



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

August 31, 2015

RE: PCAOB Rulemaking Docket Matter No. 029, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*

Dear Madame Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") June 30, 2015 *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the "Supplemental Request"). The Supplemental Request sets forth an alternative to the PCAOB's prior proposal to require auditors to disclose the name of the engagement partner and information about certain other audit participants in the auditor's report (the "Prior Proposal").¹ As an alternative to the Prior Proposal, the Board is considering requiring the information to be disclosed in a new PCAOB form, rather than the auditor's report (the "Alternative Proposal"). The Alternative Proposal also modifies the content of the required information in certain respects.

As the Board notes in the Supplemental Request, the question of engagement partner identification has been under consideration since 2009. In our comments on the Board's previous releases in this Docket, we supported the Board's general objective of promoting transparency and providing users of financial statements with appropriate information to enable them to assess the qualifications and capabilities of the registered public accounting firm that attests to an issuer's financial statements. We also expressed support for transparency about the engagement partner and other audit participants if the benefits of providing that information were not outweighed by other considerations. We continue to believe including the names of the engagement partner and audit participants in the audit report itself—as opposed to alternative disclosure methods—creates practical challenges related to obtaining consents and creates risks of liability that substantially outweigh the benefits of including the information in the audit report. We recommended the Board consider alternative transparency mechanisms, specifically (i) use of a separate PCAOB filing instead of the auditor's report to report information about the engagement partner and other audit participants or (ii) recommending to the SEC that it consider including such disclosures in public filings that would not be incorporated by reference into any Securities Act registration statement.

The Alternative Proposal implements the first alternative suggested above in many respects. It would require that disclosures regarding the engagement partner and other accounting firms participating in the audit be made on new PCAOB Form AP. The Alternative Proposal would give auditors the option of including this information in the auditor's report. The Form AP would be required to be filed within thirty days after the auditor's report is first included in an SEC filing, except for auditor's reports filed in

¹ See *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*, PCAOB Release No. 2013-009 (Dec. 4, 2013).



connection with IPOs, for which the time period would be ten days. The Alternative Proposal does not include disclosures regarding audit participants that are not accounting firms, but the Board has asked for feedback whether these participants should be included in certain circumstances.

We support the Alternative Proposal, subject to some suggestions below.² We believe the Alternative Proposal addresses in large measure the concerns we expressed regarding the Prior Proposal. We appreciate the Board's acknowledgement of the litigation risks created by a requirement to include information about the engagement partner and other audit participants in the auditor's report, as well as the practical challenges that would result from the need to obtain consents from the named persons under section 7 of the Securities Act. We believe that requiring disclosure of the information on proposed Form AP, rather than in the auditor's report, eliminates the concerns about potential liability under section 11 of the Securities Act. It also obviates the need to obtain consents under section 7 of the Securities Act. We do not believe that identifying engagement partners or other audit participants on Form AP will significantly affect the possibility of a claim against these persons under section 10(b) of the Securities Exchange Act.

We also believe that reporting on Form AP will provide an accessible, cost-effective mechanism for interested parties to obtain information about engagement partners and other accounting firms participating in the audit. The Board indicates that the data reported on Form AP would be accessible through a searchable data base on the Board's website through which the information can be searched by company or engagement partner. We believe with appropriate descriptions and instructions on the website, such an approach would be a reasonable approach, compared to deriving information from multiple SEC reports. Although new processes will have to be developed to gather the relevant information to determine it is accurate and make sure it is filed on a timely basis, we believe including this information on Form AP will be less costly than including the information in the auditor's report. Form AP eliminates the practical challenges and potential costs involved in obtaining consents, as well as the potential liability under section 11 of the Securities Act.

Against this backdrop, we offer the following suggestions with respect to specific aspects of the Alternative Proposal:

- *Timing.* We recommend the deadline for filing Form AP in the non-IPO context be changed to sixty days after issuance of the auditor's report. Similar to other PCAOB forms, a process will need to be developed centrally within the firm to file the individual engagement Form APs to the PCAOB website.³ A process will also be needed at the end of the audit to estimate group audit hours, including group audit hours of foreign firms, as component teams typically do not accumulate group audit hours separately from statutory audit hours. Allowing time to estimate

² In our comment letter dated February 4, 2014, we recommended that any disclosure of the engagement partner should be coupled with identification of a member or members of firm leadership. The purpose of this requirement would be to alleviate any misimpressions that the audit report is the product of the engagement partner, rather than the firm. We also recommended that the Board implement steps to assist users in putting the reported information in appropriate context and not drawing unwarranted conclusions about the engagement partner or the audit he or she oversees. We continue to believe that these measures would provide valuable amplification of the role of the engagement partner.

