

August 28, 2015

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

Re: PCAOB Rulemaking Docket Matter No. 029

McGladrey LLP appreciates the opportunity to offer our comments on Public Company Accounting Oversight Board (PCAOB) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*. McGladrey LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

As discussed in our January 29, 2014 comment letter on PCAOB Rulemaking Docket Matter No. 029, we support increased transparency related to the audit where such transparency improves audit quality or better enables financial statement users to make well-informed decisions about their investments or their voting decisions. We continue to believe, however, that a balance must be achieved when weighing the potential benefits of transparency with the impact of the associated costs and consequences for audit firms, audit partners, issuers, and the capital markets at large. We therefore appreciate the PCAOB's responsiveness to the concerns raised about the significant potential unintended consequences, liability implications and practical challenges that would have been associated with providing disclosure in the auditor's report of the name of the engagement partner and information about certain other participants in the audit.

We agree that the use of Form AP, *Auditor Reporting of Certain Audit Participants*, is a more appropriate disclosure mechanism, which will provide the requisite information to investors in a transparent manner with fewer associated costs and unintended consequences than those resulting from disclosure in the auditor's report. Disclosure of the engagement partner's name in Form AP, instead of in the auditor's report, will avoid liability concerns under Section 11 of the Securities Act and obviate any need for additional time and fees to obtain a consent from the engagement partner under Section 7. Also, identifying the engagement partner and providing information about certain other audit participants in Form AP, instead of in the auditor's report, will allow for the convenient and efficient use of this information by investors and others because the information will be accessible in one location and will be searchable. The housing of information by the PCAOB in one location on Form AP also will help to ensure historical information is complete and can be compiled accurately by those who may desire to do so.

However, we continue to have significant concerns about how the disclosure of the identity of the engagement partner without appropriate context will help investors make better informed decisions. Including the engagement partner's name in Form AP does not provide the appropriate context around or insight into the partner's work experiences or skill level. This lack of disclosure of relevant facts could cause investors to draw inappropriate conclusions about an engagement partner's qualifications to serve as the engagement partner for an issuer especially if the engagement partner is the partner of record for a limited number of issuer audits.

We also caution that there is no clear evidence about whether public disclosure of the name of the engagement partner or information about certain other audit participants will improve audit quality. We do not believe disclosure of the name of the engagement partner will impact the performance of the professional duties of these individuals as they already are accountable to multiple parties, including their firms, their clients and regulators. More importantly, they are accountable to the investors and others who use the auditor's report.

In this letter, we explain our views about voluntary disclosure in the auditor's report regarding the engagement partner and other accounting firms participating in the audit. We also address certain matters related to implementing some of the specific requirements of proposed Rule 3211, *Auditor Reporting of Certain Audit Participants*, and Form AP.

### **Voluntary disclosure in the auditor's report**

In considering requiring disclosures regarding the engagement partner and other accounting firms participating in the audit to be made on Form AP, the PCAOB has stated, "Auditors would not be required to include the information in the auditor's report but could choose to do so in addition to filing the form."<sup>1</sup> As discussed in our January 29, 2014 comment letter, identification of engagement partners and other participants in the auditor's report increases concerns about liability as to claims under Section 11 of the Securities Act of 1933. In addition, as discussed in our prior letter, when engagement partners and other participants are named in the auditor's report, there will be practical challenges and additional costs associated with obtaining consents.

We believe providing auditors with the option of disclosing in the auditor's report the name of the engagement partner and information about other accounting firms participating in the audit will create inconsistencies in audit report disclosures as a few firms' auditors' reports may have this disclosure, while others may not. This disparity in practice will create confusion for investors and will negate the advantages of only having such information housed in one searchable location. Also, in Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*, the SEC has requested comment on whether disclosure by the audit committee of the name of the engagement partner would be useful to investors. Should the SEC require audit committees to disclose the name of the engagement partner, there would be even more diversity as to where an investor could go to find the name of the engagement partner. We therefore do not believe auditors should have the option of disclosing in the auditor's report the name of the engagement partner and information about other accounting firms participating in the audit. If the PCAOB chooses to continue to consider this option, we believe it would be prudent to wait for any possible revised SEC rules regarding audit committee disclosures, including the name of the engagement partner.

