The evolution of audit regulators

On June 9–10, 2015, the North American and European Audit Committee Leadership Networks (ACLN and EACLN) met in New York for their 10th joint summit meeting. Members were joined by Lew Ferguson, a board member of the United States Public Company Accounting Oversight Board (PCAOB) and Chair until April 2015 of the International Forum of Independent Audit Regulators (IFIAR), and by Jay Hanson, another board member of the PCAOB.¹ For biographies of the guests, see Appendix 1 on page 13.

This ViewPoints presents a summary of the key points from the meeting, along with background information and selected perspectives that members and subject matter experts shared before and after the meeting.² For further information on the networks, see “About this document,” on page 12. For a full list of participants, see Appendix 2 on page 14.

Executive summary

Members and guests discussed the institutional framework of audit policy in North America and Europe, the challenges of audit regulation in the global context, and audit regulators’ interactions with audit committees:

- **The PCAOB and its counterparts in Europe** (page 2)

  The PCAOB was established to provide independent oversight of auditing, after financial and accounting scandals prompted passage of the Sarbanes-Oxley Act of 2002 in the United States. In European countries, similar organizations emerged around the same time. Although European Union (EU) audit regulation has remained at the national level, coordination among EU audit regulators continues to expand, as confirmed in the most recent legislation on audit from the EU. Key challenges for audit regulators include the need for effective reporting to their stakeholders regarding audit performance, and the efficient conduct of audit inspections, which requires coordination among varied regulators and compliance with differing laws and regulations.

- **IFIAR and its role in audit regulation** (page 7)

  IFIAR was established in 2006 as a forum for audit regulators to address their common challenges by sharing information regarding their activities and experiences and working with other audit stakeholders. At its most recent annual meeting, IFIAR’s members approved a multilateral framework for information sharing, and the organization is piloting a coordinated, multijurisdictional audit inspection for gaining a better understanding of group audits. IFIAR also conducts and publishes annual surveys of its members’ inspection findings.

¹ In other sessions, ACLN and EACLN members discussed culture and cybersecurity. See Audit Committee Leadership Summit, Board oversight of corporate culture, ViewPoints (Waltham, MA: Tapestry Networks, 2015), and Audit Committee Leadership Summit, Board and audit committee oversight of cyber risk, ViewPoints (Waltham, MA: Tapestry Networks, 2015).

² ViewPoints reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants. Mr. Ferguson and Mr. Hanson agreed to speak on the record, but the views expressed by them are their own and do not necessarily reflect the views of the Board, other Board members, or members of the Board’s staff.
Audit regulators and audit committees (page 9)

The PCAOB has been reaching out to audit committees in a number of ways, engaging in various forums with audit committees, and seeking feedback on PCAOB activities. Most recently, for example, the PCAOB issued an “Audit Committee Dialogue” communication identifying areas in which the PCAOB’s inspections have found recurring deficiencies, as well as areas observed as potential emerging audit risks. In Europe, outreach by audit regulators to audit committees has varied from country to country as does the role and responsibility of regulators, with several regulators forging close ties to audit committees in their countries. IFIAR has more recently begun to focus on promoting interactions between regulators and audit committees, adding audit committee outreach to the mandate of a working group on investors and other stakeholders.

For a list of discussion questions for audit committees, see Appendix 3 on page 15.

The PCAOB and its counterparts in Europe

The independent regulation of auditing – as opposed to self-regulation by the accounting profession – emerged less than 15 years ago, but today there are independent audit regulators in over 50 countries across the globe. Focusing mostly on the PCAOB and its experiences, guests and audit chairs discussed not only the basic facts about these regulators, but also some of the challenges they are facing as they settle into and mature in the execution of their roles.

