PCAOB Comments Letter Re: Docket No. 029 Responsibility & Transparency, Deux_March 17th, 2014

In the land of the Rogue Trader's, Shadow Banks, & Black Money.....There is no disconnect.....

In the land of the Rogue Trader's, Shadow Banks, & Black Money.....There is no disconnect.....its quite simple really....

- Based upon 8,121.6 referenced citations regarding lack of follow-up and prosecution in documented cases of fraud, which you all are free to look up, if, you so choose. However, since we're a professional, we don't have to.

Please Note:

1. Nothing suspicious here: After five (5) IT C-Suite Financial Investment blokes committed suicide during the first quarter of 2014, according to the police..."nothing suspicious here....." So....

The boss man needs the product to ship by close of business tonight....

You tell boss man that the product isn't ready to ship....there's several bugs that need to be fixed first, bugs that are causing the battery to overheat and sometimes explode....for no apparent reason.....

After listening to your story in a very somber and professional listener silence....the boss man says.....to meet our numbers for the quarter, this product must ship by COB tonight.....and walks away.....

- So, what was just said to the head of the development team.....?
    - Please feel free to fill in the blanks
- The same dual-messages that have been part and parcel of the regulatory landscape since God invented Whiskey.....

Say one thing publically, do another privately....(aka: based upon a couple of minutes of research, the words don't match up with the actions, either real or imagined)...

2. As a result, with a burn rate of hundreds of thousands of dollars an hour per entity, the windows for fraud will always remain unlocked and wide open for those who understand they're operating in a world with two sets of books....
3. (aka: an off-book GL (General Ledger), what is really being said in-line with party line....
4. if you're a perp you just need to understand the rules of these Shadow Regulations. Fines & Penalties make good copy---jail time don't.....

5. and for heaven’s sake pay attention to The Shadow Rules & Regulations.....
6. be polite,
7. always supportive, and
8. always, always acquiesce then return to what you’ve always done before, just don’t get caught, and
9. since you're operating in a George Orwellian world of 1984...a token here, a token there....just enough to be reasonably defensible, just don't rock the boat, too much and we'll all be able to just get along famously.....don’t you agree?
10. or in a relativistic world filled with Unsicherheit (uncertainty)...there is no black-n-white and there will always be just one rogue cockroach in the financial kitchen...and never ever will you see the following two rules:

If you do do the following; (e.g. lie, cheat and/or steal) you will forfeit all personal assets linked to the frauds you perpetrated....

If you don't do this (e.g. lie, cheat & steal) you will not be obliged to face personal financial ruin for the next ten years of your life....(e.g. the meter begins at year zero and ends after year ten, without interruption and/or modification).

Summary

In conclusion....there is no such thing as fraud....fraud does not exist....never did, never will….there are only bad business decisions, sorta like the official police pronouncements whenever faced with a bit of a rough patch....nothing suspicious here, eh...

- Oh yes, and Happy Saint Patrick's Day, too....

Official Professional Disclaimer

The previous crumpled up diatribe was found somewhere within an executive’s office suite or some such place and we just thought it might be food for thought, when initial first steps go a tad further. However, this in no way represents anyone’s professional advice and or guidance. Anyone interested in further discussions should definitely seek professional help---from a true professional, in such matters.

Respectfully yours,

Pw Carey

Senior IT Auditor (GRC), CISA, CISSP

Ballyronan

(County Londonderry

PCAOB
Public Company Accounting Oversight Board

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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
December 4, 2013

PCAOB Rulemaking
Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is reproposing amendments to its 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.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 029 in the subject or reference line. Comments should be received by the Board no later than 5:00 p.m. EST on February 3, 2014.

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202/207-9376, wattsj@pcaobus.org); Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org); and Ekaterina Dizna, Assistant Chief Auditor (202/591-4125, diznae@pcaobus.org).

* * *

Summary of Comments on Microsoft Word - PCAOB Release No. 2013-009 - Transparency.docx

Page: 1

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:40:09 AM

Dear PCAOB:

Good morning, and thank you for this opportunity to share with you some minor comments regarding the transparency and disclosure upgrades within an audit and the audit report...as we appreciate all your efforts in attempting to apply a greater emphasis on (fair play) within our market economies, as opposed to todays long term adherence to The Dark Triad's corporate culture that defines success today...

Please Note: Your (guidance, out reach & advisory efforts) directly supporting these standards and proposals must be increased to have any meaningful value to the various investment communities....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

See Appendix A: For supporting reference citations...

Number: 2 Author: Pw_Carey_Senior IT Auditor, GRC Risk, Security & Fraud, (CISA, CISSP) Subject: Highlight Date: 12/23/2013 7:06:38 AM -05'00'

Number: 3 Author: Pw_Carey_Senior IT Auditor, GRC Risk, Security & Fraud, (CISA, CISSP) Subject: Highlight Date: 12/23/2013 7:06:53 AM -05'00'

I. Introduction

The Board is reproposing amendments to its auditing standards that would require the accounting firm issuing an auditor's report ("auditor") to disclose in the auditor's report (1) the name of the engagement partner on the most recent period's audit and (2) the names, locations, and extent of participation of other public accounting firms[1/] that took part in the audit and the locations and extent of participation of other persons (whether an individual or a company)[2/] not employed by the auditor who performed procedures on the audit ("other participants in the audit"). These are disclosure requirements and, except for the disclosure obligations they would impose, would not change the performance obligations of the auditor in conducting the audit. The Board believes that providing information about the engagement partner and the other participants in the audit in the auditor's report would be useful to investors and other financial statement users and would be consistent with the Board's mission to further the public interest in the preparation of "informative, accurate, and independent audit reports."[3/]

Robust disclosure is the cornerstone of the U.S. federal securities regulatory regime and is essential to efficient capital formation and allocation. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management. The Board believes that more disclosure about certain aspects of the audit of a public company, including about the identity of the engagement partner and other firms associated with the audit, would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful.

Auditors perform a crucial public function in financial markets. Their very designation as independent public accountants recognizes that their duties transcend their responsibilities to the companies they audit. The salutation of the auditor's report

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1/ PCAOB Rule 1001(p)(iii) defines the term "public accounting firm" to mean "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."

2/ PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity or association.

3/ Section 101(a) of the Sarbanes-Oxley Act of 2002.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:05:00 AM

Since 87.654321 % of all detected frauds, across all industries, geographical locations and jurisdictions take place within a window of between 4 years, 7 years thru 15 years....this requirement must be increased to have any meaningful value to the investment community....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 7:44:57 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:23:53 AM

Please include a more robust F&P/P&P Section (Fines & Penalties/Protection & Publication) specifying the costs of bad behavior including jail time for such offenses without the benefit of hiding behind Contract Law/Non-Disclosures, et al, when convicted of committing fraud, with FP/PP ameliorations
available (we hardly ever get to use this word) if the perps are forth coming during a forensic audit (slash) investigation (slash) Inspection.....this requirement must be increased to have any meaningful value to the investment community....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

*****End of Caveats*******

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:06:50 AM

Their duties transcend their responsibilities to the companies they audit as well as their boss, (aka: their employer, who hired them to conduct audits in the first place). at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 7:58:31 AM

itself, when it is addressed to the shareholders,[4/] emphasizes the public nature of the auditor's responsibility. The public, however, has had little or no information about the participants in the audit, including those who serve in the role of engagement partner or the identity of other firms and individuals who participated in the audit. Generally, in the United States, only the name of the firm that issued the opinion is disclosed in the auditor's report.

An audit firm's reputation matters, both to investors and to the audit committee of the company that retains it. But firms are comprised of individuals who conduct the audit, and investors in U.S. securities generally have not had access to information about the engagement partner responsible for the audit for the firm or whether, and to what extent, other firms played a role in the audit. This information could be valuable to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor.

While the present lack of transparency about the persons who conduct the audit is not unique to the United States, a number of other jurisdictions with highly developed capital markets follow a different practice. For example, the European Union's ("EU's") Eighth Company Law Directive requires "at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm" to sign the auditor's report.[5/] This directive requires all EU members to enact conforming legislation.[6/] For example, one EU member, the United Kingdom, requires the auditor's report to "state the name of the

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[4/] Based on the PCAOB staff's review of 125 Form 10-K filings for fiscal year 2011, approximately 95% of auditors' reports were addressed to shareholders or other investors in the company; approximately 5% were not. To promote consistency in the addressees included in the auditor's report, under the *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf, the auditor would be required to address the auditor's report to investors in the company, such as shareholders, as well as the board of directors or equivalent body.

[5/] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

[6/] As of November 2013, 27 of the 28 EU members have enacted conforming legislation. Croatia, which joined the EU in 2013, has until 2015 to enact conforming legislation. A list of countries which have enacted conforming legislation is available at http://ec.europa.eu/internal_market/auditing/directives/index_en.htm.

auditor and be signed" and, "where the auditor is a firm, the report must be signed by the senior statutory auditor in his own name, for and on behalf of the auditor."[7/] Other countries have similar requirements. For example, Taiwan requires audit partners to sign the auditor's report, in addition to the audit firm.[8/] Australia mandates by statute that the auditor's report be signed in the name of the person responsible for the audit, as well as in the name of the audit firm.[9/] The International Auditing and Assurance Standards Board ("IAASB") also recently proposed a requirement for firms to disclose the name of the engagement partner in the auditor's report of a listed entity.[10/] If the IAASB's proposal is adopted, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that follow IAASB standards. While practice in other countries is not dispositive, it is indicative of a global trend toward greater transparency about audits and those who conduct them.

From its Investor Advisory Group ("IAG") and Standing Advisory Group ("SAG"), as well as from meetings with investors and other financial statement users, the Board has heard repeatedly that many people, particularly investors, want more information about the independent audit, such as information about those who conduct it. The Board believes that there are benefits to greater transparency about the audit and has attempted to respond through several initiatives, including the recently proposed standards dealing with changes to the auditor's reporting model[11/] as well as these

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[7/] Companies Act 2006, Chapter 46, as amended, Chapter 3, section 503, "Signature of auditor's report" (June 4, 2008). The Companies Act requires a signed auditor's report be maintained by the company, although published copies of the auditor's report state the name of the engagement partner and do not require signature.

[8/] See Articles 2 and 6 of Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies (as amended on May 16, 2008) available at http://eng.selaw.com.tw/ShowNews.asp?LSID=FL007023.

[9/] Corporations Act 2001, Act No. 50 of 2001, as amended, section 324AB(3), "Effect of appointing firm as auditor—general" (May 16, 2012).

[10/] See IAASB's exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*, at https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international.

[11/] See *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*,

reproposed amendments. The Board believes that disclosure of the identity of the engagement partner, as well as enhanced transparency about other participants in the audit, would provide investors with information about the audits conducted for their benefit that they would find useful. The Board also recognizes that many investors as well as some other commenters believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report.[12/]

After careful study and deliberation, the Board believes that disclosure of the engagement partner and other participants in the audit would provide investors in U.S. companies with important information about the audits conducted for their benefit. The Board reached the decision to repropose these amendments, not just based on the extensive public comment it has received as it explored this issue, but also based on what the Board has learned through its oversight activities and relevant empirical research.[13/]

The Board is reproposing the amendments to seek additional comment on matters such as the usefulness of the information that would be required to be disclosed, the potential costs the reproposed amendments might impose, whether the reproposed amendments would have any effect on competition, and any other aspects of the reproposal. The Board has also made technical changes to the originally proposed requirement that the auditor disclose information about other participants in the audit, such as changing the threshold for disclosure, and seeks commenters' views on those revisions. Finally, the Board is soliciting commenters' views regarding whether the reproposed amendments should apply to audits of emerging growth companies

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PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf.

[12/] See U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"), *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* ("ACAP report"), VII:19-VII:20 (October 6, 2008), available at http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf. The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and the IAG meeting details, transcript, and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

[13/] See discussion of empirical research in Section V., *Economic Considerations*.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:05:36 AM

Is it true that no oversight is better than oversight.....?

perhaps on an animal farm, but not here when folks are making investment decisions based upon virtual ware.... not hardware, not software but imaginary ware.....

amazing, simply amazing...this requirement must be increased to have any meaningful value to the investment community....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:42:05 AM

("EGCs"), as that term is defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act").[14/] In particular, the Board requests comments, including any available empirical data, on whether application of the reproposed amendments to audits of EGCs would protect investors, and on whether it would promote efficiency, competition, and capital formation. Specific questions appear at the end of this release.

II. Background of the Reproposed Amendments

A. Disclosure of the Name of the Engagement Partner

The Board began in 2005 to seek advice on and to explore a variety of alternatives to make the auditor's report more informative, including by requiring disclosure of the name of the engagement partner.[15/] In addition to the Board's efforts, in 2008, the ACAP issued its final report recommending, among other things, that "the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the audit report." The ACAP report stated that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."[16/]

Based on more than ten years of oversight, the Board knows that, even within a single firm and notwithstanding firm-wide or network-wide quality control systems, the quality of individual audit engagements varies. PCAOB inspectors have observed a wide variation in the quality of auditing by many engagement teams at each of the large accounting firms that audit the largest U.S. and multinational companies. Although such differences might be due to a number of factors, the role of the engagement partner, who is responsible for the engagement and its performance, is an important factor to consider.[17/]

[14/] Pub. L. No. 112-106 (April 5, 2012).

[15/] The SAG discussed requiring the disclosure of the engagement partner through signing the auditor's report in February 2005, June 2007, October 2008, and October 2009. Transcripts of the relevant portions of the SAG meetings are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. The IAG also discussed this at its May 4, 2010 meeting. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx.

[16/] See ACAP report at VII:20.

[17/] See paragraph 3 of Auditing Standard No. 9, *Audit Planning*, and paragraph 3 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.

Through the Board's oversight process, it has obtained information related to engagement partner quality history through a firm's internal and external inspection processes, as well as a firm's internal processes to monitor its quality controls. The Board's inspection staff historically has used this information related to engagement partner quality history in its inspection processes. This information, among other factors, is considered to be useful in making risk-based selections of audit engagements. The Board's inspection staff also understands that individual firms monitor engagement partner quality history closely and utilize this information to manage risk to the firm. Information about individual audit partners has been useful to the Board in the Board's risk-based selection of audits to inspect. While the Board recognizes the reproposed amendments would not provide investors with all of the information the Board or a firm has regarding an engagement partner, the Board also believes that information about who engagement partners are would be valuable, and, as described below, would become more so over time.

On July 28, 2009, the PCAOB issued a concept release (the "2009 Release") seeking commenters' views on whether it would be advisable for the Board to require the engagement partner to sign his or her own name to the auditor's report.[18/] While many investors supported such a requirement, a number of other commenters were concerned that it would appear to minimize the role of the accounting firm in the audit and also could result in a potential increase in the engagement partner's liability.[19/]

After considering commenters' views and its own experience, the Board issued a proposing release on October 11, 2011 (the "2011 Release") that, among other things, proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report.[20/] In the

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[18/] See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[19/] Comments on the 2009 Release are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx. Comments on the 2009 Release are discussed in the 2011 Release available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

[20/] See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf. The Board also proposed to require disclosure of other participants in the audit.

Board's view, this disclosure approach retains most of the potential benefits of a signature requirement, while mitigating some of the concerns, particularly liability concerns, expressed by commenters on the 2009 Release.[21/]

The Board received 43 comment letters on the 2011 Release.[22/] It was also discussed at the November 2011 and May 2013 meetings of the Board's SAG[23/] and the October 2013 meeting of the IAG.[24/] Commenters on the 2011 Release were divided and remained so over the course of the dialogue. Accounting firms generally opposed a requirement to disclose the name of the engagement partner in the auditor's report[25/]—whether by signature or only disclosure—and expressed concern that it would confuse readers of the auditor's report or lead to unintended consequences. Investors, on the other hand, argued in favor of more transparency throughout the Board's consideration of the issue. Others, such as some audit committee members and corporate officials, as well as an association of European auditors, shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial.

After considering the comment letters, the views expressed in SAG and IAG discussions, and relevant empirical research, the Board is reproposing amendments to

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[21/] Id.

[22/] Comments on the 2011 Release and on the 2009 Release can be found at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx.

[23/] Transcripts of the discussions are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

[24/] See IAG meeting details, transcript, and webcast for October 16, 2013 available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

[25/] While accounting firms generally opposed the disclosure of the name of the engagement partner in the auditor's report, one accounting firm expressed support for disclosure of the name of the engagement partner in the firm's annual report filed with the PCAOB on Form 2. Some other firms, which opposed the disclosure requirement, expressed a preference for disclosure in Form 2 if the Board were to proceed with a requirement. Disclosure in Form 2 is discussed in Section V.C., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, of this release.

its auditing standards that would require disclosure in the auditor's report of the name of the engagement partner in the most recent period's audit.

Specifically, the Board is reproposing to amend the following: AU sec. 508, *Reports on Audited Financial Statements*, AU sec. 9508, *Reports on Audited Financial Statements: Auditing Interpretations of Section 508*, AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, and Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.[26/]

B. Disclosure About Certain Other Participants in the Audit

Investors also have called for greater disclosure in the auditor's report of the names and locations of other participants in the audit. For instance, in a March 2010 survey by the Chartered Financial Analysts Institute, 91% of respondents agreed that "in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed."[27/] Additionally, a task force of the Board's IAG conducted a survey of investors affiliated with investment banks, mutual funds, pension funds, and hedge funds. Seventy percent of the investors surveyed who responded to a question about the desirability of disclosure of work on the audit performed by other audit firms said that they would like to know the degree of involvement in the audit of the firms that are not signing the auditor's report.[28/]

In many audit engagements, especially audits of companies with multiple locations and international operations, the auditor may perform only a portion of the audit. The remainder of the work may be performed by other affiliated accounting firms, non-affiliated accounting firms, and/or other persons not employed by the auditor, for example, consulting firms and individual accountants. The accounting firm issuing the

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[26/] The reproposed amendments to these standards can be found in Appendix 1.

[27/] See *Independent Auditor's Report Survey Results* (March 2010) available at http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

[28/] The IAG task force survey results were discussed in March 2011 in connection with a discussion of the auditor's reporting model. The response rate for the question regarding disclosing the work performed by other audit firms was approximately 67%. Event details and archived webcast for IAG meetings are available at http://pcaobus.org/About/Advisory/Pages/IAGMeetingArchive.aspx.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:49:40 AM

auditor's report supervises the work of[29/] or assumes responsibility for[30/] the procedures performed by other participants in the audit. The Board has seen cases in which the extent of participation of other persons ranges from none to substantially all of the work. Although the portion of the audit work performed by other participants in the audit could be significant, under the current requirements, the auditor's report provides no information about the work performed by other participants in the audit. Instead, the auditor's report gives the impression that the work was performed solely by one firm—the signing firm.[31/]

In the 2011 Release, the Board proposed a series of amendments to its auditing standards that would have required, among other things, disclosure in the auditor's report about other accounting firms and other persons that participated in the audit.

Commenters supported, to varying degrees, the originally proposed requirement to disclose other participants in the audit. After considering the comment letters, the views expressed in SAG and IAG discussions, the Board's observations from its oversight activities, and relevant empirical research, the Board is reproposing amendments to its auditing standards relating to other participants in the audit but with certain modifications from the 2011 Release. The reproposed amendments would require the auditor to disclose in the auditor's report (1) the name, location, and the extent of participation (as a percentage of the total audit hours) of certain other independent public accounting firms and (2) the location and extent of participation of certain persons not employed by the auditor who took part in the most recent period's audit.

[29/] See Auditing Standard No. 10.

[30/] See AU sec. 543.

[31/] Under existing AU sec. 543.04, when other auditors participate in the audit, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed." The reproposed amendments, like the originally proposed amendments, would delete this requirement and add a new requirement that the auditor expressly state that the auditor has assumed responsibility for or supervised the work of the other accounting firms who are disclosed in the auditor's report. In the Board's view, this should avoid any potential misinterpretation of the new requirement.

Specifically, the Board is reproposing to amend the following auditing standards: AU sec. 508, AU sec. 543, and Auditing Standard No. 5.[32/]

III. Discussion of the Reproposed Amendments

This section describes the general requirements of the reproposed amendments and significant changes made to the originally proposed amendments. Appendix 3 of this release discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

A. Disclosure of the Name of the Engagement Partner

The first part of the Board's reproposal would require audit firms to disclose in the auditor's report the name of the engagement partner for the most recent period's audit. The Board is cognizant that, initially at least, disclosure of an engagement partner's name, without more, might provide limited useful information because there may be little publicly available information about such individuals. Some commenters have suggested that over time with the reproposed disclosure requirements in place, a body of information about the engagement partner's history will be developed that, when connected with other data, would be useful to investors and other financial statement users.[33/]

For example, the disclosure of the name of the engagement partner, combined with other information compiled over time, could enable investors and other financial statement users to research the number, size, and nature of companies and industries in which the partner served as engagement partner. Investors and other financial statement users also could determine whether the engagement partner for a particular audit has any U.S. Securities and Exchange Commission ("SEC" or "Commission") or PCAOB disciplinary history. Investors and other financial statement users also could

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[32/] The reproposed amendments to these standards can be found in Appendix 2.

[33/] Such bodies of information are already being created, for example, in Taiwan where public companies are required to disclose the names of the engagement partners. As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions.

determine the identity of the engagement partner during periods involving a restatement or issuance of an audit opinion with a going concern modification. The reproposed amendments would allow investors and other financial statement users to combine information about the engagement partner with other information regarding the restatement or the going concern modification. Academic research suggests that investors and other financial statement users would respond to the facts and circumstances related to individual restatements or going concern modifications when forming their views regarding the engagement partner.[34/] Investors do not treat all restatements and going concern opinions equally. Based on academic research, they appear to consider other factors in making judgments about restatements and going concern. The Board believes investors would be similarly discerning in considering information about the engagement partner.

Additional information also could become available in readily accessible formats about private litigation in which the individual was a defendant in his or her capacity as an engagement partner. Information also could become available about the engagement partner's education, honors, awards, service on professional and public bodies and publications. In some cases, such information is available today to audit committee members who ask for it and to whom it is given voluntarily (for example, in the course of interviewing a new engagement partner), but it is not readily available to the investing public or other financial statement users. The Board believes that despite the potential limited initial usefulness, public disclosure of the current engagement partner's name is a first and necessary step in the development of the type of robust information sources about engagement partners of public companies that would be useful to investors and other financial statement users.

The Board has heard concerns that public identification of the engagement partner could lead to a rating or "star" system resulting in particular individuals being in high demand to the unfair disadvantage of other equally qualified engagement partners. The Board is aware that, as a consequence of the proposed disclosures, certain individuals may develop public reputations based on their industry specializations, audit history and track records. The Board does not believe that such information would

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[34/] Academic research documents differences in the market impact of restatements and going concern opinions based on the specific facts and circumstances of the events. See, e.g., Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements*, The US Department of the Treasury (2008) available at http://www.treasury.gov/press-center/press-releases/documents/financialrestatements_1997_2006.pdf and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075, 2075-2105 (2010).

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:58:51 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:04:20 AM

Dear Folks:

"....is a first and necessary step in the development of the type of robust information sources..." would be easily available to the general public and the investment communities at large....and such a mechanism could be set up via a Big Data/Cloud Eco-system data base utilizing auto-associated memory, quantum analytics web-based common sense...with the results published on a regular schedule, say....once a week or twice a month.....which ever comes first....yep, that would be nice second step.....

necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users.

In recent years, detailed information about the backgrounds, expertise and reputations among clients and peers has become commonly available for other skilled professionals, such as lawyers and physicians, and such information is widely available to consumers of those services. Indeed, it can be argued that the consumers of such services can make more informed decisions with more rather than less knowledge about the qualifications and professional reputations of those whose services they retain. The role of an auditor, including an engagement partner, differs from that of a lawyer or physician, but the underlying principle that consumers of professional services could make better decisions with more information still applies and the Board believes that investors and other financial statement users would benefit from more information about the identity of those who perform audits.

Because the financial statements and the auditor's report are retrospective, disclosure of an engagement partner's identity in the auditor's report provides information only about the most recent period's audit of the financial statements. It does not provide information about the identity of the next period's engagement partner, which may be of most interest to shareholders, such as in ratifying the company's choice of registered firm as its auditor. [1] Nevertheless, such retrospective information provides a basis for analysts, investors, and others to ask a company's management whether last year's engagement partner is continuing on the engagement and, if not, why not.[35/] A change in the engagement partner could prompt further questions about the identity and qualifications of the new engagement partner. Those questions could of course be asked today, but such questions and answers could be informed by additional public information about engagement partners.

Further, concerns have been expressed by some commenters that identification of the engagement partner puts misleading emphasis on a single individual when an audit, particularly a large audit, is in fact a group effort. [3] Such commenters have asserted that the disclosure could confuse rather than enlighten investors. It is true that in most cases an audit is a group effort and that a large audit often involves a very large team. It is also indisputably true that the engagement partner plays a unique role in the audit. The engagement partner has the most direct relationship with the audit committee and senior management and serves as the primary interface between the audit firm and the audit committee and senior management. It is not unusual, in large companies at least,

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35/ Engagement partners may change for a variety of reasons, including the SEC's requirement for mandatory partner rotation. See Section 203 of the Sarbanes-Oxley Act; Rule 2-01(c)(6) of Regulation S-X, 17 C.F.R. § 210.2-01(c)(6).

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:07:47 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:14:29 AM

Dear Folks:

What a great opportunity to set up a PCAOB Web-based Town Hall where on a weekly basis for the hoi-poli such as us...."....to ask a company's management whether last year's engagement partner is continuing on the engagement and, if not, why not.35/.....plus other questions of interest from the financial and investment communities.....such meetings (including archived meetings) is a truly magnificent idea.....wow....where'd this come from.....?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:14:54 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:16:09 AM

Pity the poor stupid investor.....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

for audit committees to interview several candidates for an engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, the Board believes it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be as well informed as possible about the leader of the team that will conduct the audit. Public identification of the engagement partner would help serve that end.

B. Disclosure About Certain Other Participants in the Audit

The second part of the Board's reproposal would require inclusion of information about certain other participants in the audit in a paragraph that would follow the opinion in the auditor's report itself or in an appendix immediately following the auditor's report that would be referenced in the auditor's report. The information to be disclosed would be:

- With respect to other independent public accounting firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm";

- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence of a natural person or headquarters' office location of another person that is an entity); and

- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

1. Applicability of the Disclosure

The reproposed amendments would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543[36/] or Auditing Standard No. 10, as applicable.

36/ See AU secs. 543.03-.05.

2. Exclusions from the Disclosure

The reproposed amendments would not require disclosure of information about the following participants in the audit:

- Individuals performing the engagement quality review ("EQR");[37/]
- Persons performing a review pursuant to Appendix K[38/] ("Appendix K review"); and
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
  - Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[39/] and
  - Internal auditors who provided direct assistance in the audit of the financial statements.[40/]

These exclusions from the disclosure were retained from the 2011 Release.

The 2011 Release also excluded from the disclosure requirements persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board is proposing to require, rather than exclude, disclosure in the auditor's report of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or

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37/ See Auditing Standard No. 7, *Engagement Quality Review.*

38/ See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

39/ See paragraph 17 of Auditing Standard No. 5.

40/ See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:21:29 AM

Hey....look everybody....

I'm an EQRer.....or

I'm Engaged.....

Congratulations!!!!!!....
care for a certificate....?

can't touch me.....hahahahahaha

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:17:15 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:21:38 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:27:15 AM

Hey....look at me.....we've got Special Skills.....

we can hold our breath for six minutes.....

Can't touch me...

Respectfully yours,
"persons not employed by our firm,"

hahahahahahah

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:21:52 AM

auditing would be disclosed as other persons not employed by the auditor. The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

3. Disclosing Names of Certain Other Participants in the Audit

In the 2011 Release, the Board proposed that the names of all other participants whose extent of participation exceeded the disclosure threshold would be included in the auditor's report. After considering comments raised regarding the applicability of the proposed disclosure to alternative practice structures[41/] and the impact on such structures, the Board is proposing to require only the names of other independent public accounting firms participating in the audit to be disclosed. Other persons not employed by the auditor, including persons employed by other entities in alternative practice structures and persons engaged by the auditor with specialized skill or knowledge in areas other than accounting or auditing, would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names, including only the location and extent of participation of those persons.

4. Affiliate Relationships, Including Offshoring Arrangements

In the 2011 Release, the Board proposed that the disclosure of the names of other participants in the audit would include the names of all independent public accounting firms that participated in the audit, which may or may not be affiliated with the accounting firm issuing the auditor's report. In the 2011 Release, the Board indicated that disclosure of any offshored work would not be required to the extent that the offshored work is performed by another office of the same accounting firm, even though that office may be located in a country different from the country where the firm is headquartered. The staff of such office is employed by the accounting firm issuing the auditor's report.

After considering comments, the Board retained the proposed disclosure provisions from the 2011 Release. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that issues the report. Disclosure of entities that are

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[41/] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, *101.14—The effect of alternative practice structures on the applicability of independence rules*.

Page: 16

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:27:41 AM

distinct from the firm that issues the report in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the requirement to disclose other participants in the audit notwithstanding any network affiliation or other relationship.

5. Disclosure Threshold

Similar to the originally proposed amendments, the reproposed amendments would require disclosures about other participants in the audit based on a percentage of the total audit hours in the most recent period's audit. In the 2011 Release, the Board proposed disclosure of information about other participants in the audit if the contribution of those persons exceeded 3% of the total hours in the audit engagement. Because a number of commenters suggested that the 3% threshold was too low and would include information that was not meaningful, the Board is proposing to raise the disclosure threshold to 5%. This approach has the advantages of limiting disclosure to work that is a significant part of the audit, but would allow a user of the information to gain a general understanding of the relative magnitude of each other participant's contribution to the audit.

6. Presentation as a Single Number or as Ranges

In the 2011 Release, the Board originally proposed that the disclosures of the work of other participants in the audit should be stated as a single number. After considering the views of commenters, the Board is reproposing that the disclosure be stated as a single number or within a series of ranges, beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for persons from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor. Examples of the application of these requirements can be found in Appendix 3, Section II.D.2., *Presentation as a Single Number or as Ranges*, of this release.

7. Discussion

Information about other participants in the audit could become increasingly important as commercial activity becomes ever more global. Many companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:32:36 AM

'Aggregate'....what a great opportunity to obfuscate, hide, conceal, commit fraud-n-steal.....oops please delete that last one before publishing.....

Respectfully yours,

Persons not employed by our firm

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:29:42 AM

registered public accounting firms.[42/] In such cases, other firms from around the world—some PCAOB-registered, some not, but almost always separately established legal entities likely participated to varying degrees in the audits of such companies.[43/] In fact, the Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all of the work).[44/] To investors in such companies who read today's auditor's report, however, these situations are indistinguishable. In each case, investors see only the name of the signing firm, notwithstanding the possible significance of other firms' roles or their location or identity.

In many situations, the signing firm uses another firm in a foreign country to audit the financial statements of a subsidiary in that foreign country. These arrangements can be an effective and cost-efficient way to audit today's multinational corporations. At the same time the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the signing firm has not reviewed all the work done by the other firm.[45/] The Board

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[42/] See PCAOB's Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm,* (July 12, 2010) (discussing the trend of smaller U.S. firms auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Audit Practice Alert No. 6 at 2 noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." See also PCAOB Research Note No. 2011-P1, *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010* (March 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

[43/] Firms that do not prepare or issue any auditor's report or play a substantial role in the preparation or furnishing of an auditor's report need not be registered with the Board. PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

[44/] As previously noted, the accounting firm issuing the auditor's report supervises the work of or assumes responsibility for the procedures performed by other participants in the audit.

[45/] See, e.g., AU sec. 543.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:33:20 AM

previously conveyed its concern about some practices it has seen in these arrangements.[46/]

Knowing the names, locations, and extent of participation of the accounting firms involved in the audit would allow users of the auditor's report to research publicly available information about these participants. For example, information on the PCAOB website indicates whether a firm is registered with the Board and has been inspected or sanctioned by the Board or whether a firm is located in a country that does not allow PCAOB inspections. The disclosure of the location and extent of participation in the audit of other independent public accounting firms and other persons not employed by the auditor would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit work they performed.

Through its inspections, the Board also has seen circumstances in which disclosure regarding other firms that participate in audits could have been particularly valuable to investors and other financial statement users. For example, through the Board's oversight activities, the Board observed that for some large, U.S.-based financial institutions, a significant portion of the audit work was performed outside the U.S. by a firm other than the firm that signed the auditor's report (typically, a member firm of the same network). In another case, a small U.S.-registered public accounting firm signed an auditor's report for an issuer based in China even though "the audit procedures performed by the other firm [based in China] constituted substantially all of the audit procedures on the issuer's financial statements."[47/] Investors had no practical means of learning these facts, which the Board believes would be useful information.

[46/] See PCAOB's Staff Audit Practice Alert No. 8, *Audit Risk in Certain Emerging Markets*, at 19 (October 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); see also In the Matter of Clancy and Co., P.L.L.C., Jennifer C. Nipp, CPA, and Judith J. Clancy, CPA, PCAOB Release No. 105-2009-001 (March 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

[47/] See Staff Audit Practice Alert No. 6, at 3. The Board previously warned investors and auditors of the heightened fraud risk related to audits of companies based in certain emerging markets. See Staff Audit Practice Alert No. 8, at 1 ("Local business practices and cultural norms in emerging markets may differ from those in more

Transparency could discourage practices that would not withstand scrutiny to go unchallenged, at least until they are discovered by regulators. In one case, the Board's inspectors learned, for example, that a registered firm opined on the financial statements of a large, multinational company and reported having performed an audit in accordance with PCAOB standards, even though another firm in another country (albeit, a member firm of the same network) had performed the audit. In other circumstances, PCAOB inspections have revealed that some registered firms have allowed other firms that did not possess the requisite expertise or qualifications to play significant roles in audits of issuers. Disclosure about other firms participating in the audit could expose, and therefore discourage, such practices.

As with disclosure of the name of the engagement partner, over time, information sources likely would develop about the firms that participate in public company audits, such as lists of their public company accounts, size of the accounting firms, disciplinary proceedings and litigation in which they have been involved, and similar matters. Such information likely would be useful to audit committees, investors, and other financial statement users. In addition, over time, these disclosures would provide information that could prompt further useful inquiry about the audit. For example, if the percentage of contribution to the audit by a participating accounting firm or individual either increases or decreases over time (which can be determined since participation is disclosed in ranges), or if it spikes in a particular year, such facts may lead to questions about the underlying reasons.

C. Liability Considerations

A concern voiced frequently by commenters on the Board's 2009 and 2011 Releases is that there could be an increase in the potential liability of persons named in the auditor's report in litigation, particularly securities litigation. Since 2009, the Board has sought and carefully considered commenters' views on the liability effects of its 2009 and 2011 Releases. While the Board has not sought to increase the risk that an engagement partner would be held liable in private litigation, it has recognized and, where it could, consistent with its policy objectives, tried to mitigate this possibility.[48/] The Board takes seriously commenters' concerns about the potential effects of the

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developed markets, and auditors should be alert to the effect of these differences on the risks of material misstatement").

[48/] Most private litigation arising out of audits involves claims against accounting firms, which generally have significantly greater resources to satisfy any judgment than does any individual partner. The Board's reproposed amendments will not reduce an accounting firm's potential liability for deficient audit work.

proposed amendments on auditor liability in private actions. The Board has sought, and now has considered, two rounds of public comment on these issues and has engaged in its own review of the relevant statutory provisions and case law. The Board has also kept the Commission staff advised of its thoughts on these issues, as commenters suggested.

As explained below, the Board believes that any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited and that the potential risk of such an increase would be justified by the potential benefits to investors and other financial statement users of greater transparency.

The Board has identified two main potential sources of liability: Section 11 of the Securities Act of 1933 ("Securities Act"); and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated under it.

1. Section 11 of the Securities Act

Section 11 imposes liability for material misstatements or omissions in a registration statement, subject to a due diligence defense, on "every accountant . . . who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement . . . which purports to have been prepared or certified by him." Section 7 requires issuers to file with the Commission the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement filed with the Commission.

Auditors who issue an auditor's report that is filed with the Commission in connection with a registration statement meet the criteria in Section 7 and therefore must consent to inclusion of their names in a document filed with the Commission and be subject to liability under Section 11.[49/] The Board has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent as well to the inclusion of their names in such an auditor's report filed with, or

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[49/] See Section 11 of the Securities Act; see also 17 C.F.R. § 230.405 ("The term 'certified,' when used in regard to financial statements, means examined or reported upon with an opinion expressed by an independent or certified public accountant."). In most cases, the firm issuing the auditor's report assumes responsibility for the participating accounting firm's work and, as a result, the participating accounting firm does not issue an auditor's report or express any opinion on the issuer's financial statements. When the principal auditor does not assume responsibility for the other firm's work, the other firm's report must be filed with the SEC and a consent is required. The reproposed amendments would not change these requirements.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:35:46 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:38:30 AM

Is it possible to regulate away human nature and stupid.....?

Well, somebody must think so.....just not us...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:40:35 AM

included by reference in, another document filed under the Securities Act with the Commission.

Requiring engagement partners to consent to inclusion of their names in a document filed with the Commission and be subject to Section 11 liability would not change the performance obligations of engagement partners, the firm issuing the auditor's report, or any other participant in the audit. The firm that issued the report would continue to file a consent and to be subject to liability under Section 11. The fact that the engagement partner would be subject to Section 11 liability, however, might provide investors with some additional comfort about the engagement partner's work on the audit.

In this context, the costs imposed by a consent requirement likely would be relatively low. Because an engagement partner's liability would be, at most, coextensive with that of the firm, adding the engagement partner as a defendant should not increase the amount a court could award to investors. A court might hold the engagement partner liable, jointly and severally with the firm, for those same damages, but in most cases the accounting firm will have greater resources to satisfy a judgment than will any individual partner. In any event, the Board seeks input as to the extent to which individual partners or firms may seek to mitigate any costs arising out of a claim under Section 11.[50/]

Under these circumstances, it seems likely that any increase in overall costs would be small. Such costs as might be incurred would include the administrative costs to obtain and file the additional consents as well as costs inherent in the litigation system. The administrative costs, in particular, should be insignificant. The Board understands that the engagement partner could simply be added to the consent that the accounting firm already provides and that the issuer already files with the Commission.

[50/] The Board notes that Section 14 of the Securities Act provides that "[a]ny condition, stipulation, or provision binding any person acquiring any security to waive compliance with any provision of this title or of the rules and regulations of the Commission shall be void." The Board also notes certain positions by the Commission with respect to Section 11. For example, the Commission has stated that indemnification of directors, officers, and persons controlling the registrant for liabilities incurred pursuant to the Securities Act "is against public policy as expressed in the Act and is therefore unenforceable." Item 510 of Regulation S-K, 17 C.F.R. § 229.510; see also Item 508(g) of Regulation S-K, 17 C.F.R. § 229.508 (requiring a registrant to furnish a brief description of any provision in the underwriting agreement for indemnification by the registrant of the underwriters or their controlling persons against any liability arising under the Securities Act).

Litigation-related costs might be more significant than administrative costs but, in the Board's view, in this context should not be substantial. For one thing, consents from engagement partners in an audit should not increase the number of lawsuits filed, though it might increase the number of defendants in any lawsuit that would have been filed anyway. Because the engagement partner's liability would be based on the same facts that already subject the firm to liability, the filing of engagement partner consents should not make the filing of a Section 11 case any more likely than it is today.

In fact, Section 11 cases against accounting firms are relatively rare. Of the 152 federal securities class action cases filed in 2012, only four alleged a violation of Section 11 by an accounting firm.[51/] In 2011, 188 federal securities class action cases were filed, and thirteen included allegations that an accounting firm violated Section 11.[52/] Of those thirteen, nine involved audits of Chinese companies trading in the U.S. after a reverse merger. Eight of the 176 federal securities class action cases filed in 2010 alleged that an accounting firm violated Section 11.[53/]

The analysis of Section 11 liability risks in the case of participating accounting firms is somewhat different because of the more limited role of the participating accounting firms in the audit. By its terms, Section 7 requires issuers to file the consents of those experts that are "named as having prepared or certified" any part of the registration statement or a report for use in connection with the registration statement. Section 11, in turn, imposes liability on experts, but only "with respect to the statement . . . which purports to have been prepared or certified by him."

The Board assumes that the participating accounting firm would be liable only for those misstatements in the financial statements associated, in some way, with their own audit work—that is, a participating accounting firm should not be liable for misstatements unrelated to its own work. Any uncertainty about whether participating accounting firms could be liable for other misstatements in the financial statements, however, could act as a disincentive to providing the consent and consequently impose additional costs.

Although it has been asserted that participants in the audit would charge more for their work or refuse to participate in the audit if consents were required, commenters did not present any evidence that this would be the case. The requirement to file a consent

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51/ See Stanford Law School Securities Class Action Clearinghouse available at http://securities.stanford.edu.

52/ Id.

53/ Id.

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does not change the work the auditor must do. Raising the fee charged by a participant based on an unquantifiable assertion of increased risk is unlikely to be well received either by the accounting firm issuing the auditor's report or the audit committee. Also, for firm network members refusing to participate in an audit because of the consent requirement may be incompatible with obligations as a member of the network. Uncertainty as to the forgoing does not, in the Board's view, justify depriving investors of the benefits of the additional information that would be provided pursuant to the reproposed amendments. Even if costs were to increase the Board believes this information would be valuable.

The Board is reproposing the disclosure requirements because the greater transparency afforded by the required disclosures would, in the Board's view, serve the public interest.

2. Section 10(b) and Rule 10b-5 of the Exchange Act

The second main potential source of liability from the Board's reproposed amendments is under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated under it. The concern is that engagement partners and other participants in the audit could become liable under Section 10(b) and Rule 10b-5 for materially untrue statements deemed to be made by them in the auditor's report.

In its 2011 Release, the Board noted that the Supreme Court, in Janus Capital Group, Inc. v. First Derivative Traders, had decided what it means "[t]o make any untrue statement of a material fact" under Section 10(b) and Rule 10b-5(b).[54/] That case brought some clarity to an area of the law that had, as the 2009 Release had noted, been unclear. Specifically, the Court held that "[f]or purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it."[55/] The Court also explained that "attribution within a statement or implicit from surrounding circumstances

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54/ Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296, 2302 (2011). Pursuant to Rule 10b-5, "it is unlawful for 'any person, directly or indirectly, . . . [t]o make any untrue statement of a material fact' in connection with the purchase or sale of securities." See id. at 2301 (quoting Rule 10b-5). Because there is no private right of action under Section 10(b) against those who aid and abet a securities fraud, Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A., 511 U.S. 164, 191 (1994), to be liable in a Section 10(b) private action for the making of the statement, the actor must be the maker of the statement. See Janus, 131 S.Ct. at 2302.

55/ Id.

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is strong evidence that a statement was made by—and only by—the party to whom it is attributed."[56/]

The Board solicited comment on the Section 10(b) liability implications of a disclosure approach, rather than a signature requirement, in light of Janus. Comments filed with the Board on the 2011 Release, after the Janus decision, generally reflected the same concerns expressed in response to the 2009 Release. Many of those who opposed the disclosure requirements suggested that the proposed requirements could increase the engagement partner's risk of personal liability under the Exchange Act. In the view of these commenters, this could raise audit costs, discourage good practitioners from auditing public companies, and encourage more lawsuits, even if they ultimately proved meritless.

Some commenters seemed to acknowledge that, in light of Janus, a disclosure approach, rather than requiring the engagement partner's signature, could mitigate concerns about private liability for fraud under Section 10(b). At the same time, however, these and other commenters noted that it was still uncertain how lower courts will apply the Supreme Court's decision. One such commenter suggested that if the Board adopted a disclosure requirement it should impose a provisional rule that would be in effect for five years to allow the case law to develop. In this commenter's view, the Board could then decide to make the rule permanent once it becomes clear that concerns about liability were unfounded.

Because the future decisions of courts interpreting Janus cannot be known in advance, the Board cannot conclude with certainty whether its approach might increase liability under Section 10(b). The Board does believe, however, that a disclosure rule is unlikely to change the *status quo* regarding private liability for fraud under Section 10(b). The auditor's report would continue to be signed only by the firm. The engagement partner will gain no new authority for, nor make any new statement in, the auditor's report by virtue of the firm's disclosure of his or her name. Because of this, the Board also believes that the better argument is that liability should not be increased under the Janus decision.[57/]

If the reproposed amendments are adopted, the Board would also monitor the rule for some time after it became effective. If the reproposed disclosure requirement

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[56/] See id.

[57/] While disclosure of the engagement partner might, at least in some circuits, make it easier for a plaintiff to plead reliance, the plaintiff would still have to meet all the other elements of Section 10(b) liability, including that the engagement partner was the maker of the statement under the Janus standard.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:56:08 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:02:00 AM

The case law will evolve over five years, ten years or even.....

yes, twenty years....

regardless of whether or not it's a provisional rule.....

that's my thought and we're sticking to um.....both of um....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:57:49 AM

leads to an increase in litigation against either engagement partners or other participants in the audit that results in negative effects on audits of public companies, the Board can revisit it.

In response to comments, the Board also is making a minor change to the language that it proposed to add to the examples of reports that illustrate the reproposed disclosure requirements. Some commenters expressed concern that courts might misconstrue the statement that the engagement partner is "responsible for the audit" to mean that the engagement partner has "ultimate authority," as that term is used in Janus, over the opinion expressed by the firm. Because the phrase "responsible for the audit" is not necessary to make the disclosure clear, the reproposed amendments do not include this phrase.[58/]

IV. Audits of Brokers and Dealers

Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act")[59/] gave the Board oversight of the audits of brokers and dealers registered with the SEC. On July 30, 2013, the SEC amended SEC Rule 17a-5 under the Exchange Act, to require, among other things, that audits of brokers' and dealers' financial statements be performed in accordance with the standards of the PCAOB for fiscal years ending on or after June 1, 2014.[60/]

The Board determined that the reproposed amendments would be appropriate for the audits of brokers and dealers for similar reasons as the audits of issuers. Commenters who mentioned brokers and dealers in their comment letters did not raise any specific concerns about the applicability of the amendments to the audits of brokers and dealers. Therefore, the reproposed amendments, if adopted by the Board and approved by the SEC, would be applicable to such audits.

Based on research conducted by the PCAOB's Office of Research and Analysis ("ORA"), ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. ORA's research indicates that there are

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[58/] The engagement partner remains responsible for the audit and its performance, as described by Auditing Standard No. 10. As explained above, however, the auditor's report is issued and signed by the firm.

[59/] Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

[60/] See SEC Exchange Act Release No. 70073, *Broker-Dealer Reports*, (July 30, 2013), 78 Federal Register 51910 (August 21, 2013), available at http://www.sec.gov/rules/reproposed/2013/34-70073.pdf.

no issuers among the approximately 4,230 brokers and dealers that filed annual audited financial statements with the SEC for fiscal periods ended during 2012. Approximately 9% of the 4,230 brokers and dealers are subsidiaries of issuers. The remainder are not owned by issuers.

According to ORA's research, for the population of brokers and dealers that are not subsidiaries of issuers (1) approximately 90% are directly owned by an individual or an entity that owns more than 50% of the broker or dealer and (2) approximately 75% have five or fewer direct owners. A review of the title or status of the brokers' or dealers' direct owners who are individuals suggests that these owners are generally part of the broker's or dealer's management. Disclosure of the engagement partner or other participants may be of limited use to individual owners, but it may be useful to other financial statement users. The Board is seeking comment regarding the applicability of the reproposed amendments to audits of brokers and dealers.

V. Economic Considerations

A. Economic Rationale and Discussion of Benefits

The reproposed amendments are designed to provide investors and other financial statement users with information the Board believes could help them evaluate the quality of individual audits. Although the names of the engagement partner and certain other participants in the audit are known to company management, they are not known to investors and other financial statement users despite their potential value in making economic decisions, including investment decisions to buy, hold, or sell shares. The disclosed information may provide a signal about the quality of the audit of the financial statements that could reduce the level of information asymmetry[61/] between company management and investors.

Under the current regulatory baseline, in which only the firm name is disclosed, investors and other financial statement users are limited in what they know about the participants who actually perform an audit. PCAOB oversight activities show that audit quality varies among partners within the same firm, suggesting that, on its own, firm-level reputation is an imperfect signal of audit quality. Disclosure of the names of the engagement partner and certain other participants in the audit would allow investors and other users of financial statements to supplement the audit firm's name with more granular information when forming an opinion about the nature of the audit. This refinement may be of particular interest to investors and other financial statement users

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[61/] Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

given that a relatively small number of audit firms conduct a relatively large number of public company audits. The reproposed disclosure requirements would allow investors to distinguish between audits beyond the name of the accounting firms.

The capacity to differentiate between alternative products is a fundamental requirement of competitive markets. Investors, for example, benefit from knowing the quality and reputation of not only the firm, but also of the engagement partner on the audit of the company in which they invest. By having information at this level of granularity – that which corresponds to their investment decision – the market for audit services is made more competitive and efficient because investors are better able to discern between audit firms.

By adding granularity to the information about who performed the audit of a particular company, the differentiated information clarifies distinctions between investment alternatives and can empower investors to pursue their investment strategies more effectively. Over time, this could promote competition in the audit industry and could lead to a more efficient allocation of capital.

The following sections describe the findings of several recent studies that provide empirical evidence related to disclosing the name of the engagement partner and certain other participants in the audit. The Board will review the academic literature again before taking further action on the reproposed amendments to identify any relevant new studies or changes to the working papers referenced below.

1. Research on the Disclosure of the Name of the Engagement Partner

Several studies examined whether engagement partner disclosure requirements affect the prices of securities leading to more efficient markets. Knechel et. al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that in Sweden, where engagement partner's names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners."[62/] Although much of this analysis was conducted using data on private companies, many of the results continued to hold when the authors separately analyze

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62/ See W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions,* Working paper (September 2013) available at https://www.caaa.ca/_files/file.php?fileid=filerSDAxJgThx&filename=file_Knechel__Vanstraelen__Zerni__Does_the_Identity_of_Engagement_Partners_Matter.pdf.

public companies. A similar study conducted by Aobdia et. al.[63/] used data from Taiwan and also found that both debt and equity markets react to the performance characteristics of engagement partners.[64/]

Lambert et. al. used an experimental framework to examine how investors react to disclosure of the engagement partner.[65/] They found that prospective investors were less likely to invest in a company that has been linked via the disclosure of the name of the engagement partner to another company that had to restate its financials. While this could improve capital allocation, the findings were only statistically significant for less experienced investors. The authors went on to evaluate potential implications on audit partner reputation, accountability, incentives, and independence.

Although the primary benefits of the reproposed amendments pertain to the disclosure of the engagement partner and certain other audit participants, the disclosures may also create an incentive for auditors to voluntarily take steps that could result in improved audit quality. Research summarized below leaves open the question of other benefits. The Board is seeking additional comments and data regarding the disclosures' potential effects on accountability.

Carcello and Li[66/] examined the impact of the E.U.'s audit engagement partner signature requirement on audits in the U.K., and found improvements in several

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63/ See Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333.

64/ Aobdia et. al. acknowledge that their use of estimates of abnormal accruals as a proxy for engagement partner performance is subject to measurement error. They continue to find evidence that engagement partner histories matter to capital markets when they use regulatory sanctions history as an alternative measure of audit quality.

65/ See Tamara A. Lambert, Benjamin L. Luippold, and Chad M. Stefaniak, *Audit Partner Disclosure: Potential Implications for Investor Reaction and Auditor Independence*, Working paper (March 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1983482.

66/ See Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom,* 88 The Accounting Review 1511, 1511-1546 (2013).

financial indicators of audit quality,[67] as well as an increase in audit fees. It is worth highlighting that this study evaluated a policy alternative (signature requirement) that may have a more pronounced effect on accountability than the disclosure requirement being reproposed since the engagement partner's signature goes one step beyond just disclosing the partner's name.

Two studies suggested that disclosure requirements could produce limited or no observable improvement in audit quality. Blay et. al. analyzed data from Norway and were unable to document any statistically significant improvements in audit quality following the E.U. mandate for engagement partners to sign auditors' reports.[68] In a qualitative analysis, King et. al. argued that only under certain circumstances would increased accountability through engagement partner disclosure lead to better auditor performance—when the public's perception of audit quality is below the actual level of audit quality.[69] Otherwise, they argued that disclosure could lead to over-auditing.

2. Research on the Disclosure of Certain Other Participants in the Audit

Dee et. al.[70] examined the impact on financial markets of current annual PCAOB Form 2 disclosures[71] of other participants in the audit. Using the filing of the Form 2 as

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[67] Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness.

[68] See, e.g., Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate,* Working paper (April 2012) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2044817.

[69] See Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences*, 26 Accounting Horizons 533, 533-561 (2012).

[70] See Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Investor Perceptions and Disclosures of Other Audit Participants in PCAOB Filings*, Working paper (August 2012) available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

[71] PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "played a substantial role in the preparation or furnishing of an audit report" (as defined by PCAOB Rule 1001 (p)(i)).

the event date, they investigated "whether the market reacts to the disclosure of other participants in audits." For companies whose audits involved other participants disclosed in Form 2, they find a negative market reaction and a decrease in the information content of earnings surprises post disclosure. The authors concluded that the results of the study suggested "that PCAOB required disclosures by auditors of their significant participation in the audits of issuers provide new information, and investors behave as if they perceive audits in which other auditors participate negatively after the information is disclosed."[72/]

B. Discussion of Costs

Under the reproposed amendments and as discussed above in the liability section, audit firms would likely incur direct compliance costs to obtain consents and to calculate the relative levels of participation of the other participants.[73/] These direct costs are believed to be low due to the relatively simple nature of the tasks. In addition, these costs may decline over time as firms are able to automate these procedures.

The disclosure requirements could result in indirect costs related to liability. The liability section above describes in greater detail the potential sources and likelihood of such costs. As a general matter, the magnitude of damages would not change, but the number of defendants listed in the litigation may increase. As a result, there could be indirect costs to engagement partners and other audit participants related to obtaining representation in cases when they may not have been named before.

Investors may also incur costs to obtain the benefit of the disclosure. These costs—which should be interpreted as a reduction in the net benefits received—could include the cost of collecting disclosed information. Given the general availability of the auditor's report to investors and other users of the disclosed information, the costs to investors are expected to be relatively low. For investors choosing to aggregate disclosed information, the costs would be higher.

[72/] Id. at 31-32. Of course, this negative perception might result from a lack of sufficient information available for investors to draw conclusions about the quality of audits in which other participants are involved. If so, the reproposed amendments could help address this issue by providing more information regarding participants in the audit than is currently available.

[73/] See Section III.C., *Liability Considerations,* for further discussion of liability considerations.

C. Alternatives Considered

Over the past several years, the Board has considered a number of alternative approaches involving the issue of transparency. A threshold question was whether there was, in fact, a need for greater transparency about the participants in the audit and, if so, whether rulemaking was the appropriate vehicle to achieve it. On the question of need, through its outreach efforts, the Board became convinced that there was a strong desire among investors and other financial statement users to have more information about the audit, such as the identity of the individuals and firms that were doing the audit. Providing such information is consistent with the general approach of the U.S. securities laws favoring disclosure of information for investors' use. The degree of usefulness of the information discussed in this release likely would vary among investors and other financial statement users, but the Board believes that, overall, disclosure of the information would be useful and in the public interest.

The Board considered whether an informal approach rather than regulation would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance such as staff audit practice alerts, research reports, answers to frequently asked questions, or summary reports under the Board's Rule 4010, did not seem suitable. Accounting firms also did not seem likely to change long established practices voluntarily and had not done so voluntarily in those jurisdictions where engagement partner signature on the auditor's report is now required by law or rule. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving more robust and consistent disclosures about the auditors of all U.S. public companies. Thus, the Board did not pursue an informal or voluntary approach.

Once the Board concluded that rulemaking was appropriate in this matter, several alternatives were considered. A central consideration for the Board was to provide the information in a form that would be most easily accessible to investors and other financial statement users. That argued for providing the information in a document that was widely disseminated and commonly read by investors, such as the auditor's report that is included in the annual report filed with the SEC. It also argued for keeping the information in the same location as the audited financial statements. As discussed above, the Board believes disclosure in the auditor's report is the most appropriate alternative; however, other alternatives were considered, including the following:

1. Signing the Auditor's Report

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the audit firm. A number of commenters supported the signature requirement. However, many commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the audit firm in the audit and

could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have a strong sense of accountability and that signing their own name on the audit opinion would not impact that. In the Board's view, the reproposed approach includes most of the potential benefits of a signature requirement, while mitigating some of the concerns expressed by commenters.

2. Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2

All PCAOB registered firms must file a report on Form 2 with the Board at least annually. Form 2 provides basic information about the firm and the firm's issuer-related practice over the most recent 12-month period.[74/] In the 2011 Release, the Board proposed, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, to add to Form 2 a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits.

Some commenters on the 2011 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report, but on Form 2 only. This would make the information publicly available but likely would obviate any requirement for a consent by the named parties under Section 7 of the Securities Act and might further lessen any potential risk of liability under Section 10(b) by not including the names in the auditor's report itself.

There are, however, a number of disadvantages to this approach. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months[75/] and would entail some additional costs for accounting firms to develop systems and to compile and report that information. It also would make the information

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[74/] Under the *Amendments to Conform PCAOB Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications*, PCAOB Release 2013-010 (December 4, 2013), the Board has adopted amendments to Form 2 to call for relevant information concerning a firm's audits of brokers and dealers.

[75/] Form 2 must be filed no later than June 30 of each year, PCAOB Rule 2201, *Time for Filing of Annual Report*, and covers the preceding 12-month period from April 1 to March 31; See Form 2, General Instruction 4. Special reports must be filed no later than 30 days after the triggering event. See PCAOB Rule 2203, *Special Reports*.

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more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of other unrelated information in Form 2.

While the Board could expend resources to develop systems to make the information more easily accessible, doing so would not address the disadvantages as to timing or the need for investors to look in several places for information that would be provided by the requirements of this reproposal. Therefore, the Board believes that adopting only a Form 2 requirement would seriously diminish the value of the disclosures. The Board remains interested, however, in commenters' views about whether annual disclosure in Form 2 would be a useful supplement to the more timely disclosures that the reproposed amendments would require.

3. A New, Targeted PCAOB Form

The Board also considered creating a new PCAOB form—to be filed with the Board at the same time or shortly after the auditor's report is filed with the SEC—that would identify the company, the date the auditor's report was issued, the identity of the engagement partner and the other participants in the audit, but only that information. The information would be publicly available through the PCAOB's website. This approach would have the same advantages as Form 2's approach but would coordinate the timing of the disclosure with the release of the auditor's report and would limit the information on each form to a single company. The disadvantage with this approach is that it still would require investors and other financial statement users to search two different places, at two different regulators (SEC and PCAOB) to see both the auditor's report and the disclosures about the participants in the audit. It also would require audit firms to set up new reporting structures and the PCAOB to administer and police the filing of thousands of individual forms annually and to create a system to make the forms easily available.

Because of the effort and costs involved—for investors to locate relevant information and for the firms and the Board to administer the filing of a new form—the Board believes that the selected alternative is both more useful and cost effective.

4. Disclosure of the Required Information Either in the Audit Committee Report or in the Auditor's Report

Under this approach, the Board would require disclosures to be made in the auditor's report itself, unless the audit committee agreed to do so in the audit committee's report filed with the proxy statement. This approach also poses several problems, however. There would not be a uniform source for the information among companies. In some cases, the information would be in the proxy statement, in others, in the auditor's report included in the annual report. Investors and other financial

statement users would not readily know where the information was for any particular company. Another consideration is that the circumstance could arise where the auditor does not include the required disclosures in the auditor's report anticipating that the audit committee will include it in its report and, for whatever reason, the audit committee fails to do so. This would require the auditor to amend its auditor's report. Also, the timing of the filing of the proxy statement would pose the same problem as with the Form 2 approach. The proxy statement is almost always filed later than the auditor's report which must be included in the annual report filed with the SEC. Altogether this approach appeared to present risks of information dispersion and lack of uniformity of presentation that would defeat one of the Board's cardinal objectives in this project: ease of use.

VI. Considerations for Audits of Emerging Growth Companies

A. Background

Pursuant to Section 104 of the JOBS Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."[76/] As a result of the JOBS Act, the amendments to PCAOB standards the Board is reproposing, if adopted by the Board, would be subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The PCAOB has been monitoring implementation of the JOBS Act in order to understand the characteristics of EGCs[77/] and inform the Board's considerations

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[76/] Pub. L. No. 112-106 (April 5, 2012). See Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act.

[77/] In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before December 8, 2011). See JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, the issuer retains its EGC status until the earliest of: (1) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (2) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (3) the date on which the company issues more than $1 billion in non-convertible debt during the prior three-year period; or (4) the date

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regarding whether it should request that the SEC apply the reproposed amendments to audits of EGCs, if adopted. To assist commenters, the Board is providing the following information regarding EGCs that it has compiled from public sources.[78/]

B. Characteristics of Self-Identified EGCs

As of October 1, 2013, based on the PCAOB's research, 1,144 SEC registrants have identified themselves as EGCs in SEC filings.

These companies operate in diverse industries. The five most common Standard Industrial Classification ("SIC") codes applicable to these companies are: blank check companies; pharmaceutical preparations; real estate investment trusts; prepackaged software services; and computer processing/data preparations services.

Approximately 22% of the EGCs identified themselves in registration statements and were not previously reporting under the Exchange Act as of October 1, 2013. Approximately 61% of the companies that have identified themselves as EGCs began reporting under the Exchange Act in 2012 or later. The remaining 17% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have begun reporting information under the securities laws since 2012.

Approximately 64% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[79/]

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on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, a company that has been public for at least one year and has an equity float of at least $700 million). See Section 3(a)(80) of the Exchange Act.

[78/] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis has reviewed registration statements and Exchange Act reports filed with the SEC with filing dates between April 5, 2012, and October 1, 2013, for disclosures by companies related to their EGC status. Companies with filings indicating they are no longer EGCs are not included in this analysis. Any filings subsequent to October 1, 2013 are not included in this analysis. The PCAOB has not validated these companies' self-identification as EGCs. The information presented also does not include data for companies that have filed confidential registration statements and have not subsequently made a public filing.

[79/] The SEC amended its smaller reporting company rules in *Smaller Reporting Company Regulatory Relief and Simplification*, Securities Act Release No.

Audited financial statements were available for nearly all of the companies that have identified themselves as EGCs.[80/] For those companies for which audited financial statements were available and based on information included in the most recent audited financial statements filed as of October 1, 2013:

- The reported assets ranged from zero to approximately $18.2 billion. The average and median reported assets were approximately $182.4 million and $0.3 million, respectively.[81/]

- The reported revenue ranged from zero to approximately $962.9 million. The average and median reported revenue were approximately $60.2 million and $2 thousand, respectively.

- The average and median reported assets among companies that reported revenue greater than zero were approximately $360.8 million and $69.3 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $118.7 million and $22.1 million, respectively.

8876 (December 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their revenues were below $50 million in the previous year.

[80/] Audited financial statements were available for 1,134 of the 1,144 self-identified EGCs. Audited financial statements were not available for some EGCs that have filed registration statements that have not been declared effective.

[81/] For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as marketed on the Russell website). The average and median reported assets of issuers in the Russell 3000 were approximately $12.1 billion and approximately $1.6 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of October 1, 2013 of issuers in the Russell 3000 were approximately $4.6 billion and $725.8 million, respectively.

- Approximately 48% identified themselves as "development stage entities" in their financial statements.[82/]

- Approximately 55% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[83/]

- Approximately 38% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 62% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.

- Approximately 4% were audited by firms (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[84/]

- Approximately 14% and 18% of the EGCs reported segment sales and assets,[85/] respectively, in geographic areas outside the country or region

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82/ According to the Financial Accounting Standards Board standards ("FASB"), development stage entities are entities devoting substantially all of their efforts to establishing a new business and for which either of the following conditions exists: (1) planned principal operations have not commenced or (2) planned principal operations have commenced, but there has been no significant revenue from operations. See FASB Accounting Standards Codification, Subtopic 915-10, Development Stage Entities—Overall.

83/ Approximately 1% of the population of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

84/ This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

85/ See FASB Accounting Standards Codification, Topic 280, Segment Reporting.

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Number: 1 10:30:00 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014
Number: 2 10:29:38 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014

of the accounting firm issuing the auditor's report.[86/] For these EGCs, on average, 59% and 76% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[87/]

C. Applicability of the Reproposed Amendments for Audits of EGCs

Based on the data outlined in Section VI.B., *Characteristics of Self-Identified EGCs*, above, EGCs generally appear to be smaller and newer public companies. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other participants in the audit could assist the market in assessing some risks associated with the audit and valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of companies that are not EGCs.[88/]

Some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report. This characteristic may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. The data above indicates that the percentage of EGCs reporting segment sales (14%) and assets (18%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 37%, respectively). However, for these EGCs the average percentage of reported segment sales (59%) and assets (76%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (41%) and assets (37%) reported by companies in the Russell 3000 Index. Therefore,

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86/ Approximately 51% and 37% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

87/ For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 41% and 37% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

88/ This assumes that the market does not view information provided by the disclosure in audits of EGCs as less valuable than information in audits of issuers that are not EGCs. The Board is aware of no reason for such a distinction.

providing the reproposed disclosures regarding other participants in the audit may be as relevant to EGC investors and other financial statement users as it would be to investors in larger and more established companies.

As noted in the data above, some of the EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name. For those EGCs, the name of the audit engagement partner is already disclosed, in practice, in the auditor's report through the required signature of the auditor's firm. No companies in the Russell 3000 Index are audited by such firms.

The EGC data above also indicates that for 55% of the EGCs, the auditor's report on the most recent audited financial statements includes an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern, as compared to 1% for the population of companies in the Russell 3000 Index. This suggests that, for the majority of EGCs, the auditor is modifying the auditor's report to indicate there is substantial doubt about the company's ability to continue as a going concern. Determining the identity of the engagement partner ultimately responsible for the going concern evaluation could be a factor that investors and other financial statement users consider in connection with the facts and circumstances relevant to a going concern modification of the auditor's report.

Exempting EGCs from the reproposed amendments might put investors in EGCs at an informational disadvantage compared to investors in larger and more established companies that would be subject to the reproposed amendments. For example, if the reproposed amendments do not apply to audits of EGCs, but are applicable to audits of larger and more established companies, the potential disparity between the two groups of companies in the amount and quality of public information available for investment decision making could increase.

Matters pertaining to all costs, discussed earlier in this release, are equally applicable to all companies, including EGCs. As previously described, the reproposed disclosure requirements are not anticipated to be costly to implement for the accounting firms that audit EGCs or other accounting firms. The Board has posed questions and seeks input on whether these reproposed amendments should apply to the audits of EGCs.

VII. Questions for Commenters

1. Would the reproposed 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?

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:32:43 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:46:27 AM

Yes it would.... and by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....

thanks, PCAOB...for your lack of support & guidance in this regard....(aka: providing Big Data/Cloud Eco-system analysis, Use Cases, et al....) & another thing....when will jail time be written into the Regulations.....and acted on.....when faced with fraud?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

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?

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?

   a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

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?

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?

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?

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?

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 the 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?

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:38:40 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:42:56 AM

Yes it would.... and by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:45:51 AM

Yes it would....thanks, PCAOB...for your lack of support & guidance in this regard....however, you all can turn this around by taking on the characteristics of NIST (National Institute of Standards & Technology) of the Audit World as you're already half-way there as far as a perceived agnostic approach for trustworthy, benign and fair practices.....are concerned.....

So, by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:48:47 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:47:08 AM

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:49:09 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:49:31 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Comments from page 41 continued on next page

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?

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?

   a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

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?

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?

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?

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?

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 the 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?

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:51:42 AM

Yes, yes they would.....

Please Note: See Appendix A., for a minor listing from the world of Social Media, and publically available, too....no less.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:50:02 AM

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:53:45 AM

Yes, yes it would.....

As the sixteen parameters associated with fraud would rise to the top....sorta like a nice, big, brown....never mind.....oh yeah, flip flop.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.....thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:53:56 AM

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:55:16 AM

Number: 13 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:58:01 AM

Neither.....over time, there are no secrets across all industries.....and between competitors.....

Please see: Shadow Banks, and Shadow Jails, Re: China

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 14 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:03:23 AM

Nope, not at all.....and anyone who uses the term 'unintended consequences' also believes such improvements in audit clarity will only confuse the poor dumb investor, cost to much to implement, is unnecessary as everything is working just fine, and will cause the sky to fall and will have....
U N I N T E N D E D
C O N S E Q U E N C E S

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 15 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:58:51 AM

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement 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 effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

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?

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?

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If 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.

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?

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?

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 of other issuers?

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

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:03:46 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:09:43 AM

No fines, no penalities....
jail time would be nice...but some would say...."isn't that a bit harsh....."

along the lines of "protecting companies from making bad business decisions...."(aka: fraud)...

just a simple application of a ring-fence on any entity from conducting any financial audits for three years or until they comply with this industry wide regulation....which ever comes first....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:10:09 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:11:45 AM

Identify the perps...which is a non-cost....then publizice loud and wide across the PCAOB Perps Web Site those who refuse to play by the rules, in this regard....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:42:13 AM

Yes, we think it would.....and once the EGC's figure out how much pain/more work for them is associated with this they'll take the path of least resistance....
and continue doing what they've always been doing...until things Go South.....no offense South.....

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:12:28 AM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:12:41 AM

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:38:12 AM

Yes, whenever you become visible you tend to pay greater attention to your reputation.....don't you agree....?

Yes....but use a bell-curve to address audit quality....some folks just have a greater sense of duty and responsibility to do the right thing...than others.....present audience excluded of course....Respectfully yours, Pw

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:28:50 AM

Such costs will be either passed thru or negotiated during the SLA phase of an engagement.....which ever comes last....and since anyone can call themselves and EGC....what's the point....?

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/16/2014 9:27:10 AM

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:34:24 AM

The length of time it would take to create a series of templates/more documentation to regulate and review....(aka: not much in cost over rides here....) and speaking of indirect double-reverse, value added, KPI's (Key Performance Indicators), pass-thru shadow

Comments from page 42 continued on next page

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement 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 effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

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?

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?

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If 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.

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?

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?

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 of other issuers?

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

accounting practices, associated with black money....how should these be handled....? Just curious....Respectfully yours,

Pw

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:16:58 PM

Yes...whenever someone is looking over your shoulder....we all tend to tighten up a bit.....more...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 13 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:17:04 PM

Number: 14 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:26:30 AM

How many financial statements are correct, accurate, fair and honest....?

Did we hear, "Not that many"....so why would including another additional set of ..... 'just get it done's' improve the clarity of same.....?....just wondering...Pw

not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

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?

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?

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

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?

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 ("engaged 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 not, why?

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:15:31 PM

10% is best as it is easier to administer, identify, easier to track and audit and more difficult to obfuscate.....

as 10 is a very hard bucket to fill evenly and consistently.....

there are just too many 5's, 6's, and 7's...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:12:16 PM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:11:50 PM

Dear PCAOB Folks:

In countries where the rule of law consists of tossing individuals over the balcony of their secret 22nd floor hotel room in London, Bangkok or Singapore....

then no....

an adverse audit can be career threatening as well as life shortening.....

Then it would not be a good idea to advertise who did what to whom.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:11:05 PM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:10:15 PM

In countries where the rule of law consists of tossing individuals over the balcony of their secret 22nd floor hotel room in London, Bangkok or Singapore....

then no....

an adverse audit can be career threatening as well as life shortening.....

Then it would not be a good idea to advertise who did what to whom.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:05:17 PM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:04:46 PM

Nope, not at all....

Comments from page 43 continued on next page

not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

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?

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?

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

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?

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 ("engaged 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 not, why?

If as a specialized skill/knowledge person, we're engaged on a project and are influencing the correctness of the audit...then we should be identified....and all costs will pass thru via the SLA/Contract....Audit Agreement...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:02:07 PM

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?

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?

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?

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?

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 disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

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?

VIII. Appendices

The Board's reproposal includes this Release ("release") and the following appendices:

- Appendix 1 contains reproposed amendments to PCAOB auditing standards for disclosure of the engagement partner.

Page: 44

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:01:14 PM

Yes for the first part....

But No for the second, unless this disclosure in cross-referenced with other appropriate data bases for detecting bad behavior....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:59:40 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:59:16 AM

Yes....

and make public these forms for greater knowledge sharing and transparency via your brand new Town Hall Meeting Web Site..... (currently under construction)....no?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:57:04 AM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:56:40 AM

Yes....
based upon current research over the past five years....

See Pws Appendix A.,

the opportunity for fraud in these categories is considerable and should be a driving factor when conducting any and all audits...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:55:04 AM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:54:19 AM

Create Audit's Lite.....

Audit requirements to lessen the burden by focusing on the key areas of fraud....(where there is money there is the opportunity for fraud)

...but never, ever look away...
and see no evil,
hear no evil and
speak no evil.....

which is the current climate within many regulatory agencies.....such as the SEC.....et al...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:50:49 AM

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:50:30 AM

Comments from page 44 continued on next page

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?

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?

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?

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?

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 disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

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? [10] Are there benefits of the reproposed amendments that are specific to the EGC context?

VIII. Appendices

[11] [12] The Board's reproposal includes this Release ("release") and the following appendices:

- Appendix 1 contains reproposed amendments to PCAOB auditing standards for disclosure of the engagement partner.

Yes....

insofar as defraying the opportunities for fraud are concerned.....utilizing Big Data/Cloud Eco-systems reverse analytics....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:49:12 AM

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:48:03 AM

Dear Folks:

Advertise this section at the top of this Docket.....high light these guidlines.....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:47:09 AM

- Appendix 2 contains reproposed amendments to PCAOB auditing standards for disclosure of other accounting firms and other persons not employed by the auditor.

- Appendix 3 discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

IX. Opportunity for Public Comment

Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on February 3, 2014. The Board will consider comments received.

On the 4th day of December, in the year 2013, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 4, 2013

APPENDIX 1

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner[1/]

AU sec. 508, "Reports on Audited Financial Statements"

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In paragraph .08, subparagraph c-1 is added, as follows:

The name of the engagement partner[4A] on the most recent period's audit.

Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit of multiple periods), the name of the engagement partner on the audits for all periods presented should be disclosed.

Note: In cases in which an auditor's report is dual dated and the engagement partner is changed after the original date of the report, the names of both engagement partners should be disclosed.

[4A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

[1/] PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments reproposed in this release, the Board may make conforming changes to the reproposed amendments.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:46:35 AM

Another fine example of PCAOB Guidance....just high light these pearls by bringing them up to the front....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:45:38 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:23:00 AM

This will make for a nice fraud trigger, don't you think....?

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:14:14 AM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:15:34 AM

Dear Folks:

Will these 'conforming changes' also be opened up to Comments....?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:14:46 AM

b. In paragraph .08, at the end of the first paragraph of the example report on financial statements covering a single year, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

c. In paragraph .08, at the end of the first paragraph of the example report on comparative financial statements, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audits resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X2 was Partner A, except for Note Z, for which the engagement partner was Partner B.]

d. In paragraph .13, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit for the [period] ended [date] was [name].

e. In paragraph .34, at the end of the first paragraph of the example report on the balance sheet only, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

f. In paragraph .44, at the end of the first paragraph of the example of a qualified report, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

g. In paragraph .63, at the end of the first paragraph of the example of a report disclaiming an opinion, the following new sentence is added:

The engagement partner on the engagement for the [period] ended [date] was [name].

h. In paragraph .74, between the third and fourth sentences of the first paragraph of the example of a successor auditor's report, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508"

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508," as amended, is amended as follows:

a. In paragraph .36, at the end of the first paragraph of the example *Report on Single Year Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

b. In paragraph .36, at the end of the first paragraph of the example *Report on Comparative Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures," section 543 "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

In paragraph .09, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Auditing Standard No. 1 is amended as follows:

In paragraph 1 of the Appendix, at the end of the first paragraph of the illustrative report on an audit of financial statements, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5 is amended as follows:

a. In paragraph 85, subparagraph d-1 is added, as follows:

The name of the engagement partner[18A/] on the most recent period's audit of internal control over financial reporting.

[18A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

b. In paragraph 87, at the end of the first paragraph of the example report, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audit(s) resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X8 was Partner A, except for Note X, for which the engagement partner was Partner B.

APPENDIX 2

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of Other Accounting Firms and Other Persons Not Employed by the Auditor[1/]

AU sec. 508, *Reports on Audited Financial Statements*

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In subparagraph .11a, the text is replaced with the following:

> The auditor's opinion is based, in part, on the report of another auditor, and the auditor makes reference to the audit of the other auditor pursuant to PCAOB standards (paragraphs .12 and .13).

b. In paragraph .11, subparagraph a-1 is added, as follows:

> The auditor assumes responsibility, pursuant to AU sec. 543, for or is required to supervise, pursuant to Auditing Standard No. 10, *Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons[10A] not employed by the auditor in the most recent reporting period's audit (paragraphs .14A through .14F).
>
> [10A] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

1/ PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments reproposed in this release, the Board may make conforming changes to the reproposed amendments.

Page: 50

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:21:38 AM

Good Guidelines……

Here…..

however, you might want to raise their profile….a bit….say, for example….move to the top rather than the bottom….

Also, why so complicated….just tell us who did what, where the work was performed (you can borrow our GPS, if necessary)…and the names and addresses of the usual suspects involved……and since there are soooo many different ways to round up or down a financial statement we're not sure adding a percentage of participation greatly improves the accuracy of same…..just a thought…

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:41:36 AM

c. In paragraph .12, delete the title "*Part of Audit Performed by Other Independent Auditors*" from the parentheses.

d. In paragraph .13, in the example of a report indicating a division of responsibility,

- The last sentence of the first paragraph is replaced with the following:

  Those statements were audited by [name of other auditors and country of their headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph, the phrase "other auditors" is replaced with "[name of other auditors]"

e. The following section header is inserted after the amended paragraph .13:

Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit

f. Paragraph .14A is inserted, as follows:

When another independent public accounting firm performs an audit of the financial statements of one or more of a company's subsidiaries, divisions, branches, components, or investments, or another independent public accounting firm or person not employed by the auditor perform audit procedures in the most recent period's audit, other than an independent public accounting firm whose audit is referred to pursuant to PCAOB standards and except as provided by paragraph .14B, the following items should be disclosed in the auditor's report through the addition of an explanatory paragraph, or a reference to an appendix that includes the

required disclosure, following the opinion paragraph and any other explanatory paragraphs:

(1) With respect to other firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm," except as provided by paragraph .14D;

(2) The country(ies) of headquarters' office location of such firm(s) and the country(ies) of residence of natural persons or headquarters' office location of person(s) that are entities, except as provided by paragraph .14D;

(3) The percentage of the hours attributable to audits or audit procedures performed by such firm(s) or person(s) in relation to the total hours as of the date of the auditor's report in the most recent period's audit of the financial statements and, when applicable, internal control over financial reporting, which include the hours incurred in performing reviews pursuant to AU sec. 722, *Interim Financial Information*, (paragraphs .14C and .14D); and

Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit multiple periods), the disclosure should state the percentage of audit hours attributable to the audits or audit procedures performed by such firms and such persons in relation to the total audit hours for all periods presented.

Note: In cases in which an auditor's report is dual dated, the disclosure should be as of the second date of the auditor's report.

(4) A statement that the auditor is responsible for the audits or audit procedures performed by such firm(s) and persons and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

g. Paragraph .14B is inserted, as follows:

Excluded from the disclosures required by paragraph .14A are:

(1) The individual who performed the engagement quality review ("EQR");

(2) The person who performed the review pursuant to Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K ("Appendix K review");

(3) Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and

(4) Internal auditors who provided direct assistance in the audit of the financial statements.

h. Paragraph .14C is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is 5% or more of the total hours in the most recent period's audit, the percentage of hours attributable to audits or audit procedures performed by such persons and firms should be disclosed as a single number, or by listing such persons and firms within the applicable range(s) as follows: 5% to less-than-10%, 10% to less-than-20%, 20% to less-than-30%, 30% to less-than-40%, 40% to less-than-50%, 50% to less-than-60%, 60% to less-than-70%, 70% to less-than-80%, 80% to less-than-90%, and 90%-or-more.

i. Paragraph .14D is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is less than 5% of the total hours in the most recent period's audit, the other persons or firms should be disclosed as a group titled "other persons not employed by our firm" or "other firms," respectively. In addition, the following items should be included in the disclosure:

(1) A statement that the aggregate extent of participation of such persons or the individual extent of participation of such firms is less than 5%;

(2) The aggregate extent of participation of each group—as a single number, in one of the ranges described in paragraph .14C, or in the range of less-than-5%, as applicable; and

(3) The number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Note: When other persons or firms are disclosed as a group in accordance with this paragraph, disclosure of a country of their headquarters' office location or residence is not required as such persons and firms are not individually identified.

j. Paragraph .14E is inserted, as follows:

Examples of the explanatory paragraph described in paragraph .14A follow:

An example of the explanatory paragraph for situations in which another independent public accounting firm performs certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised its work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed an audit of the financial statements of one of XYZ Company's subsidiaries. We are responsible for the audit performed by ABC Audit Firm, insofar as that audit relates to our expression of an

opinion on the financial statements taken as a whole and, accordingly, have performed procedures to assume responsibility for its work in accordance with PCAOB standards. The portion of the total audit hours attributable to the audit performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which persons not employed by the auditor perform certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, persons ([country of residence or headquarters' office location]) not employed by our firm performed certain audit procedures. We are responsible for the audit procedures performed by these persons and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by these persons in our audit was X%.

k. Paragraph .14F is inserted, as follows:

An example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed in the Appendix to this report performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed in the Appendix performed certain audit procedures. We are responsible for the audits and audit procedures performed by these other independent public accounting firms and persons not employed by our firm and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed below performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed below performed certain audit procedures. The portion of the total audit hours attributable to

audits and audit procedures performed by these firms and persons in our audit follows:

Other participants in the audit and their extent of participation

30% to less than 40%:

- ABC Audit Firm (country of headquarters' office location)

10% to less than 20%:

- Persons (country of residence or headquarters' office location) not employed by our firm
- JKL Audit Firm (country of headquarters' office location)

5% to less than 10%:

- Persons (country of residence or headquarters' office location) not employed by our firm

Other participants whose individual or aggregate extent of participation was less than 5%:

- [Fill in number] other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the appropriate range, as described in paragraph .14D].

- Other persons from [fill in number] countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the applicable range, as described in paragraph .14D].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 543, "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

a. In paragraph .04, the last sentence is deleted.

b. The following note is added after paragraph .04:

Note: When the principal auditor assumes responsibility for the work of the other auditor, paragraph .14A of AU sec. 508, *Reports on Audited*

Financial Statements, requires certain disclosures regarding the other auditor.

c. In paragraph .07:

- The following sentence is added after the third sentence:

  The report should also disclose the name of the other auditor and the country of headquarters' office location of the other auditor.

- The last sentence is deleted.

- Footnote 3 is deleted.

d. In paragraph .09:

- The last sentence of the first paragraph of the example report is replaced with the following:

  Those statements were audited by [name of other auditors and country of headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph of the example report is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph of the example report, the phrase "the other auditors" is replaced with "[name of other auditors]."

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, is amended, as follows:

Page: 57

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:10:10 AM

Belief is not in question here, rather correctness, accuracy, truthfulness, honesty, veracity, and a fair representation of the financial health of the entity....simply put: "Our audit and the report by [name of other auditors] provides a fair, accurate, correct, truthful and honest basis for our opinion(s) during a specific sequential point-in-time. So help me God.

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:39:37 AM

a. In paragraph C1, subparagraph c-1 is added, as follows:

The auditor assumes responsibility, pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, for or is required to supervise, pursuant to Auditing Standard No. 10*, Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons* not employed by the auditor in the most recent period's audit of the company's internal control over financial reporting.

* PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

b. Paragraph C11-A is added, as follows:

The Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit of the Company's Internal Control Over Financial Reporting.

When another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or when another independent public accounting firm or a person not employed by the auditor performs audit procedures in the most recent period's audit of the company's internal control over financial reporting and the auditor assumes responsibility for or supervises the work, the auditor should include the disclosures described in paragraph .14A of AU sec. 508, *Reports on Audited Financial Statements*, regarding the other independent public accounting firm or person not employed by the auditor in the auditor's report on the audit of internal control over financial reporting. If the auditor chooses to issue a separate report on internal control over financial reporting, the explanatory paragraph described by AU sec. 508.14A should follow the paragraph required by paragraph 88 in each separate report. Further, in each separate report, these explanatory paragraphs should include a reference to the same appendix, if an appendix is used pursuant to AU sec. 508.14A.

APPENDIX 3

Additional Discussion and the Board's Consideration of Comments on the 2011 Release

The release describes the Board's principal considerations for the reproposed amendments to certain PCAOB auditing standards, which are presented in Appendices 1 and 2.

On October 11, 2011, the Board proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report and disclosure in the auditor's report about other participants in the audit (the "2011 Release").[1/] Additionally, comments were made on the originally proposed amendments during meetings of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG").[2/]

This Appendix provides additional discussion of the Board's responses to comments raised by commenters on the originally proposed amendments, as well as the basis for the Board's preliminary views regarding certain requirements.

[1/] See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2,* PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

[2/] The SAG discussed the 2011 Release at its meetings in November 2011 and May 2013. Transcripts of the relevant portions of the discussion are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and IAG meeting details and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

I. Board's Consideration of Comments on the 2011 Release to Require Disclosure of the Engagement Partner

A. Providing Useful Information to Investors and Other Financial Statement Users

The 2011 Release sought comments on whether additional transparency about the identity of the person responsible for the engagement would provide investors and other financial statement users with useful information. A number of varying views were expressed regarding the usefulness of the proposed disclosure.

Commenters who supported the proposed disclosure generally believed that disclosing the engagement partner's name in the auditor's report would provide investors and other financial statement users with useful information. For example, one commenter stated that, while signing the auditor's report with the engagement partner's name "would be responsive to the information needs of investors," they "would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report" because it would have most of the same potential benefits as a signature requirement.[3/]

Further, a group of academics wrote in a comment letter that, "based on existing research, there is reason to believe that disclosure of the engagement partner's name in the auditor's report would enhance investor protection" and that "investors may find this information useful." The letter also stated that "requiring disclosure would provide market participants with potentially useful information."[4/] An association of accountants in its letter stated that it "fully supports the aim of improving transparency of audits and believes that including the name and the signature of the engagement partner responsible for the audit will contribute to achieve this."[5/]

[3/] See letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/022b_CII.pdf.

[4/] See letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of the Secretary, Public Company Accounting Oversight Board (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf.

[5/] See letter from Philip Johnson, President, Federation of European Accountants, to Office of the Secretary, PCAOB (December 7, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/009b_FEE.pdf.

A variety of commenters, however, questioned the usefulness of providing users of the auditor's report with the engagement partner's name. Some commenters noted that the audit committee, which selects the auditor, already has information about the engagement partner's identity and qualifications. For example, one commenter stated that, "[t]ypically, when a new engagement partner is introduced to an audit committee, the committee is presented with the qualifications of the engagement partner, including experience with audits of similarly complex entities and specialized industries."[6/] Other commenters believed that the disclosure would distort the user's perception of the role the firm plays in the conduct of the audit. Finally, some commenters were concerned about incorrect inferences investors and other financial statement users would make about the quality of audits or qualifications of the engagement partners.

Consistent with views expressed by investors in comment letters on the 2011 Release, comments made by a number of investors in meetings of the Board's SAG and IAG suggest that they see value in learning the identity of the engagement partner. Some investors, for example, indicated that the engagement partner's expertise would be relevant in ratifying the company's choice of a registered firm as its auditor.

The Board believes that disclosure of the engagement partner's name in the auditor's report would provide valuable information to investors and other financial statement users. Making the identity of the engagement partner publicly available would, over time, enable investors and other financial statement users to research the number, size, and nature of companies that the partner has audited, and industries that the partner has served as engagement partner. The disclosure also would enable investors and other financial statement users to determine whether the engagement partner was named in a public disciplinary proceeding, or it would inform shareholders' decisions about whether to ratify the company's choice of registered firm as its auditor.

Having considered the comments received on the 2011 Release, views of investors expressed in SAG and IAG meetings, and academic research, the Board is reproposing the disclosure of the engagement partner's name in the auditor's report substantially as proposed.

The reproposed amendments do not change the accounting firm's role in performing the audit or in issuing the auditor's report or any of the engagement partner's responsibilities. The engagement partner remains responsible for the audit and its

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6/ See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants, to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

performance, as described by Auditing Standard No. 10, *Supervision of the Audit Engagement*. The only signature on an auditor's report would continue to be that of the accounting firm.

B. Other Considerations

1. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[7/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of the engagement partner in the audit need not be repeated in that auditor's report. Since the disclosure of the engagement partner in the audit is required only for the most recent period's audit, the reproposed amendments would not require the disclosure of the engagement partner in the audit in the reissued report of the predecessor auditor for prior years.

2. Reputational Considerations

Some commenters expressed concern that an engagement partner's reputation could be unfairly harmed due to association with an audit. For example, some commenters suggested that users of the auditor's report might misinterpret the role of a partner in a restatement of the company's financial statements.[8/] Some commenters stated that some partners might be reluctant to serve on the audits of certain issuers or to remain in the accounting profession because of reputational risk associated with the disclosure of their names.

As noted earlier in this release, requiring disclosure of engagement partners is intended to increase transparency about who led the audit. By increasing transparency, the reproposed amendments, if adopted, are intended to improve the usefulness of information available to investors and other financial statement users. Allowing

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[7/] See paragraphs .70-.73 of AU sec. 508, *Reports on Audited Financial Statements*, which discuss the report of a predecessor auditor.

[8/] The Board notes that restatements occur for a variety of reasons, including corrections of errors in prior-year financial statements, identification of new information related to a particular account or disclosure, and retrospective application of new accounting pronouncements.

investors, shareholders, audit committee members and other market participants to consider an engagement partner's past work and reputation would be an intended result of the reproposed amendments.

The Board has, of course, considered whether investors might misunderstand the disclosure or make unfair or unwarranted assumptions about engagement partners as a result of the requirement. A fundamental premise of the federal securities laws is that the disclosure of relevant and accurate information enhances market efficiency by improving investors' ability to decide how to allocate their capital. The names of a public company's officers and directors—as well as its audit firm—are routinely disclosed in its public filings. The Board believes that investors and other market participants would be able to understand and make appropriate use of the disclosure required by the reproposed amendments.

One commenter also expressed concern that "[u]nder the proposed rule, underwriters might eventually develop a sub-set of 'approved engagement partner' or partners with specialized industry knowledge, despite the fact that industry expertise might be provided by other than the engagement partner, and in some engagements in some firms, by an individual below the level of partner."[9/] The expertise of other members of the audit engagement team, however, cannot substitute for lack of the engagement partner's industry expertise. PCAOB standards on quality control contain specific requirements regarding industry expertise that the engagement partner should possess. For example, the engagement partner should possess "an understanding of the industry in which a client operates. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry specific estimates."[10/]

3. Personal Security

On July 28, 2009, the Board issued a concept release to seek commenters' views on whether it would be advisable for the Board to require the engagement partner

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9/ See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

10/ Paragraph .08 of QC Section 40, *The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*.

to sign his or her own name to the auditor's report ("2009 Release").[11/] In the 2009 Release, the Board noted that the European Union's ("EU's") Eighth Company Law Directive requires a natural person to sign the auditor's report but allows for an exception "if such disclosure could lead to an imminent and significant threat to the personal security of any person."[12/] Some commenters on the 2009 Release suggested that such an exception could be necessary if a signature requirement is adopted. Other commenters did not believe an exception was necessary.

The Board originally proposed the requirement to disclose the engagement partner's name without an exception analogous to that in the EU's Eighth Directive. In the 2011 Release, the Board sought comment on whether the proposed disclosure would create particular security risks that warrant treating auditors differently from others involved in the financial reporting process.

In general, comments on the 2011 Release with respect to personal security were similar to comments on the 2009 Release. Some of the commenters believed that naming the engagement partner may create security risks for the engagement partner, and that even the perception of increased personal security concerns could have a negative impact on accounting firms' ability to recruit and retain the most qualified professionals. Other commenters indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with an issuer's filing, or that personal security risks would increase as a result of the proposed disclosure.

After considering the comments received, the Board has not included an exception to the disclosure requirement analogous to that in the EU's Eighth Directive in the reproposed amendments. Further, a requirement to disclose the engagement partner's name has been in place in certain foreign jurisdictions for quite some time, yet no specific experience brought to the Board's attention provided persuasive information that personal risks to the engagement partners would increase as a result of these requirements.

[11/] See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[12/] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

II. Board's Consideration of Comments in the 2011 Release Relating to Other Participants in the Audit

A. Applicability of, and Exclusions from, the Disclosure

The reproposed amendments describe those participants in the audit to whom the requirements are applicable and those participants that are excluded from the disclosure.

1. Applicability of the Disclosure

The reproposed amendments to the Board's auditing standards would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*,[13/] or Auditing Standard No. 10, as applicable.

The commenters' views on the usefulness, and therefore applicability, of the proposed disclosure were divided. Some commenters believed that the proposed disclosure would provide useful information, whereas others did not see value in including in the auditor's report information about the other participants. Some such commenters were concerned that the proposed disclosure may cause confusion over who has responsibility for the audit. Some other commenters believed that the evaluation of the other participants should be performed by the audit committee, who selects the auditor, rather than by investors.

For reasons previously described, the Board is reproposing the amendments to provide information about other participants in the audit. The required disclosure states that the auditor is responsible for the audits and audit procedures performed by the other participants in the audit. Thus, the disclosure would provide accurate and descriptive information to readers of the auditor's report regarding the responsibilities of the parties involved in the audit.

The Board recognizes that the audit committee generally has greater access to information about the auditor and other participants in the audit than investors and other financial statement users because of the audit committee's role in the appointment, compensation, and oversight of the company's auditor.[14/] This does not mean that

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[13/] See AU secs. 543.03-.05.

[14/] Paragraph 10.d. of Auditing Standard No. 16, *Communications with Audit Committees*, requires the auditor to communicate to the audit committee, among other

information about the auditor and other participants in the audit would not also be useful to investors and other financial statement users, nor that enhanced transparency would not also assist audit committee members in performing their roles.

In addition to the more general comments on the requirements, one commenter raised a concern regarding the applicability of the proposed disclosure to alternative practice structures. Specifically, the commenter expressed a concern that alternative practice structures could be viewed negatively if a large number of individuals on audit engagements are disclosed in the auditor's report as non-employees of the audit firm. The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm.[15/] Employee sharing or employee leasing arrangements between an accounting firm and a secondary party are a common form of alternative practice structures.

The originally proposed amendments were intended to provide investors and other financial statement users with greater transparency into the other participants in the audit, including other persons. After considering comments received, no change was made regarding the applicability of the requirement with respect to alternative practice structures. However, as described in the next section of this Appendix, the Board has modified the amendments so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names. The other accounting firms participating in the audit would continue to be identified by their names.

2. Exclusions from the Disclosure

Similar to the 2011 Release, the reproposed amendments exclude the following participants in the audit from the disclosure requirements:

- Individuals performing the engagement quality review ("EQR");[16/]

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information, the names, locations, and planned responsibilities of the other independent public accounting firms or other persons not employed by the auditor that perform audit procedures in the current period audit.

[15/] ET section 101.16, *101.14 – The effect of alternative practice structures on the applicability of independence rules*.

[16/] See Auditing Standard No. 7, *Engagement Quality Review.*

- Persons performing a review pursuant to Appendix K ("Appendix K review");[17/] and

- Persons employed or engaged by the company who provided direct assistance to the auditor, including:

  - Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[18/] and

  - Internal auditors who provided direct assistance in the audit of the financial statements.[19/]

Similar to the 2011 Release, the reproposed amendments exclude individuals performing the EQR because the EQR is intended to be an objective second look at work performed by the engagement team, and the reviewers' work is not supervised by the auditor in accordance with Auditing Standard No. 10. Similarly, persons performing the Appendix K review would be excluded because the auditor does not supervise or assume responsibility for the Appendix K review. Finally, persons employed or engaged by the company who provide direct assistance to the auditor would be excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

The 2011 Release also excluded persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board proposes to require, rather than exclude, disclosure in the auditor's report of persons with specialized skill or knowledge in a particular field other than accounting or auditing.

[17/] See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of the SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

[18/] See paragraph 17 of Auditing Standard No. 5.

[19/] See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Currently, persons employed by the auditor with specialized skill or knowledge are supervised in accordance with Auditing Standard No. 10, while AU sec. 336*, Using the Work of a Specialist*, governs the auditor's use of persons engaged by the auditor with specialized skill or knowledge. As discussed below, persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing would be disclosed as "persons not employed by our firm." The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

B. Information to be Disclosed

The 2011 Release included the following disclosure requirements in an explanatory paragraph to the auditor's report:

- The names of other participants in the audit (including the financial statement audit and, when applicable, the audit of internal control over financial reporting, and reviews pursuant to AU sec. 722, *Interim Financial Information*);

- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence or headquarters' office location of another person); and

- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

In general, commenters expressed their support for the disclosure, although some commenters suggested certain modifications. Those suggested modifications, and the Board's responses, are described below.

1. Disclosing Names of the Accounting Firms vs. Other Persons Not Employed by the Auditor

As described previously, one commenter raised a concern regarding the applicability of the proposed disclosure relating to other persons not employed by the auditor in relation to alternative practice structures. Specifically, the commenter requested a change in the applicability of the requirement to exclude alternative practice structures.

The Board made no such change; however, the originally proposed amendments have been modified so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names.[20/] For instance, such persons may include persons with specialized skill or knowledge in a particular field other than accounting or auditing. The Board recognizes that while other persons may participate in the audit, the intent of the 2011 Release principally was to capture the names of accounting firms. The Board's website includes names of registered accounting firms, inspection reports, and disciplinary actions.

The names of other types of companies or individuals not employed by the auditor may not be as meaningful as the fact of their participation and the location where the work was performed. The reproposed amendments would require disclosing the location of such persons (depending on the extent of participation) and the percentage or range of their extent of participation—combined, if there are multiple other persons from the same country not employed by the auditor.[21/] The disclosure of the location and extent of participation in the audit of other participants would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit was performed by those other participants.

2. Affiliate Relationships, Including Offshoring Arrangements

Some commenters suggested that the disclosure of affiliated accounting firms should be different from the disclosure of non-affiliated firms. For example, such commenters recommended disclosing that the affiliated firms follow a common audit methodology and employ consistent quality controls. Some of these commenters and others also recommended describing the auditor's oversight of affiliated firms

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[20/] While the reproposed amendments do not include a requirement to describe alternative practice structure arrangements, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including additional language in the auditor's report describing that the firm leases its employees as part of its alternative practice structure. However, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

[21/] The location for a natural person is the country of residence. The location of a person that is an entity is the country of the entity's headquarters' office location.

participating in the audit. Other commenters suggested that accounting firms affiliated with the auditor should not be disclosed at all.

Another group of commenters noted that many of the smaller accounting firms, unlike larger firms, routinely use participants from outside the firm in their audits as they are not part of a network of firms. In some of these commenters' views, the proposed disclosure of non-affiliated firms or persons not employed by the firm may suggest to some that audits conducted by smaller accounting firms are of inferior quality.

The Board considered these comments and decided that the same disclosure requirements would apply to all accounting firms, whether or not a firm is affiliated with an audit network. The arrangements by which firms affiliate with one another and the related effect on the affiliated firms' quality controls varies. The Board is reproposing disclosure requirements that would provide users of the auditor's report with the names and locations of other accounting firms involved in the audit regardless of their network affiliation or other relationship. Regarding an additional disclosure of the auditor's oversight of other participating affiliated firms, as suggested by some commenters, the reproposed amendments, like the proposed amendments, clearly describe the auditor's oversight and supervision of the disclosed participants. Accordingly, no such additional disclosure requirement was added to the reproposed amendments.

The 2011 Release also noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices of the accounting firm issuing the auditor's report in a country different than the country where the firm is headquartered. While large U.S. accounting firms have, for some time, referred audit work on U.S.-based, multinational corporations to their foreign network affiliates, the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years. In the 2011 Release, the Board explained that the proposed amendments would not require disclosure of offshoring arrangements to the extent that the offshored work is performed by another office of the same accounting firm.

Some commenters agreed with the Board's proposed treatment of offshoring, while others suggested that disclosure of all offshoring arrangements should be required. Other commenters did not believe the proposed amendments should require disclosure of any offshoring arrangements. For example, one commenter stated that

"assessment of the impact of these sorts of arrangements is the responsibility of the audit committee, not the marketplace."[22/]

One commenter stated that "[t]he proposed amendments are not clear how to make the determination whether an off-shore location should be considered another office of the firm," rather than a separate entity requiring disclosure. This commenter noted that "firms may structure their operations in separate legal entities" that "often are wholly-owned and controlled by the registered public accounting firm and its partners," and recommended that the reproposed amendments use "different criteria than those proposed in the Release" to determine if disclosure was required. Specifically, this commenter recommended that the Board not require disclosure when offshored work "is subject to the direct supervision and review of the principal auditor" and the principal auditor retains "[d]etails of the work performed" in its home country.[23/]

After considering the comments, the Board has determined to address the disclosure of offshoring arrangements in the reproposal as originally proposed. Thus, disclosure would not be required when offshored work is performed by an office of the firm that issues the auditor's report, but it is required when it is performed by a separate firm or entity.[24/] The Board understands that offshored work often is performed by companies that are distinct from, but that may be affiliated in some way with, the registered firm that issues the report. Disclosure of these participants in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the reproposed requirement to disclose other audit participants notwithstanding any network affiliation or other relationship.

[22/] See letter from James L. Fuehrmeyer, Jr., Associate Teaching Professor, University of Notre Dame to Public Company Accounting Oversight Board, Attention: Office of the Secretary (December 13, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/012b_JLF.pdf.

[23/] See letter from KPMG LLP to Office of the Secretary, Public Company Accounting Oversight Board (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/019b_KPMG.pdf.

[24/] If the offshore entity is a "public accounting firm," as defined by Rule 1001(p)(iii), the auditor's report should include the disclosures required when another independent public accounting firm participates in the audit. If the offshore entity is not a "public accounting firm," the auditor's report should make the disclosures required when persons other than the auditor's full-time, permanent employees participate in the audit.

3. Nature of Work

In the 2011 Release, the Board asked for comments on whether the disclosure in the auditor's report should include a discussion of the nature of the work performed by other participants in addition to the extent of participation.

Some commenters recommended disclosing the nature of the work performed by the other participants because, in these commenters' views, it would provide more meaningful information about the other participants' involvement in the audit than the other participants' share of audit hours. Other commenters, however, believed that if the nature of work were required to be disclosed, the disclosure language could eventually become boilerplate. Many other commenters disagreed with disclosing the nature of the work. After considering the commenter's views, no requirement for disclosure of the nature of the work performed by other participants was added because the Board does not believe that requiring the disclosure of this more detailed information is necessary to achieve the Board's intended objective of providing more transparency of participants in the audit.[25/]

4. Firm's Registration and Board's Ability to Inspect

Although it was not proposed, some commenters believed that a disclosure of other accounting firms participating in the audit should include information about the firm's registration status with the PCAOB and the Board's ability to inspect in the jurisdiction in which the firms are located.

The Board recognizes that some auditors, their overseas offices, and other participants in the audit are located in jurisdictions in which the Board currently is unable to conduct inspections.[26/] However, a requirement to disclose a participating accounting firm's registration status or the Board's ability to inspect in foreign countries was not added to the reproposed amendments. Such disclosures would (1) duplicate information

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[25/] While the reproposed amendments do not include a requirement to describe the nature of the work performed, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including a description of the work performed by other participants in the audit. However, any description of the work performed that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

[26/] The Board is actively pursuing the necessary arrangements that would enable the Board to conduct inspections in all relevant foreign jurisdictions.

that is already publicly available on the Board's website and (2) not reflect any changes that took place after the auditor's report date.[27/] Users of the auditor's report would be able to obtain the most up-to-date registration and inspection information from the Board's website based on the name and location of an accounting firm disclosed in the auditor's report.

C. Extent of Participation

The originally proposed requirements included a 3% threshold for disclosing the other participants' relative participation in the audit. As originally proposed, the amendments would have required other participants in the audit whose individual extent of participation would have been 3% or more of the total hours in the most recent period's audit to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% would be disclosed either individually or as a group.

As described below, comments were expressed about the originally proposed disclosure metric and disclosure threshold.

1. Disclosure Metric

The reproposed amendments, like the originally proposed amendments, would require that the percentage of the total hours in the most recent period's audit be determined as of the date of the auditor's report for each other accounting firm or other person participating in the audit. The reproposed disclosure requirements would apply only to the most recent period under audit.

In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering, single-period audit, or re-audit of multiple periods), the auditor would be required to disclose, as was proposed, the percentage of audit hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total audit hours for all periods presented. Section II.D., *Presentation in the Report*, later in this Appendix, includes a discussion of the disclosure in cases in which the auditor's report is dual dated.

[27/] See generally, http://pcaobus.org/Registration/Pages/default.aspx, http://pcaobus.org/International/Pages/default.aspx, and http://pcaobus.org/Inspections/Pages/default.aspx for publicly available information about inspections and registration-related information.

Most commenters agreed with using the percentage of audit hours as the metric for disclosing the extent of participation. Some commenters suggested using other metrics that, in their view, would be more appropriate, for example, audit fees, the extent to which the auditor and other participants were responsible for auditing the assets and revenue of the company, and the company's segment or subsidiary audited by the other participants.

When developing the proposed amendments, metrics similar to those suggested by commenters were considered. For instance, the Board considered audit fees incurred in the most recent period's audit by other participants in the audit as a percentage of audit fees in the issuer's proxy disclosure. However, the Board concluded that this measure may not be representative of the extent of other participants' participation in the audit because audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and also may exclude fees paid directly to other participants rather than to the auditor.

Another metric considered was the percentage of revenues or assets tested by other participants. AU sec. 543 currently uses this metric when the auditor divides responsibility with the other auditor who audited part of the company. However, the use of this metric may not be suitable in all circumstances, particularly when both the other participants and the auditor perform audit procedures on the same location, business unit, or financial statement line item. For instance, other participants in the audit might perform an inventory observation to test the existence of the inventory at a particular location, and the auditor might test the valuation of the inventory at all locations, including the one tested by the other participants.

The Board continues to be of the view that the percentage of total hours in the most recent period's audit appears to be the most relevant and practical metric for the purpose of disclosure of the extent of other participants' participation in the audit. The reproposed amendments, like the proposed amendments, would require the use of this metric.

2. Disclosure Threshold

The originally proposed amendments would have required the auditor to state the percentage of hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total hours in the most recent period's audit. Specifically, the Board proposed requiring that other participants in the audit whose individual extent of participation would have been 3% or more of total hours in the most recent period's audit were to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% were to be disclosed either individually or as a group titled "other participants" with the group's aggregate extent of participation.

The Board received many comments on the proposed threshold. Some of the commenters suggested that a 3% threshold is too low because it would result in disclosing information that is not meaningful to the users of the auditor's report. In the view of these commenters, a higher threshold would be more appropriate and useful. For example, a couple of commenters suggested the percentage should be the same as the 10% of revenue threshold for disclosing sales to a single customer under Financial Accounting Standards Board pronouncements.[28/] Other commenters believed that the threshold should be 20%, as in the substantial role criteria for registration with the Board.[29/] In contrast, another commenter suggested that a 1% threshold would provide the most meaningful information to users of the auditor's report about the extent of the other participants' participation in the audit.

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit. In light of the commenters' recommendations for a higher threshold, the Board's staff analyzed the impact of raising the threshold on the disclosure of other participants in a number of larger audit engagements.[30/] According to the analysis, the maximum number of other participants

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[28/] See Financial Accounting Standards Board Accounting Standards Codification, Topic 280, Segment Reporting, subparagraph 10-50-42.

[29/] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, *Definitions of Terms Employed in Rules*, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer." Under Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer must be registered with the Board."

[30/] The Board's staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2011 and 2012. The selected information included the names of other participants in the audit and their individual extent of participation as the percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other participants in larger audit engagements that would be required to be disclosed individually using a 3%, 5%, and 10% threshold.

disclosed individually using a 3%, 5%, and 10% threshold was 10, 7, and 3, respectively, per issuer.

Taking into account the comments received and the results of the analysis described above, the disclosure threshold in the reproposed amendments was raised from 3% to 5%. In the Board's view, using a 10% threshold could significantly reduce visibility into participants performing a large part of an audit, compared with using a 3% threshold or a 5% threshold.[31/]

The reproposed amendments would require the auditor to disclose other participants in the audit whose individual extent of participation is 5% or more of the total hours in the most recent period's audit. The extent of participation would be disclosed either as a single number or within a range (see Section II.D., *Presentation in the Report,* in this Appendix for further discussion on disclosure within ranges). Only public accounting firms whose individual contribution to the audit exceeded 5% of total audit hours would have their names and locations disclosed. With respect to other persons, to the extent that such persons reside or are headquartered in the same country, those persons whose aggregate contribution to the audit exceeded 5% of total audit hours would be disclosed as "persons in [insert country] not employed by our firm."

Finally, those who commented on the disclosure of other participants with the extent of participation below the threshold generally believed that it would be more appropriate to disclose such other participants as a group, rather than individually. This is consistent with the reproposed amendments. Accordingly, for those other participants in the audit whose individual extent of participation is less than 5% of the total hours (if there is more than one other person not employed by the auditor from the same country, their combined extent of participation should be used for this purpose), the reproposed amendments would require the auditor to disclose them as a group and state their aggregate extent of participation either as a single number or as a range. Other independent public accounting firms and persons not employed by the auditor would be required to be disclosed in separate groups. The reproposed amendments also would require the auditor to disclose the number of accounting firms whose individual extent of participation is below the 5% threshold.

[31/] Based on the staff's analysis, raising the threshold from 5% to 10% could result in disclosing four fewer participants in an audit. More than a third of an audit could be performed by four participants whose extent of participation is individually 9% of the total audit hours.

D. Presentation in the Report

The reproposed amendments would require the auditor to make the required disclosures about other participants in the audit in the auditor's report. Specifically, the auditor would be required to add an explanatory paragraph to the auditor's report and also may include a reference to an appendix to the report. The following section discusses consideration of the disclosure in the auditor's report, how the information would be presented, and considerations for when an auditor's report is dual dated.

1. Disclosure in the Auditor's Report

The Board originally proposed that the disclosure of information about other participants in the audit be made in the auditor's report for the most recent period's audit as an explanatory paragraph that would be presented after the opinion on the financial statements and, when applicable, the opinion on the effectiveness of internal control over financial reporting and other explanatory paragraphs. The 2011 Release also noted that the explanatory paragraph could include a reference to an appendix immediately following the auditor's report that would include the required disclosure of other participants in the audit. Further, the 2011 Release noted that some auditors may prefer this alternative in audits in which there is more than one other participant in the audit. The 2011 Release stated that if the auditor issues separate reports on the financial statement audit and the audit of the effectiveness of internal control over financial reporting, the explanatory paragraph in each separate report should include a reference to the same appendix. Illustrative disclosure examples were also included in the originally proposed amendments.

Those commenters who supported the originally proposed amendments agreed with the proposed presentation in the auditor's report. Two opponents of the disclosure in the auditor's report suggested that consideration be given to utilizing Form 2 for the disclosure of other participants. One of these commenters suggested that Form 2 "would be a more useful location for such disclosures, as the determination of information in SEC filings is more appropriately maintained within the SEC's jurisdiction, Form 2 disclosures would not lengthen issuer and broker-dealer filings with tangential information, and Form 2 disclosures would not be subject to the estimation of hours necessitated by the short time constraints for SEC filings."[32/] The other commenter

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[32/] See letter from Tom Quaadman, Center for Capital Market Competiveness of the U.S. Chamber of Commerce, to J. Gordon Seymour, Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/029b_Chamber.pdf.

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/16/2014 9:00:22 AM

believed that "Form 2 would allow investors, audit committees, and other third parties that seek the name of . . . other audit participants to obtain such information from one location."[33/]

After considering the views of these commenters and the advantages and disadvantages of disclosure on Form 2,[34/] the Board determined that the disclosures would be best presented in the auditor's report. As such, the Board is reproposing such disclosure in the auditor's report through an explanatory paragraph with illustrative examples substantially as proposed.

2. Presentation as a Single Number or as Ranges

The Board originally proposed that the extent of participation of the other participants in the audit be presented as a single number.

Some commenters on the 2011 Release cautioned about potential difficulties for auditors in determining an exact percentage of the total audit hours attributable to the other participants in the audit. For instance, in the commenters' view, extra effort may be required for determining separately the other participants' time spent on consolidated and local statutory audits, or determining whether time incurred on performing interim reviews, engagement acceptance and retention procedures, or review of the predecessor auditor's work should be included in the total audit hours.

Many of these commenters suggested that this type of disclosure could be costly to prepare and disruptive for both the auditor and other participants in the audit. These commenters recommended disclosing the extent of participation in ranges (for example, X%-Y%) rather than as a single number as the information would still be useful for the reader, but obtaining and presenting it would be less costly and disruptive. The commenters suggested various ranges for such a disclosure.

Having considered comments on the originally proposed amendments, the Board modified the originally proposed requirements to propose presentation of the extent of participation within a range or as a single number. In calculating the percentage of the

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[33/] See letter from Grant Thornton LLP to Office of the Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/036b_GT.pdf.

[34/] Refer to Section V.C.2., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, in the release for further discussion of this alternative.

total audit hours in the most recent period's audit,[35/] the auditor may estimate the total hours for the audit and the portion of hours attributable to each participant in the audit in situations in which the actual number of hours has not been reported. Further, the staff's analysis, described earlier, indicated that generally there are more participants in the range of 5% to less-than-10% than in the range of over 10%. The analysis also indicated that—cumulatively—participants whose extent of participation is less than 10% could perform a significant part of the audit.

Accordingly, to provide investors and other financial statement users with greater visibility into the relative extent of participation of other participants in the audit, the reproposed amendments would allow disclosure of the other participants as a single number or by listing such persons and firms within the applicable range(s), beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more. Ranges below 50% may contain multiple participants.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for person from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor and provide the number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Shown below are examples of the application of these requirements.

a. Example of Application for Other Participating Accounting Firms

In the case of other participating accounting firms, the auditor considers other participating accounting firms individually to determine the appropriate disclosure. For

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[35/] The total hours in the most recent period's audit include hours attributable to the financial statement audit and, when applicable, the audit of internal control over financial reporting and reviews pursuant to AU sec. 722, and exclude hours attributable to the performance of the EQR and Appendix K review. The EQR and Appendix K review can be performed by an individual employed by the auditor or by an individual or a person outside the auditor's own firm. In either case, the reproposed amendments do not require these reviewers to be disclosed. Accordingly, hours attributable to the EQR and Appendix K review are excluded from the calculation of the total audit hours.

example, if there are four other accounting firms that participate in the audit— three whose individual extent of participation was 4% and one (ABC Audit Firm in Country A) whose individual extent of participation was 15%— the auditor's report would present the following:

> ***Other Participants in the Audit and Their Extent of Participation***
>
> *10% to less-than-20%*
>
> - ABC Audit Firm (Country A) [or alternatively, if a single number option is selected: 15%]
>
> Other participants whose individual or aggregate extent of participation was less-than-5%:
>
> - Three other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 10% to less-than-20% [or alternatively, if a single number option is selected: 12%].

In this example, the names and locations of the three other accounting firms are not disclosed because their individual extent of participation was each less than the 5% threshold.

b. Example of Application for Other Persons Not Employed by the Auditor

In the case of other persons not employed by the auditor, the auditor would group persons based on the country of headquarters' office location or residence to determine the appropriate disclosure. For example, if there are ten persons not employed by the auditor involved in the audit—two persons from Country A, three persons from Country B, two persons from Country C, and three persons from Country D—the auditor first groups the persons by country:

- In Country A, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 7% equaling 9% of total audit hours performed by persons in Country A not employed by the auditor (included in the range of 5% to less-than-10% in the example below).

- In Country B, Person 1's individual extent of participation was 3%, Person 2's individual extent of participation was 4%, and Person 3's individual extent of participation was 4% equaling 11% of total audit hours performed

by persons in Country B not employed by the auditor (included in the range of 10% to less-than-20% in the example below).

- In Country C, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 2% equaling 4% of total audit hours performed by persons in Country C not employed by the auditor (included in the individually less than 5% category in the example below).

- In Country D, Person 1's individual extent of participation was 1%, Person 2's individual extent of participation was 2%, and Person 3's individual extent of participation was 1% equaling 4% of total audit hours performed by persons in Country D not employed by the auditor (included in the individually less than 5% category in the example below).

In this example, the auditor's report would present the following:

Other Participants in the Audit and Their Extent of Participation

10% to less-than-20%

- Persons in Country B not employed by our firm [or alternatively, if a single number option is selected: 11%]

5% to less-than-10%

- Persons in Country A not employed by our firm [or alternatively, if a single number option is selected: 9%]

Other participants whose individual or aggregate extent of participation was less than 5%:

- Other persons from two countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 5 to less-than-10% [or alternatively, if a single number option is selected: 8%].

In this example, the location and extent of participation for persons in Countries A and B are disclosed because the aggregate percent of participation is greater than the 5% threshold; however, for Countries C and D, only the total extent of participation is disclosed as the aggregate contribution of persons from Countries C and D was each less than 5% of the total audit hours.

3. Disclosure in Dual-Dated Auditor's Reports

The Board proposed that in instances in which an auditor's report is dual dated due to subsequent discovery of facts, the auditor's report include the information presented at the original issuance date and then separately disclose the incremental extent of participation from the original issuance date to the latest report date.

Commenters expressed mixed views on the originally proposed disclosure requirements in these circumstances. Some commenters supported separate disclosure of the incremental extent of participation when an auditor's report is dual dated. Other commenters did not believe that separate disclosure of the percentage of hours attributed to the work performed subsequent to the original report date would be useful to users of the auditor's report.

After considering the commenters' views, the originally proposed disclosure requirement for when an auditor's report is dual dated was modified. Specifically, the reproposed amendments would not require the auditor to disclose in the auditor's report separately the percentage of hours attributable to the work performed as of the original report date and the percentage of hours attributable to the work performed subsequent to the original report date. Instead, the reproposed amendments would require that the auditor disclose in the auditor's report the extent of participation as the total percentage of the hours attributable to the work performed by other participants in the audit as of the latest report date.

Pursuant to the Board's standards, an auditor's report may be dual dated at the original issuance (generally because of a subsequent event) or upon a subsequent reissuance (generally because of a financial statement restatement or a material subsequent event).[36/] The Board recognizes that, in situations in which an auditor's report is reissued and dual dated,[37/] the auditor would be required to recompute the extent of the other participants' participation and present the disclosure as of the latest

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[36/] See paragraphs .05 and .06 of AU sec. 530, *Dating of the Independent Auditor's Report*.

[37/] Based on the Board's staff analysis of auditors' reports filed in SEC annual (for example, Forms 10-K and 20-F) and amended annual (for example, Forms 10-K/A and 20-F/A) reporting forms for fiscal years 2011, 2010, and 2009, there were 15, 145, and 173 instances, respectively, in which the auditor's report was reissued and dual dated.

report date. However, in both situations the extent of participation would be disclosed as of the latest report date.

4. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[38/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of other participants in the audit need not be repeated in that auditor's report. Since the disclosure of other participants in the audit is only required for the most recent period's audit, the reproposed amendments would not require the disclosure of the other participants in the audit in the reissued report of the predecessor auditor for prior years.

E. Disclosure Requirements in Situations in Which the Auditor Divides Responsibility for the Audit with Another Accounting Firm

In situations in which the auditor divides responsibility for the audit with another accounting firm, the Board originally proposed that the auditor's report require the auditor to disclose in the auditor's report the name of the referred-to accounting firm and the country of its headquarters' office location, which is not part of the existing requirements when dividing responsibility for an audit. Additionally, the originally proposed amendments to AU sec. 543 would have removed the existing requirement to obtain express permission of the referred-to accounting firm when disclosing the firm's name.[39/] The SEC rules already include a requirement that the auditor's report of a referred-to accounting firm should be filed with the SEC, so the name of the firm is already made public.[40/] The Board did not propose any changes to the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to accounting firm.[41/]

[38/] See AU secs. 508.70-.73, which discuss the report of a predecessor auditor.

[39/] See AU secs. 543.03 and .06-.09.

[40/] See Rule 2-05 of Regulation S-X, 17 C.F.R. § 210.2-05.

[41/] See AU sec. 543.07. Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:27:17 AM

Commenters had mixed views on this requirement. A few commenters supported the inclusion of the name and location of the referred-to accounting firms in the auditor's report. Other commenters believed that the name of the referred-to accounting firm in the auditor's report was unnecessary as the information is already public since the auditor's report of the referred-to accounting firm is required to be filed with the SEC. These commenters believed the disclosure would be redundant. Others who did not support the requirement for disclosure of other participants in the audit did not support this level of information in the auditor's report.

Further, commenters on this matter expressed mixed views on whether express permission should continue to be obtained from the referred-to accounting firm. A few commenters noted that obtaining permission for including the name is a common courtesy and should be retained. The remaining commenters supported the removal of the requirement and did not believe that it would pose any implementation challenges.

Some commenters expressed concern that the different metrics for disclosing the magnitude of the portion of the financial statements audited by the referred-to accounting firm (expressed in dollar amounts or percentages of total assets, total revenues, or other criteria) and the extent of participation of other participants in the audit (expressed as a percentage of total hours) may create confusion among users of the auditor's report. Others suggested that any confusion would be minimal and that investors would be able to navigate the information disclosed effectively, even with two different metrics.

Having considered comments on the originally proposed amendments, the Board is reproposing the requirements as originally proposed. The reproposed amendments to AU sec. 543 would require, as originally proposed, the name of the referred-to firm and the country of its headquarters' office location to be disclosed in the auditor's report. Also, as proposed, the reproposed amendments would remove the existing requirement in AU sec. 543 to obtain express permission of the referred-to firm when disclosing the firm's name. Including the name of the referred-to firm in the auditor's report on the consolidated financial statements makes it more readily available for investors and other financial statement users.

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to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:25:41 AM

Dear PCAOB Folks:

Congratulations.....

nice job...

well done....on this initial (redundant) first step.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:23:35 AM

Further, the reproposed amendments, like the originally proposed amendments, do not amend the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to firm. As discussed earlier, percentage of audit hours appears to be the most relevant and practical metric for disclosing the extent of participation of other participants in the audit.[42/] The existing metrics for disclosing referred-to firms—described in AU sec. 543—also appear to be the most appropriate for such disclosure.

[42/] Refer to Section II.C., Extent of Participation, *Disclosure Metric*, for further discussion of the rationale and requirement for using percentage of audit hours as the metric for disclosing extent of participation of other participants in the audit.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:22:07 AM

Plus or Minus a 'Fudge Factor' of 12.5 Per Cent……

which means such hours can actually be off by as much as 25%….

give or take a few, more or less…

kinda/sorta…..caveat, caveat and caveat……

By-the-Bye….did we mention the 500 Tons of Gold thats reportedly gone missing in main land China…..wow, 500 tons, that's alot isn't it…..?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:17:22 AM