



Tel: 212-885-8000
Fax: 212-697-1299
www.bdo.com

100 Park Avenue
New York, NY10017

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Via e-mail: comments@pcaobus.org

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

**Re: PCAOB Rulemaking Docket Matter No. 029: Supplemental Request for Comment:
Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form**

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Public Company Accounting Oversight Board's (the PCAOB or the Board) *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request). As noted in our prior comment letters on this topic¹, we recognize the need to increase transparency about the audit process, particularly as it relates to promoting the performance of high quality audits, and we are committed to actively participating in efforts to enhance audit performance. While the nexus between disclosure of the name of the engagement partner and other audit participants and audit quality is unclear, we believe that in order to be responsive to calls from users of the auditor's report, disclosure of the name of the engagement partner and other audit participants through Form AP, rather than the auditor's report, would provide the transparency users are looking for while avoiding many of the challenges and legal liability issues associated with providing this information in the auditor's report.

Similar to the Board's Supplemental Request, the SEC's recently issued Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures* (the Concept Release), is also seeking public input on disclosure of the name of the engagement partner and information about other audit participants by the audit committee in the proxy or other alternative location, among other matters relative to the audit committee's oversight of the independent auditor. Given the objective of both the Concept Release and the Supplemental Request, at least in part, is to increase transparency about the identity of the engagement partner and other audit participants, we recommend that the PCAOB work with the SEC in determining the most appropriate way forward to avoid duplicative disclosures.

Our comments have been categorized into the following nine topical sections listed below and generally align with the questions posed in the Supplemental Request.

- Transparency

¹ See BDO's comment letters to the PCAOB on this topic dated January 9, 2012 and February 6, 2014.



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- Voluntary Disclosure within Auditor's Report
- Liability Considerations
- Form AP Filing Deadline
- Non-Accounting Firm Participant Disclosure
- Rules to Implement Form AP
- Costs Relating to Form AP
- Scope of Proposal
- Effective Date

Transparency

As explained in our previous comment letters, we do not believe that identification of the engagement partner provides meaningful information about audit quality or creates an increased sense of accountability. However, we do support the PCAOB's efforts to improve transparency about the conduct and nature of the audit and, consequently, as set out in our introductory remarks, believe that identification of the audit partner in Form AP, rather than the auditor's report, is appropriate and would avoid our concerns relating to consents and increased liability exposure.

Furthermore, we support providing information about certain other audit participants to financial statement users in the newly contemplated Form AP. While the principal auditor is responsible for the audit opinion expressed and, as such, for the work performed by other auditors, (in situations where we do not make reference to another auditor in the auditor's report), we support providing transparency regarding the extent of participation of other audit participants to enhance users' understanding about how the audit was conducted. Similar to our views expressed above regarding potential liability exposure with respect to disclosure of the name of the engagement partner, we believe the use of Form AP to disclose information about certain other participants is more appropriate than disclosure in the auditor's report.

Voluntary Disclosure within Auditor's Report

The Supplemental Request suggests that an audit firm may voluntarily identify the engagement partner and provide information about certain other participants in the auditor's report, in addition to including such information in Form AP. Consistent with our views expressed above regarding potential legal liability exposure, we do not believe it would be appropriate to encourage disclosure of such information in the auditor's report, even on a voluntary basis.

Liability Considerations

As set out in our previous comment letters, we believe disclosure of the name of the engagement partner and other firm participants in the auditor's report would have significantly increased the risk of litigation primarily as it relates to Section 11 of the Securities Exchange Act of 1933. Based upon our current understanding, we believe that disclosure on Form AP rather than in the auditor's report should significantly reduce this



risk. Additionally, while the potential for liability under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 still exists under the Form AP disclosure model, and the case law in this area is evolving, we do not believe this liability significantly increases with the Form AP.

Form AP Filing Deadline

The Supplemental Request proposes a 30 day period for filing the Form AP after the date the auditor's report is first included in a document filed with the SEC. Based upon our understanding of the processes that will need to be established to capture, validate, and report the required information on Form AP, we believe a filing deadline of 60 days after the audit report date would be necessary to accumulate the data before submission. Furthermore, a 60 day filing period would allow time after the 45 day documentation period, as defined in Auditing Standard No. 3, *Audit Documentation*, for firms to focus attention on gathering the relevant information from engagement teams to complete Form AP without diverting the engagement team's attention away from finalizing the documentation and assembly of the audit file for archiving.

In addition to the extension of the Form AP filing deadline, we believe filing the Form AP on a periodic and batch basis, which would allow multiple audits to be filed on a single Form AP, would help alleviate the administrative burden of filing multiple forms at one time. For example, if periodic and batch filing was implemented, we would suggest filing the Form AP on a periodic basis where the filing deadline would be based on 60 days after month end of the issuance of the auditor's report.

Non-Accounting Firm Participant Disclosure

The Supplemental Request contemplates not requiring disclosure of non-accounting firm participants in the audit as previously proposed in PCAOB Release No. 2013-009, including for example, certain 'offshore' service centers, consultants, and entities that provide accounting firms with leased employees. We agree that such disclosure is not appropriate, in large part because of the potential for misinterpretation of such a disclosure that might suggest that non-accounting firm participants are not subject to supervision by the engagement team. Under current Auditing Standards, the engagement partner is already responsible for the conduct of the audit and for the proper supervision of the engagement.