The PCAOB

One of the first independent audit regulators was the PCAOB, established pursuant to the Sarbanes-Oxley Act of 2002. Until then, the accounting profession in the United States had been self-regulated, but financial and accounting scandals in the early 2000s prompted a number of reform initiatives, one of which was to establish independent external oversight of the public company auditing profession.³ Based in Washington, DC, and funded by fees assessed on equity issuers, investment company issuers, and SEC-registered broker-dealers, the PCAOB had 809 people on its staff and operating expenses of $234 million by 2014.⁴ The mission of the PCAOB relative to US SEC-registrants is to:

oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.⁵

³ In 2010, the Dodd-Frank Act expanded the PCAOB’s authority to include oversight of the auditors of brokers and dealers. The Sarbanes-Oxley Act required auditors of brokers and dealers to register with the PCAOB. Dodd-Frank gave the PCAOB authority to set standards, conduct inspections, and take disciplinary action with regard to broker-dealer audits. See Public Company Accounting Oversight Board, “PCAOB Statement upon Signing of the Dodd-Frank Wall Street Reform and Consumer Protection Act,” news release, July 21, 2010.
More specifically, the PCAOB carries out four oversight tasks: 1) registration of public accounting firms that audit public companies or broker-dealers; 2) inspection of registered firms and their audits; 3) investigation and enforcement of registered audit firms’ compliance with applicable laws, rules, and standards; and 4) establishment of auditing and other professional standards. The Sarbanes-Oxley Act requires the PCAOB to conduct inspections annually for audit firms that audit more than 100 issuers per year, and at least triennially for firms that audit 100 or fewer issuers. The specific audits to be inspected are chosen based on assessments of the risk of significant deficiencies.

The PCAOB has not adopted the standards developed by the International Auditing and Assurance Standards Board (IAASB) – the chief global standard setter for audit and assurance – but it maintains an ongoing dialogue with the IAASB regarding standard-setting activities. Mr. Hanson noted that “we are one of the only regulators to set our own standards – most others use international standards, at least as a starting point – but the [Sarbanes-Oxley] legislation gives us the ability to rely on others’ work.”

The Sarbanes-Oxley Act assigned oversight of the PCAOB to the Securities and Exchange Commission (SEC) with responsibilities including appointing the PCAOB’s five board members, approving its budget, approving its rules and standards, and reviewing its disciplinary actions.

Counterparts in Europe

Audit regulators were established in many European countries at about the same time that the PCAOB was created, between 2000 and 2005. Most of them engage in activities similar to those of the PCAOB, including registration and inspection of audit firms, standards setting and education, and coordination with other regulators. Some regulators also have broader responsibilities for securities markets oversight, which helps explain why the annual expenditures of the UK’s Financial Reporting Council (approximately $40 million), for example, are significantly higher than those of the French audit regulator (approximately $10 million). Unlike the PCAOB, however, European audit regulators generally adopt the standards developed by the IAASB, so their standards-setting efforts may not be as extensive as those of the PCAOB.

Despite the migration of many regulatory activities from the national level to the European level, the audit legislation recently adopted by the European Union specifies that oversight of audit will remain with national-level organizations. Indeed, the legislation requires every Member State to have a single “competent authority” with responsibility for oversight. At the same time, the legislation establishes a new Committee of European Auditor Oversight Bodies (CEAOB) to coordinate activities by the national-level authorities, chaired by the Member States.

---

6 Jeanette M. Franzel, “Accountability: Protecting Investors, the Public Interest and Prosperity” (speech at the Association of Government Accountants 62nd Annual PDC, Dallas, TX, July 17, 2013).
In the area of inspections, the selection of engagements and audit firms to inspect varies somewhat among European regulators. Like the PCAOB, the UK’s FRC uses a risk model to select the audits to be reviewed each year, and in a given year, the FRC may focus on a particular type of company.\textsuperscript{12} In Germany, audit firms used to be selected for inspection on a random basis,\textsuperscript{13} but are now selected on a risk basis as well.\textsuperscript{14} The recent audit reform legislation adopted by the European Union specifies that inspections shall be carried out at least every three years for firms auditing public-interest entities and at least every six years for others.\textsuperscript{15}