### **Rule 3211**

#### *Filing of Form AP upon report reissuance*

Proposed Rule 3211 (a) states, "For each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker or dealer, each registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form." Although Item 3.1.d of Form AP indicates a dual-dated audit report is included in the scope of Rule 3211, the language in Rule 3211 is unclear as to whether Form AP needs to be filed each time an auditor's report is reissued. Release 2015-004 states, "Since the obligation to file Form AP would be tied to the issuance of the auditor's report, if the auditor's report is reissued and dual-dated, a new Form AP would be required even when no other information on

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<sup>1</sup> PCAOB Release No. 2015-004 – page 5.

the form changed.”<sup>2</sup> If it is the PCAOB’s intention that Form AP be refiled with every audit report reissuance, we believe this would include filing a Form AP with each registration statement amendment, even if none of the information in the Form AP has changed in the short period of time between amendments. It would be helpful to the profession if the language in Rule 3211 was clarified to reflect exactly when a Form AP needs to be filed, including whether a Form AP needs to be filed when the auditor’s report has been reissued, but none of the information in the Form has changed. We believe a new Form AP only should be required upon reissuance of an audit report if the information previously provided on Form AP is no longer accurate.

*Filing of information for multiple engagements on one Form AP*

As proposed, Rule 3211 (a) would require a registered public accounting firm to file “a report on Form AP” for each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker or dealer. The proposed Rule does not discuss an option to allow firms to file a single Form AP covering multiple audit engagements. Filing a single Form AP for each individual audit will be time consuming and could be particularly burdensome for firms during the period following the issuance of numerous reports for audits of issuer financial statements with calendar year ends. We believe it would be more efficient for both audit firms and the PCAOB if firms could be provided the option of filing the requisite information for multiple engagements on a single Form AP, for example, filing a single Form AP covering all audit reports issued during a single month.

*Deadline for the filing of Form AP*

The Board is considering a Form AP filing deadline of 30 days after the date the auditor’s report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings (IPOs). We believe it would be more appropriate to allow firms to file Form AP by the 45<sup>th</sup> day after the date the audit report is first included in a document filed with the SEC, with a shorter deadline of 10 days for IPOs. Our proposed 45-day deadline for the filing of Form AP would be consistent with the documentation completion date dictated by PCAOB Auditing Standard No. 3, *Audit Documentation*, which provides that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date. We believe the additional 15 days would allow more time for the accumulation of hours spent assembling the final audit documentation. It also would allow more time to accumulate hours from other participating accounting firms, which may result in less estimation and therefore more accurate reporting of audit hours used in the disclosure of information about other accounting firms participating in the audit.

**Part IV of Form AP – definition of total audit hours**

The proposed instructions for completing Part IV of Form AP state that the engagement quality reviewer is excluded from the disclosure requirement and from the definition of “total audit hours in the current period’s audit.” We do not believe that the audit hours provided by the engagement quality reviewer should or need to be excluded from total audit hours as defined. The engagement quality review is a requirement under PCAOB Auditing Standard No. 7, and those audit hours are included in the audit fee disclosed in the proxy statement. The effort to carve out the hours of the engagement quality reviewer (and any assistants) provided in connection with the audit and interim reviews creates one more administrative matter to be addressed when preparing the Form AP, and these hours would not seem to materially distort the denominator when measuring total audit hours.

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<sup>2</sup> PCAOB Release No. 2015-004 – page 9.

### **Nonaccounting firm participants**

For the reasons articulated in our January 29, 2014 comment letter, we agree with the Board's proposal to not require disclosure of information regarding nonaccounting firm participants.

### **Application to audits of emerging growth companies**

If the PCAOB proceeds with the requirement to disclose the name of the engagement partner and information about other audit participants in Form AP, we believe the requirement should apply to audits of emerging growth companies. Extending the requirement to emerging growth companies would help to ensure historical information gathered on Form AP is complete for all issuers and can be searched accurately by those who may desire to do so.

### **Application to audits of brokers or dealers**

If the PCAOB proceeds with the requirement to disclose the name of the engagement partner and information about other audit participants in Form AP, we believe the requirement should not apply to audits of nonissuer brokers or dealers because such entities are privately held and therefore do not have investors who would need to learn the name of the engagement partner or information about other audit participants through a form that is available to the public.

### **Effective date**

We believe there will be logistical and administrative challenges in meeting the requirement for filing information on Form AP effective for auditors' reports issued or reissued on or after June 30, 2016 or three months after the SEC approves the requirements, whichever is later. We believe firms will need adequate time to (a) develop internal systems, processes and controls necessary to gather and report the requisite information and (b) educate other accounting firms that participate in the audit regarding their reporting requirements. We therefore suggest the requirement for filing information on Form AP be effective no sooner than for auditors' reports issued on or after December 31, 2016 or one year after the PCAOB releases necessary implementation guidance to address the matters posed in comment letters in response to Release 2015-004, whichever is later.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Scott Pohlman, National Director of SEC Services, at 612.455.9499 or Sara Lord, National Director of Assurance Services, at 612.376.9572.

Sincerely,

A handwritten signature in cursive script that reads "McGladrey LLP".

McGladrey LLP