Additionally, the Quality Control Standards explain that a CPA firm is expected to have a system of quality control for its accounting and auditing practice, which includes hiring personnel with appropriate characteristics to perform competently, assigning work to personnel based on degree of professional training and proficiency, and providing appropriate supervision, among other matters.

With respect to engaged specialists, we do not believe that disclosure would be appropriate for many of the same reasons as explained above relating to non-accounting firm participants. Additionally, the auditor's use of the work of specialists is currently being considered as part of the Staff Consultation Paper No. 2015-01, and any revisions to the use



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of specialists, supervision, or external reporting should be considered as part of that consultation.

Further, we do not agree with the more tailored disclosure approach suggested within the Supplemental Request that would not require reporting if the non-accounting firm participants were controlled by or under common control with the accounting firm issuing the auditor's report, but would require such disclosure where non-accounting firm participants were not controlled by or under common control. We believe this tailored approach would lead to inconsistent disclosures among firms based solely on the structure of the accounting firm, and as a result would provide potentially misleading information to users.

Rules to Implement Form AP

We believe there are two main areas that require clarification within the Supplemental Request, which relate to:

- the ability to use estimates when determining other audit participants level of participation; and
- reissuance of the auditor's report

Use of Estimates to Determine Level of Participation of Other Audit Participants

Determining the level of participation of other audit participants may be complex and require the use of estimates because of a variety of reasons, in particular, when the extent to which the work performed for other purposes is also used for purposes of the audit of the consolidated entity. For example, in jurisdictions outside the United States, it is not uncommon for statutory audits to be required by local regulations for subsidiaries of the U.S. consolidated entity. In these situations, materiality thresholds used for the statutory audit often differ from those used for consolidated audit purposes, such that more extensive work is performed for the statutory audit than would have been performed if the purpose of the procedures were solely for the audit of the consolidated entity. Accordingly, in these circumstances it would be necessary to estimate the hours incurred by the component auditor for purposes of the consolidated audit. As currently proposed, the Supplemental Request does not address the use of estimates in determining the level of other audit participants. We believe additional guidance is necessary that recognizes the challenges in developing precise participation levels and allows firms flexibility in making reasonable estimates.

Reissuance of the Auditor's Report

We note that the Supplemental Request, on page 9, explains that the obligation to file Form AP would be tied to the issuance of the auditor's report and that if the auditor's report is reissued and dual-dated, a new Form AP would be required, even when no other information on the form changed. However, the Supplemental Request, on page 16 under 'Effective Date,' explains that 'the Board is considering making the requirements effective for



auditor's reports issued or reissued on or after June 30, 2016,' and does not refer to dual-dating the auditor's report. Given these two seemingly contradictory statements, it is unclear when the Form AP is expected to be triggered. Moreover, reissuances of auditor's reports without any changes to a previously filed Form AP would likely occur often due to filing of multiple registration statements or amendments and the benefit of filing a new Form AP is uncertain. For this reason, we suggest clarifying the guidance around the reissuance of the auditor's report such that a new Form AP would only be required when the date of the auditor's report has been updated and there is a change in the other information provided in Form AP. We believe this approach provides users with appropriate decision-making information without increasing the administrative burden on firms.

Costs Relating to Form AP

The costs to comply with the proposed requirement to file Form AP for each audit report issued pursuant to PCAOB standards includes both initial costs to develop systems and processes, as necessary, and ongoing implementation costs. While costs will likely be highest during the development phase and first year of implementation, there will be ongoing costs associated with accumulating, verifying, and reporting the applicable information. However, we believe these costs are likely to be far less than the costs related to including this information in the auditor's report, which would have required obtaining consents for auditor's report disclosure and subjecting firms to potential Section 11 liability.

Scope of Proposal

Consistent with our views expressed in our comment letter dated February 6, 2014, we believe that Form AP should apply to Emerging Growth Companies because of the benefits of transparency to all financial statement users. However, we do not support application of the Proposed Amendments to non-issuer brokers and dealers, because (1) the ownership of these brokers is primarily closely held and direct owners are generally part of management, and (2) we believe this information would not be relevant to third parties.

Effective Date

Assuming the Board adopts a rule during 2015 requiring the identification of the engagement partner and disclosure of other audit participant information on Form AP, we do not believe it would be feasible to implement this requirement for auditor's reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements. As noted earlier, we believe additional clarity is needed on (1) the ability to use estimates in determining the level of participation of other audit participants, (2) the ability to file multiple auditor's reports on one Form AP, and (3) filing relating to reissuances. Additionally, firms will need time to develop and implement systems to accumulate and validate information for submission on Form AP.

Recognizing the importance of providing the market with the information they consider necessary to make informed decisions in a timely manner, we believe a phased in approach may be appropriate, such that the partner disclosure in Form AP would be effective earlier



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than the more time-intensive disclosure of other participants and their level of participation. While the disclosure of the engagement partner would be less time intensive than the disclosure of other audit participants, systems to accumulate that data will nevertheless also be required and, for this reason, we suggest an effective date for the disclosure of the engagement partner in Form AP for auditor's reports issued or reissued and dual dated 6 months after SEC approval, and an effective date for the disclosure of other audit participants in Form AP for auditor's reports issued or reissued and dual dated 1 year after SEC approval.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Chris Smith, National Accounting & Auditing Professional Practice Leader at 310-557-8549 (chsmith@bdo.com) or Susan Lister, National Director of Auditing at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP