



# ICGN

International Corporate Governance Network

Office of the Secretary  
Public Company Accounting Oversight Board  
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USA

Submitted via email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

11<sup>th</sup> March 2014

Dear Office of the Secretary,

**Re: PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit.**

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$18 trillion.

The ICGN's mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through its committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: <https://icgn.org/>.

The Accounting and Auditing Practices Committee (A&A Practices Committee) addresses and comments on accounting and auditing issues from an international investor and shareowner perspective. The committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.  
<https://icgn.org/committees/itemlist/category/24>

We appreciate this opportunity to comment on PCAOB Rulemaking Docket Matter No. 029 regarding "Improving the Transparency of Audits". This would require audit firms to disclose the name of the engagement partner as well as the names of other firms and persons that worked on the audit. We strongly support this enhanced disclosure for two key reasons.

First, transparency is a critical part of ensuring greater auditor accountability to shareholders, the ultimate clients. Specifically, with respect to the disclosure of the audit partner, not all audit partners are the same. It follows that shareholders would want to know the identity of the lead audit partner and/or engagement partner. Considerable research demonstrates that the engagement partner can impact audit quality. (See, for instance, [http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB-Supplement to Agenda Item 2-Question 12 Responses-Disclosure of Engagement Partner Name-v1.pdf](http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB-Supplement%20to%20Agenda%20Item%20Question%2012%20Responses-Disclosure%20of%20Engagement%20Partner%20Name-v1.pdf)).

Secondly, as well as improving accountability, this transparency can impact behaviours. The lead audit partner has more at stake in terms of his/her reputation, and that generates an incentive to ensure a high quality audit. These benefits are increasingly appreciated and explain why a growing number of countries require disclosure, including for instance the UK, Australia, Taiwan, and Sweden. In fact, Australia has practiced this for many years. Rulemaking docket 029 also refers to making public 'other audit participants.' We support this so long as it does not compromise clarity as to who is the audit engagement partner responsible for the audit. In the case of dual auditors, the scope of the work undertaken by each should be clear.

We strongly agree with PCAOB Chairman, Jim Doty's statement on December 4, 2013, that the capital markets understand that "audit quality is not equal, and that they [capital markets] are willing to pay more for reliable audits, in the form of reduced financing costs for companies that have such audits. The corollary is also true: markets demand a premium cost of capital from companies that present an audit report that is perceived to be less reliable." We further agree that the disclosure would "require no new work by the auditor."

We agree with Chairman Doty that this PCAOB proposal "is a way to use the motivating power of our markets to incentivise higher quality audits. But to do so, the markets need information." Unfortunately, there are still numerous examples of where audit quality has been lacking that has resulted in misleading accounting, frauds, and substantial losses to investors (e.g., Longtop Financial Technologies Ltd., Olympus Corp., and Satyam Computer Services Ltd. to name a few).

The ICGN strongly supports the prompt issuance of a final standard implementing the Proposal and we appreciate your taking into consideration the views of long-term investors. Should you need any additional information, please do not hesitate to contact Kerrie Waring, ICGN Managing Director at +44 207 612 7079 or [kerrie.waring@icgn.org](mailto:kerrie.waring@icgn.org)

Yours sincerely,

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Chairman, ICGN Accounting and Auditing  
Practices Committee

Michelle Edkins

Chairman, ICGN Board of Governors

Cc: ICGN Board Members  
ICGN Accounting and Auditing Practices Committee