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14 May 2015

Views against the Addition of the Engagement Partner’s Signature in the Audit Report

Some countriesaroundthe world mandate the audit report to be signed by the audit firm along with the engagement partner, who is theprimarily responsible for the audit engagement team’s work. On the other hand, the Public Company Accounting Oversight Board, PCAOB, a non-profit organization established by the congress under the Sarbanes-Oxley Act of 2002 in order to oversee the audit of public corporations (Public Company Accounting Oversight Board [PCAOP]), has not mandated the audit firms to include the engagement partner’s signature in the issued reports. In October 2008, it came to light that the Department of the Treasury’s Advisory Committee strongly suggested that the PACOB should mandate the engagement partner’s signature in the audit report (PCAOB, 2008, p. 2). The mentioned committee is established by the Department of Treasury, and it is in charge of inspecting the audit industry, audit quality and other related topics to the audit field (as cited in PCAOB 2008, p. 1). In October 2011, the PCAOB proposed an amendment that would require the disclosure of the engagement partner’s name in the issued audit report (PCAOB, 2011). The proposal does not require the engagement partner to sign the report. PCAOB claims that the disclosure of the engagement partner’s name is a key factor to improve transparency and would increase the auditor’s sense of being accountable to financial statements users (PACOB, 2011). However, maintaining the current regulation where the audit report is solely signed by the audit firm is immensely significant for three reasons, which are that the audit report is considered ideal, reasonably less expensive,and the audit firm functions as one unit (Almoaheem).

The first reason that the audit report has to stay the same in terms of the required signature is the fact that the audit report is significantly ideal. To illustrate, the procedures that are taken in preparing the audit report start from signing the agreement with a client, and it goes through gathering evidence until it ends on signing the audit report after all accumulated evidence have been audited thoroughly and thoughtfully. Those procedures must be done in accordance with the Generally Accepted Audit Standards, and auditors must comply with the AICPA Auditing Standards Board, ASB(PCAOB, AU Section 150 .03). The Generally Accepted Audit Standards is not the only place where the auditors must follow. Auditors must also follow other auditing requirements, such as U.S. Securities and Exchange Commission’s requirements and Government Auditing Standards (PCAOB, AU Section 150 .03).Additionally, as cited in Li and Carcello, “partners are subject to internal firm quality control inspections, PCAOB inspections, potential SEC and PCAOB enforcement actions, and civil litigation” (2012, p. 13). This means the auditors and the preformed procedures leading to the audit report have a high volume of scrutinized rules and standards that would absolutely and reasonably lead to have the best conductive result. Thus, the current requirement of only having the audit firm’s signature is strongly valued; whereas including the engagement partner’s signature would not improve the report’s ideality, as advocates of the addition of the signature claim. Moreover, in response to the PCAOB proposed inclusion of the engagement partner name in the audit report, Ernst & Young states that “requiring the engagement partner to sign the audit report would not provide appreciable benefit in audit quality” (2009, p. 1). Ernst and Young also explains that the current audit tools are very sufficient to improve the engagement partner’s sensibility about being accountable to the financial statements users. (2009, p. 1). In other words, the inclusion of the signature would not enhance the audit report any further since the existing rules and regulations are effectively adequate to account for an ideal audit report. Similarly, the U.S. Securities and Exchange Commission, SEC, Rule 2-02(a) states that date and signature shall be in the accounting report along with indication of the city and state where the report is issued and shall identify a brief record of the financial statements observed by the report (as cited in the PCAOB 2008, p. 3). This means that the firm’s signature is adequate for the audit report, and it is absolutely leading to an ideal report for the financial statements users.

The second reason that the audit report has to stay the same in terms of the required signature is that the inclusion of the engagement partner would be more expensive. To illustrate, the engagement team conducts enormous amount of work that must be documented if material. The engagement team and audit practices always encourage documentation of everything possible. Thus, the engagement team would also incline to document de minimisevidence as a reasonable investigation in case of any future litigation. Although the previous practice is to put the accountants in the safe side, it requires more time to implement, which might lead to be a waste of time practice instead of being efficient; whereas the supporters of the inclusion of the signature claim that the inclusion would make the audit report more efficient. Therefore, the addition of the individual auditor’s signature would absolutely increase the audit fee and make it more expensive as it is now. According to Bell, Landsman and Shackelford’s research paper, the increase in audit’s hours leads to an increase in the audit fees (as cited in Li and Carcello, p. 15). This supports the notion of having a higher price tag for audit fees that would be brought in by the inclusion of the engagement partner’s signature. In addition, in response to the PCAOB proposal regarding the addition of the audit signature, PricewaterhouseCoopers, PwC, states that the proposed regulation would increase the audit fees due to the unintended conservative practices that the auditor would apply if the signature is added in the report (PricewaterhouseCoopers[PwC], 2009, p. 7). This means that the engagement partner would unintentionally spend more unwanted time in the audit conduct that would hinder from achieving the high audit quality. As a result, the audit fee would also cost more as it is opposed to the claim by the advocates that the inclusion of the signature would make the audit report more efficient.

