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

Re: PCAOB Rulemaking Docket Matter No. 29

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*. Our comments are organized so as to respond to the amendments in the order proposed in PCAOB Release No. 2011-007.

The Proposed Audit Report Disclosure

Transparency

We believe disclosure of the engagement partner's name in the auditor's report would not enhance audit quality, auditor accountability, or investor protection. It is the audit committee who represents investors in the important role of appointing and overseeing the work of the auditor. To ensure that the audit committee chooses its independent auditor on an informed basis, the audit committee develops a list of criteria and expectations they believe the independent auditor should meet. These criteria include, among others, evaluating the partners who will be assigned to the client service team.

After an audit committee selects a registered public accounting 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. In addition, throughout the year, the engagement partner communicates with the audit committee during the performance of quarterly reviews of interim financial information. As a part of these communications, the audit committee generally asks probing questions of the independent auditors, which allows it the opportunity to continually assess the competency of the engagement partner.

If at any point members of the audit committee have concerns about the integrity, objectivity, independence, or competency of the engagement partner, they would address those concerns with the registered public accounting firm. If they were not satisfied with the firm's response, they would likely consider engaging another registered public accounting firm. These types of decisions are appropriately left with the audit committee and not with individual shareholders. To further enhance the relevance and effectiveness of the communications between the auditor and the audit committee, the PCAOB has re-proposed its auditing standard related to communications with the audit committee, which, when finalized, will place even greater emphasis on the importance of effective, two-way communication between the auditor and the audit committee.

We believe a company's audit committee is in a better position to evaluate information about the qualifications of an engagement partner and sufficiently represents investors' interests, making widespread disclosure of the engagement partner's identity unnecessary. Therefore, we do not believe that increased transparency about the identity of the engagement partner would enhance audit quality, auditor accountability, or investor protection.

The Engagement Partner's Sense of Accountability

We do not accept the argument that disclosing the name of the engagement partner in the auditor's report would increase the engagement partner's sense of accountability. We believe engagement partners already have reasons to feel highly accountable for their work. Under PCAOB standards, the engagement partner is responsible for the engagement and its performance. Engagement partners are accountable to audit committees, to investors, to their firm, to other partners within their firm, and to regulators.

Engagement partners realize that a lack of professional accountability can have dire consequences, not only for their firm, but also for them personally. Auditors are subject to state laws that generally require CPA firms be owned by individual CPAs. Therefore personal financial resources of partners are at stake with each auditor's report issued. Also, a state board of accountancy can suspend or revoke a license to practice if a complaint regarding the auditor's professional conduct is received and found to be valid. Further, engagement partners may be held liable in PCAOB and SEC enforcement actions without regard to whether their name is disclosed in the audit report or whether they sign the audit report. 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's name were disclosed in the audit report.

We also believe that requiring the disclosure of the engagement partner's name in the auditor's report could result in users reaching inappropriate conclusions about the engagement partner, or the quality of the audit without appropriate consideration of other relevant factors. For example, certain circumstances about a company are not within the control of the engagement partner and may not directly relate to the performance of that engagement partner or the quality of the audit (*e.g*., bankruptcy, going concern uncertainty, adverse analyst coverage, certain material weaknesses in internal control over financial reporting, or restatements to the financial statements, *etc*.). The creation and use of "engagement partner scorecards" by investors and other stakeholders based on such factors outside of the control of the engagement partner would inevitably develop but be misguided in attempts to evaluate the performance of engagement partners.

The Appropriate Balance between the Engagement Partner's Role in the Audit and the Firm's Responsibility for the Audit

We do not support disclosure of the engagement partner's name in the auditor's report because, among other reasons, the report is issued upon the authority of the firm and not the authority of the individual engagement partner. The PCAOB's own standards prohibit the engagement partner from issuing 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.

Disclosure of the engagement partner's name in the auditor's report may lead to a misconception by investors about who is responsible for the audit and the issuance of the auditor's report. Quality audits are accomplished through the use of all of the resources of a firm. The engagement partner is not expected to fulfill his or her responsibilities alone. Rather, the engagement partner may and does seek assistance from appropriate engagement team members. In multi-location and complex audits, the lead engagement partner often relies on the work of other partners, such as those in other locations or those with a certain professional specialty, such as tax partners. Therefore, in addition to the engagement quality reviewer and firm consultants, there can be other partners supporting the firm's audit, and the lead engagement partner justifiably relies on them.

Other professionals, including other members of the engagement team and national office partners, play an important role in performing a quality audit and in the firm's quality control system. 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 competency, 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 disclosure of the engagement partner's name in the auditor's report would reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit as it is not the engagement partner alone who issues an auditor's report, but rather the firm, which represents the collective efforts of many seasoned professionals. Our firm carefully selects all members of the engagement team including, but not limited to, the engagement partner. We therefore have concerns about minimizing the role of the firm or suggesting that the engagement partner is solely responsible for the audit engagement.

