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CONCEPT RELEASE ON REQUIRING THE  
ENGAGEMENT PARTNER TO SIGN THE AUDIT  
REPORT

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) PCAOB Release No. 2009-005  
) July 28, 2009  
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) PCAOB Rulemaking  
) Docket Matter No. 029  
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**Summary:** The Public Company Accounting Oversight Board ("PCAOB" or "Board") is issuing a concept release to solicit public comment on whether it should require the auditor with final responsibility for the audit to sign the audit report.

**Public**

**Comment:** Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line. Comments should be received by the Board no later than 5:00 PM EDT on September 11, 2009.

**Board**

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## CONCEPT RELEASE

### I. Introduction

A public company audit typically involves a substantial amount of work by highly skilled practitioners exercising significant professional judgment. At the end of this process, the registered public accounting firm issues its report on the client's financial statements and, when applicable, its internal control over financial reporting. The audit report is usually the only document related to the audit that investors see. Among other things, it describes, in general terms, the work required to be performed in every audit, represents that the work was performed in accordance with the standards of the PCAOB, and, most important to investors, states the auditor's opinion. PCAOB standards require the audit report to be signed by the audit firm.<sup>1/</sup>

Because of the audit report's importance, commentators have, at various times, considered ways to make it more informative and whether changes to the standard audit report could enhance audit quality. Beginning in 2005, the Board has sought the advice of its Standing Advisory Group ("SAG") several times on this topic, with a particular emphasis on whether PCAOB standards should require engagement partners to sign the audit report.<sup>2/</sup> Members of the SAG with backgrounds as investors have generally strongly supported such a requirement. These SAG members generally believe that a signature requirement could enhance the engagement partner's accountability and increase transparency. Some other SAG members have expressed concerns and noted the benefits of the existing requirement for the firm to sign the audit report.

In 2006, the European Union issued the Eighth Company Law Directive (the "Eighth Directive"), which requires member states to adopt a requirement for the

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<sup>1/</sup> AU sec. 508.08; Auditing Standard No. 5, para. 85. PCAOB standards do not prohibit the engagement partner from also signing the audit report. The auditing standards of the International Auditing and Assurance Standards Board ("IAASB") allow the auditor to sign the report "either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction." IAASB International Standard on Auditing 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph A37.

<sup>2/</sup> The SAG discussed requiring the engagement partner to sign the audit report in February 2005, June 2007 and October 2008. Transcripts of the relevant portions of these meetings are available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

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engagement partner to sign the audit report. The Eighth Directive "establishes rules concerning the statutory audit of annual and consolidated accounts" and "aims at high level – though not full – harmonisation of statutory audit requirements."<sup>3/</sup> Article 28 of the Eighth Directive provides that "[w]here an audit firm carries out the statutory audit, the audit report shall be signed at least by the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm."<sup>4/</sup> Moreover, even before the Eighth Directive, some countries in continental Europe already required the engagement partner to sign the audit report.<sup>5/</sup>

Most recently, in 2008, the Advisory Committee on the Auditing Profession ("ACAP"), convened by the U.S. Department of the Treasury, considered the audit report. Chaired by former Securities and Exchange Commission ("SEC") Chairman Arthur Levitt and former SEC Chief Accountant Donald Nicolaisen, ACAP was charged with "provid[ing] informed advice and recommendations . . . on the sustainability of a strong and vibrant public company auditing profession."<sup>6/</sup> Chairman Mark Olson was an observer to the ACAP.<sup>7/</sup>

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<sup>3/</sup> Directive 2006/43/EC of the European Parliament and of the Council (May 17, 2006); see also The Institute of Chartered Accountants in England and Wales, *Shareholder Involvement – Identifying the Audit Partner* (2005) (describing benefits of and concerns about requiring the engagement partner to sign the audit report and making recommendations regarding implementation of the forthcoming Eighth Directive requirement).

<sup>4/</sup> Id. at Art. 28. Article 2 of the Eighth Directive defines a "statutory auditor" as a "natural person who is approved in accordance with the provisions of the directive by the competent authorities of a member state to carry out statutory audits."

<sup>5/</sup> U.S. Dep't of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Dep't of the Treasury, at VII:20 (Oct. 6, 2008) ("ACAP Report"), avail. at <http://www.treas.gov/offices/domestic-finance/acap/>.

<sup>6/</sup> Id. at B:1.

<sup>7/</sup> The ACAP Report lists the members and observers of ACAP at pages III:1 – III:4.

