

PCAOB Form AP: Leveraging Information about Audit Personnel

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SUMMARY: The PCAOB's Form AP (audit personnel) includes the identity of the engagement partner, an indication of whether the audit report is dual-dated, and an indication of whether and to what extent other auditors participate in the engagement (in addition to the primary auditor). We review the nature of this information and prior literature relevant to audit partner identification, dual-dating, and involvement of other auditors as part of distributed audits, along with posing research questions and providing relevant instructional resources. Practitioners can use this information to garner insights from academic research on these important topics as they relate to their own audits. Academics can use this information to leverage the PCAOB's Form AP database in their research. Academics can also use the brief teaching resources to introduce the PCAOB's resources in this regard to students.

Keywords: audit partner; audit personnel; dual-dating; Form AP; other auditors; public company audits.

I. INTRODUCTION

The Public Company Accounting Oversight Board (PCAOB 2015) issued "Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards," and public company audit firms must now file Form AP to comply with this rule. Lending his support, (former) PCAOB

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Chairman James Doty noted that “the disclosure will require no new work by the auditor . . . and it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public” (PCAOB 2013). Further, (former) PCAOB Chief Auditor, Martin Baumann, stated that “Form AP will provide transparency to investors about the engagement partner and other accounting firms that took part in the audit” (PCAOB 2016). This regulation is part of a global trend toward audit partner identification, which has been required in Australia since the 1970s and was adopted in the U.K. in 2009.¹ The U.S. is now the 17th of the 20 countries with the largest market capitalization in the world to require audit partner identification, and is one of the first to require disclosure of other audit participants.

The PCAOB board members were not unanimous in their support of some aspects of the initial rule due to concerns around cost–benefit and possible unintended consequences. For example, (former) PCAOB board member Jay Hanson expressed concern about litigation risks that might accrue to engagement partners if their signatures are included on the audit report, a concern that ultimately yielded the current approach whereby the engagement partner’s name is revealed only via the Form AP filing and not on the face of the audit report itself (PCAOB 2013). In addition to concerns about identifying whether and how to provide information about the partner, the PCAOB shifted its stance on the level of materiality necessary before an audit firm must disclose other firms participating in the audit; the original threshold was three percent of total audit hours, whereas the final threshold is five percent of total audit hours. Additionally, the PCAOB eliminated disclosure of participation by non-accounting firms or entities under common control by the signing firm (e.g., offshore service centers or consultants; PCAOB 2015). The debate surrounding Form AP raises awareness of the availability, relevance, and implications of associated data, but its nuances and applications are not yet commonly understood. Form AP disclosures are available for download on the PCAOB website: <https://pcaobus.org/Pages/Form-AP-Filing.aspx>.² The PCAOB Form AP data are empirically and pedagogically powerful, and the objectives of our narrative are as follows:

Objective 1: To identify information available from Form AP filings and to illustrate how researchers and practitioners can usefully employ this data.

Objective 2: To provide creative ideas on how educators can leverage Form AP filings in the classroom.

II. LITERATURE REVIEW AND FOR FUTURE RESEARCH

Objective 1: To identify information available from Form AP filings and to illustrate how researchers and practitioners can usefully employ this data.

Identifying the Engagement Partner

Form AP requires that the audit firm disclose the name and identification number of the partner with primary responsibility for the audit, thereby providing transparency about leadership.

¹ Further, Australia requires public disclosure of fees paid to other auditors, thereby providing a mechanism to identify other participating accounting firms (see Carson, Simnett, Trompeter, and Vanstraelen 2018).

² A sample Form AP and data dictionary of related disclosures are available at: <https://pcaobus.org/Registration/Documents/Form-AP-Sample.pdf> and <https://pcaobus.org/RUSDocuments/AuditorSearch%20Form%20AP%20Data%20References.pdf>, respectively. The audit firm must file Form AP by the 35th day after the audit report is filed and by the 10th day after an audit report is first included in a 1933 Securities Act registration statement.

What information might this yield? As one example, the PCAOB database (<https://pcaobus.org/engagement-partners/0004200999>) shows that Mr. David William Gay has been the audit partner for Harley Davidson, Inc. and Badger Meter, Inc. Once a user knows the partner's name, they can look for his or her online profile, thereby enabling inferences about education, experience, industry qualifications, and community engagement (see <https://www.linkedin.com/in/david-gay-0bb597b7/>). Doing so for Mr. Gay's LinkedIn profile reveals that he leads the Milwaukee, Wisconsin office of Ernst & Young and he specializes in SEC filings, financial reporting, audit committees, public and privately-held organizations, and consumer and industrial products. The profile reveals his community involvement in various non-profit organizations, along with his work experiences and academic degree. In the audit report for Harley Davidson (<https://www.sec.gov/Archives/edgar/data/793952/000079395218000012/hog12-31x201710xk.htm>; p. 49), note that Mr. Gay's name does not appear; it is only present in the Form AP database. In contrast, in Europe the audit partner's name conveniently appears directly on the audit report, so the PCAOB's process for identifying the audit partner differs in that regard. Researchers and practitioners can aggregate and compare individual audit partner profiles to glean information about market conditions and potential upcoming partner transitions or competitive bidding opportunities.

In addition to providing information such as this example illustrates, what questions can users answer with the audit partner identification data? Consider the following possibilities: (1) How busy is a partner in terms of the number of public clients for which s/he signs? (2) What is the fiscal year-end of each of the clients, i.e., are they distributed over the course of the year or are they condensed into a shorter period of time? (3) Does the partner seem to audit clients in the same industry, i.e., what is their industry specialization profile? and (4) Can we trace audit partner identification to subsequent, negative events such as restatements or to indicators of financial reporting quality and/or audit quality (see [DeFond and Zhang 2014](#); [Gaynor, Kelton, Mercer, and Yohn 2016](#))?

Prior research explores previously explored these types of questions by accessing audit partner identification data primarily from jurisdictions outside the U.S. (see [Lennox and Wu 2018](#) for a review). For example, [Ittonen, Johnstone, and Myllymaki \(2015\)](#) use data from Finland to show that partners who have greater public-client specialization (three to six public clients) provide higher quality auditing, likely because they have a deep domain knowledge required to audit public clients, a keen sense of associated litigation risks, and a heightened willingness to resist client pressure because of their relatively larger portfolio of available clients. [Carcello and Li \(2013\)](#) use data from the United Kingdom and reveal that upon the release of the audit partner identification, client abnormal accruals decline, there is less of a propensity to meet earnings thresholds, and an increase in the incidence of qualified audit reports; in short, identifying the audit partner seems to be associated with improvements in audit quality. [Knechel, Vanstraelen, and Zerni \(2015\)](#) use audit partner data from Sweden and show that audit partner reporting decision preferences are systematic, i.e., that individual partners have unique and recurring patterns, e.g., regarding the going-concern decision. In a similar vein, [Gul, Wu, and Yang \(2013\)](#) use data from China to show how audit partners affect audit outcomes, revealing significant variations in audit quality that can be explained by auditor characteristics such as education, Big N firm experience, rank, and political affiliation. Using audit partner data from Finland and Sweden, [Ittonen, E. Vahamaa, and S. Vahamaa \(2013\)](#) report that female audit partners are associated with smaller abnormal accruals at their client companies, suggesting that they have a constraining effect on earnings management as compared to their male counterparts. However, whether such findings extend to the U.S. environment remains an empirical question.

Indicating Whether the Audit Report is Dual-Dated

Form AP requires that the audit firm disclose whether the audit report is dual-dated. Auditors dual-date the audit report when they become aware of material subsequent events occurring *after* the original audit report date (audit work completion date) but *before* they release the audit report to the public. Dual-dating informs financial statement users that the auditor has considered subsequent events up to the original report date, with the exception of the specified, subsequent event for which the audit work is separately dated. Dual-dating is advantageous to the auditor because it allows them to avoid updating the entirety of their audit work, including the assessment of the client's business environment, going concern risk, and repetition of certain substantive analytical procedures for a single subsequent event. Form AP requires auditors to indicate whether the report is dual-dated, and the PCAOB auditor search database aggregates this information into a dual-dating indicator variable.

What questions can users answer using the dual-dating disclosure in Form AP? Consider the following possibilities: (1) Given a market-wide significant event, what types of auditors respond by dual-dating their audit reports? (2) Is there an information transfer effect within an industry or local market such that other firms do the same? (3) What types of subsequent events result in dual-dating?

Indicating Whether and to What Extent Other Firms Participate in the Audit

Form AP requires accounting firms to disclose whether any other firms participated in the audit, and, if so, the number of those firms, the amount of audit work performed, and whether or not the primary accounting firm is assuming responsibility for the work of participating firms. In this sub-section we describe the types of audit participants, explain the difference between dividing responsibility with and assuming responsibility for participants' audit work, and explore the information available in Form AP for each kind of lead auditor/participating auditor relationship.

Types of Audit Participants

Participating accounting firms include both affiliated (in-network) and unaffiliated (out-of-network) participant auditor. Participant auditors conduct audit procedures over distinct components of an issuer's business, often due to their proximity to the issuer's operations within a geographic region or operating segment. Participating auditors are often necessary in the audits of large, multinational corporations since nearly all jurisdictions require that auditors be locally licensed to practice in the region (see [Downey and Bedard 2018b](#) as well as the World Trade Organization's General Agreement on Trade Services [[WTO 1994](#)]). Using participant auditors also significantly decreases travel costs associated with sending primary audit team members abroad. However, geographically distributing the audit team in this manner can introduce communication and coordination challenges between the primary and participants auditors ([Downey and Bedard 2018a](#)). Participating auditors may be affiliates of the primary auditor; for example, KPMG Australia is an affiliate of KPMG U.S. and may audit the Australian operations of a U.S.-based multi-national corporation to reduce costs, such as monitoring, given KPMG's global methodology and technological tools. Participant auditors may also be unaffiliated audit firms with which the primary audit firm independently contracts on an as-needed basis. Notably, form AP does not require firms to disclose whether participant auditors are affiliates of the primary audit firm. This is likely due to the prevalence of the largest U.S. accounting firms to almost exclusively rely on their network affiliates ([Doty 2011](#)). While it is sometimes possible to tell if firms are affiliated based on similarities in the firm name or tracing the firm to the PCAOB's registration

database, there is not currently an accurate way to comprehensively identify affiliate relationships using Form AP data. Importantly, participating auditors represent legally separate accounting firms (e.g., KPMG France), and do not include non-accounting firms or entities under control of the U.S. (or primary accounting) firm. As such, use of offshoring service centers is excluded from these disclosures (PCAOB 2015).

Division of Responsibility for the Audit

On engagements involving other accounting firms (participating auditors), PCAOB standards provide the primary auditor a choice of whether to assume responsibility for the participant auditor's work or divide responsibility with the participating auditor. If the primary auditor chooses to divide responsibility, the audit opinion will disclose that the primary audit firm did not audit the entirety of the financial statements and it will indicate the portion of assets or revenues the participating firm audited (PCAOB AS 1205: 3, 6–7). Dividing responsibility may reduce liability associated with misstatements in the portions of the financial statements for which the participant auditor performed work. PCAOB AS 1205, Paragraph 6 states that it is appropriate for the principal auditor to divide responsibility when they cannot review the participant auditors' work, are unable to otherwise obtain comfort over the work performed by the participant auditor, and/or the component auditor performed a material portion of the audit.

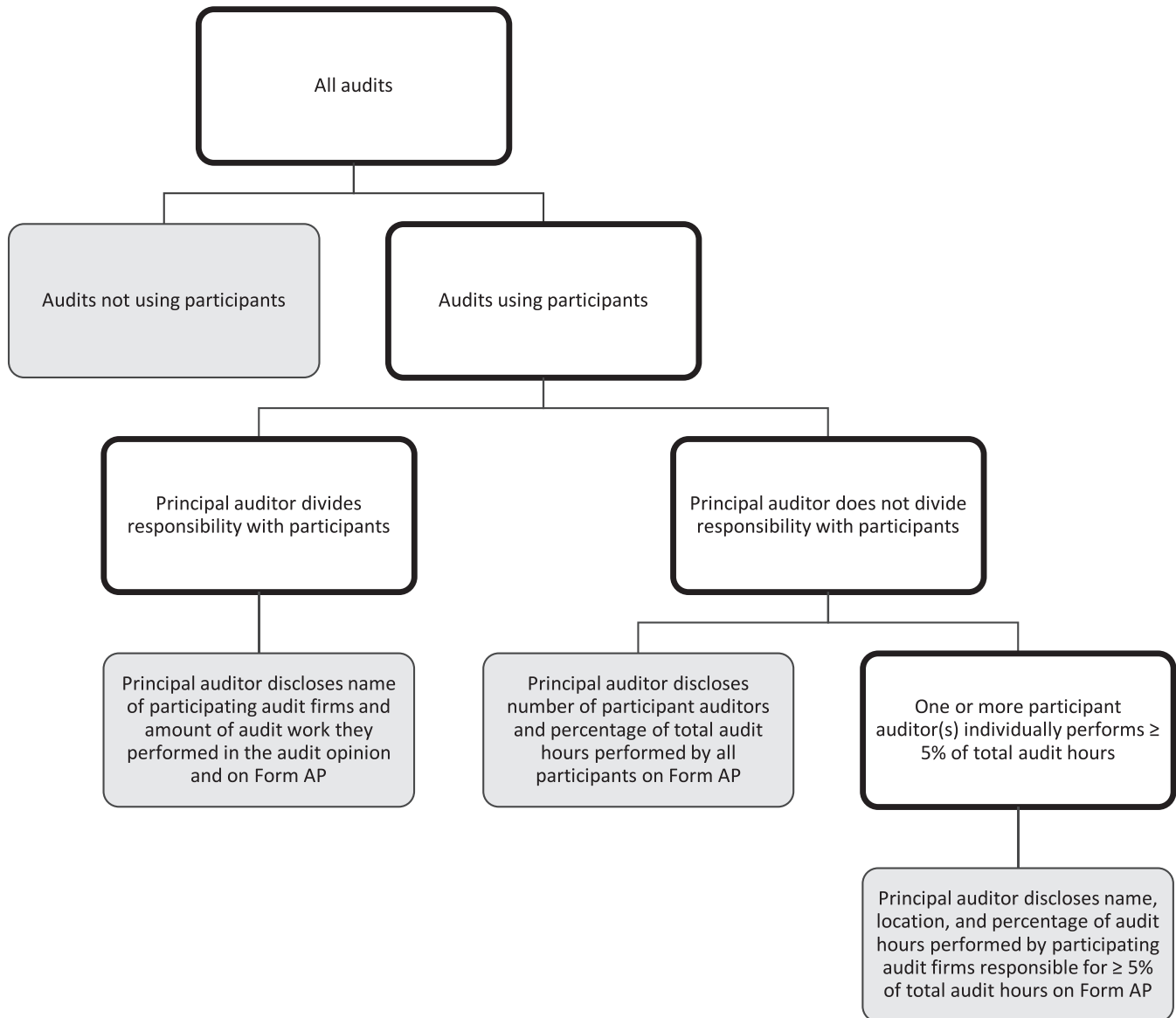
Principal auditors rarely exercise the option to divide responsibility with participant auditors, and are therefore responsible for directing and supervising of the other accounting firms for the majority of engagements.³ There are at least two reasons why primary auditors are unlikely to divide responsibility with participant auditors, including: (1) the comfort auditors obtain when participant auditors are affiliated with the primary auditor (i.e., belong to the same network—KPMG); and (2) divided responsibility requires each firm's permission to reproduce the audit opinion during debt and equity offerings, which is a potential headache for issuers who engage regularly in such activities. While dividing responsibility is not particularly common at present, emerging research using Form AP data is beginning to investigate issues around dividing responsibility and subsequent auditor accountability for audit failures (Brumley, Czerney, Schmidt, and Thompson 2019). They examine restated group financial statements with divided responsibility audit reports and find that the restatements typically originate in a component for which the principal auditor accepts responsibility. Further, principal auditors that divide responsibility are not held any less accountable for restatements than principal auditors that do not divide responsibility.

Form AP Disclosures

When the primary audit firm does not divide responsibility with participants (the typical case), the only information disclosed on the audit opinion is the name of the lead accounting firm and city where the audit opinion is signed (e.g., KPMG, New York). In such instances, Form AP provides investors and other stakeholders with detail into the engagement structure. This information includes the number of participants and the total percent of audit hours performed by participants. Additionally, the primary audit firm must disclose the name, location, and magnitude of audit hours for each participating firm that individually performs at least five percent of the total audit hours in Form AP. Figure 1 illustrates the disclosure options and relevant data available from participant auditor information in Form AP.

³ To illustrate, of the 13,941 unique records for audits of issuers in the PCAOB Auditor Search Database as of August 16, 2018 only 48 (less than one percent) involve a primary auditor dividing responsibility with a participant auditor.

