National Association of State Boards of Accountancy

♦ 150 Fourth Avenue, North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615.880-4201 ♦ Fax 615.880.4291 ♦ www.nasba.org ♦

January 24, 2014

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

Via e-mail to comments@pcaobus.org

Re: "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit;" PCAOB Rulemaking Docket No. 029.

Dear Members of the Public Company Accounting Oversight Board:

We appreciate the opportunity to provide comments on "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit" (the Reproposal) issued by the Public Company Accounting Oversight Board (PCAOB or the Board). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the Reproposal are made in consideration of our charge as state regulators to promote the public interest. In furtherance of that objective, we offer the following recommendations.

We support the Board's mission to further the public interest in the preparation of "informative, accurate and independent audit reports" and to provide information about the engagement partner and other participants to the audit. We have provided specific responses to the questions in your Reproposal that would protect the public interest and/or assist us in our roles as state regulators of certified public accountants. Please see the attached appendix for our responses.

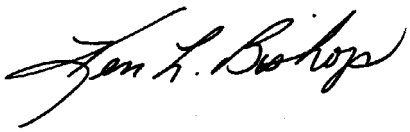
One issue that came up in our discussion of the Reproposal was the potential misunderstanding of the role of the engagement partner (by inappropriately analogizing to the responsibility for the financial reports on the part of the principal executive officer and the principal financial officer (as stated in Section 302 of the Sarbanes-Oxley Act) if an explanatory sentence on the auditor's role is not added to what is being proposed for the auditor's report. Care should be taken that, in

bringing additional information to the public, an expectations gap is not created. Consequently, we are recommending that a sentence be added describing the role of the engagement partner relative to the role of the audit firm.

The Reproposal contains requirements upon which we cannot comment upon with certainty. These include the percentage threshold at which participants must be identified or whether participation should be measured in terms of hours or monetary value.

We appreciate the opportunity to respond to the Reproposal referenced above.

Sincerely,



Carlos E Johnson, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO

Attachment

Appendix

"Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit," PCAOB Rulemaking Docket No. 029

	QUESTION	ANSWER
1.	Would the re-proposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?	• In general, state regulators have not had an issue with identifying an engagement partner or other participant responsible for a failed audit during our investigation process. However, we recognize that the public does not have the same ready access to information and we do believe that protecting the public interest could be enhanced by: - Disclosing the identity of the engagement partner. Such information could then be used to identify a particular individual associated with a failed audit. - Providing information with respect to other participants that could be useful when investigating a failed audit. • In addition, we suggest that the auditor responsibility section of the audit report be enhanced with a sentence describing the role of the engagement partner relative to the role of the audit firm. Without such clarification, a potential reader of the report may believe the named

		partner to have the same liability as someone signing the Item 302 certifications as CEO or CFO.
2	Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?	
3.	Over time, would the re-proposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation? a. Would such databases or compilations be useful to investors and other financial statement users? If so, how? b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?	• Databases could be developed to correlate a specific partner with restatements or other audit failures. This could be useful in considering potential disciplinary action against a firm and/or a partner. Regulators in states that have adopted the Uniform Accountancy Act's Model Rules already have processes in place that allow them to be notified of quality matters that may be of the public interest, including the following: • UAA Model Rule 11-2(a)(1) requires CPAs and CPA Firm to "notify the [State] Board . . . within 30 days of Receipt of a peer review report pursuant to Rule 7-3(h)(3), or a PCAOB firm inspection report containing criticisms of or identifying potential defects in the quality control systems>" • Model Rule 11-2 contains several other self-reporting requirements, including disciplinary actions by any other federal or state agency, foreign authority or credentialing body, PCAOB,

		etc., and even "Notice of disciplinary charges filed by the SEC, PCAOB, IRS, or another state board of accountancy, or a federal or state taxing, insurance or securities regulatory authority, or foreign authority or credentialing body that regulates the practice of accountancy." • We believe that the PCAOB should consider utilizing its resources to compile such databases of information as noted in its proposal.
4.	Over time, would the re-proposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?	It may be important for state regulators to understand all parties involved with a failed audit in their state. If the other participant was involved with a material portion of the failed audit, an investigation could be performed to determine if a state licensee/permit holder was involved with such failure. Additionally, this data is important for State Boards to be able to track those firms doing business in their state that are not licensed to do so.
5.	Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?	
6.	Would the re-proposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?	

