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

PCAOB Release No. 2015-004 Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form (June 30, 2015)

This letter provides GAO's comments on the Public Company Accounting Oversight Board's (PCAOB) Release 2015-004, a supplemental request for comment on its 2013-009 Reproposed Rule (hereafter Release 2015-004).

We support the PCAOB's efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements, and we encourage the PCAOB to work closely with other standard setters, such as the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board, to promote consistency of practice by harmonizing auditing standards.

Under the prior 2013-009 Reproposed Rule, auditors would be required to disclose in the auditor's report the name of the engagement partner and information about certain other participants in the audit. The PCAOB's Release 2015-004 presents an alternative whereby such information would be required to be disclosed on a new PCAOB form (Form AP).

In our March 17, 2014, comment letter to the PCAOB on its 2013-009 Reproposed Rule, we raised certain significant concerns. As a result of (1) the changes the PCAOB incorporated in Release 2015-004 and additional information presented therewith (which deals with many of our concerns), (2) the evolution of this issue at the international level, and (3) our belief in the benefits of transparency, we do not object to the PCAOB's alternative proposal in Release 2015-004.

The PCAOB's Release 2015-004 and additional information presented therewith addressed or reduced many of the concerns that we raised in our March 17, 2014, letter. Specifically, in Release 2015-004, the PCAOB included a section within appendix 2 "Economic Considerations," that among other things discusses the PCAOB's views on possible "indirect costs and unintended consequences associated with the disclosures under consideration." Accordingly, we note that the PCAOB has presented additional information to support its view that a repository of information on individual partners may improve the quality of financial reporting. In our March 17, 2014, comment letter we suggested that if the PCAOB determines that public disclosure of the engagement partner name and the information about certain other participants in the audit is appropriate, such disclosure be provided in documents other than the auditor's report. We note that consistent with our suggestions, the PCAOB's alternative in Release 2015-004 would require disclosure of such information in Form AP.

The evolution of this issue at the international level has also affected our views, as we have consistently advocated for robust standards that are in harmony among the various standard setters. We note that in January 2015 the IAASB's published International Standard on Auditing (ISA) 700 (Revised)—*Forming an Opinion and Reporting on Financial Statements*—which requires, except in rare circumstances, the inclusion of the engagement partner's name in the auditor's report. Through the alternative included in Release 2015-004, in substance, the PCAOB standards, as it relates to disclosing the engagement partner's name, would be in harmony with the IAASB's ISA 700 (Revised).

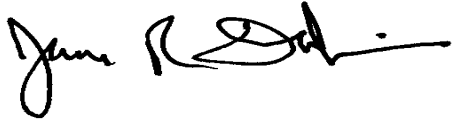
Also, we have been a consistent advocate of accountability and transparency. We note that as discussed in appendix 2 in Release 2015-004, the PCAOB evaluated the potential benefits of transparency as well as possible unintended consequences. The PCAOB indicates that in general, economic theory argues that disclosure of the name of the engagement partner should be useful to investors and other financial statement users, and studies using data from the jurisdictions where the disclosures are available appear to support the theory. We note that the PCAOB's disclosure of its inspection reports on registered firms, as mandated by the Sarbanes-Oxley Act, provides users with valuable information on the audits of each registered firm. We also note that in our audit reports the lead director (comparable to a registered firm's engagement partner) signs his/her name on behalf of GAO.

In our March 17, 2014, letter we noted that a repository of engagement partner information would not provide the complete information necessary for users to effectively assess audit quality. While such a repository would be useful in helping to assess audit quality, audit regulators, the audit firms' quality assurance processes, and other factors play critical roles in assuring audit quality to financial statement users. We note that on July 1, 2015, the PCAOB issued Release No. 2015-005, *Concept Release on Audit Quality Indicators*, whereby the PCAOB describes and seeks comment on 28 potential indicators of audit quality. Accordingly, consistent with the PCAOB's mission—"... to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports"—we encourage the PCAOB to continue to consider whether the proposal in Release 2015-004 is the best alternative to achieve its stated goals, with the least unintended consequences.

In our March 17, 2014, comment letter we stated that if the PCAOB determines that public disclosure of the audit partner is appropriate, it would be better to include information such as the name of the engagement partner in the shareholder's proxy statement, which may be more relevant to the auditor selection process, rather than in the auditor's report. Consistent with that comment, as the PCAOB considers adopting the alternative in Release 2015-004, it should monitor the U.S. Securities and Exchange Commission's (SEC) request for comments on its Concept Release No. 33-9862 (July 1, 2015), *Possible Revisions to Audit Committee Disclosures*. The release requests comments on, among other, the disclosure of the name of the engagement partner, timely notification of a change in the engagement partner, additional members of the engagement team, other information about such parties, and the location of such disclosures in SEC filings. If the engagement partner's name were disclosed in the proxy statement, shareholders could weigh it in ratifying the independent auditors. To the extent that the PCAOB determines that the alternative in Release 2015-004 concerning disclosure of the name of the engagement partner in Form AP is appropriate, we suggest that the PCAOB also consider including a requirement that the firms timely notify the PCAOB of changes in the engagement partner, for example, through Form AP, and that such notification be publicly available. We believe users would be better served with the information before the audit is performed, or early in the audit process, as compared to after the audit report is issued, which could ultimately lead to diminished user confidence in financial statements.

The PCAOB Release 2015-004 seeks answers to 12 specific questions. We have provided responses to most of those questions in the accompanying enclosure.

We thank you for considering our comments on these important issues as the PCAOB continues its effort to enhance the value of auditor reporting.

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Answers to Specific Questions Included in Release 2015-004

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

We believe that disclosure on Form AP, as described in Release 2015-004, should provide transparency benefits. We do not believe that investors or other users would change how they use the information if the name of the engagement partner is required on Form AP as compared to disclosure of such in the auditor's report.

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

We have not identified any additional special considerations relating to the Form AP approach.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

We do not provide a response to this question.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

We are not aware of any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report.

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

We do not provide a response to this question.

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

As discussed in the body of our letter, we suggest that the PCAOB consider alternatives so that users obtain the information before the audit is performed, or early in the audit process, rather than after the auditor's report is filed.

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

We do not object to the approach of not requiring disclosure of nonaccounting firm audit participants.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

We do not provide a response to this question.

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

We have not identified any specific issues posed by Form AP for brokers, dealers, or other entities.

10. Are the rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

The rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 appear to be clear, and appear to appropriately implement the PCAOB's stated goals.

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

We do not provide a response to this question.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

We do not provide a response to this question.