

August 31, 2015

VIA E-MAIL: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street N.W.  
Washington, D.C. 20006-2803

**RE: PCAOB Rulemaking Docket Matter No. 029**

Dear Members of the Board and Staff:

Dixon Hughes Goodman LLP (DHG) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, (Supplemental Request). Headquartered in Charlotte, NC, DHG ranks among the top 20 public accounting firms in the nation, with more than 1,800 professionals and staff in 12 states, and is a member of Praxity, a global alliance of independent firms. This letter includes our views, observations, and recommendations on the Supplemental Request, as well as the Board's previous proposals.<sup>1</sup>

**Overview**

DHG supports calls from financial statement users for increased transparency into the audit, including better understanding the parties responsible for performing an audit through identifying the engagement partner and providing information on certain other audit participants, and commends the PCAOB for proposing a disclosure option within a newly created PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* (Form AP). We believe identifying the engagement partner and providing information about certain other audit participants within Form AP would avoid many of the practical challenges and potential legal implications that would arise from providing this information in the auditor's report. For instance, providing such additional transparency through disclosures in the auditor's report would likely result in increased liability risk to the parties named in the auditor's report and present substantial practical challenges and increased costs to audit firms and issuers, particularly as it relates to obtaining consents from these named parties. Furthermore, we question the need to provide a voluntary option for audit firms to disclose within the auditor's report, when the practical challenges and increased litigation risks associated with disclosure in the auditor's report remain.

Although we support providing information about certain other audit participants, we believe the profession would benefit from additional guidance related to the auditor's ability to use estimates (and

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<sup>1</sup> See PCAOB Rulemaking Docket Matter No. 029: *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits*, Release No. 2009-005 – Concept Release, Release No. 2011-007 – Proposed Rule, and Release No. 2013-009 – Reproposed Rule.

professional judgment) in determining the level of participation of other audit firms. We also believe extending the filing deadline and considering a longer implementation period would allow audit firms sufficient time to develop systems and gather data necessary to meet the Form AP disclosure requirements.

We have provided certain comments and recommendations below regarding the potential disclosure obligations within the Form AP, as well as other matters detailed within the Supplemental Request.

### **Disclosure on Form AP**

DHG is supportive of identifying the engagement partner and providing information on certain other audit participants in Form AP, as this would provide information in a consistent data format, centralized in one location that is accessible to all financial statement users. Presumably, this information would be searchable, allowing financial statement users the ability to access this information more efficiently. For instance, although the auditor's report is the critical vehicle by which the auditor communicates his or her opinion of the audit, it does not lend itself for comparable purposes if financial statement users are interested in better understanding the engagement partner's portfolio of audits. Financial statement users would have to comb through numerous individual auditor's reports to find the relevant information. However, if the PCAOB moves forward with the Form AP requirement, financial statement users could easily locate this information within a searchable database on the PCAOB's website.

Further, providing these disclosures within the Form AP would avoid the potential challenges (and additional costs) in obtaining consents from the engagement partner and other named participants in the audit. Form AP disclosures should also mitigate concerns over certain liability considerations under federal securities laws, particularly the risk that named parties would be subject to potential liability under Section 11 of the Securities Act of 1933. It is not clear, however, what impact disclosure in the Form AP could have on potential liability risk under the general anti-fraud provisions (i.e., Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5).

### **Voluntary Disclosure within the Auditor's Report**

In addition to the required filing of Form AP, the Supplemental Request provides auditors with a voluntary option to include the same Form AP disclosures within the auditor's report.<sup>2</sup> Although we support identification of the engagement partner and disclosure of certain other audit participants in the Form AP, we do not believe it is appropriate to allow for voluntary disclosure within the auditor's report. Further, as this information would already be included in the Form AP, and available to financial statement users in a centralized searchable location, it is unclear why a voluntary option is needed, particularly an option that is riddled with complex challenges.

Providing these disclosures within the auditor's report (regardless if provided on a voluntary basis) would have significant litigation implications and presents substantial practical challenges and increased costs to audit firms and issuers, particularly as it relates to obtaining consents. If the Board continues to believe a secondary voluntary disclosure option is necessary, despite the required information provided within the Form AP, we strongly urge the Board to reconsider providing a disclosure option that has such onerous unintended consequences.

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<sup>2</sup> See page 7 of the Supplemental Request.

Alternatively, the Securities and Exchange Commission (SEC) recently issued a concept release<sup>3</sup> seeking stakeholder input on potential enhancements to disclosures for audit committees, specifically requesting comment on a number of possible changes to existing SEC disclosure requirements regarding the audit committee's oversight of the external auditor, including the potential disclosure of the engagement partner and information about other audit participants by audit committees in the proxy or in other alternative locations. As audit committees are responsible for the oversight of external auditors, they may be in the best position to disclose this information. Therefore, we encourage the PCAOB, in considering a voluntary disclosure option, to collaborate with the SEC to determine whether audit committees should consider disclosing this information within the proxy statement or the audit committee report.

### Certain Other Audit Participants

DHG supports providing information about certain other audit participants through submission of the Form AP, and believes the proposed use of ranges for disclosing the participation by other public accounting firms would reduce some of the administrative burden inherent in providing precise calculations. However, there could be challenges in determining the relevancy of hours reported by other auditors, as these auditors may incur hours that are not within the scope of the issuer's group audit engagement (e.g., while performing statutory audits of foreign subsidiaries). Similar scenarios may present the need for audit firms to rely on certain estimates to provide relevant disclosures. Therefore, we believe the profession would benefit from additional guidance including acknowledging the acceptability of the use of professional judgment in determining estimates. For instance, the PCAOB could allow for the use of a reasonable method of estimation in determining the percentage of hours reported for other audit firm participants, similar to the option currently provided to audit firms in reporting the components of the total fees billed to issuer audit clients within Form 2.<sup>4</sup>

Further, we support the exclusion of engaged specialists from this disclosure requirement, and agree with past commenters' responses that the inclusion of such a requirement would disproportionately affect smaller to medium-sized accounting firms.

### Proposed Filing Requirements

The Board is considering a Form AP filing deadline of 30 days after the date the auditor's report is included in a document filed with the SEC.<sup>5</sup> However, there could be challenges in preparing the Form AP disclosure information within this timeframe, due to the time commitment needed to aggregate and review audit hours to determine the relative participation of other audit firms. These challenges could be compounded by the large percentage of public filings issued around the same general timeframe. Therefore, as opposed to the 30 days deadline, we recommend the Board extend the proposed filing deadline to 45 days, to coincide with the audit documentation requirement under Auditing Standards No. 3, *Audit Documentation* (AS 3). We believe alignment with AS 3 would allow for more accurate reporting and less estimation of audit hours in determining the relative participation of certain participating firms in the Form AP disclosures.

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<sup>3</sup> See Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*.

<sup>4</sup> See PCAOB Instructions for Form 2, Item 3.2.

<sup>5</sup> See page 8 of the Supplemental Request.

Further, during initial implementation, additional time and effort are needed by the audit firms to develop internal systems, processes, and quality controls to track, monitor, and report Form AP information. Therefore, we believe the Board should consider a 60-day Form AP filing deadline during the first year of implementation, to allow audit firms sufficient time to develop and validate these new systems and processes.

### *Initial Public Offering*

The Board is contemplating a 10-day Form AP filing deadline for initial public offerings (IPO), to ensure Form AP disclosures are available before an investor road show.<sup>6</sup> We support the 10-day IPO filing deadline; however, due to the shorter filing requirement, additional estimation and judgment may be necessary to provide the disclosures in this abbreviated timeframe. Therefore, in considering these circumstances, we believe the PCAOB should provide additional guidance related to the acceptable level of estimation and judgment in compiling the disclosures in the case of this abbreviated deadline.

Further, we do not believe it is appropriate to apply the 10-day filing requirement whenever the auditor's report is included in a Securities Act registration statement, other than an IPO.<sup>7</sup> There are many instances where a registration statement will include, or incorporate by reference, a previously filed audit report, which may already have a corresponding Form AP. For instance, a Form S-3 may incorporate by reference a previously filed Form 10-K, in which a corresponding Form AP has been filed and there is no new information to be reported. In such a situation, filing a new Form AP for the registration statement would be redundant and unnecessary. However, we do believe it is appropriate to file a new Form AP in situations where the information included in a previously filed Form AP has changed from the original filing (see also 'Re-filing Considerations' below).

### **Re-filing Considerations**

The Board is contemplating a requirement to file a new Form AP in situations where an audit report is reissued and dual-dated, "even when no other information on the form has changed."<sup>8</sup> Although we support re-filing in certain circumstances, it is unclear how filing a new Form AP that includes no new information, and when no material changes have transpired on the audit, would provide any meaningful value to financial statement users to warrant the additional costs and efforts to file. In addition, there is a risk that requiring the repeated filing of a Form AP in situations where no information has changed could diminish the value of the Form AP disclosures to financial statement users.