FIGURE 1
Form AP Participant Auditor Disclosure Data Structure



Research is beginning to emerge relating to using participating auditors. For example, both [Dee, Lulseged, and Zhang \(2015\)](#) and [Mao, Ettredge, and Stone \(2018\)](#) use PCAOB Form 2 to identify auditors who participate in a U.S. issuer audit, but do not themselves audit a U.S. issuer (i.e., small, foreign audit firms). [Dee et al. \(2015\)](#) find evidence of higher discretionary accruals for such engagements (relative to engagements without such disclosures) and [Mao et al. \(2018\)](#) find that audit quality does not improve (and may actually decline) when the primary auditor takes responsibility for participating auditors. [Carson, Simnett, Trompeter, and Vanstraelen \(2018\)](#) report that audit fees in Australia increase with the use of participating auditors, and that audit quality improves after the implementation of International Standard on Auditing (ISA) 600 for

engagements where non-Big 4 firms serve as the primary auditor. Other related research shows that primary auditors can develop expertise in engagements involving participating auditors (Gunn and Michas 2018) and that issuer size and global structure contribute to challenges on engagements involving participating auditors (Downey and Bedard 2018a).

What other questions can researchers answer using audit participant data? These might include, for example: (1) What are the determinants of using a participating auditor? (2) How does disclosure of such information change auditor, investor, and director (e.g., audit committee) behavior? and (3) How do the effects of participation by other domestic auditors differ (if at all) from participation by other foreign auditors?

In Table 1, we summarize the various sources of Form AP information that we explain previously, note whether and where that data was previously available, along with articulating various research opportunities and identifying the state of any available existing research.

Illustrating How Researchers May Use Form AP

To demonstrate using Form AP data in research, we undertake a simple investigation to answer the first question that we pose above, i.e., the determinants of audit firms' choice to use participating auditors. In conducting our analysis, we model this choice as a function of auditor size, along with issuer size, complexity, and performance in a logistic regression, as follows:

$$PARTICIPANTS = BIG4_US + LOG_ASSETS + FOREIGN_OPERATIONS + GEO_SEG + DEBT_TO_ASSETS + ROA + MTB + u$$

With respect to the dependent variable, *PARTICIPANTS* is an indicator variable set equal to 1 if the audit involves a participating auditor, and 0 otherwise. With respect to independent variables, *LOG_ASSETS* measures issuer size, *FOREIGN_OPERATIONS* is an indicator variable set equal to 1 if the issuer has foreign operations, and *GEO_SEG* measures the number of geographic segments. These variables measure client size, complexity, and geographic dispersion, so we expect that each will be positively associated with *PARTICIPANTS* (Hanes 2013). The remainder of our explanatory variables, *BIG4_US* (an indicator variable set equal to 1 if the auditor is a U.S.-based office of a Big 4 firm), *DEBT_TO_ASSETS*, return on assets (*ROA*), and market to book (*MTB*), control for auditor and issuer characteristics and we make no directional predictions for these variables in relation to *PARTICIPANTS*.⁴

In untabulated analyses, we find that 23 percent of our sample uses participating auditors. The mean number of participating audit firms is 2.73 and they perform about 5 percent of the work on these types of audits. U.S.-based Big 4 firms comprise 61 percent of the sample. Total assets is a mean of about \$5.24 million. The mean numbers of foreign segments and geographic segments are about one and three, respectively. Mean *DEBT_TO_ASSETS* is 24 percent, *ROA* is -7 percent, and *MTB* is 3.35. Table 2 reveals that using participating auditors is positively associated with *LOG_ASSETS* ($t = 8.26$, $p < 0.001$), *FOREIGN_OPERATIONS* ($t = 5.19$, $p < 0.001$), and *GEO_SEG* ($t = 1.64$, $p = 0.101$), each of which is consistent with our expectations. Using participating auditors is also positively associated with *ROA* and *MTB* ($t = 7.06$, $p < 0.001$ and $t = 4.17$, $p < 0.001$). While these results are not surprising, they do illustrate a starting point for imagining how Form AP filings may be useful in more complex empirical investigations.

⁴ Our sample consists of 3,503 audits of issuers recorded in the PCAOB Auditor Search database as of August 16, 2018 with relevant data also available in the Compustat annual file. We truncate all continuous variables at the 1st and 99th percentiles to reduce the impact of influential observations.