A key standards effort: Auditor reporting

Among the more important standards currently under development by the PCAOB is the auditor’s reporting model. The PCAOB issued a proposal in August 2013 that required auditors to disclose “critical audit matters,” or areas of the audit that involved the most difficult, subjective or complex auditor judgments.\textsuperscript{16} The IIAASB adopted a similar standard in December 2014 and the UK FRC adopted requirements for enhanced reporting by auditors in 2012, along with guidance on audit committee reporting. The EU included auditor reporting requirements in its recent audit legislation, and elements of the IIAASB, FRC, and EU requirements are being applied in the Netherlands as of 2014.\textsuperscript{17} The PCAOB is monitoring the impact of these efforts as it considers revisions to its proposal.

At the meeting in New York, several members who sit on the boards of UK companies said the new FRC requirements and guidance were driving closer cooperation between audit committees and auditors, particularly around disclosures of major risks. Members noted that the new reports appear to have been well-received by many investors, especially the corporate governance teams at large institutional investors. “It’s been positive,” an EACLN member said, “but it does require more work by [auditors and audit committees].”

Key challenges around inspections

As audit regulators have ramped up their activities in pursuit of their mission, they have encountered a variety of challenges. Members and their guests highlighted two areas that have seen considerable debate and commentary recently, both of them involving inspections: effective inspections reporting and efficient conduct of inspections internationally.


\textsuperscript{14} Auditor Oversight Commission, \textit{Information About the Work Program 2013 of the AOC’s Inspection Unit} (Berlin: Auditor Oversight Commission, 2012), 2.


\textsuperscript{17} Netherlands Institute of Chartered Accountants, \textit{New auditor’s report for public interest entities} (Amsterdam: Netherlands Institute of Chartered Accountants, 2014), 2.
Effective inspections reporting

In the past, ACLN members have discussed how the PCAOB might improve its inspection reports, remarking on both the timeliness and the content of reports.\(^\text{18}\) In 2012, the PCAOB published information for audit committees about the inspection process and questions audit committees could pose to their external auditor.\(^\text{19}\) Most recently, it issued a communication for audit committees that highlights areas in which the PCAOB’s inspections have found significant deficiencies and identifies its key areas of focus as it embarks on its 2015 inspections.\(^\text{20}\) For a summary of the document, see tint box on page 10.

In a recent speech, Mr. Hanson discussed how the PCAOB communicates inspection report results, describing some of the improvements the PCAOB has made. He noted that the PCAOB has decided to discontinue using the phrase “audit failure” in inspection reports because the phrase “appeared to be causing confusion about whether our findings meant that a company’s financial statements were misstated, or that the audit opinion had been or should be withdrawn, or that we had found a problem in the company’s internal controls.”\(^\text{21}\) He pointed out that progress has been made on the timeliness of reports and that executive summaries are now being provided for the Boards’ general reports. He also noted that they are including references in firm-specific reports to auditing standards related to each of the deficiencies cited in the public portion of the report.

At the meeting, Mr. Hanson reiterated some of these points. He said that “as a board member, I read every report we issue in detail and discuss them with our staff to understand the findings. I also can see the background about why we selected the audit and what we looked at. I step back and say, wouldn’t it be useful for those who are using the report to have that context? So I’m pushing the staff to explain what areas they are looking at, what the findings were, and what the nature of the industry is, to add context for the findings.”

Audit regulators in other nations have also considered how best to report on the results of inspections, and a few have devised novel approaches. As Mr. Ferguson explained, the UK’s FRC assigns grades to the quality of the specific audits, not just to the audit firm: “In the UK, the FRC prepares individual reports and issues grades on audits: 1, 2, or 3. The FRC not only sends reports to companies and their audit committees of the individual grade but also publicly reports on the overall grades.”

