. The Section 404 requirements say companies and their auditors have to vouch for the financial control systems meant to deter fraud.

In Quaadman's view, however, companies are concerned that "the PCAOB has not been engaged in standard-setting, has not been providing clear rules for the road, and instead has tried to create regulations or rules through enforcement, inspection."

Quaadman criticized the audit regulator for not following a due process or engaging in a dialogue with the business community.

“We had a group of CFOs last week to talk to both the PCAOB and the SEC on some of these very issues,” he said. The CFOs talked about increased costs and burdens that the companies are facing and the “fact that there is not this dialogue.”

“We are trying to work with both the PCAOB and the SEC to start such a constructive dialogue,” he said. “We had some very productive conversations with both the board and the SEC. Now whether or not they take up our proposal on an advisory group is to be seen.”

“We inspect to the standards that exist, many of which are long standing,” said PCAOB spokesperson Colleen Brennan. “Risks may vary among engagements, and auditors need to address risks present in each engagement. The goal for everyone should be the same — a high quality audit and a system of internal control that is appropriate.”

The SEC didn’t respond to request for comment as this story was being written.

In comment letters to the PCAOB in the past few years, the chamber along with other business lobbies have stressed the importance of setting up a Business Advisory Group at the board.

In a November 2014 comment letter responding to the PCAOB’s Staff Consultation Paper: Auditing Accounting Estimates and Fair Value Measurements, the groups said standard-setters should get wide input to consider business operations and unintended consequences in developing standards.

PCAOB inspectors over the years have found recurring problems in auditing complex estimates, including fair value. The issue is enough of a concern that SEC officials, including Chair Mary Jo White, said the relevant standards should be updated so that auditors can do a better job assessing one of the most complex areas of financial statements.

The PCAOB has two groups that advise it on various audit related issues, including standard-setting, inspections, and audit quality. The Standing Advisory Group, which meets twice a year is comprised of company representatives, auditors, investors, and academics. The Investor Advisory Group was formed in 2010 and meets once a year.