7.	Would the re-proposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?	
8.	Would the re-proposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?	.
9.	What costs could be imposed on firms, issuers, or others by the re-proposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
10.	What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?	
11.	Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
12.	Would the re-proposed amendments increase the engagement partner's or the other participant's sense of accountability? If so, how? Would an increased sense of	No. Under the accountancy law of each state, the individual licensed professional is charged with

	accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.	maintaining quality, accountability and protecting the public interest. The engagement partner is held responsible for his/her actions, regardless of whether they sign their own name or the firm's name.
13.	What costs could be imposed on firms, issuers, or others by the re-proposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	Other countries' laws may prohibit compliance. In Australia, a law prohibits the other auditor from being named when they participate in a group audit. If an Australian firm was a significant auditor (under criteria to be identified in item 17 below) the group auditor would be forced into violation of Australian law in order to meet the re-proposed PCAOB standard.
14.	What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?	The costs to obtain consents from other auditors participating in a group audit could be very large to a registrant. There might be significant delays in filings due to the lack of response of such firms. Also (see response to item 13) there may be legal restrictions that would prohibit a firm from providing such consent where they are not the group auditor.
15.	Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
16.	Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial	Specifying a range of the other participant's participation versus a specific number would allow more timely information. The final allocation

	statement users? Why or why not? Would the re-proposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?	of audit hours in a group audit will likely change from the initial planning thru the end of the audit. The accumulation of actual hours will require more time to complete and not result in more meaningful information to the public than disclosure of ranges of other participant hours. We also suggest that the PCAOB reconsider the concept of hours versus the percentage of assets and/or net income that is audited by other participants. As significance to the audit may not directly correlate to hours worked, it may make more sense to base such disclosures on assets/liabilities or revenue audited. In addition, this information may be more readily available at the time of report issuance
17.	Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?	In terms of protecting the public interest, we believe that a percentage between 5 and 10% would be more relevant, especially if the final standard is revised to require disclosure related to the significance of other participants to the financial statement amounts, not hours. Disclosure of percentages below that threshold does not seem to be relevant.
18.	Under the re-proposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the	We do believe that it is important for the public to be aware of the significant participants in performing the overall audit. Large firms practice under a variety of legal structures, including situations where the audit, tax and human

	accounting firm issuing the auditor's report. a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not? b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this is made clearer?	resource consulting functions are legally separate from the firm operating under the same "brand name" in the same country, in addition to having foreign affiliates that are legally separate from other firms using the same global "brand name." It is not clear if the PCAOB intends for firms that have separate legal structures for tax, human capital or other specialists in offices of the same country of the firm performing the audit work be disclosed. Requiring firms to provide that type of disclosure could have unintended consequences and be very confusing to the public. The requirement not to disclose offshoring arrangements where the office is outside of the country appears to be sufficiently clear.
19.	Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the re-proposed requirement to disclose other participants in the audit?	Some firms practice under "affiliations" or "networks" in the same country of the firm that is issuing the auditor's report. It is important for the public to know those significant participants that are not a part of the same legal structure as the firm signing the auditor's report. .
20.	Under the re-proposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name,	It is not clear if the term "engaged specialist" is to only include those persons with specialized skills. That could include a valuation specialist, actuary, tax or other professional who is a partner or employee of an accounting firm, or it could pertain to only those specialists who are engaged from a separate firm.

	but would be disclosed as "other persons not employed by the auditor." a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why? b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?	If the PCAOB is to retain this concept in its final standard, it would become even more important to define the role of the engagement partner and other participant in the auditor's report. See our response to item 1 above.
21.	In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?	
22.	If the Board adopts the re-proposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?	
23.	Are the re-proposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?	In order to protect the public interest, broker dealer audits should not be exempt from the final standard. Many broker dealers' auditors, as well as other issuers, may rely on SAS 16 reports for various controls related to their clients' financial systems. It is not clear if the PCAOB intends the issuers of those reports to be included as an "other participant "or not. We would advise that the PCAOB not include the issuer of a SAS 16 report in its definition of an "other

		participant", and that specific guidance indicate that the issuer of this type of report would be excluded from this disclosure.
24.	Should the re-proposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the re-proposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?	In order to protect the public interest, EGC audits should not be exempt from the final standard.
25.	Are the disclosures that would be required under the re-proposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the re-proposed amendments that are specific to the EGC context?	