TABLE 1

Research Opportunities Related to Form AP

Form AP Information	Data Availability Prior to Form AP Disclosures	Research Opportunity	Existing Research
Partner Identification	Partner identification has been available for an extended period of time in non-U.S. markets such as Europe and Australia. In non-U.S. markets this information is revealed on the face of the audit opinion.	How busy is a partner in terms of the number of public clients for which s/he signs? What is the impact of partner busyness on audit outcomes?	Primarily non-U.S.
		What is the fiscal year-end of each of the clients, i.e., are they distributed over the course of the year or are they condensed into a shorter period of time? How does the distribution of clients' fiscal year-ends impact audit outcomes?	Primarily non-U.S.
		Does the partner seem to audit clients in the same industry, i.e., the industry specialization profile? What are the effects of industry specialization on audit outcomes?	Limited published research.
Dual-Dating	Dual-dating information has been available worldwide for an extended period of time on the face of the audit opinion. However, the Form AP database makes this information easily accessible via a prepopulated database.	Can we trace audit partner identification to subsequent, negative events such as restatements?	Primarily non-U.S.
		Given a market-wide significant event, what types of auditors respond by dual-dating their audit reports?	Limited published research.
		Is there an information transfer effect within an industry or local market such that other firms do the same?	Limited published research.
		What types of subsequent events result in dual-dating?	Limited published research.

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TABLE 1 (continued)

<u>Form AP Information</u>	<u>Data Availability Prior to Form AP Disclosures</u>	<u>Research Opportunity</u>	<u>Existing Research</u>
Audit Participants	Audit participant data has been available only when participating firms do not themselves sign the audit opinion of a U.S. issuer (PCAOB Form 2), limiting this data to mostly small, foreign firms. In Australia such data is available through disclosure of fees paid to other auditors.	What are the effects of other auditor participation on audit quality, profitability, and effort?	Limited published research.
		What are the determinants of using a participating auditor?	Limited published research.
		How does disclosure of such information change auditor, investor, and audit committee behavior?	No published research.
		How do the effects of participation by other domestic auditors differ (if at all) from participation by other foreign auditors?	No published research.

Objective 2: To provide creative ideas on how educators can leverage Form AP filings in the classroom.

III. TEACHING APPLICATIONS

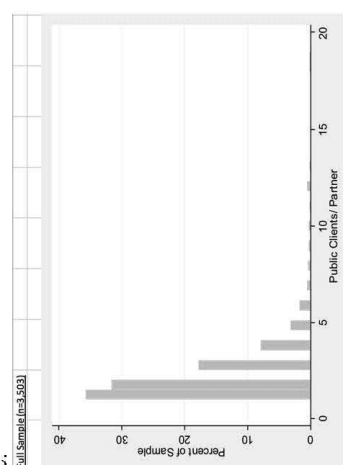
We encourage instructors to expose students to the PCAOB's Auditor Search database and use it to reinforce core concepts in auditing courses. We believe it can be a powerful tool in encouraging students to learn with respect to: (1) using the PCAOB Auditor Search tool to find Form AP information, (2) studying the audit opinion and considering nuances therein, and (3)

TABLE 2
Determinants of Using Participating Auditors

	<u>Coefficient</u>	<u>Robust Std. Error</u>	<u>t</u>	<u>p-value</u>
Intercept	-4.23	0.73	-5.82	< 0.001
BIG4_US	0.17	0.15	1.15	0.251
LOG_ASSETS	0.23	0.03	8.26	< 0.001
FOREIGN_OPERATIONS	1.27	0.25	5.19	< 0.001
GEO_SEG	0.12	0.07	1.64	0.101
DEBT_TO_ASSETS	-0.13	0.16	-0.83	0.408
ROA	1.78	0.25	7.06	< 0.001
MTB	0.02	0.01	4.17	< 0.001
Pseudo R ²	0.17			

Includes firm-year clusters.

TABLE 3
Potential Teaching Applications and Activities Relating to Form AP

Subject Area	Suggested Activities/ Discussion Questions	Illustrative Solution																														
Using the PCAOB Auditor Search tool to find Form AP information	<p>1. Locate the following using the Auditor Search database:</p> <p>a. Who is the audit partner for a well-known public company in your area?</p> <p>b. For how many public companies does that partner sign the opinion?</p> <p>c. Download the Form AP database. Use the data to complete a frequency count of all audit partners based on the number of public clients they audit.</p>	<p>a.</p> <table border="1" data-bbox="406 525 503 1155"> <thead> <tr> <th>FORM AP FILING</th> <th>ENGAGEMENT PARTNER</th> <th>ISSUER</th> <th>FIRM</th> <th>YEAR</th> </tr> </thead> <tbody> <tr> <td>March 21, 2018</td> <td>Matthew James Kosmicki</td> <td>COCA COLA BOTTLING CO CONSOLIDATED /DE/ (COKE, COKEB 0000317540)</td> <td>PricewaterhouseCoopers LLP (238)</td> <td>2017</td> </tr> </tbody> </table> <p>b.</p> <table border="1" data-bbox="511 525 747 1155"> <thead> <tr> <th>FORM AP FILING</th> <th>ENGAGEMENT PARTNER</th> <th>ISSUER</th> <th>FIRM</th> <th>YEAR</th> </tr> </thead> <tbody> <tr> <td>March 29, 2018</td> <td>Matthew James Kosmicki</td> <td>JELD-WEN Holding, Inc. (JELD 0001674835)</td> <td>PricewaterhouseCoopers LLP (238) Other participating firms</td> <td>2017</td> </tr> <tr> <td>March 21, 2018</td> <td>Matthew James Kosmicki</td> <td>COCA COLA BOTTLING CO CONSOLIDATED /DE/ (COKE, COKEB 0000317540)</td> <td>PricewaterhouseCoopers LLP (238)</td> <td>2017</td> </tr> <tr> <td>March 20, 2018</td> <td>Matthew James Kosmicki</td> <td>V F CORP (VFC 0000103719)</td> <td>PricewaterhouseCoopers LLP (238) Other participating firms</td> <td>2017</td> </tr> </tbody> </table> <p>c.</p>  <p>Instructors may find it useful to point out how audit partner business may affect audit quality. Other useful points to consider include considerations of partner expertise. Finally, instructors might ask students to research audit partners with five or more public clients as a way to investigate industry expertise.</p>	FORM AP FILING	ENGAGEMENT PARTNER	ISSUER	FIRM	YEAR	March 21, 2018	Matthew James Kosmicki	COCA COLA BOTTLING CO CONSOLIDATED /DE/ (COKE, COKEB 0000317540)	PricewaterhouseCoopers LLP (238)	2017	FORM AP FILING	ENGAGEMENT PARTNER	ISSUER	FIRM	YEAR	March 29, 2018	Matthew James Kosmicki	JELD-WEN Holding, Inc. (JELD 0001674835)	PricewaterhouseCoopers LLP (238) Other participating firms	2017	March 21, 2018	Matthew James Kosmicki	COCA COLA BOTTLING CO CONSOLIDATED /DE/ (COKE, COKEB 0000317540)	PricewaterhouseCoopers LLP (238)	2017	March 20, 2018	Matthew James Kosmicki	V F CORP (VFC 0000103719)	PricewaterhouseCoopers LLP (238) Other participating firms	2017
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TABLE 3 (continued)

Subject Area	Suggested Activities/ Discussion Questions	Illustrative Solution
Studying the audit opinion	<p>2. Compare and contrast the information available on the face of the audit opinion and in Form AP:</p> <ul style="list-style-type: none"> a. How does this information differ? b. Why might the PCAOB have chosen to organize this disclosure in this manner? c. Do you think this distribution of information is appropriate? Would you want your name on the face of the audit report? 	<p>a. The face of the audit opinion in the U.S. only includes the audit firm name, in contrast to auditors complying with IAASB standards that require both the audit firm name and the audit partner name on the face of the audit report itself. In the U.S., the Form AP database provides the individual audit partner's name as well as whether and to what extent other accounting firms participated in the audit.</p> <p>b. It is unclear why the PCAOB made this choice, but students can ponder potential issues such as actual or perceived litigation exposure and political compromises at the PCAOB. Instructors might use this discussion to illustrate the auditing standards setting process and/or consider how division of responsibility may complicate debt and equity offerings of large issuers.</p> <p>c. Student answers will differ, but classroom discussion of students' opinions may center around the following: (1) worries over litigation exposure, (2) a sense that if the audit partner is proud of their work and confident in the opinion, what do they have to fear with signing their name?, (3) users' right to know the name of the person who is standing behind the audit report as well as how much of the work was performed by other accounting firms.</p>

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TABLE 3 (continued)

