

Webinar: Complying with Form AP Rules

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Caveat

The views we express today are our own and do not necessarily reflect the views of the Board, individual Board members, or other members of the Board's staff.

Polling Question

- Polling question, what does the “AP” in Form AP represent?
 - A. Audit Partner
 - B. Additional Procedures
 - C. Audit Participants
 - D. Another Process

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Learning Objectives

- Describe the elements of Form AP
- Understand disclosure requirements regarding information about other accounting firms that went effective on June 30, 2017
- Understand general filing requirements and when to amend Form AP
- Locate the resources and tool available to assist with the implementation of Rule 3211 and Form AP

Today's Topics

- ❑ Basic Elements of the Form
- ❑ Other Accounting Firm Disclosures
- ❑ Filing Requirements
 - ❑ Deadlines
 - ❑ Amendments
 - ❑ Special Circumstances
- ❑ Form AP – Resources

Basic Elements of the Form

- ❑ Part I – Identify of the Firm
 - ❑ Legal name of the firm
 - ❑ Different name if used
- ❑ Part II – Amendments
 - ❑ Used when a Form AP is being amended
 - ❑ Describes what sections are the subject of the amendment

Basic Elements of the Form

(cont'd)

- ❑ Part III – Audit Client and Audit Report
 - ❑ Item 3.1 – Information about the Audit Client and the Audit Report, includes:
 - ❑ Type of issuer (e.g., issuer, investment company, employee benefit plan)
 - ❑ Issuer information
 - ❑ CIK, if any
 - ❑ Fund series, if any, for investment companies
 - ❑ Name of the issuer
 - ❑ Engagement partner information
 - ❑ Name
 - ❑ Partner ID, including any previously used Partner IDs
 - ❑ Information from the audit report
 - ❑ Audit report date
 - ❑ End date of the most recent period's financial statements

Basic Elements of the Form

(cont'd)

- Item 3.2 – Other Accounting Firms
 - Indicate, by checking the box, if one or more other accounting firms participated in the audit
 - Statement that the firm signing the audit report (that is, the firm filing Form AP) takes responsibility for the work of all other accounting firms that participated in the audit
- Item 3.3 – Divided Responsibility
 - Indicate, by checking the box, if responsibility for the audit was divided

Basic Elements of the Form

(cont'd)

- Part IV – Responsibility for the Audit is not Divided
 - Disclosures about other accounting firms
- Part V – Responsibility for the Audit is Divided
 - Disclosure of the referred-to auditor
- Part VI – Certification

Other Accounting Firm Disclosures

- ❑ Disclosure of other accounting firms is based on percentage of total audit hours:
 - ❑ If 5% or greater of total audit hours: the name, location, and extent of participation of each other accounting firm; and
 - ❑ If individually less than 5% of total audit hours: the number and aggregate extent of participation of all other accounting firms

Other Accounting Firm Disclosures (cont'd)

- ❑ What is an "other accounting firm?"
 - ❑ A registered public accounting firm other than the firm filing Form AP, or
 - ❑ Any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.
- ❑ Participants that do not meet the definition of an "other accounting firm" are considered "nonaccounting firm" participants in the audit.
 - ❑ These firms are not identified on Form AP but are included in the computation of total audit hours.

Other Accounting Firm Disclosures (cont'd)

- ❑ An other accounting firm “participated” in an audit if:
 - ❑ The principal auditor assumes responsibility for the work and report of the other accounting firm as described in paragraphs .03-.05 of AS 1205, *Part of the Audit Performed by Other Independent Auditors*, or
 - ❑ The other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201, *Supervision of the Audit Engagement*.

Other Accounting Firm Disclosures (cont'd)

- ❑ Excluded from Form AP's disclosure requirements and computation of total audit hours are:
 - ❑ The engagement quality reviewer;
 - ❑ The person who performed the review pursuant to SEC Practice Section ("SECPS") 1000.45 Appendix K;
 - ❑ Specialists engaged, not employed, by the auditor;
 - ❑ An accounting firm performing the audit of the entities in which the issuer has an investment that is accounted for using the equity method;
 - ❑ Internal auditors, other company personnel, or third parties working under the direction of issuer management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and
 - ❑ Internal auditors who provided direct assistance in the audit of the financial statements.