Conducting inspections internationally

Audit engagements that span multiple jurisdictions often involve audit firms located outside the country in which the audited company is located, and regulatory mandates can cross borders. This can create conflicts among audit regulators about cross border cooperation as well as the sharing of sensitive information among

---


regulators. Such cross-jurisdictional audit quality inspections have proven challenging in China and elsewhere. Mr. Ferguson noted that “many American companies have major operations in China and what goes on in those audits is quite opaque to US regulators and investors.” He added that Europe, too, has required enhanced collaboration and bilateral arrangements: “The first thing you have to understand is that, when you do global inspections, it has to be done in a complex legal framework, particularly in the EU, where you need to meet all the data protection demands.”

To address these kinds of issues, the PCAOB has negotiated bilateral agreements with 22 countries around the world. These arrangements vary from country to country, as Mr. Hanson explained: “Sometimes it’s us next to a local team at the same time. Some only want to know when we are coming. Regarding audit files, some have an easy process if we want to take copies to support potential findings while others have a rigorous process with multiple steps to get the documents to us.” Mr. Ferguson said that building trust between regulators is important: “Regulators can be fearful that if they don’t do the work themselves and something goes wrong, they will be criticized. So they are distrustful of anyone outside the organization doing it. What we are finding, though, is that the more closely we work with other regulators, the more we understand what they are doing, the more trust is built.” Some European regulators do not yet have bilateral agreements that allow PCAOB inspections, including regulators in Belgium, Greece, and Italy.22

Inspection challenges can also stem from the concerns of non-domestic companies. An EACLN member remarked on the complications caused in Europe by the move to mandatory audit firm rotation and its attendant effects on the audit profession: “What happens going forward is for us a perfect storm, which it might be helpful for you to take into account when planning international inspections … An inspection might coincide with auditors doing an audit for the first time, so there are real concerns about getting a sensible review done. Perhaps there should be more consultation with corporates.” Mr. Ferguson acknowledged that concern, stating that he understood “an inspection could happen when the audit team is overwhelmed … It’s a concern for companies across Europe.”

Companies overseas are also concerned about the confidentiality of documents requested by the PCAOB. An EACLN member explained: “We had a serious issue with the confidentiality of the information seen in the inspection … We were determined not to have a good portion of the working papers going to the US, for obvious reasons. I think that joint inspections are the way to go. That’s a good outcome of the discussions we’ve had over the last 10 years. I hope it happens in other countries around the world.”

Mr. Hanson highlighted again some of the challenges of joint inspections, including inspection methodologies and accounting standards: “We need to make sure we understand each other’s standards, and the devil is in the details. The methodology is something we are learning more and more about.” Mr. Ferguson added that “regulators in different jurisdictions may be looking at things differently, but in terms of business and audit risk, we usually come to some agreement about what the risk areas are and what areas should be getting assurance.”

---

IFIAR and its role in audit regulation

IFIAR was established in 2006 by independent audit regulators from 17 countries, which have since been joined by others across the globe for a total of more than 50 members today. According to its website, IFIAR focuses on:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms,
- Promoting collaboration and consistency in regulatory activity, and
- Providing a platform for dialogue with other international organizations that have an interest in audit quality.

The organization has six working groups that take responsibility for its key activities. One working group is focused on investors and other stakeholders. Another group focuses on interactions with the six largest global audit networks (BDO, Deloitte Touche Tohmatsu, EY, Grant Thornton, KPMG, and PricewaterhouseCoopers) in coordination with the profession’s Global Public Policy Committee (GPPC). Other working groups focus on standards coordination, enforcement, inspections, and international cooperation. The PCAOB has representation in all of these working groups, and Mr. Ferguson was recently named chair of the GPPC Working Group following his term as IFIAR Chair.

