



1235 Radio Road
Redwood City CA 94065
(800) 922-5272
www.calcpa.org

Via email: comments@pcaobus.org

September 9, 2009

Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29

To the Members of the PCAOB

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Public Company Accounting Oversight Board (“PCAOB”) on PCAOB Rulemaking Docket Matter No. 29 “Concept Release on Requiring the Engagement Partner to Sign the Audit Report.”

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

General Comment

The Committee strongly opposes any requirement to require the engagement partner to sign the audit report or be identified as the engagement partner in public reports. The Board cites benefits of increased transparency and accountability, but the bases for those benefits uses term like “might,” “may,” and “could.” That is, they are based on pure conjecture, and not facts. The Committee sees no benefit to any such requirement, and there may be some significant negatives.

1. Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?

No. There is already sufficient incentive under Sarbanes Oxley, PCAOB inspections and legal exposure to achieve audit quality.

2. Would such a requirement improve the engagement partner’s focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.

No. For the reasons stated in response to Question 1, the engagement partner is already very well focused on his or her responsibilities. The Committee is not aware that there is any empirical data on this issue, and notes that views supporting the signature requirement cite benefits that “may,” “could,” or “might” be achieved. As such, they are largely conjecture, and as such do not provide an adequate basis for a signature requirement

3. Would disclosure of the engagement partner’s name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?

The Committee sees no difference.

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

The name of the engagement partner in most cases will be no more than the name of an unknown person to investors and others outside the entity, and requiring the identity of the engagement partner therefore hardly increases transparency in any meaningful way. The name and the individual would already be known to the audit committee, so there would be no increased transparency.

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.

It is hard to see how the name of the engagement partner is of any use in predicting the quality of a particular audit. An audit typically involves a host of resources of the audit firm, and the quality of a particular audit is more dependent on the availability and skill of those resources than on the engagement partner. Further, the best assessment of the engagement partner is made by the audit committee and management, and this is unrelated to whether the name of the engagement partner is disclosed in the audit firm’s report.

The Committee points out that if there are negative indications about an engagement partner’s conduct of an audit on the audit of a public company, most firms will investigate it thoroughly, and often remove the partner from engagement responsibility, at least during the pendency of the investigation. Therefore, it is not likely that naming the engagement partner would be meaningful.

6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?

The Committee is concerned that naming the engagement partner could lead to harassment or personal danger to the individual; aberrational behavior is an unfortunate fact of life, and it is sometimes difficult to protect individuals from it. As stated below, the Committee is also concerned about possible litigation exposures.

7. The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

The Committee is opposed to a requirement to name the engagement partner. It is difficult to imagine all circumstances where there could be a threat to the personal security of the engagement partner, particularly if events causing the threat arise after he or she has already been named.

8. What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?

As the Release points out, naming the engagement partner or having the engagement partner sign the report may, in the views of some, open up the engagement partner to additional legal liability. Unfortunately, the legal determination may well depend on the outcome of litigation, which is expensive, and the results may be inconsistent from state to state and among federal circuits.

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

The Board should further explore ways to eliminate any increase in the engagement partner's potential liability in private litigation. The Committee is not certain that the Board could do this, and whether Federal law would successfully preclude action under state law.

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?

The Committee does not believe a further definition of the engagement partner's responsibilities would be useful.

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside of AU sec. 508 and Auditing Standard No. 5, need to be amended?

In view of the Committee's position on any such requirement, the Committee does not respond to this question.

12. Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature relates only to the current year?

The easiest way to do this is to name the engagement partner for the current year audit, and not require an actual signature. The engagement partner should not be required to attach his or her name to a prior period for which he was not engagement partner.

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

The principal firm is taking overall responsibility, and the engagement partner should be able to satisfy himself or herself as to the other auditor. If the other auditor's report is included, the Committee questions how meaningful it would be to identify the engagement partner of the other firm.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, Interim Financial Information, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

No. A review is not an audit, and an implication of the engagement partner signature is that a reader might misconstrue the scope of work done.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

In view of the Committee's position on any such requirement, the Committee does not respond to this question.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

The Committee believes that this form would at least clarify the roles of the firm and the engagement partner. It should be permitted. There may be other forms that might be used as well. However, as stated previously, the Committee objects to any requirement for the engagement partner to sign the report or be named as the engagement partner.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, reading "Jo Ann Guattery". The signature is written in a cursive style with a large initial "J" and "G".

Jo Ann Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants