

Client Update

New PCAOB Rules Require Disclosure of Certain Audit Participants

NEW YORK

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On December 15, 2015, the Public Company Accounting Oversight Board (the “PCAOB”) adopted new rules requiring disclosure of the name of the engagement partner for each public company audit and information about other accounting firms that participated in the audit on new PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* (“Form AP”)¹. The adoption of the new rules represents a Solomonic compromise marking the end of a long and contentious rulemaking process. The new rules are intended to provide enhanced transparency and accountability for audits of the financial statements of public companies. The rules must be approved by the Securities and Exchange Commission (the “SEC”).

The new PCAOB rules require three key disclosures on Form AP with respect to each audit:

- the name of the engagement partner;
- the name, location, and extent of participation, as a percentage of total audit hours, of each other accounting firm participating in the audit whose work constituted at least 5% of total audit hours; and
- the number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5% of total audit hours.

For purposes of Form AP, “other accounting firm” means (i) a registered public accounting firm other than the firm filing Form AP or (ii) any other person or entity that opines on the compliance of any entity’s financial statements with an applicable financial reporting framework. Form AP will be available in a

¹ The final rule release is available at <http://pcaobus.org/Rules/Rulemaking/Docket029/Release-2015-008.pdf>.

searchable database on the PCAOB website. Firms will have the option, but not the obligation, to include identical disclosures in the auditor's report.

Form AP must be filed with the PCAOB within 35 days after the date the auditor's report is first included in a document filed with the SEC. However, if the audit report is first included in a registration statement under the Securities Act of 1933, Form AP must be filed within ten days after the filing of the registration statement. No additional filing is required if the same audit report is subsequently included in other SEC filings. If there is any change to the audit report, including any change in the dating of the report, a new Form AP will be required the first time the revised audit report is included in an SEC filing.

Form AP disclosure regarding the engagement partner will be required for audit reports issued on or after the later of three months after the SEC approves the final rules or January 31, 2017. Disclosure regarding other accounting firms will be required for audit reports issued on or after June 30, 2017.

RULEMAKING HISTORY

The new rules and amendments are the product of an extensive and contentious rulemaking history, which began in 2009. During the rule-commenting process, the PCAOB considered several disclosure alternatives including requiring the engagement partner's signature on the auditor's report, disclosure of the name of the engagement partner in the auditor's report and providing a new form outside of the auditor's report on which to disclose the name of the engagement partner.

The PCAOB's ultimate decision to require disclosure outside of the auditor's report, on Form AP, was a compromise intended to balance the benefits of disclosure with concerns about a potential increase in auditor liability, reputational risk for engagement partners, possible confusion about the role of the firm in the audit and increased administrative costs.

FINAL THOUGHTS

The rules are intended to provide information about key participants in audits that will help investors and financial statement users evaluate the quality of audits. Over time, the Form AP searchable database will enable investors to determine whether an audit engagement partner or other accounting firm has previously been associated with a deficient audit.

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Please do not hesitate to contact us with any questions.