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

RE: Rulemaking Docket Matter No. 29
Improving the Transparency of Audits: Proposed Amendments to
PCAOB Auditing Standards and Form 2

Members of the Board,

I appreciate the opportunity to submit my comments to the Board with respect to the Proposed Amendments "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2" (the Proposed Amendments). I retired from public accounting in 2007 after 27 years at Deloitte & Touche LLP and am currently a full-time faculty member at the University of Notre Dame teaching undergraduate and graduate courses in accounting and auditing.

The Proposed Amendments appear to reflect the notion that the investment community should grade the audit in the same way rating agencies grade securities. The Board should not expect individual investors to grade auditors. We already have a process in place to evaluate auditors and audit firms and that process falls directly under the responsibility of the registrant's audit committee. That committee is directly charged under the Sarbanes-Oxley Act with responsibility for "the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer…".[1] Audit committees are charged with evaluating and selecting auditors. The Proposed Amendments would undermine that process.

The Proposed Amendments place too much emphasis on the role of one individual. Audits are conducted by teams of individuals; the largest audits have numerous partners, managers and staff comprising the audit team. While the signing partner has overall responsibility and signs the opinion on behalf of the firm, it's not an individual project with technical support. In many cases that lead partner is not the only key player in the conduct of the audit. For example, a partner supervising the audit of a major corporation with highly material exposure for asbestos related claims or supervising the audit of an insurance company would rely extensively on the work of the actuarial specialists who are part of those audit teams. The lead partner on the audit of a

1 Public Law 107-204, 107th Congress, July 30, 2002, "Sarbanes-Oxley Act of 2002", Sec. 301 (2) Responsibilities Relating to Public Accounting Firms

financial institution engaged in loan originations and securitizations would depend on the work of financial instrument specialists in the valuation of individual deals. Lead partners must rely on specialists in many areas including business valuation, international taxation, management information systems, government contracting, medical claims evaluation, appraisal of real estate, translation from other languages into English, computer system security, engineering and a host of others. Many engagements use multiple specialists and no one on the Board would expect the lead partner to be a specialist in all areas. Evaluation of the quality of the firm's performance as the auditor includes evaluation of its capabilities in all of the many areas of specialization that pertain to the registrant's business. That evaluation is not captured in the disclosure of a single name or in the disclosure of the countries of origin of offices participating in the conduct of the audit. However, all of that information and more is routinely considered by audit committees as they fulfill their responsibility to oversee the independent auditor.

Should the Board somehow conclude that disclosure of lead partner names and participating office locations is important to investors, I do not believe the auditors' opinion is the appropriate venue to accomplish this disclosure. Accordingly, I submit the following recommendation:

Recommendation

The Board should present its case to the Securities and Exchange Commission and request the SEC consider expanding the proxy disclosure requirements in Item 9 of §240.14a-101 to require the audit committee to disclose its consideration of the quality of the audit firm's practice and its personnel. Such disclosure would include the committee's consideration of the firm's worldwide service capabilities listing the firm's offices in key or critical locations, other participating firms' offices in key locations, as well as its consideration of the quality of the engagement team personnel under the leadership of "J. Doe, Lead Audit Partner". The disclosures proposed by the Board would therefore be made in the context of the audit committee's fulfillment of its responsibilities to oversee the independent auditor and allow it to inform its shareholders and other users of the financial statements of the basis for its satisfaction with the appointment of the firm as the registrant's auditor for the current year.

My responses to the Board's specific questions are as follows:

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

"The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity."[2] Auditors are an important part of that process but the key part of that process is the company's management and its people. Adding an individual auditor's name does not improve financial statement disclosure or the quality of that information. The premise of this question rests on a view of the partner as the sole decision maker in the audit. This view has been perpetuated by much academic research that addresses auditor decision making as if it's done by a lone rational individual rather than a group. For large clients, audit work performed by others is likely 98% of the effort; inserting an individual name distorts that. Finally, having been an audit partner on public companies I attended many annual shareholder meetings where I was introduced; attending shareholders not only had my name but could see my face. I don't believe that gave them any more protection or assurance; and none of them ever asserted as much.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

As one who has been a signing partner, having my name in the opinion would not have increased my level of accountability. First, having to report to an audit committee multiple times per year where one is known not just

2 Statement of Financial Accounting Concepts No. 8, Chapter 1 *The Objective of General Purpose Financial Reporting,* OB2, Financial Accounting Standards Board, September 2010

by name, but personally, gives one a great sense of accountability. Occasionally appearing before a full board of directors is also accountability enhancing. While my signings pre-date the PCAOB's existence, I can say that the prospect today of inspection by a PCAOB Inspection Team is a real accountability enhancer.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

On a major international corporation there are a dozen or more partners and 100,000 hours or more of audit effort. One person accounting for less than 2% of that having his or her name in an opinion does not do justice to the overall effort of the firm. Casual users don't appreciate the amount of work that goes into the multi-million dollar fees and likely associate that number with the wealth of the individual partner; they have no appreciation that a $30 million fee is more than 100,000 hours of work by scores of auditors.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

The premise of the question is that this disclosure is useful in the first place. While the disclosure might be interesting, it is not useful and cannot be improved to be made useful. However, as noted above under "Recommendation" if the proposed disclosures are determined to be necessary, they should be made in the proxy statement in the context of audit committee oversight of the independent auditor.

