



September 4, 2009

J. Gordon Seymour  
Secretary and General Counsel  
Public Company Accounting Oversight Board  
1666 K St NW  
Washington, DC 20006-2803

*Re: Concept Release on Requiring the Engagement Partner to Sign the Audit Report  
(PCAOB Rulemaking Docket Matter No. 29)*

Dear Mr. Seymour,

The Council of Institutional Investors (“Council”) appreciates the opportunity to provide comments on the Concept Release on Requiring the Engagement Partner to Sign the Audit Report (“Concept Release”). The Council is an association of public, corporate, and union pension funds with combined assets of over \$3 trillion.

As a leading voice for long-term, patient capital, we believe that accurate and reliable audited financial statements are critical to investors in making informed investment decisions, and vital to the overall well-being of our capital markets. That strong belief is reflected in the following Council policy on “Independence of Accounting and Auditing Standard Setters” unanimously approved in 2007, and updated in 2008, by our General Members:

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers’ recognition, measurement and disclosures are free of material misstatements or omissions.

Consistent with our policy, the Council believes that accountability and transparency are key features of a reliable audit worthy of investor confidence. Requiring the engagement partner to sign the audit report will enhance audit quality and investor protection by strengthening auditor accountability and improving the transparency of the audit process. The Council accordingly supports the Public Company Accounting Oversight Board’s (PCAOB) Concept Release.

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Although a public company audit relies on the work of many highly skilled professionals, the engagement partner plays a unique role in ensuring the overall quality of an audit. That role includes responsibility for planning the audit, supervising engagement team members, and determining whether the financial statements taken as a whole are fairly stated. Given the importance of those tasks to audit quality, the simple step of requiring the engagement partner to sign the audit report will produce valuable returns for investors.

The Council strongly believes that investors should be involved in auditor oversight and accountability. More specifically, as indicated by the following Council policy, we believe shareowners should have the opportunity to vote annually on the board's choice of independent, external auditor:

**Shareowner Votes on Board's Choice of Outside Auditor:** Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor; and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.

In order to cast an informed vote on the auditor selection and effectively engage the board if needed, investors require information surrounding factors materially affecting audit quality. Although the identity of the engagement partner generally is not a secret, prominently displaying the name and signature of the lead auditor on the audit report will draw investors' attention to this important role and its impact. As the Concept Release describes, the lead auditor's signature will motivate both investors and the board to "evaluate the extent of an engagement partner's experience on a particular type of audit and, to a degree, his or her track record." Greater transparency regarding the background and experience of the lead auditor will help investors better assess the rigor of the audit process, and by extension, the quality of the financial statements.

Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of their engagement partners. By more explicitly tying the lead auditor's professional reputation to audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process.

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The benefits of the lead auditor's signature have been recognized by a wide range of experts. On October 6, 2008, the Treasury Department's Advisory Committee on the Auditing Profession (ACAP) issued its final report, which concluded "that the engagement partner's signature on the auditor's report would increase transparency and accountability." The Committee accordingly urged "the PCAOB to undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report." In addition to the Council's executive director Ann Yerger, ACAP included "a philosophically diverse, talented, and committed group of investor, business, academic, and institutional leaders . . . sensitive to the views of auditors (both large and small), public companies, investors, professionals, and the teaching profession."

In light of the enhanced transparency and accountability resulting from the signature of the engagement partner on the auditor report, the Council strongly supports the PCAOB's Concept Release. Please do not hesitate to contact me if you have any questions or would like additional information regarding our views on this important matter.

Sincerely,

A handwritten signature in black ink that reads "Jonathan D. Urick". The signature is written in a cursive style with a large, looped initial 'J'.

Jonathan D. Urick  
Analyst  
Council of Institutional Investors