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On October 6, 2008, ACAP issued its final report, which recommends, among other things, "urg[ing] the PCAOB to undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report."<sup>8/</sup> The ACAP Report notes that ACAP received "testimony and commentary regarding the benefits and complexities of engagement partner signatures" and that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."<sup>9/</sup> The ACAP Report states that "the signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."<sup>10/</sup>

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<sup>8/</sup> ACAP Report, at VII:19. Also regarding the audit report, the ACAP Report recommends that the PCAOB "undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model" and "that the PCAOB and the SEC clarify in the auditor's report the auditor's role in detecting fraud . . . ." Id. at VII:13. The Board continues to consider these recommendations, along with ACAP's other recommendations to the Board.

<sup>9/</sup> See id. at VII:19, VII:20.

<sup>10/</sup> ACAP Report at VII:20. According to the ACAP Report, "[t]his language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to Sarbanes-Oxley's Section 407 for audit committee financial experts." Id. The reference is to Item 407(d)(5)(iv) of Regulation S-K, 17 C.F.R. § 229.407(d)(5)(iv), which provides:

(iv) Safe harbor.

(A) A person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including without limitation for purposes of section 11 of the Securities Act, as a result of being designated or identified as an audit committee financial expert pursuant to this Item 407.

(B) The designation or identification of a person as an audit committee financial expert pursuant to this Item 407 does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and board of directors in the absence of such designation or identification.

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As described below, requiring the engagement partner to sign the audit report could improve audit quality. Accordingly, the Board is considering whether to impose such a requirement, which would be in addition to, not in place of, the existing requirement for the firm to sign the audit report. The Board seeks comment on all aspects of this concept release.

### II. Reasons for a Signature Requirement

A requirement for the engagement partner to sign the audit report could improve audit quality in two ways. First, it might increase the engagement partner's sense of accountability to financial statement users, which could lead him or her to exercise greater care in performing the audit. Second, it would increase transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners.

Many have suggested that an engagement partner who knows that he or she will have to sign his or her own name to an engagement report will perform a higher quality audit. As described by one commenter on a draft of the ACAP Report:

the personal signature . . . might have the effect of focusing the attention on those named individuals on the potential future consequences of a badly done audit. Knowing that any failure will be clearly and unambiguously associated with the named individuals and that the veil of the firm will not be there to obscure their responsibility may be of value.<sup>11/</sup>

Put another way, a requirement for the engagement partner to sign the report may increase that individual's sense of personal accountability for the work performed and

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(C) The designation or identification of a person as an audit committee financial expert pursuant to this Item does not affect the duties, obligations or liability of any other member of the audit committee or board of directors.

<sup>11/</sup> Letter from Andrew D. Bailey, Jr., to Arthur Levitt, Jr. and Don Nicolaisen, Advisory Committee on the Accounting Profession (June 16, 2008), available at <http://comments.treas.gov/files/TREASURYLETTER3BAILEY61608.doc>.

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the opinion expressed, which could, in turn, have a positive effect on his or her behavior.<sup>12/</sup>

Some have noted that the identity of the engagement partner generally is not a secret and that regulators and others may easily determine who served in that role on a given audit.<sup>13/</sup> While this is certainly correct, knowing that one's name is obtainable by interested parties is not the same as knowing that one's name will be associated with the work performed by every reader of the audit report. As one panelist at a SAG discussion noted, "accountability is being answerable to an audience" and "the engagement partner's signature proposal just expands the audience" to investors.<sup>14/</sup> In addition, the act of signing itself may increase an engagement partner's sense of responsibility for the quality of the audit.<sup>15/</sup>

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<sup>12/</sup> See Jean Bedard, Comments at Panel Discussion before the SAG (Oct. 23, 2008) (noting the absence of reported studies on whether audit quality is affected by a requirement for the engagement partner to sign the report but that "when an individual is accountable, there is an increase in self-critical thinking, which is thinking harder about the decisions you must make and possible threats to the quality of your response based on your intended audience"), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

<sup>13/</sup> For example, in connection with ratifying the appointment of the independent auditor, the engagement partner typically attends the annual shareholders' meeting and is available to answer shareholders' questions.