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

While it would certainly point out that two different individuals signed the opinions, such information would be misleading because the only key individuals who've changed roles are likely those two partners.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

CEOs and CFOs are well known to all; their names and compensation have been publically known for decades. Auditor identities are also known by those who attend annual meetings and in my personal experience I never felt that my safety or privacy was at risk because of that. However, I do confess that my time as an audit partner appearing at annual shareholder meetings predates Facebook, Twitter, iPhones and the like. I never had analysts phone me in my office or at my home after an annual meeting to ask questions. Given PCAOB adopted professional standards surrounding client confidentiality, if investors think they will be able to phone the signing partner, ask questions and get answers, they are sadly mistaken. Other than the nuisance that will arise from attempts to "mine" the audit partner for confidential information, I don't believe there are any particular safety risks involved.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

This is a legal question and therefore outside my expertise. However, I believe answering that question now is not possible as the individual partner's name is not disclosed in the manner proposed by the Board. While many legal minds may speculate as to the likelihood of an increase or decrease in individual exposure, my personal observation as a non-attorney is that one can neither predict how common law will develop over time nor how our court system will react to this change ten years hence.

8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)?

See 7, above.

9. Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

See 7, above. The Board should consult with the SEC on this matter as well.

10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?

See 7, above. The Board cannot predict or anticipate changes in laws that could result from such disclosure; legal systems have a way of "morphing". Given the number of states and the imaginations of attorneys, I don't think the Board is in any position to predict how an engagement partner's liability exposure might change.

11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

See 7, above. Certainly if the SEC were to adopt the changes suggested in my Recommendation, above, individual and firm legal liability would still need to be evaluated.

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

I see no benefit accruing to financial statement users from such a requirement. It's not costless; there are hundreds of pages for the largest firms' Forms 2 and the time involved to load that information, check it, and update it is real time. Firms have already built infrastructure just to deal with PCAOB oversight and this requirement would add to that. Investors interested enough in the registrant to attend the annual meeting likely know the name of the lead audit partner. If this disclosure is really necessary, then add it to the proxy as suggested above. Those users who really want to know about the individual firms they follow will have that information; academic researchers interested in individual partner names because they believe they'll be able to get some paper published using that information will ultimately be able to gather it from Audit Analytics or another data base the same way they currently obtain information about audit fees. Gathering this information is little more than setting up a site to allow speculative data mining. If the Board determines the information is necessary, then those who are users of the registrant's financial statements will have that information either through the Proposed Amendments or via the Proxy Statement as recommended above.

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

If the Board does not adopt because the information is not considered important enough to warrant disclosure then I fail to see the purpose in adding the information to Form 2 and thus forcing its disclosure. Undertaking to gather the names of all signing partners in one place would not be done for users of registrant's financial statements but would be for use by others who are not shareholders, capital providers or analysts for a particular registrant. This strikes me as gathering information for the sake of doing so or for researchers, not for the purpose outlined by the Board in the Introduction to the Proposed Amendments.

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

For all the reasons cited above I do not believe this is a necessary disclosure. Partners retire, get transferred to other audit engagements, become office managing partners – in short there are a host of reasons for changes in the signing partner just as there are a host of reasons for changes in the many other individuals who comprise a particular audit engagement team. Again, focusing on this individual distorts the partner’s role and gives this person too much importance in the conduct of an audit.

15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

What would investors do with this information? Would they buy or sell securities based on a change in the signing partner on an audit? Does the Board believe that investors change their holdings now based on who is or who is not appointed as the auditor for one of their investments or based on the results of PCAOB inspections? If so, then this is a direct reflection on the audit committee and its fulfillment of its oversight responsibilities not the quality of the auditor.

16. Is it sufficiently clear who the disclosure [foreign auditors by country and firm name, other participants in the audit] *would apply to? If not, how could this be made clear?*

The premise of the question is that this is useful information. Will investors really form their portfolios based on the offices involved in an audit? If so, this is a reflection on the audit committee’s performance not the quality of the audit firm.

Instituting a process to gather office identity is little more than a process to allow researchers to attempt to evaluate “audit quality” which is just as misleading as attempting to assign audit quality to an individual partner. The audit committee has the responsibility to oversee the performance of the auditor. Wholesale disclosures of this nature are unwarranted and undermine the audit committee’s authority. As noted in the Recommendation above, if disclosure of this information is truly necessary it should be done by the audit committee in the proxy statement in the context of the audit committee’s fulfillment of its oversight responsibilities.

