Texas Society of
CPA Certified Public Accountants

February 3, 2014

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

RE: Proposed Auditing Standards: *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*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

In our discussion of the above referenced exposure draft (ED), we considered each of the 25 questions posed by the Board as we did when we responded to the original version of this ED. Our response to each question is indicated in the body of our letter. However, prior to sharing our answers to the questions, we feel compelled to reiterate our general lack of support for this proposed amendment to PCAOB auditing standards.

In our opinion, this reproposed version of the original ED continues to propose guidance that serves absolutely no useful purpose and at best subjects our profession to potential liability and abuse that is baseless and irrelevant. This attempt at promoting a greater degree of transparency related to the attestation function will only result in an escalation of the misconceptions that surround the role of those who are responsible for performing the attest function. Nothing in the ED enhances the performance of the attest function or the understanding of that function by those who rely on the function and the information it generates.

The guidance in this ED tends to cast doubt on the integrity of those who perform the attest function. The call for personal identification of those responsible for an attest engagement implies that users or other interested parties are unaware of where the final output of an attest engagement comes from or whether the people performing the engagement were competent to do so. The fact that we currently identify the firm responsible for the engagement and the date of its performance seems to be all any interested party would need to know. If a greater amount of information about the specific identity of those involved in the process is really necessary, because of some relevant concern, we believe they would be easy to identify.

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We believe these proposed auditing standards contain numerous flaws in both the basis for their issuance and the guidance they propose. The justification for this exposure document seems to come from the views of the Council of Institutional Investors and inconclusive research provided by the academic community. The focus of the document seems to be on rectifying the inadequacies of those in charge of audit engagements by identifying them and publicizing the perception of their inappropriate performance. We believe this is a very poor basis for the development of an auditing standard!

In our letter responding to the 2011 version of this ED, we pointed out our belief that the many safeguards that are in place in our profession to address the issues raised in this ED seem to be adequate. We have established Codes of Professional Conduct for CPAs at both the national and state levels. We have peer review programs that are designed to identify the sub-standard performance in attestation engagements and implement steps designed to rectify such deficiencies. We have professional standards committees at both the national and state levels that are focused on ethics and the ethical responsibilities of practitioners. Public accounting firms are required to develop quality control policies and procedures to which the firm's professional staff is required to comply. These firms are required to design these standards to "promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm's leadership to assume ultimate responsibility for the firm's system of quality control." All of these efforts are designed to monitor performance and head off the issuance of unreliable information and the incompetent performance of professional engagements.

Once again, the big question we still have after reading and analyzing this reproposed standard is, "Have all of those efforts failed to accomplish their objectives?" One could easily conclude upon reading this proposed standard that our profession has decided to outsource the performance and competence evaluation of individual public practitioners to investors and corporate boards. Such a decision has obvious ramifications that would invite chaos and significant legal problems.

It seems to us that having the firm as the guarantor of the competence with which an engagement is performed would be far more valuable to investors and boards than the name of an individual auditor. Also, the proposed standard implies that the signature of an individual auditor will make the firm more responsible. We strongly believe that the signature of the **firm** makes the **firm** as well as **the individuals who make up that firm** more responsible!

Question 1: Would the proposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

We do not believe the requirement to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users a higher level of assurance. If anything, this information may lead to misleading information that would blur the line between management's responsibility for the financial statements and the auditor's responsibility for the audit.

We also feel that information about other participants in the audit clouds the issue of who is responsible for the final opinion on the financial statements as a whole. If a firm is not using qualified other participants, it should impact the firm's inspections and continued registration, but is not a necessary disclosure in the audit report.

Question 2: Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

The name of the audit partner and whether the firm will be using other participants is currently included in the engagement letter. If shareholders are interested in that information, it could be disclosed to them when they are making their decision whether to ratify the auditor, and not as a part of the audit report. Disclosure in the audit report only tells who was responsible for the audit that was completed, not the upcoming audit. As such, we do not see how this could be useful to the shareholders in ratifying the upcoming choice of firms.

Question 3: Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

The reproposed requirement to disclose the engagement partner's name would provide information which could be used to develop databases and other compilations containing those names. However, there are numerous issues which arise in connection with the use of, and conclusions drawn from, that information. It appears that one primary use of the engagement partner's name could well be the development of inflammatory public discussion of the engagement partner based solely on the association with a particular engagement. A cursory review of a social media site such as Twitter provides sufficient evidence of such inappropriate use of an engagement partner's name when obtained from existing indirect sources. Unregulated and largely non-challengeable use of the partner's name in print and social media could result in damage to the partner's reputation. The reality of client confidentiality rules is that a partner is unable to challenge the published results of those databases and compilations.

