

January 4, 2012

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

Submitted via email to: comments@pcaobus.org

**Re: PCAOB Release No. 2011-007—Improving the Transparency of Audits: Proposed
Amendments to PCAOB Auditing Standards and Form 2**

Rulemaking Docket Matter No. 29

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA's Auditing Standards and SEC Practice Committees deliberated the release and prepared the attached comments. If you would like additional discussion with us, please contact Jan C. Herringer, Chair of the Auditing Standards Committee at (212) 885-8133, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,


Richard E. Piluso
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PCAOB RELEASE NO. 2011-007—IMPROVING THE TRANSPARENCY OF AUDITS:
PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2**

RULEMAKING DOCKET MATTER NO. 29

January 4, 2012

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Comments on

PCAOB Release No. 2011-007—Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

We are pleased to respond to the Public Company Accounting Oversight Board’s (“PCAOB”) Release 2011-007—*Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the “Release”). We understand that the PCAOB’s objective in issuing this Release is to improve auditing standards and the quality of audits, and at the same time provide stakeholders with additional information to improve transparency. This release would:

- Require the audit report to disclose the name of the engagement partner responsible for the most recent period's audit,
- Require registered firms to disclose the name of the engagement partner for each audit report already required to be reported in their PCAOB annual report on Form 2, and
- Require disclosure in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

Overall Comments:

We do not agree with the PCOAB’s premise that audit quality will improve through disclosure of the name of the engagement partner or other participants on the audit. The Release implies that inclusion of the engagement partner’s name will result in improved audit quality because of its visibility in the audit report. In addition, there is an unsupported implication that audits of financial statements by accounting firms that perform less than 100 percent of the audit procedures themselves are of a lesser quality than audits in which an accounting firm performs 100 percent of the audit procedures. Further, the Release would require disclosure of the other participants and their audit hours in relation to total audit hours. The typical financial statement reader is likely to reach the inappropriate conclusion, without any other available information, that as the number of other participants in the audit increase, the lower the quality of the audit.

Specific Comments:

Firm Structure and Other Matters

Our comments in this section are predicated on the overriding principles that a registered audit firm is engaged in its entirety as an “audit firm” as opposed to individuals (including the engagement partner) who will participate in the audit.

It is the firm that the audit committee engages that conducts the audit and it is the firm that develops the audit methodology, processes and procedures which are consistent with PCAOB auditing standards. Moreover, the firm:

- Trains its personnel so that a consistent approach is followed,
- Decides which partner will serve as the engagement partner,
- Assigns the engagement team, which may consist of many other partners, managers and staff,
- Establishes review procedures consistent with, and perhaps more expansive than, the PCAOB's engagement review requirements,
- Establishes consultation requirements and procedures for resolution of differences of opinions, and
- Assumes the risks associated with the engagement through client acceptance and retention.

The background and experience of the engagement partner is important, but it is the firm that is retained. The entire concept of the performance of an audit is predicated on an audit performed by a firm, not just the engagement partner, and the efforts of the entire engagement team (including, but not limited to, other partners and professional staff, engagement quality reviewers and various firm specialists) representing a cohesive unit performing audit procedures in accordance with the methodology established by the firm. This concept is critical to the completion of a sound audit.

The Release mentions that there are auditing standards and procedures that relate to the use of other participants in an audit, and that those standards and procedures are incorporated into the firm's quality control standards. This critical point would not be communicated to readers of the audit report as proposed, and the readers would have no concept of the firm policies in this circumstance that would include quality review procedures employed to ensure that the efforts of all participants in the audit, including associated firms and other persons, are properly planned, supervised and reviewed. As proposed, all the reader would see is the involvement of other participants in the audit and their effort in terms of audit hours only.

It is difficult to conceive how transparency is achieved when stakeholders have less than all of the facts, and are not aware of or provided with an understanding of the related required audit procedures that are being performed

Disclosing the Name of the Engagement Partner Responsible for the Most Recent Audit

Transparency, which the Release is attempting to address, implies that providing information will enlighten or provide information useful to making decisions. The PCAOB proposal states that the audit report "...tells the reader little about the key participants in the audit." The proposal would require the audit report to contain the name of the engagement partner "...who is at the center of the [audit] effort. He or she 'is responsible for the engagement and its performance,' and must, therefore, make sure that the work and those who perform it are appropriately supervised and coordinated." We agree with this statement of engagement partner responsibilities. However, we question the usefulness of providing the engagement partner's

name in the audit report. It is unlikely that investors, analysts, creditors and other users of financial statements are familiar with the hundreds or perhaps thousands of engagement partners of public companies. Even if a few users recognize the name of a particular engagement partner, it is unclear how disclosing the name alone provides useful information about the individual capability of the engagement partner to supervise and coordinate a particular audit. The disclosure of the name will not provide information on the education, experience or the ability of the engagement partner to deal with specialized industry issues, complex accounting questions or unique control environment considerations of a particular audit client.

The Release states that, once in effect for at least five years, the additional transparency provided through disclosure of the engagement partner's name could also allow investors to consider whether the engagement partner was replaced sooner than required under the partner rotation requirements in the Sarbanes Oxley Act of 2002 and Securities and Exchange Commission ("SEC") rules. One would need to know the reasons for the change to have useful, transparent information. It could be that the previous engagement partner assumed other responsibilities within the firm, transferred to another office, retired or resigned from the partnership, or became ill.

Further, we believe that the inclusion of the engagement partner's name in the audit report understates the responsibility of the audit firm for the conduct of the audit. We refer to our comments above on the importance of the firm.

Audits of public companies are frequently complex undertakings involving numerous professional staff and partners from the audit firm and, in some instances, associated firms. The engagement partner is primarily responsible to his or her client and the firm for the conduct and management of the audit and the expression of the audit opinion. In this regard, the engagement partner plans and executes the audit to comply with the standards of the PCAOB. However, the engagement partner will do so utilizing the audit firm's audit methodology, including its own system of quality control. This enables all firm personnel to have a common understanding of how the engagement will be conducted.

The engagement partner remains primarily responsible for the supervision and review of the audit. Nevertheless, he or she may be assisted by other partners on audits of larger entities, including partners with specialized knowledge (e.g., taxation, information technology, or certain industries). The audit firm will have consultation standards with which the engagement partner must comply. This could include the engagement quality reviewer as well as others within the firm's quality control, industry, and regional and national office structures.

Large audit engagements may require large engagement teams to deal with specific business units, diverse locations (within the United States (U.S.) and internationally), specific subject matter expertise or specialized industry issues. While the role of the 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 a company's major subsidiary may have more hours and, arguably, a similar impact on the performance of the engagement compared to the impact of the engagement partner. Also, the role of the engagement quality reviewer has become more significant with respect to the achievement of the

audit objectives. It is the combined efforts of the entire team that results in a well executed audit performed in compliance with PCAOB standards. The name of the engagement partner alone leaves the impression that this role, while key, is the only one that critically matters.

Disclosing the name of the engagement partner implies a different level of authority for conduct of the audit than is actually the case. There is a shared responsibility that a firm has entrusted to the engagement partner, the other partners and consultative resources used during an audit. It also does not take into consideration the fact that notwithstanding obligations to the public – a bedrock of the auditing profession – the firm’s client are the shareholders represented by the issuer’s board of directors, generally through the audit committee. As we will comment later, the audit committee has the ability to evaluate the competency of the audit firm’s personnel to perform the audit.

The Release asserts that a sense of personal accountability may be increased resulting in exercising greater care. We disagree. Partners, as professionals, have embraced high ethical standards which require the highest level of due care, recognizing that the professional has a responsibility to the public, the client and the audit firm. As previously discussed, the audit firm has accepted responsibility to train, supervise and evaluate all of its professional personnel, including partners. The firm has established a quality control system that includes policies and procedures for client acceptance and continuance, assigning engagement personnel, engagement performance, monitoring and oversight, documentation, and other areas. Failure to carry out its responsibilities, evidenced, for example, by a deficient audit, subjects the audit firm to grave risks to its reputation and its capital that has contributed to the collapse of entire firms. Further, those partners responsible for the conduct of a particular audit have personal economic and professional risks beyond that of the capital base of the audit firm. We do not believe that the institution of a requirement to name the engagement partner would heighten a sense of accountability. Partners already are operating at the highest level of ethical and professional responsibility.

To our knowledge, there is no research or empirical evidence that directly or indirectly links the use of the audit partner’s name in the audit report to an enhanced accountability or higher quality audit. Such linkage is supposition. We believe that litigation against the engagement partner would be encouraged by the proposed requirement, and that the courts could decide that specifically including the name of the engagement partner in the audit report and Form 2 extends the limits of civil liabilities. Furthermore, if this type of disclosure were to become a requirement, it could create the potential unintended consequence of subjecting the engagement partner to harassment or unwarranted and inappropriate attention by disgruntled stakeholders. We are concerned these potential risks would discourage highly qualified people from entering the profession and ultimately taking on the role of engagement partner.

The Release further states that identifying the engagement partner would increase transparency about who is responsible for performing the audit. As stated previously, we believe that it is the audit firm that is responsible for the audit. We recognize that it is the collective efforts of the engagement partner and the other partners and staff that assist in or consult on the audit which enables the firm to express its opinion on the financial statements, and the audit team is a cohesive unit of the firm’s personnel. This is a shared responsibility in which the firm that

has entrusted and delegated the responsibility to the engagement partner and the others participating on the audit. To require that the name of the engagement partner, ostensibly signifying individual responsibility, be set forth in the audit report and Form 2, would diminish the emphasis on the responsibility of the firm as a whole and would effectively create an incorrect perception that greater transparency will be achieved.