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

I agree with the Board’s determination that this is not an appropriate disclosure because the partner performing the EQR is not a part of the engagement team. In my own experience as a partner performing an EQR, I was not routinely known to the audit committee or to management; when I was so known, I made sure it was clear to all that I was not part of the engagement team and did not answer to the lead audit partner; I did not attend audit committee meetings or annual shareholder meetings in my role as the EQR partner. The partner performing an EQR is one part of a firm’s quality control process and, while a key part, is not the only part. In my personal experience, in difficult situations, the EQR partner is not the critical individual involved.

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review?

This is even less relevant than the name of the partner performing the EQR.

19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

Not requiring such disclosure is appropriate. Disclosing identities serves to divide the responsibility for the audit among numerous firms and/or individuals rather than leaving it with the lead audit firm where it should reside. The audit is the responsibility of the lead firm as a firm; where that responsibility is permitted to be divided under present professional standards, current reporting standards are sufficient. The assessment of the propriety of such an arrangement is, again, the responsibility of the audit committee.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

All this does is distinguish between those situations where a firm opens a branch office of its US firm (making that a US office and its employees US employees) and where it does not. We may have exactly the same professional situation only the form would be different. Again, assessment of the impact of these sorts of arrangements is the responsibility of the audit committee, not the marketplace.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

Again, this is the purview of the audit committee not of the investment community. This level of detail undermines the audit committee’s effectiveness.

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

See the Recommendation above regarding proxy disclosure.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

When an audit firm refers to the fact that there are other auditors who participated in the audit but for whose work the lead auditor does not assume responsibility, SEC Regulation S-X in §210.2-05 already requires the opinions and consents of those other auditors be filed with Forms 10-K and/or registration statements. Adding their names to the lead audit firm’s opinion is therefore unnecessary. If the audit firm has assumed responsibility for the work of other firms, then disclosure of the identities of those firms is counter-productive and distorts the responsibility of the lead audit firm. As stated above, the analysis of this sort of information is the responsibility of the audit committee.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

I see no reason why this should impact any firm’s ability to compete. As noted above, the selection of an audit firm is the responsibility of the audit committee. The disclosure of this sort of information is already made to the audit committee and if it’s not, then the committee is not fulfilling its oversight responsibilities. If the Board is suggesting that such is the case, it should work with the SEC and seek ways in which to help audit committees improve, not ways to circumvent them.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

I’m sure there are other challenges (such as the need for consents) that will be raised in other comment letters.

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

How would capital providers use this information? Would they buy and sell securities or call a loan based on the auditors' hours? How would users distinguish changes in hours as stemming from efficiency vs. inefficiency? From changes in audit team personnel vs. changes in registrant personnel? From institution of new GAAP compliance checklists vs. PCAOB inspection preparation checklists? As noted above, this sort of information should be provided to audit committees for their use in exercising their oversight responsibilities. It should not be for public consumption.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

Even for audit committee reporting, getting other participants to timely provide this information is often a challenge. While this sort of information is provided to audit committees it is normally not gathered in the rush of year end reporting as doing so would be a distraction for all involved.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

No. This is all under the purview of the audit committee and should remain there.

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

Again, this level of detail is of the nature of information to be provided to the audit committee and in my personal experience such information is regularly provided to audit committees. If the Board has reason to believe that audit committees are not fulfilling their responsibilities it should approach the SEC.

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

As noted in the Recommendation above, if this disclosure is provided the audit committee should do so in the proxy statement.

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

Again, this level of disclosure is inappropriate and undermines the credibility and authority of the audit committee.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

Again, this is the job of the audit committee and disclosure is inappropriate.

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

As noted above, when an audit firm refers to the fact that there are other auditors who participated in the audit but for whose work the lead audit firm does not assume responsibility, SEC Regulation S-X in §210.2-05 already requires the opinions and consents of those other auditors be filed with Forms 10-K and/or registration statements. Adding their names and other information to the lead audit firm's opinion is redundant.

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

Any discussion of disclosing the name of a "referred to firm" in the opinion is moot; such disclosure would not provide investors with any new information since the opinion and consent of a "referred to firm" must be filed with the SEC as pointed out above. The express permission of a participating firm is not something for which the lead audit firm bargains; the participating firm is notified that it will be relied on and its opinion and consent will be required. If it is unwilling or unable to comply, it can't be the auditor for that subsidiary and the lead audit firm must conduct the audit itself with its own member firms despite the preference of the registrant that another firm be used.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

Again, this assessment is the job of the audit committee not the investment community.

I appreciate the opportunity to offer my comments.

Sincerely,

s/ James L. Fuehrmeyer, Jr.

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