Case Study: Background

- ❑ ABC Audit Firm US located in the United States is the firm signing the audit report for Company Z.
- ❑ Company Z has operations in the United States, France, Germany, Italy, and China.
- ❑ ABC Audit Firm US uses work performed by its affiliates in France, Germany, Italy, and China, who also perform statutory audits of Company Z's subsidiaries in these jurisdictions.

Case Study: Background (cont'd)

- ❑ ABC Audit Firm US does not make reference to another public accounting firm in its audit report.
- ❑ Time is not tracked separately by the French or German affiliates for work on the issuer audit and the work on the statutory audits, as such the actual number of audit hours related to Company Z's audit is unknown for these firms.
- ❑ Time is separately tracked by the Italian and Chinese affiliates for the work performed on the issuer audit.

Case Study: Background (cont'd)

- ❑ Also involved in the audit were:
 - ❑ An engagement quality reviewer
 - ❑ A specialist engaged by ABC Audit Firm US
 - ❑ A shared service center in India that assisted the US and Chinese firms.

Case Study: Background (cont'd)

Audit Participants and Audit Hours

Audit Participant	Firm ID (if applicable)	Audit Hours Incurred	Hours Attributed to Company Z's Audit
A. ABC Audit Firm US	99876	2,500	2,500
B. ABC Audit Firm France	97654	1,200	unknown
C. ABC Audit Firm China	Not registered	800	250
D. ABC Audit Firm Italy	98012	500	125
E. ABC Audit Firm Germany	99125	500	unknown
F. Shared Service Center	n/a	500	500
G. Engagement Quality Reviewer	n/a	80	80
H. Specialist Engaged by ABC Audit Firm US	n/a	300	300

Case Study (cont'd)

- Which of the audit participants are "other accounting firms" in this case study?
 - A. Audit Firms US, France, China, Italy, & Germany
 - B. Audit Firms France, China, Italy, & Germany, and Shared Service Center
 - C. Audit Firms France, China, Italy, & Germany
 - D. All participants listed

Case Study (cont'd)

- Which of the audit participants are "other accounting firms" in this case study?
 - A. Audit Firms US, France, China, Italy, & Germany
 - B. Audit Firms France, China, Italy, & Germany, and Shared Service Center
 - C. Audit Firms France, China, Italy, & Germany**
 - D. All participants listed

Case Study (cont'd)

- The shared service center is not a registered firm and does not opine on the compliance of an entity's financial statements with an applicable financial reporting framework. How should the shared service center be considered for Form AP?
 - A. As an other accounting firm
 - B. As a non-accounting firm
 - C. None of the above

Case Study (cont'd)

- The shared service center is not a registered firm and does not opine on the compliance of an entity's financial statements with an applicable financial reporting framework. How should the shared service center be considered for Form AP?
 - A. As an other accounting firm
 - B. As a non-accounting firm**
 - C. None of the above

Case Study (cont'd)

- ❑ Should any of the participants be excluded from disclosure and the computation of total audit hours?
 - A. No. All participants would be included in the computation of total audit hours.
 - B. Yes, only the engagement quality reviewer would be excluded.
 - C. Yes, only the auditor-engaged specialist would be excluded.
 - D. Yes, both the engagement quality reviewer and the auditor-engaged specialist would be excluded.

Case Study (cont'd)

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 - B. Yes, only the engagement quality reviewer would be excluded.
 - C. Yes, only the auditor-engaged specialist would be excluded.
 - D. Yes, both the engagement quality reviewer and the auditor-engaged specialist would be excluded.**

Case Study (cont'd)

□ Summary of results

Audit Participant	Type of Participant
A. ABC Audit Firm US	Firm Signing the Audit Report
B. ABC Audit Firm France	Other Accounting Firm
C. ABC Audit Firm China	Other Accounting Firm
D. ABC Audit Firm Italy	Other Accounting Firm
E. ABC Audit Firm Germany	Other Accounting Firm
F. Shared Service Center	Non-accounting firm
G. Engagement Quality Reviewer	Excluded from disclosure and computation
H. Specialist Engaged by ABC Audit Firm US	Excluded from disclosure and computation

Total Audit Hours

- ❑ Total audit hours in the current period's audit are comprised of hours attributable to:
 - ❑ The financial statement audit;
 - ❑ Reviews pursuant to AS 4105, Reviews of Interim Financial Information for the fiscal year covered by the audit; and
 - ❑ The audit of internal control over financial reporting pursuant to AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.

