

Please note that the comments expressed herein are solely my personal views

Public Company Accounting Oversight Board
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Chris Barnard
Actuary

30 January 2014

- **Release No. 2013-009**
- **PCAOB Rulemaking Docket Matter No. 029**
- **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**

Dear Sir,

Thank you for giving us the opportunity to comment on your release 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. You are reproposing amendments to your standards that would improve the transparency of public company audits. The amendments would require (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

I strongly support the proposed amendments. These will definitely increase transparency and accountability, and should therefore act to improve the engagement partner's standard of professionalism, due care and professional scepticism. Greater disclosure is the way forward, and there are no compelling arguments against this trend.¹ My comments on this release are in principle the same as my comments on the previous version of the release. For completeness I enclose the comment letter that I submitted to you in October 2011 on the release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2.

¹ For example the International Auditing and Assurance Standards Board (IAASB) recently proposed a requirement for firms to disclose the name of the engagement partner in the auditor's report of a listed entity. See IAASB exposure draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing, July 2013, and my comment letter thereon.

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Yours faithfully

C.R.B.

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17 October 2011

- **Release No. 2011-007**
- **PCAOB Rulemaking Docket Matter No. 029**
- **Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2**

Dear Sir,

Thank you for giving us the opportunity to comment on your release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2. You are proposing amendments to your standards that would improve the transparency of public company audits. The proposed amendments would: (1) require registered public accounting firms to disclose the name of the engagement partner in the audit report, (2) amend the PCAOB's Annual Report Form to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form, and (3) require disclosure in the audit report of other independent public accounting firms and other persons that took part in the audit.

I strongly support the proposed amendments. These will definitely increase transparency and accountability, and should therefore act to improve the engagement partner's standard of professionalism, due care and professional scepticism. It is interesting to consider the alternative, or current situation. What are the advantages of not disclosing the engagement partner in the audit report? Why should the engagement partner, who leads and is largely

responsible for the audit, be anonymous? The release provides some arguments against disclosure here, but these seem mostly spurious and / or specious. For example "some auditors suggested that the identity of the engagement partner would not be useful to investors".¹ This is flatly refuted by the investors themselves,² and we should give more credence to the actual views of investors, rather than auditors' perceptions thereon.

I have some specific comments, which I will address in answer to your specific questions.

Answers to specific questions raised by the PCAOB

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

Yes. It would be more transparent, and easier for investors to contact the engagement partner. The engagement partner would be more accountable, and this should act to improve the engagement partner's standard of professionalism, due care and professional scepticism.

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?

Disclosing the name of the engagement partner should increase accountability. Requiring a signature should increase accountability even more. This is human nature.

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?

I believe that the proposed approach provides the right balance here. The name of the engagement partner would be disclosed, and the audit firm would sign the report.

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?

Yes. The proposed disclosure is quite clear.

¹ See release, page 9.

² See release, page 4: "Investor members of the SAG generally supported a signature requirement"; and "most IAG members expressed support for such a requirement". See also page 21: "Investors have requested greater transparency about who is performing the audit and how much of the audit they have performed". There are other examples in the release.

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?

Yes. The proposed disclosure is quite clear.

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?

Many professionals, such as doctors, lawyers, accountants and actuaries have to sign reports containing findings, opinions and judgements, which may be controversial. I am not aware of any unusual security risks in this regard.

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?

Yes. Investors have stated a preference for disclosing this information.³ Again, there is no reason not to disclose the information.

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?

The proposed requirements are quite clear.

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?

Yes, the proposed requirements are sufficiently clear. I agree that the name of the firm or person that is disclosed should be based on whom the auditor has the contractual relationship. This is reasonable, and clearly appropriate.

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 do not believe that there will be any adverse impact on competition. We are only disclosing the practical realities here.

³ See release, comments at page 21.

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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 do not foresee major challenges in this regard.

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?

Yes, I support the total hours approach. This best represents the quantum of work actually done, and is a superior measure compared with monetary apportionment.

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

No insurmountable challenges. Recording hours is common practice worldwide.

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?

I would generally support such discussion as part of the disclosure, but only at the discretion of the audit firm.

Yours faithfully

Chris Barnard