

December 12, 2011

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

**RE: PCAOB Rulemaking Docket Matter No. 029 – Proposed Rule on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (Release No. 2011-007)**

Battelle & Battelle LLP appreciates the opportunity to comment on the PCAOB's proposed rule *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the Proposed Rule). We are a registered public accounting firm serving middle-market issuers.

**Overall Comments on the Proposed Audit Report Disclosure**

We do not support disclosure of the engagement partner's name in the audit report because the report is issued upon the authority of the firm and not the authority of the individual engagement partner. In fact the PCAOB's own standards prohibit the engagement partner from signing the firm's report until he or she has obtained concurring approval of issuance from the engagement quality reviewer assigned by the firm. While it is true that a firm could not issue an audit report that is inconsistent with the views of the engagement partner, the engagement partner also could not issue an audit report that is inconsistent with the views of the engagement quality reviewer or certain other firm consultants. We do not accept the argument that disclosing the engagement partner's name in the audit report personally would cause the engagement partner to exercise greater care in performing the audit. The consequences to an engagement partner of failing to exercise due care in the performance of an audit are significant, and they would be no more or less significant if the engagement partner were named in the audit report.

We also do not believe that disclosing the identity of the engagement partner within the audit report would provide an incentive for the firm to improve the quality of their engagement partners. The firm is responsible for assigning the engagement partner and the balance of the engagement team as well as the engagement quality reviewer. The issuer's audit committee, and not the investors, is responsible for engaging the audit firm. If the audit committee has concerns about the integrity, objectivity, independence or competency of the engagement partner, they would address those concerns with the firm. If they were not satisfied with the firm's response, they would likely consider engaging another audit firm. These types of decisions are appropriately left with the audit committee and not with the individual shareholders. Providing greater transparency to shareholders would serve no useful purpose because it is not their responsibility to assess the qualifications of the audit firm or the engagement partner.

Naming the engagement partner in the audit report may lead to a misconception by investors in terms of who is responsible for the audit and the issuance of the audit opinion. Audits are accomplished because of all of the resources of a firm. Therefore, in addition to the engagement quality reviewer and firm consultants, there can be other partners supporting the firm's signature on an engagement, and the lead engagement partner justifiably relies on them.

The framework that supports a registered public accounting firm's ability to perform high-quality audits is the firm's system of quality control over its accounting and auditing practice. A quality control system is structured to provide reasonable assurance that firm personnel comply with applicable professional standards and applicable regulatory and legal requirements, and that the firm issues reports that are appropriate in the circumstances.

The PCAOB's auditing and quality control standards require firms to assign engagement partners with the integrity, objectivity, independence and competence to discharge their responsibility. One element of a firm's quality control system is the establishment of policies and procedures designed to provide reasonable assurance that a firm has skilled professionals to perform engagements in accordance with professional standards and regulatory and legal requirements and to enable a firm to issue reports that are appropriate in the circumstances. Although the skill and expertise of the engagement partner undoubtedly contribute to audit quality, even an engagement partner who possesses high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession cannot fulfill this element of quality control alone. It takes the extensive resources of a firm to ensure that the capabilities and competence of its professionals are developed through professional education, continuing professional development, work experience, and mentoring by more experienced personnel.

To maintain quality audits, it is critical that all quality control elements be addressed by the firm. Many of these elements cannot be addressed by and are not the sole responsibility of the engagement partner, such as establishing policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. In addition, some elements of quality control, such as the acceptance and continuance of engagements, require the approval of professionals outside of the engagement team.

Thus, we do not believe that requiring the engagement partner to be named in the audit report would enhance audit quality as it is not the engagement partner alone who signs an audit opinion, but rather the firm, which represents the collective efforts of many seasoned professionals.

The Proposed Rule indicates that the disclosure requirement would increase transparency about who is responsible for performing the audit, which could provide useful information to investors. The audit committee is directly responsible for the appointment, compensation, and oversight of the work of the auditor, and the auditor reports directly to the audit committee. Audit committees therefore represent the investors in this important role. This role has been reinforced by various SEC rules and regulations resulting from the Sarbanes-Oxley Act, as well as stock exchange listing requirements.

To ensure that the audit committee chooses its independent auditor on an informed basis, the audit committee usually develops a list of criteria and expectations that they believe the independent auditor should meet. These criteria include, among others, evaluating the partners who will be assigned to the client service team. During the proposal process the audit committee generally inquires about the SEC and relevant industry experience of the client service team, including the engagement partner.

After an audit committee selects an auditing firm, two-way communication becomes a natural part of an auditor's relationship with the audit committee. Audit committees receive regular partner-level attention during every phase of the audit, as necessary. In addition, throughout the year, the engagement partner communicates with the audit committee during the performance of quarterly reviews of interim financial information. The audit committee generally asks probing questions of management, the internal auditor, and the independent auditors, which allows it the opportunity to continually assess the competency of the engagement partner.

We believe there is currently significant transparency regarding the engagement partner's involvement in the audit. This transparency is achieved through the supervision by the audit committee, which is charged with the responsibility for the appointment and oversight of the work of the auditor on behalf of the investors. Therefore, we do not believe that increased transparency about the identity of the engagement partner would be useful to investors. One potential unintended consequence may be that investors could second guess an audit committee on the selection of an audit firm and the engagement partner. This potentially could result from situations where the engagement partner is associated with another current or former audit client experiencing difficulties (such as bankruptcy, a going concern uncertainty, adverse publicity, *etc.*) that may not relate to audit quality.

#### **Overall Comments on the Proposed Amendment to Form 2**

Based on our above response to the proposed audit report disclosure of the engagement partner's name, we do not support the proposed amendment to Form 2.

#### **Overall Comments on the Disclosure of Other Participants in the Audit**

We believe this issue to be separate from the above discussion and believe it merits its own separate proposed rule. However, we do support the disclosure of other participants in the audit. The proposed rule changes will provide investors and other users of the audit report with greater transparency into the other participants in the audit. Currently, when the lead auditor reports and assumes responsibility for work performed by other auditors, the users of the audit report cannot identify other participants in the audit in order to evaluate the other auditors. As such, we support the proposed rule to require additional disclosure of other participants in the audit.

#### **Conclusion**

We appreciate the opportunity to provide our comments to the PCAOB for further consideration.

Sincerely,

*Battelle & Battelle LLP*

Battelle & Battelle LLP