Total Audit Hours (cont'd)

- ❑ When more than 1 period presented was audited during a single audit engagement, total audit hours and hours of other accounting firms are calculated for the single audit engagement.
 - ❑ The firm would not separate the hours related to the current year's audit from the hours related to audits of prior periods if they were incurred in the same audit engagement.
- ❑ When an audit report is dual-dated, total audit hours and the hours of other accounting firms are computed through the latest report date.

Treatment of Nonaccounting Firm Participants

- ❑ Nonaccounting firms, for purposes of Form AP, are entities that participate in the audit that do not meet the definition of "other accounting firm"
 - ❑ Examples may include offshore service centers, tax consulting firms, or other types of entities
- ❑ These firms are not identified on Form AP
- ❑ The hours incurred by them should be
 - ❑ Included in the computation of total audit hours and
 - ❑ Allocated among the principal auditor and the other accounting firms participating in the audit on the basis of which accounting firm commissioned and directed the applicable work of the nonaccounting firm

Case study (cont'd)

- ❑ The shared service center in India assisted both the US and Chinese accounting firms. How would the hours of the shared service center be allocated?
 - A. All hours are allocated to the US firm
 - B. All hours are allocated to the Chinese firm
 - C. Hours are allocated between the US and Chinese firms

Case study (cont'd)

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 - A. All hours are allocated to the US firm
 - B. All hours are allocated to the Chinese firm
 - C. Hours are allocated between the US and Chinese firms**

Case study (cont'd)

- According to the case facts, the shared service center tracked hours incurred associated with the work commissioned by the US and Chinese firms separately and reported actual hours.

Audit Participant	ABC Audit Firm US	ABC Audit Firm China
Hours Related to Company Z's Audit	2,500	250
Shared Service Center	350	150
Hours to Include in Total Audit Hours	2,850	400

Estimating Audit Hours

- ❑ If actual audit hours are unavailable, the firm may use a reasonable method to estimate the components of this calculation
- ❑ For example, a firm may know all the audit hours (based on its timekeeping system) for the audit up until the last month before Form AP is required to be filed and may estimate the remaining month's hours based on its experience from prior years on this audit or experience on similar audits

Case Study (cont'd)

- Based on the case facts, actual audit hours are unknown for ABC Audit Firm France and ABC Audit Firm Germany. ABC Audit Firm US will estimate those hours.

Audit Participant	Audit Hours Incurred	Approximate Percentage of Work Related to Company Z's Audit	Hours to Include in Total Audit Hours
ABC Audit Firm France	1,200	45%	540
ABC Audit Firm Germany	500	15%	75

Documentation

- ❑ The computation of total audit hours should be documented in the firm's files and include the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, *Audit Documentation*.
- ❑ Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

Case Study: Disclosure

- Total audit hours and extent of participation:

Audit Participant	Audit Hours Incurred	Extent of Participation
ABC Audit Firm US	2,850	71.4%
ABC Audit Firm France	540	13.5%
ABC Audit Firm China	400	10.0%
ABC Audit Firm Italy	125	3.2%
ABC Audit Firm Germany	75	1.9%
Total Audit Hours	3,990	100%

Case Study: Disclosure (cont'd)

ITEM 4.1—OTHER ACCOUNTING FIRM(S) INDIVIDUALLY 5% OR GREATER OF TOTAL AUDIT HOURS

Firm ID 97654 Check here if no Firm ID is available Percentage participation % or range 10% to less than 20%

Legal name ABC Audit Firm France

Headquarters' Office Location

Country France

City Paris

State

Firm ID Check here if no Firm ID is available Percentage participation % or range 10% to less than 20%

Legal name ABC Audit Firm China

Headquarters' Office Location

Country China

City Beijing

State

Case Study: Disclosure (cont'd)

ITEM 4.2—OTHER ACCOUNTING FIRM(S) INDIVIDUALLY LESS THAN 5% OF TOTAL AUDIT HOURS

a. State the number of *other accounting firm(s)* individually representing less than 5% of total *audit* hours.

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b. Indicate the aggregate percentage of participation of the *other accounting firm(s)* that individually represented less than 5% of total *audit* hours by filling in a single number or by selecting the appropriate range:

Aggregate percentage of participation

% or range

5% to less than 10%

Secondment Arrangements

- ❑ A secondment arrangement for purposes of reporting on Form AP is one in which a professional employee of an accounting firm in one country:
 - ❑ Is physically located in another country, in the offices of another accounting firm, for at least three consecutive months
 - ❑ Performs audit procedures with respect to entities in that other country
 - ❑ Does not perform more than de minimis audit procedures over the term of the secondment in relation to entities in the country of his or her employer
- ❑ These employees should be treated as if they were employed by the accounting firm to which they are seconded

Divided Responsibility Audits

- ❑ Form AP requires certain information to be disclosed regarding the other accounting firm's audit, including:
 - ❑ The identification of the referred-to auditor (including its legal name;
 - ❑ City and state (or, if outside the United States, city and country) of its office; and Firm ID, when applicable) and
 - ❑ The magnitude of the portion of the financial statements audited by the referred-to auditor
- ❑ The firm filing Form AP should not include hours of the referred-to auditor in its computation of total audit hours for Part IV

Filing Requirements

- ❑ Firms are required to file Form AP with the PCAOB for public company audit reports issued on or after January 31, 2017:
 - ❑ Engagement partner names started being disclosed on January 31, 2017.
 - ❑ Information about other accounting firms that participated in the audit started being disclosed for audit reports issued on or after June 30, 2017.

Filing Requirements: Deadlines (cont'd)

- ❑ Form AP is required to be filed by:
 - ❑ The 35th day after the date the audit report is first included in a document filed with the SEC;
or
 - ❑ The 10th day after the date the audit report is first included in a registration statement under the Securities Act filed with the SEC

Filing Requirements: No Filing Required

- ❑ Situations where no Form AP filing is required:
 - ❑ Attestation engagements, for example, compliance with servicing criteria pursuant to Exchange Act Rules 13a-18 and 15d-18— Regulation AB;
 - ❑ Reports issued for interim reviews; and
 - ❑ Non-issuer audits conducted in accordance with PCAOB standards, including audits of --
 - ❑ Brokers and dealers reporting under Exchange Act Rule 17a-5 and
 - ❑ Non-issuers under SEC rules, such as Regulation Crowdfunding and Regulation A

Filing Requirements: Amendments

- ❑ Amendments to Form AP are required to:
 - ❑ Correct information that was incorrect at the time the form was filed, or
 - ❑ Provide information that was omitted from the form and was required to be provided at the time the form was filed.

Filing Requirements: Special Circumstances

- ❑ Dual-dated audit reports
 - ❑ When an audit report is reissued and dual-dated, a new Form AP filing is required
 - ❑ If the engagement partner has changed after the original audit report is issued, Form AP will disclose both the name of the engagement partner who was responsible for the original audit report and the name of the engagement partner responsible for the dual-dated content
- ❑ Reissued reports, including consents
 - ❑ If the firm issues an audit report that is included in an issuer's Form 10-K filing and the firm subsequently consents to inclusion of that same audit report in the issuer's Form S-3 filing, the firm is not required to file a new Form AP in connection with the Form S-3 filing

Form AP – Resources

- ❑ Rule 3211, *Auditor Reporting of Certain Audit Participants*, and Form AP Instructions
- ❑ Staff guidance for Form AP Implementation (February 16, 2017): *Auditor Reporting of Certain Audit Participants and Related Voluntary Audit Report Disclosure*
- ❑ Fact Sheet:
<https://pcaobus.org/News/Releases/Pages/transparency-adoption-fact-sheet-12-15-15.aspx>
- ❑ Sample form:
<https://pcaobus.org/Registration/Documents/Form-AP-Sample.pdf>

These materials, as well as how to contact the staff with questions, are available on the Form AP Resource Page - <https://pcaobus.org/Pages/form-ap-reporting-certain-audit-participants.aspx>.

Wrap-Up & Key Take-Aways

- Elements of Form AP
- Disclosure of other accounting firms
- Filing requirements and
- Amending a form

Staff guidance addresses practical implementation questions.

Questions???