Facilitating information sharing

One of IFIAR’s core tasks is to facilitate information sharing about the activities of audit regulators around the globe, including their efforts in areas such as investigations and enforcement, and inspections and registration of auditors. Given that there is substantial variation in how audit regulators across the globe approach their responsibilities, IFIAR hopes to promote effective audit regulation by helping regulators learn from each other.

In addition, information sharing is critical for effective coordination between regulators in areas where they need to work together, such as in joint inspections. IFIAR has been working to develop a multilateral framework for information sharing. At the most recent IFIAR annual meeting, in April 2015, the members reached agreement on the text of a Multilateral Memorandum of Understanding (MMOU). In the words of IFIAR’s 2014 annual report, the MMOU “sets forth protocols and procedures that can be used to facilitate information sharing, including work papers and documents for use in enforcement matters, among IFIAR Members.” As Mr. Ferguson said to the audit chairs in New York, “We find we work better when we work together.” He highlighted the potential value of regulators being able to rely on each other in the inspection process: “In general, we need to move to greater reliance or collaboration to avoid duplicating work.”

---

In an effort to discover lessons about how regulators can cooperate better, IFIAR is also piloting a coordinated, multijurisdictional audit inspection for assessing group audits. The pilot inspection includes four regulators reviewing a single engagement involving a principal auditor and three component auditors. Remarkng on the project in a recent speech, Mr. Ferguson said: “While the effort is in its first stages, I think we stand to learn a lot about the way group audits are conducted by the largest firms, and to grow in our national inspections through enhanced collaboration and cross-fertilization.”

Analyzing inspection findings

Another area of focus for IFIAR is on the collection and analysis of information from its members’ inspections across the globe. The Financial Stability Board and other stakeholders are interested in this type of analysis, which is improving in its consistency and comparability. IFIAR has conducted three annual surveys of inspection findings. The results of the most recent survey were released on March 3, 2015 and are based on inspections conducted over various periods between October 2011 and April 2014, reviewing audits of financial statements with year ends that range from 2010 to 2013.

Commenting on the survey in a speech he gave that day, Mr. Ferguson said:

IFIAR’s new survey of inspection findings shows persistent, high levels of deficiencies in audits of listed companies reviewed by independent regulators around the world. This confirms the conclusions we drew from last year’s survey – audit firms need to pursue initiatives to improve audit quality and the consistency of audit execution.

Mr. Ferguson has cautioned that the survey’s findings “do not necessarily reflect changes that have taken place since the inspections were done.” He also noted that a deficiency does not mean that the audited financial statements are materially misstated, but only that there is “not enough evidence to know with assurance whether the financial statements are materially misstated.” He offered more detail on the survey results, noting, for example, that the areas with the most deficiencies in inspected audits of listed public interest entities, or public companies, related to internal control testing; auditing fair value measurements; and auditing revenue recognition.

At the meeting, Mr. Ferguson discussed some of the challenges of conducting the survey, challenges that also reflect the difficulties of coordinating regulatory activities: “The first time we did it, there was no common taxonomy. The definitions of a finding differed around the world, and there were different standards of materiality and significance.” He explained that the PCAOB took the lead on developing and promoting a common taxonomy for reporting findings on the IFIAR survey, which is also being used in IFIAR’s and its...
members’ discussions with the six largest audit firms about their internal findings. The effort yielded results: “We are now starting to have firms use our taxonomy so we can have comparability … We are now seeing convergence in what audit firms are finding and what their regulators are finding.”

Audit regulators and audit committees

At an ACLN meeting in October 2013, Jeanette Franzel, a PCAOB board member, said to the audit committee chairs: “We have different roles but common objectives. We are all part of the system designed to help ensure independent and reliable auditing, and fragmentation in that system is dangerous.” The PCAOB has been reaching out to audit committees in a number of ways, both to gather input for its activities and to help audit committees in their performance of their duties. It developed guidance for audit committees on inspections and a communication explaining areas in which the PCAOB’s inspections have found significant deficiencies and identifying key areas of focus in upcoming inspections. It issued a new standard on communications between auditors and audit committees (AS 16). PCAOB board members have also met with audit chairs in recent years. Mr. Ferguson explained, “We are looking at how to communicate better in order to equip you with all the right information.”

Audit chairs welcomed the effort, seeing the input from audit regulators as valuable and even critical. One member remarked: “If the audit committee is responsible for getting the highest quality audit for the companies we serve, then we have to have this information.” Participants said that audit committees may use inspection results in assessing an audit firm’s performance, though they also noted that audit committees should be careful in how they interpret inspection results, which should not be the only input for assessing audit quality.

In terms of getting feedback from audit committees, Mr. Hanson noted that the meetings with audit committee chairs have been very helpful: “I learn so much from these sessions.” At another point in the discussion, Mr. Ferguson remarked that audit committee chairs can provide feedback that is not always forthcoming from investors: “We have found large investors are not always interested in the details of the PCAOB’s work. Increasingly, we need to also look to audit committees, who are closely involved in and knowledgeable about the details of the audit, as another group of representatives of investors’ interests. As audit committee performance improves, and I think it is around the world, investors will have increasing confidence that you represent their interests.” When asked about the potential of a more permanent audit committee advisory group at the PCAOB, Mr. Ferguson saw the value of such a group but noted that it was still under discussion.

Reflecting on the recently released Audit Committee Dialogue, Mr. Hanson said: “It’s part of the journey of experimentation with new types of communications. We heard from audit committee chairs that they need timely information that is actionable, including a folio of things that audit committee chairs can use in engaging with their auditor. An audit committee chair said, ‘Can you tell me what is going on now so I know before I become the owner of the problem? Plain, short English is better than a novel.’” Mr. Hanson welcomed feedback on the Dialogue: “Is this the depth we need? Some said there were way too many

---

32 Audit Committee Leadership Network, Dialogue with PCAOB Board Member Jeanette Franzel, ViewPoints (Waltham, MA: Tapestry Networks, 2013).
questions. Was it framed properly for the role of the audit committee, as you have a lot on your plate other than the inspection of the auditor? We did not intend to suggest that every audit committee should ask every question, but rather to provide you with a good complement of possible questions based on your individual circumstances.”

ACLN and EACLN members echoed some of these concerns. One member said: “We look at where we are today and we are afraid of where we are going. We are going to need an extra hour of every audit committee meeting for additional questions. We do want to look at what the most important issues are. What I don’t want it to be about is not being sued.”

A recent PCAOB communication to audit committees: Audit Committee Dialogue

On May 7, 2015, the PCAOB issued its most recent communication to audit committees, which it said would be “the first in a series intended to provide insights from inspections of public company auditors that may be helpful to audit committee members in their oversight of their auditors.”

The Dialogue document highlights areas in which the PCAOB’s inspections have found significant deficiencies, and it suggests questions for audit committees to ask their auditors about each of these areas:

- Auditing internal control over financial reporting
- Assessing and responding to risks of material misstatement
- Auditing accounting estimates, including fair value measurements
- In cross-border audits, deficient “referred” work – work performed by other audit firms and used by the signing audit firm

The Dialogue also flags several emerging risks that the PCAOB is monitoring as it plans its inspections for 2015: an increase in mergers & acquisitions; falling oil prices; undistributed foreign earnings; and assurance of audit quality when growing other business lines.

Interaction between other national-level audit regulators and audit committees appears to vary across jurisdictions. Some audit regulators emphasize the importance of audit committees and their interactions with them. The FRC, for example, notes in a recent annual report on audit quality inspections: “In 2013/14 we sought to enhance our interaction and engagement with relevant audit committees. We now send our reports on individual audits directly to the relevant audit committees. We also piloted holding discussions with audit committee chairs at the outset of our inspection of the audit of their respective entities’ financial statements.”

