



Feb. 10, 2014

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K St. NW  
Washington DC 20006-2803

Re: Proposed Auditing Standards on Improving the Transparency of Audits: Proposed Amendments to PCAOB's Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (PCAOB Rulemaking Docket Matter No. 29).

Dear Office of the Secretary:

On behalf of the board of directors of the National Association of Corporate Directors (NACD), we are pleased to submit our comments on the above-named Public Company Accounting Oversight Board (PCAOB or Board) Exposure Draft (ED) on Improving the Transparency of Audits. Founded in 1977, NACD is the only national membership organization created for and by directors. Given the close interaction between the auditor and the audit committee of a corporate board, and because many of our more than 14,000 members are audit committee members and chairs, NACD believes it is appropriate to provide our views on this issue.

The ED calls for two new disclosures in the standard auditor's report: (1) the name of the engagement partner, and (2) certain information about other parties that participated in the audit. For reasons discussed below, we do not support naming the engagement partner. We do believe, however, that including information about other parties that participated in the audit may be helpful to users of auditors' reports, but we believe the suggested disclosure must be supplemented with further explanations to ensure a clear and concise meaning.

### **Naming the Engagement Partner**

Selection of the audit firm and the engagement partner are responsibilities placed on the audit committee by the Sarbanes-Oxley Act of 2002 and they are taken very seriously based on discussions with members of our Audit Committee Chair Advisory Council and with many other members of NACD. In all these discussions, however, we have never heard of a need to mandate naming the engagement partner. Thus, it was with great surprise that some of us read the ED to learn that "[s]ome audit committee members...shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial." (page 8)

That quote was in the context of the Board's review of the comment letters on the 2011 exposure draft that also suggested that the engagement partner be named. But of the 44 comment letters related to that release posted on the PCAOB website, only two appear to come from audit committee members, and neither of them is making that suggestion.

Letter 11 from Jack Henry says in part: "Your proposals for mandatory rotation and identification of the signing partner both strike me as solutions looking for a problem to solve. Neither proposal appears to be based on empirical evidence that the current state is broken and



would be improved by either proposal.” In recent remarks to a conference of the American Institute of Certified Public Accountants, Chairman James Doty implies that audit committees would benefit from the new engagement partner information:

Nor can the responsibility to select only the best engagement partner be placed at the feet of audit committees, unless we provide audit committees better information against which to benchmark. Diligent audit committees try to obtain information about, and pay careful attention to, a proposed engagement partner’s history. But today most of that information must come from the very firm putting the partner forward. The lack of generally available information about engagement partners limits audit committees’ ability to meaningfully assess and compare the partner’s qualifications and experience.

Chairman Doty does not explain how this assessment would occur, but he and the Board apparently believe that audit committees (or service providers they engage) would gather engagement partner names and combine that with information about negative factors such as restatements, going-concern opinions, and enforcement actions, as well as other personal information such as industry experience, education, publications, and awards. Nevertheless, it would take years, if not decades, for any sort of robust database to develop with such information. And it would likely be chronically incomplete and out of date—in short, the type of “information” that most serious audit committees would hardly want to rely on.

But of more importance is the fact that the decision process for naming an engagement partner cannot be easily captured in the type of database that the PCAOB seems to have in mind. The typical selection process is much more nuanced and involves assessing and weighing numerous professional and personal characteristics of individuals in order to decide on what the audit committee believes is the best fit in the particular circumstances. As directors, NACD members work with both independent auditors and other sources to gather sufficient, confidential data in order to make well-informed decisions about the engagement partner.

Simply naming this individual without investors having the full knowledge of all that went into the selection process could be counterproductive. *Audit firms work as partnerships*; a good engagement partner is inseparable from his or her firm. Knowing the firm and its work is far more important than knowing the name of an individual engagement partner.

We also note that in its initial ED, the Board’s stated objective for this issue was to improve audit quality, and this remains a stated objective in the new ED. For example, according to Board member Jeanette Franzel: “The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality.”

Frankly, we find such a statement to be somewhat disrespectful to the auditing profession. Public company auditors are held to the highest standards in their firms, by the PCAOB through its inspection process, by the Securities and Exchange Commission through regular reviews of filings, and by the legal system that holds them accountable through the civil bar. And as audit committee representatives, we expect their finest work, day in and day out. In all honesty, we cannot imagine there is a “higher standard” to which they would somehow rise if only the engagement partner were named in the auditor’s report.



In summary, audit committees certainly don't want nor need the engagement partner to be named in the auditor's report. And we seriously question whether doing so will provide worthwhile information to investors.

### **Disclosure About Other Participants**

We generally support the proposed disclosure about other accounting firms and other parties participating in the audit. Including this information in the auditor's report will help investors understand that the primary audit firm may have performed only a portion of the audit and others may have participated as well. Some investors will be particularly interested to know if a material part of the overall engagement has been performed by a firm that is not subject to PCAOB inspection.

We believe, however, that this disclosure may confuse some users unless it is supplemented with a description of how the signing firm has overseen the work of the other firms involved in the audit. Without such disclosures, this requirement could lead to inconsistent reporting. Some companies may make the simple disclosure without the explanation, while others might feel obligated to provide a detailed explanation in their financial statement footnotes or audit committee report. To avoid such inconsistencies, we would suggest mandating an additional description of oversight by the signing firm, including the supervision and review of the other firms' work.

NACD appreciates the opportunity to comment on this ED, and would be pleased to respond to any questions regarding the views expressed in this letter.

Sincerely,

Ken Daly  
President and CEO, NACD

Reatha Clark King  
Chair, NACD