

PCAOB Reproposes Amendments to Provide Disclosure in the Auditor's Report of Certain Audit Participants

The Public Company Accounting Oversight Board ("PCAOB") recently repropose amendments (the "Amendments") to its auditing standards that would require disclosure in the auditor's report of:

- (i) the name of the engagement partner; and
- (ii) the names, locations and extent of participation (as a percentage of total audit hours) of other independent public accounting firms that took part in the audit, and the locations and extent of participation of other individuals and companies not employed by the auditor that took part in the audit, so long as the participant's contribution exceeded 5% of the total hours in the audit engagement.¹

The Amendments would not, however, require disclosure of information about:

- (i) individuals performing an engagement quality review;
- (ii) individuals performing a review pursuant to Appendix K;² or
- (iii) persons employed or engaged by a company who provide direct assistance to the auditor, including (a) internal auditors, other company personnel or third parties working under the direction of management or the audit committee who provide direct assistance in the audit of internal control over financial reporting or (b) internal auditors who provide direct assistance in the audit of the financial statements.

Currently, auditors' reports in the United States generally only disclose the name of the accounting firm that issued the opinion. The PCAOB believes that the Amendments would improve the transparency of public company audits and allow investors to make more informed investment decisions, including whether to vote to ratify or not ratify the company's choice of registered firm as its auditor. The PCAOB also believes that the Amendments may prompt engagement partners to perform their duties with a heightened sense of accountability.

¹ See PCAOB Release No. 2013-009, available at <http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf>. If adopted, the Amendments would amend: (1) AU sec. 508, *Reports on Audited Financial Statements*, (2) AU sec. 9508, *Reports on Audited Financial Statements: Auditing interpretations of Section 508*, (3) AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, (4) Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, and (5) Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

² Appendix K is a PCAOB quality control standard that relates to the review of filings by SEC registrants whose financial statements are audited by foreign accounting firms in order to ensure compliance with U.S. accounting rules. See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants*, available at http://pcaobus.org/Standards/QC/Pages/SECPS_1000.08_appendices.aspx#appendix_k. The PCAOB adopted the requirements of the SECPS in 2003 as part of its interim standards.

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The PCAOB issued the initial proposing release containing these reforms in October 2011 (the “Proposing Release”).³ The Amendments include revisions to the Proposing Release, which incorporate certain of the comments that the PCAOB received in response to the Proposing Release. Other than imposing new disclosure obligations, the Amendments would not change the performance obligations of the auditor in conducting the audit.

The PCAOB is seeking comments on the Amendments through February 3, 2014. In particular, the PCAOB is soliciting comments on the usefulness of the information that would be required to be disclosed, the potential costs that the Amendments might impose, whether the Amendments would have any effect on competition and whether the Amendments should apply to audits of “emerging growth companies,” as that term is defined in the Jumpstart Our Business Startups Act of 2012.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Charles A. Gilman at 212.701.3403 or cgilman@cahill.com; Jon Mark at 212.701.3100 or jmark@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com; or Abigail Darwin at 212.701.3240 or adarwin@cahill.com.

³ The PCAOB received 43 comment letters in response to the Proposing Release. Many commenters expressed concern that there could be an increase in the potential liability of persons named in the auditor’s report in litigation, particularly securities litigation. In the release containing the Amendments, the PCAOB states that it believes that any possible increases in a named engagement partner’s or participating accounting firm’s exposure to liability would be limited and that the potential risk of such an increase would be justified by the potential benefits of greater transparency to investors and other users of financial statements.