---

33 The PCAOB can be contacted and comments submitted via the Contact Us Web Form.
An EACLN member with experience with the FRC said, “It’s a really constructive dialogue that goes both ways….they regard the audit committee as [being] alongside the regulator trying to drive audit quality.” The Swiss audit regulator states that it has a “great interest in the functioning of the audit committees of listed companies,” and audit regulators in Germany and the Netherlands have said that they are increasing their dialogue with audit committees.

However, some audit regulators mention and interact with the audit committee community far less than other regulators. Reflecting on interactions with the audit regulator in one jurisdiction, an EACLN member said, “There is contact between the audit regulator and the audit committee chair on an informal basis from time to time, but it is not firmly established.” Notably, the EU’s recent audit legislation requires that audit regulators monitor developments in the market for audit services by, among other things, assessing the performance of audit committees. The legislation offers no detail on how regulators should assess audit committee performance, but the first report on market developments is due by June 17, 2016, which means they could soon begin reaching out to audit committees.

IFIAR seeks to promote interaction between audit regulators and audit committees. At IFIAR’s 2014 Plenary Meeting, the Investor and Other Stakeholders Working Group – then chaired by Steven Harris of the PCAOB and now chaired by Gerben Everts of the Dutch financial markets and audit regulator – held a session on “communications with audit committees that included not only representatives of the leadership of the ‘big six’ audit networks but a number of audit committee chairs from major institutions around the world.” The Working Group was originally formed to focus on investor outreach but recently has added outreach to other stakeholders – including audit committees in particular – to its mandate.

**Conclusion**

Independent regulation of auditing continues to evolve as regulators address important challenges and forge stronger ties with their stakeholders. Mr. Ferguson and Mr. Hanson explained how the PCAOB and its counterparts internationally have improved their reporting and coordination of efforts, working together on a bilateral and multilateral basis, increasingly through IFIAR, a growing international forum for audit regulation. A growing priority for audit regulators has been to strengthen relations with audit committees, an area in which regulators in some nations have taken significant steps. Communication is key, members and guests agreed, because it improves the performance of both regulators and audit committees as they work with auditors toward the common goal of enhancing audit quality and protecting investor interests. As an audit chair told the guests from the PCAOB, “If we aren’t your client, we are your partner.”

---

39 Ibid., 10. One of the participating audit committee chairs was EACLN member Dr. Werner Brandt.
40 Ibid., 5.
About this document

The European Audit Committee Leadership Network (EACLN) and the Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of ViewPoints lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive ViewPoints are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

The perspectives presented in this document are the sole responsibility of Tapestry Networks and do not necessarily reflect the views of network members or participants, their affiliated organizations, or EY. Please consult your counselors for specific advice. EY refers to the global organization, and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Tapestry Networks and EY are independently owned and controlled organizations. This material is prepared and copyrighted by Tapestry Networks with all rights reserved. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends. Tapestry Networks and the associated logos are trademarks of Tapestry Networks, Inc. and EY and the associated logos are trademarks of EYGM Ltd.

EYG no. CJ9270
Lewis H. Ferguson

Lewis H. (Lew) Ferguson was appointed by the Securities and Exchange Commission to be a board member of the Public Company Accounting Oversight Board in January 2011. In April 2015, he began a four-year term as Chair of the Global Public Policy Committee Working Group of the International Forum of Independent Audit Regulators (IFIAR). From April 2013-April 2015, he served as Chair of IFIAR following a one-year term as Vice Chair. IFIAR is an organization of 50 national audit oversight bodies that operate independently of the accounting profession.

From 2004-2007, Lew served as the first general counsel of the PCAOB. Before joining the PCAOB as a board member, Lew was a partner in the law firm of Gibson Dunn & Crutcher LLP, where he focused on securities regulation, disclosure issues and corporate governance matters. Earlier, from 1979-1994 and from 1998-2004, he was a partner at the law firm of Williams & Connolly LLP, specializing in corporate transactions, securities enforcement matters, and representation of audit committees and boards of directors. From 1994-1998, he was Senior Vice President, General Counsel, and Director of Wright Medical Technology. Lew also has been a director at several public and private companies, primarily in the medical device and technology areas. He was an adjunct professor of law at the Georgetown University Law School.

Lew received his BA cum laude in politics and economics from Yale College. He earned a BA and an MA from Cambridge University, and a JD from Harvard Law School, where he was a member of the Harvard Law Review. Lew clerked for the Hon. Frank J. Murray, U.S. District Judge for the District of Massachusetts.

Jay D. Hanson

Jay D. Hanson was appointed to be a board member of the Public Company Accounting Oversight Board by the Securities and Exchange Commission in January 2011, and was appointed for a second term, ending in October 2018.

Prior to joining the Board, Jay spent nearly 32 years at McGladrey & Pullen, LLP. At the time of his appointment to the PCAOB, Jay was the National Director of Accounting, overseeing the firm’s accounting guidance and training practices, as well as leader of the firm’s Accounting Standards Group.

Jay served as a member of the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) from 2006-2011. He was also a member of the Financial Reporting Executive Committee of the American Institute of Certified Public Accountants (AICPA) from 2005-2011, serving as Chairman from 2008-2011.

Jay is a certified public accountant licensed to practice in his home state of Minnesota. He graduated from Concordia College in Moorhead, Minnesota, with a BA in Business Administration, Accounting, and Mathematics.
Appendix 2: Participants

Members participating in the summit sit on the boards of nearly 50 large-, mid- and small-capitalization public companies:

- Werner Brandt, Audit Committee Chair, Lufthansa and RWE
- Ángel Durández, Audit Committee Chair, Mediaset España
- John Edwardson, Audit Committee Chair, FedEx
- Liz Hewitt, Audit Committee Chair, Novo Nordisk
- Judy Richards Hope, Board Member, General Mills and Union Pacific (alumna)
- Lou Hughes, Audit Committee Chair, ABB
- Shonaid Jemmett-Page, Audit Committee Chair, GKN
- Mike Losh, Audit Committee Chair, AON and TRW Automotive
- Heidi Miller, Audit Committee Chair, General Mills
- Pierre Rodocanachi, formerly Vice Chair and Audit Committee Member, Vivendi
- Guylaine Saucier, Audit Committee Chair, Wendel
- Erhard Schipporeit, Audit Committee Chair, SAP and Deutsche Boerse AG
- Tom Schoewe, Audit Committee Chair, GM
- Martine Verluyten, Audit Committee Chair, STMicroelectronics and Thomas Cook

EY participants included:

- Les Brorsen, Americas Vice Chair, Public Policy
- Steve Howe, Area Managing Partner, Americas
- Jean-Yves Jégourel, Assurance Leader, EMEIA
- Frank Mahoney, Americas Vice Chair of Assurance Services
- Christian Mouillon, Global Risk Managing Partner
- Mark Otty, Area Managing Partner, EMEIA
Appendix 3: Discussion questions for audit committees

- What is your view of the inspections process in your country? Has the impact on audit quality or on the audit profession been helpful?

- Do you see inspection reports on your auditor? Do you discuss them with your auditor?

- Do inspection findings accurately describe audit quality? How much do findings shape your view of audit quality in comparison with other factors used to assess audit quality? What kind of reporting about the results of inspections is helpful?

- What concerns do you have about international inspections? How should audit regulators in different countries work together on inspections across multiple jurisdictions?

- How can the work of IFIAR, such as coordinating inspections or conducting surveys of audit findings, assist audit committees in their work?

- How can interactions between audit regulators and audit committees be improved? What kind of interactions or communications would work best, in terms of helping audit committees perform their duties and fostering consideration of audit committees’ views in audit policy formulation?

- Is the Audit Committee Dialogue recently issued by the PCAOB useful in terms of content and format?