MARKETS

SEC: Accounting Board Is Dragging Feet

Commission Officials Chastise PCAOB for Lack of Progress on New Rules

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The Securities and Exchange Commission is clashing with federal auditing regulators over their priorities, suggesting they haven’t moved quickly enough to enact rules on how auditors do their jobs.

Three senior SEC officials publicly took issue with the Public Company Accounting Oversight Board at a conference last week. They suggested the PCAOB, which lately has focused on new audit-firm disclosures, had dragged its feet on another task: new rules that would govern the nuts and bolts of how accounting firms conduct audits.

Some of the PCAOB’s most important rule-making efforts “simply have been moving too slowly,” SEC Chief Accountant James Schnurr told the American Institute of CPAs conference in Washington. “Considering the lack of progress on a number of projects,” he added, the PCAOB and SEC would take “a fresh look” at the accounting board’s process.

Brian Croteau, an SEC deputy chief accountant, echoed Mr. Schnurr’s comments, while SEC commissioner Daniel Gallagher said the PCAOB should focus on “core blocking-and-tackling issues” and consider leaving disclosure “for the next wave” of rules.

Accounting experts say it is unusual for the SEC to criticize the PCAOB so openly and directly. Commission officials have voiced similar concerns in the past, though not with the tone of frustration evident this month.

The PCAOB’s chairman, James Doty, said at the same conference that the board was trying to make sure its rule writing was “as efficient and effective as possible.” A PCAOB spokeswoman declined to comment further.

Still, some observers say the SEC officials’ remarks reflect a sentiment by the commission that the PCAOB should shift its emphasis and focus more on setting clear rules for auditors’ work, rather than trying to overhaul and set policy for the accounting industry.

They think the criticism could lead to a scaling back of the PCAOB’s recent efforts to require more disclosure of auditing firms, like identifying the partner in charge of each public-company audit and providing more information to investors in their audit opinions.

“The PCAOB does have something of an activist streak,” said John Coffee, a Columbia University securities-law professor. But the board “is entitled to reach its own judgments on how we should structure accounting.”

The PCAOB was created by the Sarbanes-Oxley Act in 2002, after a series of accounting scandals spotlighted a lack of oversight for auditors. It inspects audit firms and writes and enforces auditing standards. The PCAOB reports to the SEC, which appoints the board’s members and approves its budget and the rules it enacts.

Since Mr. Doty took over as PCAOB chairman in 2011, the board has put more of its emphasis on proposals to require additional auditor disclosure. A former securities attorney, Mr. Doty contends that improved disclosure from audit firms will boost audit quality, by giving investors more information and making auditors more accountable.

In his speech last Monday, however, the SEC’s Mr. Schnurr contended the most effective way to improve audit quality is to update existing rules that “directly address auditor performance.” One such rule the PCAOB is considering would revamp how auditors evaluate companies’ use of fair-value measurements, for example.

In a later statement Friday to The Wall Street Journal, Mr. Schnurr said while he believes it is important for the PCAOB to act on audit-performance issues, he also recognizes “the significant role of the other projects on their agenda.”

The different views from the SEC and the PCAOB seem to reflect a “very different worldview” between the two agencies, said Joseph Carcello, a University of Tennessee accounting professor who serves on a PCAOB advisory panel.
Some of the chief accountant’s staff came to the SEC from the accounting industry, including Mr. Schnurr, who recently retired from a decades-long career at Deloitte LLP. Mr. Doty and some other PCAOB members were either attorneys or government employees before joining the board.

Many of the PCAOB’s ideas have been opposed by the accounting industry. The industry has been reluctant to name audit partners, prompting the PCAOB recently to offer a compromise on the issue.

Fierce opposition from the industry and some members of Congress also prompted Mr. Doty to shelve an idea that would have required companies to periodically change their audit firms.

Some observers sympathize with the SEC’s contentions.

“If you’re spending a lot of time on audit rotation and then the audit report and naming the audit partner, you’re obviously not spending nearly as much time on the nuts and bolts of high-quality audits,” said Dennis Beresford, a former Financial Accounting Standards Board chairman who teaches accounting at the University of Georgia.

Other SEC watchers such as former commission Chairman Arthur Levitt said the agency should let the PCAOB finish its disclosure initiatives. It’s “wrongheaded” to criticize the PCAOB for focusing on auditors’ responsibilities, he said. Others note that other countries’ regulators have enacted similar disclosure requirements for auditors. “What the PCAOB has proposed is less aggressive than what exists in most of the developed world,” Mr. Carcello said.

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