

March 17, 2014

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

*Subject: PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No. 2013-009:
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*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) exposure draft.

We support efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements. However, we do not believe that certain of the proposed enhancements to the auditor's report, such as the disclosure of the name of the engagement partner or a general requirement to disclose the names, locations, and extent of participation of other public accounting firms that took part in the audit (in addition to the locations and extent of participation of other participants in the audit) are critical to the perceived value of the financial statement audit or add value to the users of the financial statements.

Disclosure of the Name of the Engagement Partner

The PCAOB anticipates that this engagement partner information would be used to develop databases and other compilations of information on individual partners and may be used to develop partner ratings. PCAOB states that it does not believe that such information would necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users. However, we do not believe that the PCAOB has presented sufficient evidence to show that a repository of information on individual partners would improve the quality of financial reporting, or increase the confidence users have in the audit of financial statements. Further, we are concerned that this information could be misleading or confusing to investors and other financial statement users for several reasons, as follows:

- There are many factors that go into audit quality, and a repository of engagement partner information would not provide the complete information necessary for users to effectively assess audit quality, and therefore may lead to incorrect assessments about audit quality. Audit regulators and the audit firms' quality assurance processes play a critical role in assuring audit quality to financial statement users. They have more complete information on audit quality, and are in a position to take appropriate action to address any audit quality issues.
- We believe that the use of a rating system would likely create confusion and uncertainty as it would raise doubts to the user about whether, or the extent to which,

an individual audit met professional standards. This confusion and uncertainty may ultimately decrease user confidence in all financial statement audits.

- We acknowledge the important role played by the engagement partner, but while the audit engagement partner has a unique role, the focus of the proposed amendment upon the identification of the engagement partner ignores that the audit firm, as a whole, also affects audit quality. We believe that the users of the audit report may not understand that the firm performing the audit is responsible for the audit work, rather than solely the engagement partner. For example, the users of the audit report may not understand that the signature of the engagement partner represents an organization-wide process that includes staff selection, independence considerations, and quality assurance processes. Further, we believe that the signature of the engagement partner does not capture the extent of the audit work that is performed when auditors report upon the published financial statements and other audit reports of large, multinational engagements.

Rather than relying on databases and other compilations of potentially incomplete information, we believe it is more appropriate for users to rely on the audit regulators and the firms, through their quality assurance processes, to take appropriate measures to assure investors that audits of public companies reasonably meet professional standards, and that users can therefore be confident in the auditors' opinions. We support the PCAOB's mission to further the public interest in the preparation of "informative, accurate, and independent audit reports." To achieve this mission, under Section 104 of the Sarbanes-Oxley Act of 2002¹, PCAOB inspects registered firms to assess their compliance with professional standards, and the PCAOB has the authority to investigate and discipline registered public accounting firms and persons for noncompliance. As noted in the repropoed standards, this authority has enabled the PCAOB to obtain information related to engagement partner quality history. Further, the Securities and Exchange Commission (SEC), local boards of accountancy and the firms themselves play a role in assessing and maintaining firm and individual compliance with professional standards through their peer review and internal quality assurance programs, respectively. For these reasons, we believe that the responsibility for identifying acts noncompliant with the rules or standards and enforcing discipline for them should rest with the PCAOB, SEC, the local boards of accountancy, and the firms themselves. The disclosure requirements suggested in the repropoed standards would not provide investors with sufficient information to make an informed decision about a firm's or individual's performance in compliance with professional standards.

Section 301 of the Sarbanes-Oxley Act states that the audit committee of each issuer shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee. Accordingly, the audit committees will be aware of the identity and audit performance of their key engagement personnel, including the audit partner, as part of the auditor selection process. The PCAOB could consider whether the members of the audit committees are adequately informed of any audit performance issues relating to the key engagement team members, such as their restatement history, in addition to the relevant circumstances and safeguards employed by the firm.