In addition to the ideality and the cheaper cost of the audit report, the audit firm functions as one unit, which is the third reason that the audit report has to stay the same when it comes to the required signature. Audit firms are considered as firms that are built on the unity of the workers. The entire audit firm is fundamentally driven by teamwork more than individuality; therefore, the inclusion of the engagement partner’s signature would not enhance the quality of the audit report as advocates of the addition of the signature claim. According to PwC, “an engagement partner signature is not consistent with the fundamental reality that the entire firm stands behind the audit report” (2009, p. 7). This means that the whole firm stands behind the audit report and that the practice of singling out the engagement partner is not an element to improve the audit report in any way. Hence, the unity of the audit firm takes a firm stand with their audit reports. Furthermore, opponents of mandating the engagement partner’s signature assert that the audit firm takes a full responsibility of the audit report, so the inclusion of the engagement partner’s signature should not apply (PCAOB 2008, p. 8). This is definitely another reason opposing to the claim that the signature would increase the engagement partner’s sense of accountability toward financial statements users, and it also cements the reality that the audit firm runs as a whole. Likewise, “The signing of the firm’s name demonstrates the effort of the entire firm behind the audit opinion.”(Ernst & Young, 2009, p. 2). Therefore, the entire audit firm would support the audit report that is done by many CPAs, and that the engagement partner’s signature does not add anything to the high audit quality. The inclusion of the engagement partner’s signature might also make other accountants in the engagement team to be less aware of the accountability to financial statements users. To illustrate, having the engagement partner signature would increase the particular person feeling of accountability and would decline other accountants’ feeling of responsibility toward financial statements users. The requirement of the engagement partner’s signature might establish a misperception among the audit team in which the engagement partner feels obligated solely; as a result, the meaningful consultation and collaboration would be diminished among the team’s member (PwC, 2009, p. 4). This supports the reality that the audit firm is meant to be united which is reflected on the firm performance to achieve the high level of audit quality. Therefore, every member in the audit engagement team collaborates and consults one another with a highly equal sense of responsibility and accountability to the financial statements users.

It is true that advocates of the inclusion of engagement partner’s signature in the audit report have a strong argument in terms of the increase of accountability since one of the accountability’s elements is identifiability(as cited in Li and Carcello, 2012, p. 7). This means that the name of the engagement partner is known to the public, particularly the financial statements users. However, the argument is refuted because the mention of the auditor’s name has nothing to do with the fact that the financial statements users are inclined to rely on the audit report’s quality and not the name of the partner. Therefore, it is meaningful to the users to receive a valued audit report that is derived from the high quality standards that auditors adhere in preparing the audit report. Ernst and Young states that it is irrelevant to have the engagementpartner’s signature in the audit report since the financial statements users are interested in the reliability of the financial statements that is derived from the audit opinion (Ernst & Young, 2009, p. 3). Therefore, the primary interest is to rely on the financial information based on the audit report whereas including the name of the individual partner would lead to attention of information that is not related to the main purpose of the audit report.

 Finally, maintaining the current regulation where the audit report is solely signed by the audit firm has an upper hand than including the engagement partner’s signature for many reasons. One of which is to reflect the reality that the audit report is fundamentally ideal since it has to adhere to many standards and regulations enforced by SEC and PCAOB along with other organizations. Additionally, the audit fees are not going to inflate if regulation stays the same. Other reason to maintain the current regulation is that the audit firm runs as a one unit, and it is completely responsible over the audit report with its firm commitment to all members in the firm equally. Those reasons are some of many that are demonstrated in the accounting literature, and as accountants, we want to enhance the quality of the audit team in terms of unity more than individuality.

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