January 21, 2014

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

PCAOB Rulemaking Docket Matter No. 029

Dear Board Members:

The Financial Reporting Committee (FRC) and Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) are writing to provide their views on the proposed auditing standards contained in PCAOB Release No. 2013-009 dated December 4, 2013 (ED). These proposals, designed to improve the transparency of audits would require disclosure in the auditor's report of (1) the name of the engagement partner, and (2) names, office locations and percentage extent of participation of accounting firms and other persons in addition to the signing firm who took part in the audit.

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Service and others. Information on both committees can be found at www.imanet.org under the Advocacy section.

Overview

The FRC commented on the Board's 2011 Exposure Draft that called for essentially the same disclosures, although the current ED has refined the guidelines for the second part. In that earlier letter, we supported disclosure of the name, headquarters location, and measure of involvement of other independent public accounting firms and other persons that took part in the audit. We continue to do so and believe that the changes the Board has made in the latest ED will allow for more effective implementation of a new standard provided the additional matters noted below are addressed.

However, we did not and do not support disclosure of the name of the engagement partner. In our earlier letter, we agreed with one Board member and others who indicated that there was no clear evidence that

the principal objective of improved audit quality would be achieved by such disclosure. While the Board now seems less attached to that particular justification for the disclosure, rather than backing away from the requirement, the Board has added a new objective – that it will aid investors in making investment decisions. We question whether the PCAOB should be dealing with investor decisions and further question whether the information would actually be useful to investors.

Information about other accounting firms, etc.

As we noted in our earlier letter, investors are generally unaware of the fact that audits of global companies usually involve accounting firms that, while possibly operating under a common name, are actually separate legal entities in different parts of the world. Inclusion of the information suggested in the ED will improve users' understanding of who conducted the audit. This may be particularly interesting information to users if material portions of the audit work are performed by firms that are located in countries that are not subject to PCAOB inspection.

We note, with agreement, that the Board has made some practical decisions in revising the guidelines for what entities would have to be disclosed. The minimum of 5% rather than 3% is consistent with the suggestion in our earlier comment letter. And allowing the use of estimated hours for the ranges to be used is also consistent with our comment about providing some guidance about how hours could be gathered and measured.

There are two further matters described below that we believe require attention.

- We are concerned that disclosing the names of participating firms, locations, and percentages of participation may tell only half the story. The rest of that story is what the signing firm has done to assure itself that it can take responsibility for the overall audit. At audit committee meetings of corporations, a good deal of attention is paid to the auditing firm's quality control procedures and how they have controlled the overall audit, particularly when much of the audit was performed in far flung locations. If this supplemental information is not added to the auditor's report, then the audit committee may feel compelled to say something in its report. However, that report appears only in the proxy statement and not in the 10-K/Annual Report to shareholders. So we urge the Board to reconsider whether further explanations are needed in the auditor's report.

- Before proceeding with this requirement, we believe the Board needs to perform further research regarding the practical implications of registrants' ability to access capital markets in a timely manner. More specifically, to what extent would the other named firms need to provide consents in registration statements? Effective timing of registration statements for both debt and equity is often made in the context of days or even hours to optimize the cost of capital. This can be accommodated in today's environment whereby a registrant is coordinating with one lead audit firm and partner. Any requirement to obtain consents from other firms will unavoidably add delays to the process, particularly in the case of multi-national companies. This might also argue for a slight increase in the minimum 5% threshold for individual firm identification. We recognize that investors and other users may benefit from more fulsome information about the details of the performance of the audit. But that objective has to be balanced against the benefit of greater flexibility in controlling the cost of capital.

Naming the engagement partner

In our earlier letter, we quoted Board member Dan Goelzer who in his statement at the meeting adopting the first ED said, "In my view, the Board would need more evidence than it has now to conclude that partner identification would improve audit quality." We agreed. However, Goelzer also said, "The partner's name may be relevant to the shareholder vote on selection of the auditor. However, the disclosure requirements of the federal securities laws, including the proxy rules, are administered by the Securities and Exchange Commission. Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit, or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick." Notwithstanding that view about the Board's legal responsibilities by former Board member Goelzer, the PCAOB has now revised its objective for the disclosure of the name of engagement partner. Rather than improving quality (which is still a secondary objective), the Board now states "Identifying the engagement partner … will increase the usefulness of the auditor's report for investors when making their investment decisions, as well as when voting on the ratification of a company's choice of accounting firm as its auditor" (from PCAOB press release announcing the ED).

Naming the engagement partner, by itself, would be of very limited value. However, the Board believes that service providers will step in and create data bases. The data bases would match names with information about company specific matters such as restatements, going concern opinion modifications, and enforcement actions. Also, over time such data bases could be populated with individual specific information such as education, speeches, publications, industry experience through work on other audits, awards, etc. The Board speculates that somehow users would find this to be meaningful in making investment decisions. Based on the experience of many of us as corporate accountants participating in the process of assisting the audit committee in engagement partner selection and as public accountants from the other side of that process, we believe the collection of public data on engagement partners at best will only be incomplete and, in many cases, misleading.

First, the package of information that is gathered and considered by audit committees is much more robust than could ever be included in a public data base. And much of that information is confidential, such as recommendations from previous audit committees served. Audit committees carefully scrutinize partners' qualifications during the partner rotation process and this often involves tradeoffs among several candidates with different experience and other personal characteristics. In-depth interviews determine the final choice, not some limited data gathering.

Second, the type of material that might be gathered as suggested by the PCAOB is slanted toward the negative and is not necessarily a measure of a particular partner's performance. For example, a restatement may be occasioned by many factors, the principal responsibility for which could be directed to (1) an earlier engagement partner, (2) the current partner, (3) more than one partner, (4) no partner as it involves, for example, a change in interpretation by the SEC staff. Also, a going concern modification, rather than being a negative factor, as seems implied in the ED, may actually be a positive as it represents an engagement partner taking a tough stand that may cause harm to a client. These disclosures may have unintended consequences of actually misclassifying any so-called quality indicators to specific partners.

Third, it will take years for any sort of reasonably complete data base to develop. Even at that point it is likely to include only certain information and be difficult to keep up to date. Who would be willing to finance the development of such a project that would be of very questionable value for years and years? Has the PCAOB asked those users who say they want this information if they would pay for its development? Has the PCAOB investigated whether any third parties have any actual interest in doing this?

Thus, we simply do not see how this proposed new disclosure is likely to lead to improved investor information, even assuming that is the PCAOB's responsibility. In reading the latest ED and scanning the comment letters on the earlier ED, we are left with the impression that "some users want this information" and the Board "believes" it would be meaningful. But the latest ED provides little, if any, evidence for this belief. In the words of Board member Jeanette Franzel at the meeting when the latest ED was adopted, "I'm starting to think that naming the audit engagement partner in the auditor's report is a solution in search of a problem."

We also continue to reject the notion that naming the engagement partner will improve audit quality. As noted in our earlier letter, when authorizing issuance of audit reports or certifications or sub-certifications of financial reports in the case of corporate accountants, there is already full, personal responsibility pursuant to Sarbanes-Oxley and otherwise. We cannot fathom that there is another level of quality to which accounting firms can somehow rise as a result of the engagement partner having his or her name included in the report and feeling more "accountable."

Closing

We appreciate the opportunity to express our views on this ED. We would be pleased to further explain these views or provide additional information at your request.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com

John K. Exline, CMA, CPA
Chair, Small Business Finance and Regulatory Committee
Institute of Management Accountants
Jexline01@cox.net