As opposed to requiring the re-filing of a Form AP in these situations, we recommend the Board limit the re-filing requirements to situations when an audit report has been reissued *and* there have been changes to the information previously disclosed in the Form AP (e.g., change in the audit partner or the audit hour ranges disclosed). Requiring re-filing under these circumstances would alleviate unnecessary costs and efforts incurred by audit firms in filing multiple Forms AP, while maintaining the disclosure value to financial statement users.

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<sup>6</sup> See page 8 of the Supplemental Request.

<sup>7</sup> See question 6, page 17 of the Supplemental Request.

<sup>8</sup> See page 9 of the Supplemental Request.

## Effective Date

The Board is contemplating making the requirements under the Supplemental Request effective for auditor's reports issued or reissued on or after June 30, 2016 (or three months after SEC approval).<sup>9</sup> However, considering the costs and efforts associated with creating systems, processes and quality controls to gather, aggregate, and report the required information, we believe it may be difficult for audit firms to implement the requirements under the Supplemental Request within the Board's proposed effective date. Further, we do not believe it is appropriate to provide the audit profession less than a year to establish these new systems and processes, particularly given the request for clarification and recommendations provided above, which the Board would have to consider (along with other commenters' feedback and recommendations) prior to submitting a final ruling.

In order to provide reliable information to financial statement users, we strongly encourage the Board to consider either:

- (1) Extending the proposed deadline, possibly one-year upon finalization of the standards, or
- (2) Adopting a phased-in implementation approach, which would entail limited disclosures on Form AP in year one of adoption. For example only disclosing the engagement partner, with the full disclosures, including the disclosure of other audit participant information, in the second year of adoption.

Furthermore, in designing the submission process, we support the Board leveraging existing submission processes for filing annual (i.e., Form 2) and special reports (i.e., Form 3), and allowing for the submission of multiple Forms AP simultaneously through an extensible markup language (XML).<sup>10</sup> However, we believe the Board could further ease the administrative burden by allowing additional flexibility in how a Form AP is processed. For instance, in addition to allowing the filing of multiple Forms AP through an XML submission, the Board could allow for the submission of multiple audits within a single Form AP, similar to Form 3 reporting, which allows for the filing of multiple events in a single form.<sup>11</sup>

## Economic Considerations

We anticipate additional costs and efforts to comply with the proposed disclosure requirements in Form AP (e.g., costs to develop systems and processes for gathering, aggregating and reporting the required disclosure information). However, these costs will likely be significantly less than the costs associated with disclosure in the auditor's report (e.g., cost of obtaining consents, indirect costs with respect to potential Section 11 liability).

## Scope Considerations

We believe the Form AP filing requirements should apply to audits of emerging growth companies, as they exhibit characteristics similar to other public companies and financial statement users would benefit from similar reporting requirements. However, a majority of non-issuer brokers and dealers have closely held ownership structures with owners generally part of the management team.<sup>12</sup> Therefore, requiring such entities to file a Form AP, and disclosing the engagement partner and other participants in the audit, would provide no additional relevant information to justify the incremental costs to comply.

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<sup>9</sup> See page 16 of the Supplemental Request.

<sup>10</sup> See page 9 of the Supplemental Request.

<sup>11</sup> See PCAOB Staff Questions and Answers, *Special Reporting on Form 3*, Question 17.

<sup>12</sup> See Section IV. Audits of Brokers and Dealers from PCAOB Release No. 2013-009 for research conducted by the PCAOB's Office of Research and Analysis on the ownership structure of brokers and dealers.

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DHG is supportive of providing financial statement users additional transparency into the audit and believe identifying the engagement partner and providing information on certain other audit participants in a Form AP would avoid many of the practical challenges and mitigate significant legal concerns that would arise from providing this information in the auditor's report. We appreciate the opportunity to comment on the Supplemental Request and are pleased to discuss any questions the Board and its Staff may have concerning our comments. Please direct any questions to Dave Hinshaw, Managing Partner, Professional Standards Group at 704.367.7095 ([dave.hinshaw@dhgllp.com](mailto:dave.hinshaw@dhgllp.com)) and Jeffrey Rapaglia, Partner, Professional Standards Group at 704.367.5914 ([jeff.rapaglia@dhgllp.com](mailto:jeff.rapaglia@dhgllp.com)).

Sincerely,

*Dixon Hughes Goodman LLP*

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