Suggested Activities/ Discussion Questions

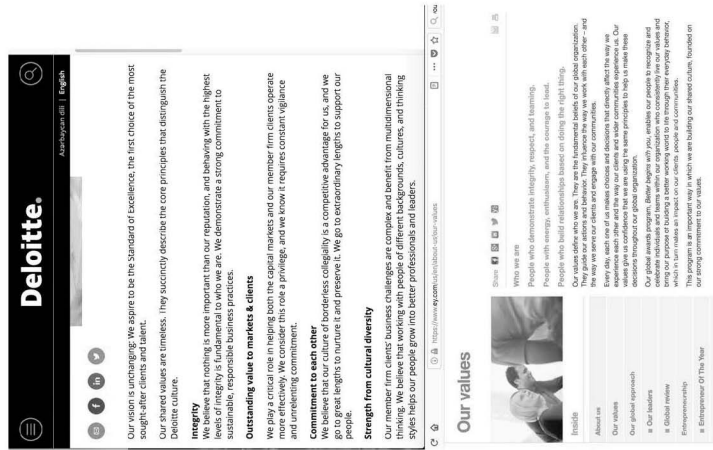
Subject Area

Thinking critically about the practice of auditing

3. Use online resources to locate the mission statements of the (1) PCAOB, (2) SEC, and (3) one of the Big 4 accounting firms. Be prepared to discuss how and why these mission statements differ, and how they each reflect a common, integrated thread.

Illustrative Solution

- a. PCAOB: The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.
- b. SEC: The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.
- c. Deloitte and Ernst & Young statements of values



The PCAOB and SEC mission statements are formal, succinct, and simply reflect their mission in society, i.e., to protect the interests of the capital markets via oversight of the auditing profession and the financial reporting of publicly traded companies, respectively. Examples from Deloitte and Ernst & Young reflect notions of ethics, integrity, inclusivity, and global reach. Instructors might ask students to ponder why these mission/value statements differ, and the ideas that they share in common (e.g., working to achieve the collective good for a society that values financial markets and the benefits that may be achieved therein). Instructors may also ask students to look up mission statements of international affiliates of the Big 4 accounting firms (e.g., Deloitte Brazil, Ernst & Young Turkey) and think about how these affiliates' values fit into the relationship between the PCAOB, SEC, and the primary auditor.

thinking critically about the practice of auditing. See Table 3 for potential teaching applications and activities to Form AP, along with illustrative solutions. First, instructors can have students access the Auditor Search database to find Form AP information, such as the identity of the audit partner for a public company in the area. From there, students can search by partner name to determine how many public companies that partner signs, and analyze how the partner's client portfolio compares to the frequency of public company audits for all other partners in the Auditor Search database. This activity allows instructors to discuss how partner busyness may affect audit quality, and facilitates a broader conversation on potential audit quality determinants. Second, students can study the audit opinion and consider the differences in information provided by Form AP. Identifying differences in audit opinion and Form AP information and discussing why the PCAOB chose this type of disclosure is likely to assist in familiarizing students with the current regulatory environment and the standard setting process. These class discussions can lead to a deeper understanding of the balance between minimizing auditor litigation exposure and investors' right to greater information about the audit. Finally, instructors can use the mission statements of the PCAOB, SEC, and a public accounting firm to engage in a conversation around key institutions in the system of investor protection. For example, instructors can encourage students to compare and contrast the mission statements to identify differences and similarities within each organization's objectives.

Implementation Suggestions

Two of the authors have introduced these types of activities in their undergraduate auditing classes and find that student engagement is positive, with students expressing surprise about the amount and nature of publicly-available information. Students benefit from the activities through practicing research, analysis, and communication skills. Instructors should ask that students come to class having already: (1) located and downloaded information about their selected company, along with relevant audit partner details, (2) accessed the relevant audit opinion and considered the differences between the contents of the audit opinion with the contents available from Form AP, and (3) accessed the mission statements of the PCAOB, the SEC, and their selected audit firm, respectively. Instructors can plan for approximately 30 minutes of class discussion to address the contents of Table 3.

IV. CONCLUSION

With this paper, we aim to increase awareness about the powerful new information available in Form AP among academics and practitioners. We identify and define this new information, presenting potential research opportunities and discussing possible empirical applications, along with providing a brief empirical illustration. We encourage audit instructors to incorporate the concepts underlying Form AP, as well as the actual contents of Form AP, into their lectures and assignments, and provide suggestions for how to do so.

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