

PCAOB Wants Individual Engagement Partners Named in Audit Reports

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An idea that began in 2005, made its way into a concept release in 2009, and became a proposed rule two years later, has just been [reproposed](#) by the PCAOB. The regulatory agency has issued a release requiring disclosure in the auditor's report of the name of the engagement partner and the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

Companies should be aware that the PCAOB believes this information can be important to shareholder investment decisions, as well as shareholder votes to ratify a company's auditors. According to the revised proposal, the PCAOB has learned through its oversight activities that a wide variation in the quality of auditing exists at audit firms, with the role of the engagement partners being a key factor. In its own inspections, the PCAOB uses engagement partner quality history to make risk-based selections of audit engagements. In addition, the audit firms monitor similar audit partner history closely.

With the disclosure of the name of the engagement partner, investors could research the number, size, and nature of companies and industries in which the partner served. Investors could even use the data to help assess the severity of any restatements. The PCAOB's decision was influenced by the availability of detailed information on the backgrounds, expertise and reputations of other professionals, namely lawyers, and doctors. In addition, similar regulations exist in the EU, Taiwan and Australia.

The proposed addition of the names of other firms that participated in the audit also stems from the PCAOB's investigatory experience. The extent of other firms' involvement ranges from none to most or, in some cases, substantially all of the audit work, none of which is transparent to investors. This may be particularly relevant for companies with many foreign operations, where the signing firm may use another firm in a foreign country to audit the financial statements of a subsidiary in that foreign country. The release is frank in stating that the proposed disclosures are intended to discourage improper practices that were only uncovered through investigations, including audit firms allowing others without the requisite expertise to perform significant parts of the audit work.

Concerns over litigation risk has been raised by those who object to the naming of individuals, and the release explores that issue at length and concludes that it is outweighed by the benefits of the disclosure.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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