If the PCAOB nevertheless 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. In such circumstances, we would

¹ Sarbanes-Oxley Act of 2002, Pub. L. No.107-204, § 104, 116 Stat. 745.

encourage the PCAOB to preface the disclosure of the name of the engagement partner with a statement to inform the user that an audit is not conducted by one individual (the engagement partner), but a group of auditors, and possibly specialists, represented by the engagement partner.

Disclosure about Certain Other Participants in the Audit

We support a disclosure requirement when audit work is performed by a foreign affiliate or other entities distinct from the accounting firm issuing the auditor's report that are located in jurisdictions in which the PCAOB is unable to conduct inspections. Limiting disclosure to such firms may serve to highlight audits with potentially less effective oversight. However, such a disclosure may be more appropriate in a shareholder's proxy statement than in the auditor's report.

Further, we are concerned that a general requirement for additional disclosures of the names, locations, and the extent of participation of other public accounting firms that took part in the audit may lead to the auditor's report becoming even longer and more unwieldy, and may lead to the inclusion of "boilerplate" language that does not add value to the report. We also question whether there are data to demonstrate that such additional disclosures would be useful. If the PCAOB does require such a disclosure, we believe that the extent of other participants' participation should meet a relatively high threshold (e.g., 10 percent of billable hours or other similar, prescribed criteria) before a disclosure of their participation in the auditor's report would be required.

Requests for Specific Comments

The PCAOB is seeking comments on a number of areas within the proposed standard. We have provided discussion on the areas listed in the exposure draft, and our responses to the specific questions included in the exposure draft are included in the enclosure to this letter.

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



James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure – Answers to Questions for Commenters

1. Would the repropoed 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?

We do not believe that the repropoed requirements to disclose the name of the engagement partner or other public accounting firms that took part in the audit are critical to the perceived value of the financial statement audit or add value to the users of the financial statements.

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?

As noted in our letter, we do not support the proposed requirement. Further, as such incomplete information may lead to incorrect assessments about audit quality, we question whether such additional disclosures would be useful to shareholders in deciding whether to ratify the company's choice of auditor. 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 rather than in the auditor's report. In such circumstances, we would encourage the PCAOB to preface the disclosure of the name of the engagement partner with a statement to inform the user that an audit is not conducted by one individual (the engagement partner), but a group of auditors, and possibly specialists, represented by the engagement partner.

3. Over time, would the repropoed 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?

We believe that the development of databases and other compilations may be an outcome of this proposed requirement. However, we are concerned that this could be misleading or confusing to investors and other financial statement users, resulting in incorrect assessments about audit quality based on such limited, incomplete information.

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

We have concerns that the development of databases or other compilations would not provide complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.

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

As noted in our previous response, we have concerns that the development of databases or other compilations would not provide complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.

4. Over time, would the repropoed 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?

We have concerns that the repropoed requirement to disclose the other participants may lead to reports becoming longer and more unwieldy, and may lead to the inclusion of “boilerplate” language that does not add value to the report.

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?

Although GAO typically identifies the engagement partner and provides contact information for that engagement partner in our published reports, we do not feel that the ability to research publicly available information about the engagement partner or other participants in the audit is important because of the diversified responsibility of an audit engagement in the private sector. Further, as we have previously noted, we believe that the publicly available information would not provide the complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.

6. Would the repropoed 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?

We have no data to support the contention that the requirement to disclose the engagement partner's name would promote more effective capital allocation, and we also have no data or evidence to support the contention that an engagement partner's history provides a signal about the reliability of the audit or the company's financial statements.

7. Would the repropoed 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 do not believe that the requirement to disclose the engagement partner's name would necessarily promote or inhibit competition among audit firms or companies.

8. Would the repropoed 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?

As mentioned in our letter, we are concerned that investors may make incorrect assessments about audit quality based on such limited, incomplete information, and that user confidence in the audits of financial statements may be diminished. Further, we have concerns that a disclosure requirement may lead to investors and financial statement users misunderstanding the diversified responsibility of an audit, and the users of the audit report may not understand that the firm performing the audit is responsible for the audit work, rather than solely the engagement partner.