<sup>14/</sup> See Jean Bedard, Comments at Panel Discussion before the SAG (Oct. 23, 2008), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

<sup>15/</sup> See Letter from Donald H. Chapin to The Advisory Committee on the Auditing Profession (June 9, 2008) ("In my experience . . . nothing so focuses the mind on 'getting it right' as having to sign the audit report."), available at <http://comments.treas.gov/files/TreasuryAdvisoryCommittee.doc>; Robert Tarola, Comments at Meeting of the SAG (June 21, 2007) ("I used to sign off in the name of a firm. Now I'm certifying financial statements under SOX in my personal name. I would like to believe . . . that it wouldn't have made a difference, but it does. It is psychologically different."), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx); Arnold Hanish, Comments at Meeting of the SAG (Feb. 16, 2005) ("We find behaviors within our company where we're asking people to sign their name. You get different

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For these reasons, some have suggested that a requirement for the engagement partner to sign the audit report would be similar to the requirement imposed by Section 302 of the Sarbanes-Oxley Act. Under that section, an issuer's principal executive officer and principal financial officer must certify in each annual or quarterly report that, among other things, based on the officer's knowledge the report does not contain any untrue statement of a material fact and that the financial statements are fairly presented. Congress enacted this requirement because it "believe[d] that management should be held responsible for the financial representations of their companies."<sup>16/</sup> Some have suggested that this requirement has focused the signing officers on their existing responsibilities when preparing financial information.<sup>17/</sup> A requirement for the engagement partner to sign the audit report might similarly focus engagement partners on their existing responsibilities.

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behaviors when someone has to put their name on something."), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

<sup>16/</sup> S. Rep. No. 107-205, at 25 (2002).

<sup>17/</sup> See, e.g., Cynthia A. Glassman, Commissioner, SEC, Internal Controls Over Financial Reporting – Putting Sarbanes-Oxley Section 404 in Perspective, Remarks at the Twelfth Annual CFO Summit (May 8, 2006) ("numerous CEOs and CFOs and other market constituents have told me that the Section 302 and 906 certifications have really forced management to focus on establishing, maintaining, and regularly evaluating disclosure controls, as well as internal controls, and making sure that financial and other disclosure is complete and accurate. The certifications are making a difference."), available at <http://www.sec.gov/news/speech/2006/spch050806cag.htm>; see also Cohen, J., Krishnamoorthy, G. and Wright, A. Corporate Governance in the Post Sarbanes-Oxley Era: Auditor Experiences, Working Paper (June 2009) (68% of auditors surveyed indicated that the certification requirement has had a positive effect on the integrity of financial reports), available at <http://ssrn.com/abstract=1014029>; Center for Audit Quality, Report on the Survey of Audit Committee Members (Mar. 2008) (in response to question about impact of CEO and CFO certification requirement on overall quality of public company audits, 44% of audit committee members surveyed responded "somewhat positive impact" and 37% responded "very positive impact").

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### Questions –

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

As noted above, a signature requirement would enhance transparency by providing investors with the name of the engagement partner— a piece of information generally not otherwise known to them. Such information could be useful to financial statement users and might lead to an improvement in audit quality. As one member of the SAG noted, "[i]f partners have to sign . . . you could start measuring expertise at the individual partner level in industries."<sup>18/</sup>

While we agree with those who have noted the importance of the expertise, quality control system, and skill of the firm as a whole,<sup>19/</sup> the skill and expertise of the engagement partner also undoubtedly contribute to audit quality.<sup>20/</sup> Providing financial

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<sup>18/</sup> Joseph Carcello, Comments at Meeting of the SAG (June 21, 2007), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx). A requirement to disclose the name of the engagement partner in the audit report would, presumably, serve this purpose as well as a signature requirement.

<sup>19/</sup> See, e.g., Randy Fletchall, Comments at Meeting of the SAG (June 21, 2007) ("in a large firm, coordinating a large audit around the world, you can't expect that lead partner to have trained everyone on that team . . . you really do have to allow that partner to rely on the firm's quality control system around many things like independence, training, competency"), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

<sup>20/</sup> See, e.g., Nick Cyprus, Comments at Meeting of the SAG (Feb. 16, 2005) ("as good as firm policies are, and I've said this multiple times, the quality of an audit is very much dependent on the partner on a job"), available at

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statement users, audit committees, and others with the name of the engagement partner might help them evaluate the extent of an engagement partner's experience on a particular type of audit and, to a degree, his or her track record. Such information could be useful to investors in making investment decisions and to audit committees in making retention decisions.

Over time, the additional transparency could also provide an incentive for firms to enhance the skill and experience of their engagement partners overall. Audit committees might increasingly seek out engagement partners who are viewed as performing consistently high quality audits. The resulting competition could lead to an improvement in audit quality.

### Questions –

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?
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.
6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?
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

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[http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx); Lynn Turner, Comments at Meeting of the SAG (Oct. 23, 2008) ("And while certainly you get all of the resources of the firm behind [the engagement partner], anytime anyone goes out for evaluation of an auditor, the number one thing that comes up is, who is that audit partner? . . . And you can have a good firm, but if you've got a lousy audit partner, you're probably going to have a lousy audit at the end of the day."), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

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partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

Some SAG members and some commenters on the ACAP Report noted significant benefits resulting from the existing requirement for the firm to sign the audit report.<sup>21/</sup> Some suggested that the firm's signature on an audit report is often viewed as a statement that the firm, as a whole, stands by the opinion expressed. The opinion and other statements in the report are those of the firm, collectively, rather than of the individual engagement partner who authorized the report's issuance. Some believe that such collective responsibility promotes audit quality because individual partners risk not only their own reputations by performing substandard audit work but those of their partners and employees as well. The firm's signature on the audit report may also reflect the fact that an audit often involves consultations with a firm's national office and others who may not participate more directly in the day-to-day audit work.

The Board agrees that requiring the firm's signature on the audit report serves important goals, including many of those identified by SAG members and commenters on the ACAP Report. The intent of any signature requirement would not be to suggest that the firm as a whole is not accountable for the contents of its audit report, or that the engagement partner is solely responsible for the audit. The Board understands that, as one SAG member stated, "big, complex clients demand the attention of the entire firm, and if you give too much authority to a level below the firm . . . you can get into some

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<sup>21/</sup> For example, in commenting on the ACAP Report, the Center for Audit Quality stated:

The CAQ believes that signing a firm's name on an audit report carries a more serious connotation, as it associates the institution of the entire firm with the content of the report, and that signing by individual partners is inconsistent with the consultative environment that is fostered inside firms and the requirement that the firm as a whole stand behind the audit report. Each partner working on the audit report already knows that his or her career and reputation are on the line – not to mention the possibility of civil liability or regulatory enforcement – each time a report is issued.

Letter from Cynthia M. Fornelli, Executive Director, Center for Audit Quality to Advisory Committee on the Auditing Profession (June 27, 2008), available at <http://comments.treas.gov/files/CAQCommentletter62708FINAL.pdf>.

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trouble."<sup>22/</sup> At the same time, the benefits resulting from requiring the firm to sign the audit report should not be diminished by an additional requirement for the engagement partner also to sign it.

The Board's intent with any signature requirement would not be to increase the liability of engagement partners. Any such requirement would not increase or otherwise affect the duties and obligations of the engagement partner under PCAOB standards in performing the audit. At the same time, the Board believes that the engagement partner should be – and is – responsible for the audit work performed and the contents of the audit report. A firm may only act through its partners and other employees. PCAOB standards refer to the engagement partner as "the auditor with final responsibility for the audit."<sup>23/</sup> Engagement partners may be liable in PCAOB and SEC enforcement actions without regard to whether they signed the audit report.<sup>24/</sup>

Accountants may also be held liable to private parties in both state and federal courts under a variety of different legal theories depending upon the facts of a particular case. Section 10(b) of the Securities Exchange Act of 1934 prohibits securities fraud and is a significant source of private liability. Under that provision, when the firm signs the audit report it makes the statements within it and may be held liable for them.<sup>25/</sup> The

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<sup>22/</sup> Robert Kueppers, Comments at Meeting of the SAG (Oct. 23, 2008), available at [http://www.pcaobus.org/Rules/Docket\\_029/index.aspx](http://www.pcaobus.org/Rules/Docket_029/index.aspx).

<sup>23/</sup> AU sec. 311, *Planning and Supervision*.

<sup>24/</sup> See, e.g., Christopher E. Anderson, CPA, PCAOB Release No. 105-2008-103 (Oct. 31, 2008) (finding engagement partner liable for violations of PCAOB standards in auditing financial statements and authorizing issuance of unqualified opinion); SEC v. KPMG, 412 F. Supp. 2d 349, 376 (S.D.N.Y. 2006) (holding engagement partner who does not sign audit report may be held liable as primary violator under antifraud provisions of federal securities laws); see also Section 20(e) of the Securities Exchange Act, 15 U.S.C. § 78t(e) (providing that in an action brought by the SEC, "any person that knowingly provides substantial assistance to another person in violation of a provision of this Act, or any rule or regulation issued under this Act, shall be deemed to be in violation of such provision to the same extent as the person to whom such assistance is provided").

<sup>25/</sup> See, e.g., In re Enron Corporation Securities, Derivative & ERISA Litigation, 235 F. Supp. 2d 549, 706 (S.D. Tex. 2002) (accounting firm made actionable

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law is not settled, however, as to the private liability of those who do not directly make – but otherwise play some important role in the making of – a material misstatement.<sup>26/</sup> In particular, some courts have held that private liability attaches only to those to whom a statement may be publicly attributed; others have not imposed such a requirement.<sup>27/</sup> Accordingly, an engagement partner who does not sign the audit report might, at least in some judicial circuits, be able to avoid liability under Section 10(b) by successfully arguing that the statements in the report can be publicly attributed only to the firm. That argument, of course, would not be available if the engagement partner signed the audit report.

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statements when it issued its audit reports on Enron's financial statements); In re Lernout & Hauspie Securities Litigation, 230 F. Supp. 2d 152, 163 (D. Mass. 2002) (accounting firm's "drafting, signing, and publication of a 'clean' audit report on corporate filings that are rife with false and misleading information . . . is sufficient to trigger" liability under Section 10(b).)

<sup>26/</sup> While it is clear that there is no private right of action under Section 10(b) against those who aid and abet a securities fraud, Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A., 511 U.S. 164, 191 (1994), it is not clear when someone should be treated as a "primary violator" or as an aider and abetter.

<sup>27/</sup> Compare Wright v. Ernst & Young LLP, 152 F.3d 169, 175 (2d Cir. 1998) (holding that "the misrepresentation must be attributed to that specific actor at the time of public dissemination, that is, in advance of the investment decision," which has become known as the "bright line" test) with In re Software Toolworks Inc., 50 F.3d 615, 628 n.3 (9th Cir. 1994) (holding that an actor can be liable for a statement that the actor played a significant role in making but that is not publicly attributable to the actor, which has become known as the "substantial participation" test); see also U.S. Dep't of the Treasury, Legislative Proposal on Financial Regulatory Reform 73 (June 17, 2009) (noting that "[t]he SEC also proposes amending the federal securities laws to provide a single explicit standard for primary liability to replace various circuits' formulations of different 'tests' for primary liability"). For an overview of the federal courts' decisions on this point, see In re Mutual Funds Investment Litigation, 566 F.3d. 111, 121-28 (4th Cir. 2009).

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### Questions –

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?
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?
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?

### III. Potential Amendments to PCAOB Standards

A signature requirement could be imposed by amending paragraph .08 of AU sec. 508, *Reports on Audited Financial Statements*, of the Board's interim standards and paragraph 85 of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements*, each of which describes the elements of the standard audit report. These paragraphs currently require the audit report to include "the manual or printed signature of the auditor's firm." A requirement for "the manual and printed signature of the auditor with final responsibility for the audit" could be added to those paragraphs.

In general, an audit report contains an opinion on prior years' financial statements in addition to the opinion on those of the current year.<sup>28/</sup> For a variety of reasons, however, including partner rotation requirements, the engagement partner on

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<sup>28/</sup> Under PCAOB standards, the auditor "should be alert for circumstances or events that affect the prior-period financial statements presented . . . or the adequacy of informative disclosures concerning those statements" and "consider the effects of any such circumstances or events coming to his or her attention." See AU sec. 508.66.

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the current year's audit may not be the person who served in that role on the audits of the prior years presented in the report. This may be the case even though the same firm audited all of the years presented. Similar issues could arise when prior period financial statements are revised due to, for example, errors or changes in accounting principles. The Board is considering whether the current year engagement partner should be required to sign an audit report only as it relates to a year for which he or she served in that role.

The Board is also considering how an engagement partner signature requirement should apply when part of the audit is performed by another auditor. Under AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, the principal auditor must decide whether to make reference to the other auditor in the audit report or to assume responsibility for the other auditor's work. If a signature requirement were adopted, it might be appropriate, for example, for a principal auditor that makes reference to the other auditor also to reference the other engagement partner. In addition, under AU sec. 543, firms generally choose not to make reference to other firms within the same network that performed part of the audit. In such cases, the firm issuing the report may feel comfortable taking responsibility for the work of the other firm because of the network affiliation. Some have suggested that an engagement partner signing the report may, however, feel less comfortable about taking responsibility for the work of other auditors he or she may not know personally. The Board is considering whether an engagement partner signature requirement would change existing practice in this area.

### Questions –

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?
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?
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

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principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

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

### IV. Opportunity for Public Comment

The Board will seek comment for a 45-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 PM EDT on September 11, 2009. The Board will consider all comments received.

On the 28th day of July, in the year 2009, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour  
Secretary

July 28, 2009