³ Page 9 of the Supplemental Request states, "firms would file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system using the username and password they were issued in connection with the registration process." As the process for filing these forms is maintained centrally, including protection of username and password, a centralized process will similarly have to be developed for filing Form AP.



hours after the date of the audit report will allow auditors to focus on this item after the audit is completed instead of during the critical completion stage of the audit. Also, accounting firms have up to forty-five days to complete archiving of work papers related to the audit; therefore, some time may continue to be incurred past the thirty day deadline included in the Alternative Proposal. As a result, we think sixty days is a reasonable period. Alternatively, we suggest the PCAOB consider adopting a quarterly filing deadline in which the information from multiple audit engagements could be included on one form, assuming that this would allow for comparable search capabilities. This approach could reduce the administrative burden of the firms' filing and the PCAOB receiving individual forms for thousands of engagements in a short period of time (particularly around the time Form 10-Ks are filed for calendar-year companies). It will also allow firms to obtain more accurate information about the hours to be used in the percentage calculations for other audit participants. We recognize this approach might entail a delay in when the information becomes public. However, a quarterly filing could also incorporate any known change to the engagement partner for the upcoming year. This would allow users of the information to know ahead of time who will be the partner in the upcoming year.

- *Mutual Funds.* For certain mutual fund families, the lead engagement partner may be the same for a number of funds within the family. It appears that the Alternative Proposal would require a separate form to be filed for each fund. In order to reduce the administrative burden and increase the usability of the information, we recommend the Board consider permitting mutual fund families to include the information regarding the engagement partner for multiple funds within a family to be disclosed on one form for each lead engagement partner. It is our experience that the audit of mutual fund families generally do not include participation of other accounting firms and the lead engagement partner is the same individual. In some cases, one mutual fund family may engage two different accounting firms to audit funds within the same family, and each firm may separately audit funds that exist within the same trust. One form for each lead engagement partner per firm would make it simpler for users of the information to identify the information they seek, because the information would be the same for multiple funds. Under this approach a user would not have to consider whether a number of different individual forms contain the same information or not.
- *Reissuance.* We think the Board should clarify that not all "reissuances" of audit reports will trigger a filing. Reissuances often occur due to filing multiple registration statements or amendments,⁴ but in most instances there would not be any corresponding changes to the information about engagement partners or other audit participants disclosed in the Form AP. However, it is unclear whether a new form is required for all reissuances or just when the auditor's report is dual dated. For example, the Supplemental Request (page 9) indicates that a new filing is required if the auditor's report is reissued and dual dated. However, the Supplement Request's discussion of the effective date (page 16) mentions reissuance but does not discuss dual dating. In any event, we do not believe a new form should have to be filed for every reissuance, even when the audit report is dual dated. We believe that in a reissuance situation a new form should only be required when there is a change in the information that is contained in the form, such as a new engagement partner or a change in the extent of participation of the other audit participants. We believe this will alleviate the need for users to compare Form APs filed for the same audit period to

⁴ See AU 560.08, which indicates that financial statements are considered reissued when included in reports filed with the SEC or other regulatory agencies.



see if a change in the information has been made, because in most situations there will not be a change.

- *Optional Inclusion in Auditor’s Report.* We recommend that any final rules omit the option for the auditor to include the information about the engagement partner and other accounting firm participants in the auditor’s report. As the Board is aware, the SEC’s recent concept release on audit committee disclosures has requested comment on possible disclosures regarding members of the engagement team and other participants in the audit.⁵ We suggest the Board defer to the SEC in this area to consider whether the information should be included in the SEC filings in addition to Form AP. As the SEC concept release is already contemplating this information be included as part of expanded audit committee disclosures, for the PCAOB to include options to place the information in other places in an SEC filing most likely is not beneficial to users. Including the information in the auditor’s report, whether it is required or optional, will still trigger the same litigation concerns and practical challenges that were problematic from the Prior Proposal.
- *Non-accounting Firm Participants.* The Alternative Proposal omits requirements for disclosures regarding audit participants that are not accounting firms. We support this aspect of the Alternative Proposal. The Board leaves open the possibility of adopting a “more tailored” approach that would exclude separate disclosure if the non-accounting firm participants were controlled by or under common control with the accounting firm issuing the auditor’s report. The example of the audit participants that are not accounting firms are “offshore service centers,” consultants, and entities that provide accounting firms with leased employees. As the work of these participants are under the direction and control of the engagement team and/or comprise part of the firm’s quality control standards, we do not believe that whether a firm controls or the entity is under common control with the accounting firm should dictate disclosure. Such a disclosure implies the work is not under the direction and supervision of the engagement team or covered by the audit firm’s quality control standards; therefore, we believe these disclosures might be misunderstood. Rather than trying to define a category of non-accounting firms that would be covered, we support the omission of audit participants that are not accounting firms, rather than the tailored approach discussed in the Supplemental Request. Also, we believe the hours of the non-accounting firm participants should be included as part of the total hours of the accounting firm that has the review and supervision responsibilities of the non-accounting firm participants when determining total audit hours and extent of its participation.
- *Effective Date.* In order to provide firms sufficient time to develop processes to implement the filing requirements of any final rule, we believe the effective date should be no less than one year after the date of the Board’s release adopting the rule. In considering the appropriate effective date, the Board may want to avoid having the effective date based upon a calendar financial statement year-end. This will allow the processes as described above to be developed and tested during an off-cycle.

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⁵ Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*, at 42-48 (July 1, 2015).



We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (646-471-6331) or Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP