February 4, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email: comments@pcaobus.org

Re: 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, Docket Matter No. 029
December 4, 2013

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned proposed auditing standard.

The NYSSCPA's Auditing Standards and SEC Committees deliberated the proposed standard and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (646) 644-4482, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

J. Michael Kirkland
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

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, Docket Matter No. 029)
December 4, 2013

February 4, 2014

<u>Principal Drafters</u>

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Julian Jacoby
Howard B. Levy
Robert Waxman

From the SEC Committee:

Elliot L. Hendler
Liren Wei

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Silvia S. Yehezkel

NYSSCPA Staff

Ernest J. Markezin
William R. Lalli

New York State Society of Certified Public Accountants

Comments on

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, Docket Matter No. 029)

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on the above-captioned release (the "current Release") issued by the Public Company Accounting Oversight Board (PCAOB or the Board). We understand that the PCAOB's objective in issuing the current Release is to improve auditing standards and the quality of audits by providing investors and other financial statement users with transparency in the form of additional information about key participants in the audit.

The Board acknowledges in the current Release that "accounting firms generally opposed the disclosure of the name of the engagement partner in the auditor's report,"[1] and this organization also opposes it. However, our opposition (and our perception of the views of the accounting firms, in general) is not based on some self-protective objective intended, for example, to avoid the regulatory imposition of any unwanted risks (*e.g.*, adverse publicity or other consequence from an inspection report) or financial costs (such as from litigation); rather, it is based primarily on what we see as an exaggerated view of value of the disclosures and their potential to mislead (see our response to Question 8).

Should the proposed disclosures regarding "other participants" in the audit, in fact, constitute useful information, we believe the auditor's report is not the place for it. That information would best be contained in other places such as in the PCAOB's periodic reporting forms. If the Board's primary objective is (as it should be) to increase investors' confidence in the work of other participating audit firms, such objective would be better served by promulgating a strengthened "group" auditing standard that incorporates significant provisions of ISA and AU-C 600 (both titled, *Audits of Group Financial Statements)* to replace the current, outdated AU 543, *Part of Audit Performed by Other Independent Auditors*. This is discussed further in our response to Question 4, below.

Details of our views are provided in our response dated January 4, 2012, to the Board's initial proposal relative to its Rulemaking Docket Matter No. 029 (PCAOB Release No. 2011-007, the "2011 Release") and in our answers to the questions that follow.

[1] Page 8, fn 25.

Responses to Specific Questions Presented in the Current Release

We have reprinted the questions in bold italics below with our response following each question.

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?*

No. Transparency (which the current Release, like its predecessor, the 2011 Release, is attempting to address), entails providing information that will enlighten or be useful in making investment decisions. However, as we stated above and in our letter of response to the 2011 Release, we do not agree with the basic premise that disclosure of the name of the engagement partner on the audit would constitute useful or meaningful information of any significance to investors or other financial statement users, and we find the arguments put forth by investor groups and other proponents of the reproposal as summarized by the Board in the current Release unconvincing. Accordingly, we are not persuaded by the current Release to alter our view.

We question the usefulness of providing the engagement partner’s name in audit report because we believe it is highly unlikely that investors and other users of financial statements could be sufficiently familiar with the capabilities, integrity and ethical values of a significant portion of the hundreds or perhaps thousands of engagement partners responsible for the audit of public companies or the quality control environments in which they function in order to make any meaningful investment judgments concerning the audit (despite any limited information summarized in any database that might be available in the future).

Even if a few financial statement users were able to recognize the name of a particular engagement partner, it is unclear how disclosure of the name alone provides any useful information about the ability of the individual engagement partner to supervise and coordinate a particular audit engagement. We do not believe that investors knowing the name of the engagement partner can evaluate an audit in which perhaps hundreds of professionals participated around the globe and in which the engagement partner’s input is but a small fraction of the total engagement hours.

Absent any adverse publicity that might have befallen a very small number of audit partners (some of whom were not engagement partners), disclosure of the engagement partner’s name would not provide investors with any information about the education, experience or ability of the engagement partner to deal with specialized industry issues, complex accounting questions or unique control environment considerations of any particular audit client.

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?*

No. We believe 1.) It is highly unlikely that the very limited transparency, *i.e.*, the engagement partner's name, would be sufficiently useful to shareholders in deciding whether to ratify an issuer's appointment of an audit firm, and 2.) The engagement partner's name is irrelevant to shareholders when ratifying the appointment of the audit firm.

The current Proposal states "This information [the engagement partner's name] ***could be valuable*** to investors … if they are asked to vote to ratify the company's choice of registered firm as its auditor [***emphasis added***]."[2]

We note that the reproposal does not demonstrate that the current system of non-disclosure is inadequate in that it does not provide any empirical evidence that the engagement partner's name is as important to voting shareholders as the audit firm's name is.

Our views on the proposed disclosures for "other participants" are the same as the comments above.

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?*

No. The current Release states that investors "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 [***emphasis added***]."[3] However, the proposal to disclose merely the name of the engagement partner would still constitute "little or no information." The Board speculates that a database will be built sometime in the future and if built "the investors will come." The obvious questions are who will build a database, who will administer it, how extensive will it be, who will pay for it, *etc*.? The disclosure of the engagement partner's name would neither effectively nor currently address the Board's perceived deficiency. The Board's choice of the term "could be valuable" serves only to emphasize its inability to support the assertion that it "would be valuable."

The current Release also states 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."[4] The Board has not offered any persuasive support for its belief that such information would be "important."

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[2] Page 3.

[3] Page 3.

[4] Page 5.

Despite the suggestion in the current Release that such information might be available in a database, we see no basis for believing that the extent of information as would be necessary to track an engagement partner's history, professional qualifications, industry expertise and association with restated financial statements or going concern opinions to any meaningful extent is likely ever to be available in the U.S. as a result of the reproposal for more than a miniscule fraction of those auditors serving as engagement partners for audits of issuers' financial statements.

Except in rare instances in which the partner has been named in some adverse publicity concerning a high profile audit failure, these engagement partners, and their backgrounds, experience and other qualifications are virtually unknown outside their own firms and, perhaps, certain other professional colleagues with whom they are directly acquainted. Regarding industry expertise, the operative quality control standard requires (among many other things) the engagement partner "possess an understanding of the industry in which a client operates."[5] We believe that investors are not equipped to, and should not, second guess the applicable quality control standards. We also believe that an engagement partner's association with entities that have restated their financial statements, or an audit report that has an explanatory paragraph regarding going concern issues, is not predictive and useless in making future investment decisions because the association does not directly result in immediate or future change in stock prices nor is it necessarily directly associated with any audit deficiency.

It should be noted that data on restatements as a percentage of audits would likely to be very misleading given the disparate reasons and circumstances of restatements. With regard to data on going concern reporting, we believe that if data were available, there is a potential for having a misleading effect in that the effect of a "going concern" emphasis paragraph may be rendered moot if a particular engagement partner were to develop a track record of frequently having such reporting when the audited entity did in fact continue to operate as a going concern. In such a case, there could be a "boy who cried wolf" effect to downplay the significance of the "going concern" paragraph.

In its current Release, the Board also states that "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."[6] In view of the Board's apparent focus on a relatively small selection of high risk engagements to inspect and its highly limited focus on quality control assessment, we believe that the extent and the value of any engagement partner history obtained in its inspection process that is implied by the foregoing statement would be considerably overstated.

If transparency is the Board's objective, we suggest that audit deficiencies found by the inspection teams be made available in a more timely manner to investors. In addition, such information would be more valuable if it included names of the firm and the names of key professionals who worked on the deficient audit. We believe that investors and other users of financial statements should rely primarily for auditor evaluations on the effective performance of

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5 PCAOB Interim Quality Control Standard QC Section 40.

6 Page 7.

the financial oversight role by audit committees (which we believe should be subject to greater regulatory control than is currently the case, for example, by the SEC or possibly a stock exchange).

We question whether the limited information about other participating firms proposed to be included in an audit report would likely be "valuable" information (see our response to Question 8).

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

No, we do not believe such a database as outlined in the current Release would be sufficiently comprehensive to be useful. Reasons for this view are set forth in our responses to Questions 1 and 3.

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

No. See our response above. Audit committees have immediate and direct access to the audit firm, the engagement partner, and other partners and managers of the firm; accordingly, they have no need for the database envisioned by the current Release.

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?***

As we stated in the third paragraph of this letter, we believe the audit report is not the appropriate place to deal with any proposed disclosure of other participants in the audit. That information would be contained in other places best such as in the PCAOB's periodic reporting forms. If the Board's primary objective is (as it should be) to increase investors' confidence in the work of other participating audit firms, such objective would be better served by promulgating a strengthened "group" auditing standard that incorporates significant provisions of ISA and AU-C 600 (both titled, *Audits of Group Financial Statements)* to replace the current, outdated AU 543. Such a strengthened new standard would require the signing audit firm to perform all procedures necessary to enable it to take responsibility for the work of component auditors and or others participating in the audit, and would set more robust requirements than the current standard for overseeing the work including its scope determination and other planning, performance, supervision and review and evaluating the background, experience and other qualifications of assigned personnel. We believe the new, more robust standard should strengthen required communications with audit committees regarding the participation of others and the oversight applied by the primary auditor.

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?***

No, the name of the engagement partner is not important to whether or not the audit was conducted in accordance with the standards of the PCAOB (U.S.), nor is the name of the engagement partner relevant to the firms opinion that "the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles."

Notwithstanding our comments in our response to Question 4, there will always be some circumstances that could be perceived as "important." These can occur when audits fail and facts become revealed in hindsight. When there are high inherent risks such as companies operating in high risk /high reward industries (*e.g.*, pharmaceuticals, high tech, insurance or other regulated industries), there is always uncertainty surrounding the level of assurance attained for audits of certain financial statement assertions (such as valuation of liabilities or asset valuations based on future cash flows). There would be value in understanding that the auditors have specialized knowledge and experience. Perhaps all of the large international firms have client bases in most industries, and, as a result, this point may be moot. Many firms have specialties covered by professionals in their consulting practices. Under the reproposal, those specialists would not be required to be mentioned. Firms not having employees who are specialists would be at a competitive disadvantage (perhaps) having to list specialists used in the audit (though both auditor and specialist did acceptable work).

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?***

No, to both parts of the question for the same reasons as those set forth in our responses to Questions 1 and 3. Moreover, there was little or no evidence presented in the research studies cited by the Board in the current Release of any likely significant effect of such disclosure on capital allocation.

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?***

We have observed that it has been a common practice of the investment banking community to require engagement of a "Big Four" or other nationally known audit firm in connection with public securities offerings. Under the reproposed rule, investment bankers and other underwriters might be likely to develop a subset of "approved engagement partners" or other partners with known specialized industry knowledge despite the fact that industry expertise might be provided on any specific audit engagement by an engagement partner whose knowledge and other qualifications are unknown to the underwriter—someone other than the engagement partner, or in some cases, by a qualified auditor below the level of partner. We believe this is an unintended consequence of the current Release that would have the effect of hindering competition among audit firms.

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?***
We believe that, by implication, inclusion of the engagement partner's name in the audit report inherently overstates the responsibilities of the engagement partner while it understates the responsibilities of the audit firm for the conduct of the audit, and is misleading. It is the firm that the issuer's audit committee evaluates and engages to conduct the audit, and it is the firm that develops the audit methodology, processes and procedures. Moreover, the firm:

- Trains its personnel to assure that a approach is followed that is consistent with the firm's quality control policies and procedures and all applicable professional standards, laws and regulations,
- Decides who will serve as the engagement partner,
- Assigns the engagement team that may consist of other partners, managers and staff,
- Establishes client acceptance and retention, and engagement review policies and procedures,
- Establishes consultation requirements and procedures for resolution of differences of opinions, and
- Assumes virtually all the risks associated with the engagement.

As we noted in our response to the 2011 Release, although the background, training and experience of the engagement partner is important, it is the firm that bears primary responsibility for the audit and the resultant report that is issued. Collectively, the efforts of the entire engagement team (including, but not limited to, other partners and professional staff, engagement quality reviewers and various firm specialists), not just the engagement partner, represent a cohesive unit that conducts the audit with the support of the firm, as a whole, in accordance with the firm's established audit methodology and the quality control environment particularly its "tone-at-the-top."

Large audit engagements often use multiple partners and large engagement teams to deal with specific business units, diverse locations, provide expertise in specific accounting and other subject areas or specialized industry issues. While the role of the primary engagement partner is a key element, other members of the team also have significant roles in the engagement. For example, the partner overseeing the auditing procedures performed at an issuer's material subsidiary may have expended more hours on audit than the engagement partner and may have had a similarly significant impact on the performance and planning of the overall engagement to that of the engagement partner. Also, the role of the engagement quality reviewer may have considerable significance with regard to the achievement of the audit objectives. We believe disclosing the name of the primary engagement partner alone leaves investors and other financial statement users with the misleading impression that this role is the only one that critically matters.

Further, as we also stated in our letter of response to the 2011 Release, we believe that if the reproposal were to be adopted, there will likely be an unsupported inference by financial statement users that audits conducted by audit firms that perform less than 100% of the auditing are of a lesser "quality" than audits in which the firm performs 100% of the auditing. This is despite the fact that the operative auditing standard requires the reporting firm to supervise, evaluate and take full responsibility for the work of other participating firms whenever not making reference thereto in the audit report[7]. The proposed audit report disclosures would not afford users any information that would help them to assess the effectiveness of a participating firm's quality control policies and the procedures employed to ensure compliance with other auditing standards.

We believe that if the reproposal were to be adopted, without any other available information, typical financial statement users would be likely to reach an inappropriate conclusion that audit quality necessarily diminishes as the number of participating audit firms increases. If this has been determined to be the case (for example, as a result of PCAOB inspection activity), we believe the solution should be not to disclose their identity but to strengthen both the auditing standards that guide the supervision and review of the work of other auditors and the effectiveness of the reporting audit firm's related quality controls that are required to be in place.

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?*

We do not see any significant incremental costs that would be likely to result from the requirement to disclose the name of the engagement partner in the auditor's report. Moreover, we do not see that costs, if any, would be likely to be different when the issuer is an EGC as compared to 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?*

There could be significant additional costs if firms or individuals mentioned in the filing do not agree to sign consents. This is not unusual, and we have seen delays and reaudits for this reason.

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?*

As set forth in detail in our response to Question 12, we see no additional benefits or probable improved compliance with the existing auditing requirements in naming engagement partners in

[7] Currently PCAOB Interim Auditing Standard AU Section 543.

audit reports. In addition, we do not see any likely differences in this regard when the issuer is an EGC as compared to 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.***

The current Release asserts (as does the 2011 Release) that a sense of personal accountability may be increased resulting in exercising greater care. However, as we asserted in our letter of response to the 2011 Release, we do not agree with the premise that the sense of accountability for engagement partners (or for other participants in the audit) or that "audit quality" would improve through disclosure of the name of the engagement partner or other participants in the audit, and we view nothing in the Board's current Release that is sufficiently convincing to persuade us to alter that view.

We are aware that many financial statement users have asserted (unconvincingly) that requiring disclosure of engagement partner's names in an audit report would contribute in some significant way to "audit quality" by increasing the engagement partner's sense of accountability, professionalism and responsibility. However, in addition to the reasons we have stated elsewhere in this letter, we disagree with those user views for two additional reasons:

1. We believe an assertion to that effect cannot be objectively and persuasively supported. We have reviewed the research studies presented by the Board in both the current Release and in the 2011 Release and find in them no relevant or persuasive empirical evidence, and without a robust system of obtaining reliable data about partners' historical performance records, would adequately link, directly or indirectly, the disclosure of the engagement partners' name in audit reports to an enhanced accountability or to higher "quality audits." We believe such linkage is pure speculation.

2. In view of the internal quality controls required to be employed by audit firms, regulatory oversight and other formidable risks and disincentives to poor performance already in place, mandatory disclosure of the name of the engagement partner would not add to the sense of responsibility and accountability of engagement partners or to "audit quality" in any measurable or otherwise meaningful way as some users claim.

Partners, as professionals, have long embraced ethical standards that require the highest level of due care; recognizing that the professional has a responsibility to the public, the client and the audit firm. Failure to carry out its responsibilities, evidenced, for example, by a deficient audit, subjects both the firm and its partners to grave risks of damage to their reputations and to their capital resources. Without identifying them in audit reports, those partners responsible for the conduct of a particular audit failure have sustained personal economic and professional risks beyond those of the audit firm.

In addition to the reporting firm, possible consequences to others for failure to comply with professional and regulatory requirements or to exercise appropriate professional skepticism, could include, but are not limited to, loss of licenses and livelihoods, damage to one's professional reputation, exposure to professional liability and related monetary penalties, and perhaps the threat of jail time. Accordingly, we do not believe that the institution of a requirement to name the engagement partner would heighten a sense of accountability.

Despite the inevitably of rule violators and the ever present potential for human error, audit partners, in general, are already operating at the highest level of ethical and professional responsibility that can reasonably be expected. If the Board has evidence to the contrary, more direct steps should be taken to stop unethical activity and unprofessional work than merely naming partners in audit reports.

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?***

Although unable to provide any details in our response, we believe the cost of tracking data of other participants to determine what disclosures would be required under the reproposal, especially when there are many, are likely to be potentially significant and probably more burdensome for auditors of EGCs than those 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?***

We do not believe that disclosing the names and other information about other firms participating in an audit provides significant, useful or meaningful information to users of financial statements. To the contrary, we believe that such disclosures could result in misunderstandings and confusion about the roles of the reporting auditor and other auditors in the performance of the audit.

If this reproposal were to be adopted, and consents were required to be obtained from other firms that are named in the auditor's report, problems in obtaining timely consents could conceivably arise, and addressing those issues could involve costs that currently are difficult to identify and quantify. Examples of such possible issues are a reluctance to provide consents, risk considerations, procedures to be performed before issuing consents, reaching other firms located outside of the U.S. and subsequent events considerations. In addition, premiums for professional liability insurance carried by firms named in the auditor's report could be affected to an extent indeterminable at this time because of an actual or perceived increase in the liability of such firms.

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?***

As set forth in detail in our response to Question 8, in our view, the identities of other participants in the audit should not be disclosed.

We believe that if the reproposal were to be adopted, the application of the consent requirement to other firms would not contribute to improved compliance with existing requirements. Auditing standards require the reporting firm to supervise, evaluate and take full responsibility for the work of other participating firms whenever not making reference thereto in the audit report. It is the reporting firm's responsibility to assess the effectiveness of a participating firm's quality control policies and the procedures employed to ensure compliance with applicable auditing standards. Likewise, if the disclosure and consent requirements are adopted, we believe there could be an adverse consequence of appearing to shift the responsibility for an audit conclusion inappropriately from the reporting firm to all of the participants in the audit (the reporting firm and other participating firms), thus, giving the appearance of sharing of responsibility.

We do not see any likely differences in this regard when the issuer is an EGC as compared to 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 not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We do not support the disclosure of audit hours or percentages for "other" participants for a number of reasons including:

- The number of hours may include hours that relate to special procedures not required by the audit but included based on a request by the entity or its parent or by regulation within the entity's domicile. There might be hours related to different levels of work, for instance, high spot reviews, reviews of certain accounts that would not necessarily need to be audited, review level procedures, *etc*. which may have been included at the direction of the principal or primary auditor. In many cases these procedures are to be performed at the request of the principal or primary auditor. This scenario creates a situation in which hours would not be comparable.

- In situations in which hours are expanded, the utility of the information depends on the context (*e.g.*, changes to a system that was not adoptable to an acquisition or an entity's business strategy failing creating real and potential losses). The audit committee can evaluate what the principal auditor recommends to the other auditor(s) about those risks, but without these details and the context, accumulated hourly comparisons are not meaningful.

- See also our response to Question 13.

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?***

We do not support disclosure of other participants' hours or percentages as explained in our response to Question 16.

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?***

No, if it can be assured that the same kind of supervision and review, with gradations based on prior experience with the other entity(ies) performing the work and /or evaluation of the quality controls of the other firm(s) is present. The guiding principle is the reporting responsibility of the firm reporting on the issuer.

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

We do not believe disclosure is warranted when firms decide to offshore certain work. The work that is sent is usually low level, low impact work. Because firms do not usually have direct control of the output, they would be cautious not to put their reputations and business at risk and they make sure the output is acceptable for their purposes. The probability of a significant negative impact that this business strategy decision would have on investors' decisions is remote.

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

The structure of alternative practice auditing firms that lease staff professionals from affiliated entities would not create a need for disclosure of the amount of time incurred of the non-employees as other participants. We view these professionals as employees regardless of how they are paid. It is a substance over form issue in which substance should be the deciding factor.

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?***

No. We believe the work of a specialist is just one example out of much audit evidence obtained and evaluated by the auditor pursuant the operative audit standard.[8] There is no justification for singling out specialists for mention in an audit report to the exclusion of all other types of audit evidence much of which may be more significant.

Should a requirement to include information about specialists be adopted, we believe a discussion of auditor reliance on the work of specialist would be likely to have the adverse consequence of appearing to shift responsibility for an audit conclusion inappropriately from the auditor to the specialist and be misleading to users of the audit report.

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?***

See our response to Question 20a.

We believe that, if a requirement to disclose information about specialists were to be adopted, because of the appearance of shifting responsibility from the auditor to the specialist, many specialists would be likely to object to being mentioned in an audit report because of the additional exposure to liability risk that such a practice would present.

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?***

See comment above.

No. See our response to Question 20a.

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?***

Although we do not see any benefit to investors or other users of disclosing the name of the engagement partner, whether in the audit report or elsewhere, and, as we recently stated in our response dated December 10, 2013, to the Board's Release No. 2013-005, we are not in favor of expanding the audit report with information of little or no value. However, we see no reason that

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8 Currently PCAOB Interim Auditing Standard AU Section 336.

it should be kept secret or not readily available to those who want to know. Accordingly, we believe disclosure in PCAOB Form 2 and/or Form 3 reports (the latter of which we see as adequately addressing the timeliness objection with regard to Form 2 reporting discussed in the current Release[9]) to be a practical alternative in compromise between those who believe the disclosure need not and should not be made in audit reports (primarily because of its lack of its utility and the potential to mislead) and those who seek this information. We do not object to such a compromise requirement**.**

Additionally, as suggested in the current Release,[10] we would not object if an audit committee were to choose (or be required by SEC regulation) to make such disclosures in public documents (along with any disclosure of auditor tenure) rather than as disclosures added to the auditor's report.

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?***

As we pointed out in our December 10, 2013 Comment Letter in response to Release 2013-005 (regarding audit reports), as a practical matter, the great majority of brokers and dealers are not issuers and have no public investors. Therefore, members of the public, when using the annual audited financial statements, are not making investment decisions, but are using the annual audited financial statements in considering whether to conduct transactions using the broker-dealer (and in fewer cases) for the broker-dealer to have custody of its funds or securities. In addition, there is a high level of interaction between brokers and dealers and the regulators, and public disclosure available about such businesses and their key management individuals. Accordingly, we believe that the disclosure requirements would be of no or limited value.

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?***

The current Release states, "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."[11] As we have stated throughout in this letter, we believe the Board has not made a case that the proposed report disclosures would be meaningful to investors and financial statement users.

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[9] Page 33.

[10] Page 34.

[11] Page 2.

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?***

As noted in our response to Question 11, we do not see any expected differences in the importance of the proposed disclosures when the issuer is an EGC as compared to other issuers.