9. What costs could be imposed on firms, issuers, or others by the repropoed 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 Emerging Growth Companies (EGCs) or auditors of EGCs than on other issuers or auditors of other issuers?

The repropoed requirement to disclose the name of the engagement partner in the auditor's report would not appear to significantly affect audit costs, based on our practice.

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 Securities and Exchange Commission (SEC), as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

GAO has no views on this question relating to the administrative costs to obtain and file consents with the SEC.

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?

GAO has no views on this question relating to the consent requirements and effects upon EGCs, or the auditors of EGCs.

12. Would the repropoed 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.

We believe that engagement partners already have a strong sense of accountability, and we do not believe that the repropoed amendments would increase the sense of accountability for engagement partners or other participants in the audit.

13. What costs could be imposed on firms, issuers, or others by the repropoed 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?

The repropoed requirement to disclose information about other participants in the auditor's report would not appear to significantly affect audit costs.

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?

GAO has no views on this question relating to the costs to obtain and file consents with the SEC.

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?

GAO has no views on this question relating to the consent requirements and effects upon EGCs, or the auditors of EGCs.

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 repropoed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We do not believe that the disclosure of the extent of other participants' participation, either within a range or as a specific number, provides useful information to investors and other financial statement users or adds value to the users of the financial statements. The determination of the extent of other participants' participation may be problematic, especially in large or multinational engagements with a large number of other participants.

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 the proposed requirement to disclose the engagement partner's name and information about other participants in the auditor's report, and we question whether such additional disclosures would be useful. However, if the PCAOB should choose to require this disclosure, we believe that the extent of other participants' participation should meet a higher threshold (e.g., 10 percent of billable hours or similar, prescribed criteria) before disclosing the extent of other participants' participation.

18. Under the repropoed 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?

We agree that the disclosure of the location and extent of participation in the audit of other accounting firms and other persons not employed by the auditor that are located in jurisdictions in which the PCAOB is unable to conduct inspections would allow users to understand when portions of the audit are not subject to PCAOB oversight. Accordingly, we support a disclosure requirement when audit work is performed by a foreign affiliate or other entities distinct from the accounting firm issuing the auditor's report that are located in jurisdictions in which the PCAOB is unable to conduct inspections. However, we believe that such a disclosure may be more appropriate in a shareholder's proxy statement than in the auditor's report.

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

The disclosure requirement in the context of offshoring is sufficiently clear.

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

We are not aware of any special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the repropoed requirement to disclose other participants in the audit.

20. Under the repropoed 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?

We do not support the requirement for disclosure about the location and extent of participation of engaged specialists and other participants and we question whether this information would be relevant or useful to investors and other financial statement users. Additionally, we believe that the disclosure of the location and extent of participation of "engaged specialists" would add complexity to the auditor's report without adding useful information to the users of the auditor's 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?

We believe that the challenges or costs associated with implementing this requirement for engaged specialists would be those involved in securing the agreement to disclose the location of the engaged specialists and extent of their participation.

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?

We do not support the requirement for disclosure about the location and extent of participation of engaged specialists and other participants and we question whether this information would be relevant or useful to investors and other financial statement users.

22. If the Board adopts the repropoed 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?

GAO has no views on this question relating to the disclosure of the name of the engagement partner and certain information about other participants on Form 2 or any other PCAOB reporting form.

23. Are the repropoed 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?

We believe that if implemented, the repropoed amendments should apply to the audits of brokers and dealers.

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

We believe that if implemented, the repropoed amendments should apply to the audits of EGCs.

25. Are the disclosures that would be required under the repropoed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the repropoed amendments that are specific to the EGC context?

We do not believe that the required disclosures would be either more or less important in audits of EGCs.