Increase in Private Liability of the Engagement Partner

We agree that a further assessment of the legal implications of this Proposal is important, and urge the Board to resolve this issue before moving forward. In its 2009 *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, the Board stated that its "intent with any signature requirement would not be to increase the liability of engagement partners." This was reiterated in the Proposal which states "the intent…was ….not to increase the liability of engagement partners." We have concerns regarding the uncertainty of liability implications of the Proposal, most importantly under Section 11 of the Securities Act of 1933 (Section 11). We also believe the Board should perform a liability assessment under Section 10(b) of the Securities Act of 1934 (Section 10), Section 11 and state law, including consideration of legal costs associated with the proposed benefits of additional transparency.

With respect to specific concerns regarding additional liability under Section 10 and Section 11, we refer you to the Center for Audit Quality's (CAQ) comment letter on this Docket Matter No. 29, specifically to Section I.b. of the CAQ's comment letter, "Requests for Perspectives on Liability."

We believe that legal implications under state law are also an important consideration. If the Board adopts the Proposal, a state court may reach the conclusion that a named engagement partner or participating firm in the audit report is liable under the state's blue sky laws. Additionally, unlike federal securities laws, a number of states' blue sky laws recognize causes of action by a holder of securities who claims to have relied on false statements. Plaintiffs also could seek to assert state common law claims against named engagement partners and participating firms. As a result, even without reference to ultimate liability, identification of the engagement partner and participating firms could increase the number of state law claims brought against partners and firms.

In summary, we have significant concerns that naming the engagement partner in the auditor's report possibly could increase the number of unwarranted claims brought against partners solely by providing that information to plaintiffs and plaintiffs' counsel. As a result, the Board's proposal runs the unintended risk of increasing litigation costs and disrupting client services provided by engagement partners and firms without enhancing audit quality (that is, an increase in the cost of providing audit services without a commensurate increase in audit quality).

Also, an increased risk of litigation could impact an engagement partner's behavior, such as by reducing his or her willingness to participate in audits of public companies. This effect may be more pronounced at firms that derive a larger percentage of revenue from private company audits (*i.e.*, some smaller firms) or smaller, regional offices of larger firms that have fewer partners available to serve on audits of public companies, which may impact their ability to compete for audits of public companies. Further, increased personal litigation against engagement partners could serve as a disincentive for college students to enter the public accounting profession.

The Proposed Amendment to Form 2 Regarding Disclosure of the Engagement Partner

For all of the reasons stated above, we do not believe disclosure of the name of the engagement partner on Form 2 (or filing a special report on Form 3 whenever there is a change in engagement partners) would be meaningful to investors, nor would it enhance audit quality. Also, the proposed requirement to file a special report on Form 3 whenever there is a change in engagement partners may present practical implementation challenges as there could be many different reasons for a change in the engagement partner, including private health-related issues, none of which may be related to audit quality.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

We believe it could be beneficial to require additional relevant and useful clarifying language in the audit report related to the principal auditor's responsibility and other audit participant's responsibility for the audit engagement. The Board should consider, however, the potential reaction from other firms participating in the audit regarding the proposed requirement to be named in the auditor's report. Other firms participating in the audit, including network firms, might be reluctant to participate in audits of issuers due to concerns over additional liability resulting from being named in the auditor's report. This type of reaction may carry the unintended consequence of the principal auditor (especially non-Big 4 firms) needing to use other firms from outside of its network to conduct audit work thereby potentially adversely impacting audit quality as the advantages of using global methodologies, policies and procedures would be eroded. The Board should consider whether transparency with regard to other firms used in the audit could adequately be addressed by indicating on a no-name basis other audit firms used, some metric indicating the extent of substantial participation of each firm, and whether the other firm is subject to inspection by the PCAOB.

With respect to metrics that might be used to indicate the extent of participation of each firm, we believe a threshold above three percent (*e.g.*, 10 or 20 percent) would be more consistent with the Board's intent to provide to investors the most meaningful information about participants in the audit. This is consistent with views expressed by investor and preparer representatives during the November 2011 PCAOB SAG discussion on this Proposal. A higher threshold is also consistent with existing U.S. Generally Accepted Accounting Principles as well as SEC regulations intended to guide meaningful disclosure to investors regarding relevant financial reporting matters, and PCAOB rules which set a threshold for the level of audit work deemed significant enough to require PCAOB registration and inspection. For example, PCAOB rules require registration of any firm that plays a "substantial role" in the preparation or furnishing of an audit report with respect to any issuer. "Substantial role" is defined as any firm that: 1) performs material services (*i.e.*, services for which the engagement hours or fees constitute <u>20 percent</u> or more of the total engagement hours or fees) that an accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or 2) performs the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute <u>20 percent</u> or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer.

We agree that it would not be appropriate to require disclosure of the individual who performed the engagement quality review or the person who performed the Appendix K review. Also, we agree that it would not be appropriate 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.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Bob Dohrer, National Director of Assurance Services, at 919-645-6819.

Sincerely,

McGladrey & Pullen, LLP

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