



Via Email

January 5, 2012

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Re: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 (PCAOB Rulemaking Docket Matter No. 29)*

Dear Office of the Secretary:

I am writing on behalf of the Council of Institutional Investors (Council), a nonprofit association of public, corporate, and union employee benefit plans with combined assets of over \$3 trillion. Member funds are major shareowners with a duty to protect the retirement of millions of American workers.¹ The Council appreciates the opportunity to provide input to the Public Company Accounting Oversight Board's (PCAOB or Board) Rulemaking Docket Matter No. 29 on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (Release).²

Disclosure of the Engagement Partner

The Council wishes to thank the PCAOB for its responsiveness to our September 19, 2011 letter (September Letter).³ As you are aware, the September Letter requested that the Board promptly make a decision about whether to pursue a rulemaking proposal addressing the 2008 recommendation of the Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP) that the PCAOB "undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report."⁴

¹ For more information about the Council of Institutional Investors (Council) and its members, please visit the Council's website at <http://www.cii.org/about>.

² *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007, PCAOB Rulemaking Docket Matter No. 29 (Oct. 11, 2011), http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf [hereinafter Release].

³ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB 4 (Sept. 19, 2011), http://pcaobus.org/Rules/Rulemaking/Docket034/015_CII.pdf ("We would respectfully request that the Board either promptly release a timeline for issuing a proposed rule, or provide investors and the public with an explanation as to why this important improvement is no longer under active consideration.").

⁴ The Department of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury VII:19 (Oct. 6, 2008), <http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>.

As we indicated in the September Letter:

[The Council strongly supports,] consistent with the recommendation of the [ACAP] and the existing requirements of the European Union's Eight Directive, . . . requiring the engagement partner's signature on the auditor's report. We continue to endorse the findings of the [ACAP] that the 'engagement partner's signature on the auditor's report would increase transparency and accountability.'⁵

The Council's continued backing of a final standard requiring the signature of the engagement partner in the audit report is derived, in part, from two membership approved policies: (1) our Statement on Financial Gatekeepers (Gatekeepers Statement);⁶ and (2) our Statement on Independence of Accounting and Auditing Standard Setters (Independence Statement).⁷

The Gatekeepers Statement reflects our members' views that, in light of the global financial crisis and other recent financial scandals, continued reforms of rules and oversight of financial gatekeepers, including auditors, should be actively examined.⁸ The Gatekeepers Statement indicates that any such reforms should focus on ensuring that the "pillars of transparency . . . and accountability are solidly in place."⁹

The Independence Statement reflects our members' views about the criteria that a domestic or international auditing or accounting standard setter should possess. Our members generally believe that the adoption of those criteria would make it more likely that a standard setter would develop and issue standards that produce high quality audited financial statements that would be useful to institutional investors in making investment decisions and that would benefit the overall efficiency of the global markets. Those criteria, importantly, include a requirement that the standard setter demonstrate a clear recognition that its primary role is to satisfy in a timely manner the "information needs" of the key customer of audited financial reports—investors.¹⁰

⁵ Letter from Jeff Mahoney at 4 (footnotes omitted).

⁶ Council of Institutional Investors, Statement on Financial Gatekeepers 1-2 (Adopted Apr. 13, 2010), <http://www.cii.org/UserFiles/file/Statement%20on%20Financial%20Gatekeepers.pdf> [hereinafter Gatekeepers Statement].

⁷ Council of Institutional Investors, Statement on Independence of Accounting and Auditing Standard Setters 1-2 (Adopted Oct. 7, 2008), <http://www.cii.org/UserFiles/file/Statement%20on%20Independence%20of%20Accounting%20and%20Auditing%20Standard%20Setters.pdf> [hereinafter Independence Statement].

⁸ Gatekeepers Statement, *supra* note 6, at 1-2.

⁹ *Id.* at 1.

¹⁰ Independence Statement, *supra* note 7, at 2.