One obvious issue regarding conclusions drawn from the disclosure of the engagement partner's name is that those conclusions will be made based on insufficient and often misinterpreted data. For example, because a partner has a limited number of clients in a particular industry does not justify the conclusion that this partner lacks expertise in that industry. A particular focus might well be placed on partners associated with misstatements. The circumstance surrounding misstatements are generally complex, with numerous factors and persons involved. Drawing an appropriate conclusion regarding the degree of responsibility of any person associated with the restatement requires a thorough "root cause" analysis with all relevant facts and evidence available. Such an analysis would give way to speculation and conclusions based solely on presumption. The databases and compilations based on partner names and associated clients will inevitably result in erroneous conclusions based on insufficient information which cannot be challenged by the partner. Overall, we firmly believe the

outputs from these databases and compilations will be misleading and provide little or no benefit to investors, audit committees or any other party coming in contact with the information.

Question 4: Over time would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

The requirement to disclose other participants involved in an audit would provide information which could be used to develop databases and other compilations of information relating to the other participants disclosed. The issues and shortcomings associated with these disclosures are similar to those identified in Question 3. The only difference may be a more pervasive impact due to the high number of parties who participate in large multi-location audits.

Question 5: Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

As previously noted, we do not believe information about the engagement partner or other participants in the audit is useful.

Question 6: Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

We are extremely hard pressed to see any relationship between disclosing the name of the engagement partner and resulting effective capital allocation. We also have a problem with any cause and effect relationship between an engagement partner's history and the reliability of a subsequent audit. This question also begs for greater clarification.

Question 7: Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

The Board suggests that the reproposed disclosure requirements would allow investors to distinguish between audits beyond the name of the accounting firms and presumably increase competition among audit firms. Yet the academic research cited dealt with audit quality and not competition among firms. We believe the reproposed disclosure requirements are directly aimed at improving accountability and audit quality and are not intended to increase competition among audit firms. We are unable to speculate about these reproposed disclosure requirements and their impact on competition. However, we do recommend that the Board conduct research on audit firm disclosure and its impact on competition.

Question 8: Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement

partner or other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

We believe the new rule would be confusing to financial statement users as it is fairly common knowledge that under current rules, mentioning "other auditors" indicates a segregation of responsibility. It is misleading when the proposed amendment only requires the disclosure of total hours, but not the actual work and level of personnel who are involved in the audit. While disclosure of the hours contributed by other participants may benefit the financial statement users, it is not as useful when the users do not know the composition of those hours from staff-level personnel to engagement partner hours. It's apparently different when 19 percent of the hours used by other participating firms is from an entry-level staff member or is from an experienced manager. However, this kind of differentiation in disclosure would be cumbersome and would fall far short of satisfying the cost/benefit analysis. Also, the fact that different firms have different staff structures makes such disclosures even more difficult and potentially more confusing. Thus, the challenges are significant and would be most difficult, if not impossible, to overcome.

Question 9: What costs could be imposed on firms, issuers, and others by the reproposed requirements to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser efforts on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

We do not believe there will be any significant direct costs associated with disclosing the name of the engagement partner in the auditor's report. However, we further believe that indirect costs will increase as firms will increase fees due to perceived increases in potential liability, which raises the cost of capital to issuers and investors.

Question 10: What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Administrative costs would likely be minimal. The procedures firms undertake to consent to the use of the firm's opinion can, for the most part if not in their entirety, be used for the partner's consent to use his or her name in the report. It is unknown at this point how insurance and other private contracts will affect these costs. This is untested in the United States as it is not used in private or public company reports. If the Board moves forward with this proposal, we believe the Board has a responsibility to order a study into how the requirement would impact insurance premiums and claims of firms, as well as other associated costs.

Question 11: Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

We do not believe the disclosure of the engagement partner's name in the audit report or the associated consent requirement will result in any benefits. We continue to believe that the signature

and consent of the firm makes the firm, as well as the individuals who make up the firm, responsible and no value is derived, as it relates to audit quality, by adding the engagement partner's name or consent. We don't believe the requirement, if approved by the Board, will result in any audit quality difference to EGCs as opposed to non EGCs. Firms undertake to follow the Board's auditing standards for all engagements of SEC issuers regardless of whether the issuer is an EGC or not.

Question 12: Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? Is so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

We do not believe accountability is enhanced by either disclosing the partner's name or requiring the partner's individual consent. Partners are accountable to their firms, regulators and licensing bodies, as is the firm. The firm is engaged to conduct the audit and thus has responsibilities regarding how the audit is conducted, how the firm quality control is structured, and how the audit work is documented. These efforts are subject to the review of various regulatory bodies. The firms are accountable and are subject to evaluation by the PCAOB and SEC. The notion that naming a partner in the audit report or in a consent increases accountability and impacts audit quality implies that partners lack a sense of responsibility or accountability under the current system. Partners, as well as the firms they represent, are subject to various penalties and censure by both the PCAOB and SEC (as regulators) and by shareholders and the business entities (as interested parties). Partners are aware of the environment in which they operate and the risks that are associated with that environment. We see no reason why naming them in an audit report would seem to heighten their awareness of their responsibilities.

Question 13: What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Any additional disclosure by auditors has the potential to increase costs. The Board acknowledged the possibility that disclosing the names of other participants could increase the possibility of these participants being named in a lawsuit. Therefore, there is the likelihood that professional liability insurance might be secured by these participants. Assuming this additional coverage increases insurance premiums, these additional costs would likely be passed on in the form of increased fees. We would expect the effect on EGCs and auditors of EGCs to be the same.

Question 14: What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

If a participant provides consent to be named in the audit report, it would seem appropriate to expect that participant to request certain information from the signing auditor for the purpose of determining the auditor's ability to perform an audit. The administrative cost to prepare the consent would appear to be minimal. However, the additional effort required by the participant regarding audit quality could be significant. While insurance or private contracts may be available to address the liability risks of the

participant, the cost associated with insurance or private contracts will be passed on to the auditor and ultimately to the issuer.

Question 15: Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors or other issuers?

Given the precautionary measures already in place (Code of Professional Conduct, peer review programs, professional standards, etc.), we question the benefits that will result from naming other participants in the audit report. Also, we are not aware of any significant problem with standards compliance or with any lack of awareness that professional standards are to be adhered to in performing professional engagements. The negative impact of the consent requirement far outweighs any benefit that would result from implementing this proposed standard.

Question 16: Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within the range impose fewer costs than a specifically identified percentage?

We do not believe we have the ability to gauge the usefulness of this disclosure to anyone, let alone whether a range of disclosures of other participants is useful. Assuming there is a belief that such disclosures are useful, then a range is better than a specific number as to participation in an audit. Disclosing participation in ranges should result in fewer costs.

Question 17: Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

A higher threshold of disclosure should improve the assumed relevance. We question whether there would be very much reduction in potential costs since an entity would have to accumulate all of the percentages to determine which ones might be excluded. We believe 10 percent is a better threshold than 3 percent or 5 percent.

Question 18: Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. **Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?**

To avoid confusion and possible misinterpretation by firms, it is our belief that all participants, foreign affiliates or not, should be disclosed if their work exceeds the threshold percentages ultimately established.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

Yes, we believe the context of the disclosure is sufficiently clear.

Question 19: Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

The practice structure of the auditor is already reviewed by the PCAOB and assuming those requirements are met, further disclosure seems to emphasize one element of a firm's practice structure over others.

Question 20: Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engagement specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If no, why?

How an auditor uses a specialist is clearly described in the existing auditing standards. The disclosure of who, how much, or where is supplemental to the more salient issues of the quality of the specialist's work and the auditor's use of the resulting information. This also presumes that the work of an engaged specialist is completed on an hourly basis instead of some other basis.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

Challenges and costs for engaged specialists will likely include requests for indemnity related to any public disclosure, certain insurance costs, restrictions and disclaimers on the use and value of the information reported. Additionally, the information will need to be tracked and reported. It is likely that this type of disclosure will come with increased cost compared with not disclosing the information.

Question 21: In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

We can think of no useful purpose that is served by disclosing the name of other participants, especially when one considers the fact that such information is already addressed in AU Section 338, *Using the Work of a Specialist*. Regarding disclosure related to location and extent of participation, there could be some benefit in multinational audits where investors and other users would have an opportunity to consider the quality of those other participants who actually performed the audit of the subsidiaries and/or branches of the entity.

Question 22: If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and information about other relevant participants in the auditor's report, we strongly encourage no further change in the disclosure of the name of audit partners. As a general rule, such information should not be considered in the selection of engagements for inspection. In our opinion, engagement selection should be based on criteria associated with risks of the engagement to the investing public. Although the PCAOB may have identified certain variability in the quality of work between offices and individuals, we believe that is a consideration in the overall quality control environment of the firm and should be addressed as a quality control matter.

Question 23: Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

We are of the opinion that the disclosure requirements identified in the reproposed amendments are equally inappropriate in the audits of brokers and dealers as they are in the audits of publicly traded entities.

Question 24: Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to other participants in the audit for application to audits of EGCs?

We do not believe any benefit exists in making the reproposed disclosure requirements in the audits of EGCs.

Question 25: Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

Because we believe the disclosures required under the reproposed amendments are equally inappropriate to both EGCs and other public companies, we cannot think of any benefits of such disclosures to either type of entity.

We appreciate the opportunity to provide our input to the standard-setting process.

Sincerely,

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