Also, the representatives of the shareholders (the board of directors through the audit committee) would have met with and be familiar with the qualifications of the engagement partner and other key members of the audit team. Typically, 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. Similar information is typically provided for other key members of the audit team.

Therefore, we believe that audit committees already receive sufficient information about the engagement partner's qualifications, and they have the ability to interview the engagement partner to satisfy the committee's due diligence obligation. In addition, the audit committee, at a minimum, is in frequent communication with the responsible engagement partner due to the required communications before every filing of Forms 10-K and 10-Q and registration statements filed with the SEC. We believe emphasizing improved audit committee oversight and strongly encouraging audit committees to become more deeply engaged in the audit process would maximize audit quality and auditor accountability and address any actual or perceived shortcomings in the audits of public companies.

Further, there are several pitfalls likely to develop by disclosing the engagement partner's name. It is a well known practice of the investment banking industry to require a "Big Four" auditor in connection with various registration statements. This practice preceded the creation of the PCAOB by many years. Under the proposed rule, underwriters might eventually develop a sub-set of "approved engagement partners" 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. Rather than increase competition as the Release suggests, we believe the opposite may happen, and would hinder transparency.

Disclosure in the Audit Report about Other Persons and Independent Public Accounting Firms that Took Part in the Most Recent Period's Audit

The Release indicates that there is strong preference among stakeholders and other users to disclose the extent of work and location of other firms (and persons) for which the firm has accepted responsibility for their work pursuant to AU Section 543, *Part of Audit Performed by Other Independent Auditors*.

The issue of disclosing other independent public accounting firms and other persons not employed by the auditor is a complex one. We believe the key issue is the degree of responsibility assumed by the principal firm.

Networks of firms vary significantly in the degree of uniformity of audit procedures, training, etc. Further, internationally, questions arise as to the knowledge of foreign firm personnel in dealing with the auditing standards of the PCAOB, generally accepted auditing standards in the U.S., and with U.S. generally accepted accounting standards and SEC reporting standards and guidance.

The specific activities of the principal audit firm to oversee their affiliated firms would need to be defined to make disclosures in this area meaningful. Some international networks of legally independent firms apply uniform audit methodologies, processes and procedures across all firms. Reassignment of U.S. personnel to international locations, and vice versa, are frequently undertaken to provide cross-training opportunities.

We believe that this area needs further study to identify and distinguish the various forms of organizations that exist. The key should be the level of responsibility assumed by the principal firm, and the level of involvement of the engagement partner and others from the principal audit firm in overseeing the work performed on the principal firm's behalf by the affiliated firms.

Where an audit firm does not take responsibility for the work of other audit firms involved in the audit, the principal auditor makes reference to the other firm or firms involved. The SEC requires a registrant to include in its public filings the audit opinion of the other auditors. The principal auditor's opinion discloses the level of assets and revenue audited by the other firm. These audit opinions are available to stakeholders for them to evaluate the level of responsibility they have taken for the audit.

If the issue is one of foreign sovereignty that curtails PCAOB's ability to inspect some foreign registered firms which may assist in the audit performed by a U.S.-based registered firm, we recommend that the PCAOB focus instead on providing guidance on the documentation that the principal auditor should be required to obtain from the affiliated firms and maintain in its working papers in the U.S.

A listing of all or some of the significant firms that participate in the audit on behalf of the principal audit firm provides information that may be of little use unless the users of the financial statements have some understanding of the degree of the responsibility assumed by the principal audit firm, the knowledge level of the affiliated firms, and the coordination and supervision exercised over the affiliated firms.

Evaluating the significance of work performed by other auditors involves much more than information on where they are located and the number of audit hours. The Release does not make this clear. There are numerous other factors that should be considered. Separate disclosure seems to imply that the audit firm (principal auditor) does not have complete responsibility for the entire audit. We feel it is imperative that the role of the principal auditor not be compromised. There are very specific requirements with which an audit firm must comply in order for that firm to be the principal auditor, and the average reader of the financial statements is unlikely to be aware of what they are or of their significance.

The use of other auditors, including their scope and procedures, is subject to the judgment and quality review oversight of the principal auditors in conjunction with that of the company's audit committee. If the audit firm either lacks the ability to supervise the other firms involved in the audit process or determines the other audit firms cannot comply with professional standards, then it is left to the company's board through its audit committee, to make the appropriate changes. As described in the previous section, having the audit committee deeply engaged in its oversight role is critical to the improvement of audit quality.