The Council, consistent with the conclusion of many investors, the ACAP, and many other market participants, believes that requiring the signature of the engagement partner in the audit report would be responsive to the information needs of investors *and* would provide for greater transparency and accountability enhancing the real and perceived quality of audited financial statements. As we explained in our September 4, 2009, comment letter in response to the Board's related *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*.¹¹

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.¹²

While our strong support for requiring the signature of the engagement partner in the audit report has not wavered, we acknowledge that the Release's proposed approach of disclosing the name of the engagement partner "has most of the same potential benefits as a signature requirement."¹³ We, therefore, would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report.

Disclosure of Other Firms and Individuals that Took Part in the Audit

We also support, for similar reasons, the Board's proposed disclosure of off-shoring arrangements and other types of arrangements whereby the auditing firm that issues the opinion relies on other firms or individuals to perform audit procedures. As an initial matter, we agree with the Board's conclusion that investors need "greater transparency about who is performing the audit and how much of the audit they have performed."¹⁴ That need was confirmed by the March 2010 survey results of the CFA Institute, finding that *91 percent* of respondents generally support greater transparency about the "identities and specific roles" of other participants in the audit.¹⁵

¹¹ Concept Release on Requiring the Engagement Partner to Sign the Audit Report, PCAOB Release No. 2009-005, PCAOB Rulemaking Docket Matter No. 029 (July 28, 2009), http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

¹² Letter from Jonathan D. Urlick, Analyst, Council of Institutional Investors, to J. Gordon Seymour, Secretary and General Counsel, Public Company Accounting Oversight Board 1-2 (Sept. 4, 2009), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/CII%20Comments%20on%20PCAOB%20Rulemaking%20Docket%20Matter%20No%20%2029%20\(3\)%20doc%20\(final\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/CII%20Comments%20on%20PCAOB%20Rulemaking%20Docket%20Matter%20No%20%2029%20(3)%20doc%20(final).pdf).

¹³ Release, *supra* note 2, at 10.

¹⁴ *Id.* at 21.

¹⁵ CFA Institute, Independent Auditor's Report Survey Results 14 (Mar. 2010), http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

It should not be surprising to anyone that investors need and are demanding more transparency about off-shoring and similar arrangements by audit firms, particularly in the case of the audits of multi-national companies. For those audits, the Board has acknowledged that investors “generally do not know the identities of other participants in the audit” and, in some cases, those participants:

- May not be subject to inspections by the PCAOB or other regulators;
- May have a disciplinary history with the PCAOB or other regulators; or
- May be subject to different, and potentially conflicting, legal and regulatory requirements than the firm issuing the audit opinion.¹⁶

PCAOB Chairman James Doty has stated that the Release’s proposed disclosures “[e]nhanc[ing] transparency into the composition of cross-border audits should help investors gain a better understanding of how an audit was conducted and make more informed decisions about how to use the audit report.”¹⁷ We wholeheartedly agree.

The Council again appreciates the opportunity to comment on the Release. We thank you for considering our views. Please feel free to contact me at 202.261.7081 or jeff@cii.org with any questions regarding the content of this letter.

Sincerely,



Jeff Mahoney
General Counsel

¹⁶ See Release, *supra* note 2, at 20 (“[T]he proposed disclosure would enable investors and other users of the audit report to determine whether a disclosed independent public accounting firm is registered with the Board and has been subject to PCAOB inspection, and whether a disclosed independent public accounting firm or another person has had any publicly available disciplinary history with the Board or other regulators.”); see also Jay D. Hanson, Board Member, PCAOB, Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits 2 (Oct. 11, 2011), http://pcaobus.org/News/Speech/Pages/10112011_HansonStatement.aspx (“[E]ven where the other firm is a member of the international network of the firm issuing the report, the network affiliate firm may be subject to different, and potentially conflicting, legal and regulatory requirements that investors may want to consider in evaluating the overall audit.”).

¹⁷ James R. Doty, Chairman, PCAOB, Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits 2 (Oct. 11, 2011), http://pcaobus.org/News/Speech/Pages/10112011_DotyStatement.aspx.