State of Connecticut

DENISE L. NAPPIER
TREASURER

Hartford

March17, 2014

Via email to comments@pcaobus.org

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB No. 2013-009, Rulemaking Docket Matter No. 29

Dear Sir/Madam,

I write to express strong support for the Public Company Accounting Oversight Board's (the "Board's") Release No. 2013-009, "Improving the Transparency of Audits: Proposed Amendments to PCAOB Accounting Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit." As the principal fiduciary of the $28 billion Connecticut Retirement Plans and Trust Funds, I have long supported reforms promoting transparency in the audit process. The measures proposed in the Release will provide investors with valuable information and foster greater professional accountability on the part of auditors, thereby improving audit quality.

Attached are my comments. I appreciate the opportunity to express my views to the Board on this proposal. Please feel free to contact Assistant Treasurer for Policy Francis Byrd should you have any questions. He can be reached at (860) 702-3292 or francis.byrd@ct.gov.

Sincerely,

Denise L. Nappier
State Treasurer

Attachment

Comments of Connecticut State Treasurer Denise L. Nappier on Improving the Transparency of Audits (Release No. 2013-009)

In recent years, the standing of external auditors has declined due to high-profile audit failures and certain improprieties involving auditors. Of course, external auditors continue to play a critical role in the U.S. capital markets, ensuring access to true and accurate information about companies to the public securities markets. The Board's proposal will assist investors by disclosing information about the role of particular persons who are involved in a company's audit process—most importantly, the engagement partner. Under the proposal, the engagement partner's identity would be disclosed in a company's annual audit report. Greater communication concerning the audit process will help market participants make better investment and voting decisions about public companies. I also believe that audit quality will improve as individual partners are identified with audits.

I strongly support the engagement partner disclosure proposal for several reasons, and do not believe that concerns raised by the accounting profession are well founded. Requiring the engagement partner to sign the audit report will not lead to increased liability and confuse investors. Instead, it will provide greater transparency that will protect the company and give relevant information to investors.

First, although the audit firm signs the audit report, the work of the audit team is overseen by a person, the engagement partner. As the Board has noted in the Release, the quality of that oversight varies among engagement partners. A recent joint publication by several organizations, including the National Association of Corporate Directors and the Center for Audit Quality -- aimed at preparing audit committee members to evaluate the external auditor - stated that: "audit quality largely depends on the individuals who conduct the audit."[1] The organizations suggest that audit committee members should assess the engagement partner's knowledge and skills, and his or her interactions with the audit committee.[2]

Identification of the engagement partner would be useful to investors when making voting decisions. At most U.S. companies, shareholders are asked to ratify the external auditor but are given very little information with which to evaluate the auditor's performance. Disclosure of the engagement partner's name will allow shareholders to determine whether that person has been disciplined by the Board or other regulators, as well as any history of litigation against the engagement partner.

Over time, disclosure of engagement partners will enable third-party vendors to assemble datasets that will permit investors to review an engagement partner's history and identify any items of concern. Such data will lead to better-informed decision making on auditor

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1 ("Audit Committee Essentials: The Annual Auditor Assessment," at 2 (2013) (available at http://www.thecaq.org/docs/reports-and-publications/annualauditorevaluationtoolinteractive.pdf?sfvrsn=2)

2 Id. at 2-3

ratification votes. Collection of similar data regarding executive compensation and past and present director service has allowed investors to cast more informed and meaningful votes on compensation-related proposals and director elections.

Some have raised a concern that investors will fall prey to simplistic ratings of engagement partners. But investors are accustomed to weighing a variety of factors when assessing performance, following up on red flags and considering problems in the overall context. This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors standing for election. There is no reason to believe they will do otherwise with respect to auditors.

Second, the trend globally is moving toward disclosure of the audit engagement partner. For example, the European Union's Eighth Company Law Directive states that the statutory auditor(s) must sign the audit report. The U.S. markets should provide similar transparency to avoid being out of step with global investors' expectations.

Finally, I believe that identifying individual engagement partners with audits will improve audit quality by fostering greater accountability. I agree with the Council of Institutional Investors, which stated in a comment on the Board's 2009 concept release on requiring the engagement partner to sign the audit report: "[E]nhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise and oversight of their engagement partners."
(http://www.cii.org/files/issues_and_advocacy/correspondence/2012/01_05_12_cii%20letter%20to%20pcaob%20audit%20transparency.pdf)

I also support the proposal set forth in the Release to require disclosure of other persons and firms, not employed by the auditor, that participate in the audit. Information about the extent to which the auditor actually performs the audit work, and the identity of any person or firm that performs a significant proportion (5% or more) of the audit work, is useful in deciding how to vote on audit ratification proposals. Such other persons or firms may have been disciplined by the Board or other regulators, may not be subject to inspection by the Board, or may be domiciled in jurisdictions with different legal requirements related to the audit. All of these are factors investors may wish to consider in evaluating the external auditor's performance.