

February 28<sup>th</sup>, 2012

Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street, NW  
Washington, DC 20006-2803

**RE: PCAOB Release No. 2011-008:  
Proposed auditing standard related to communications with audit committees;  
related amendments to PCAOB standards; and transitional amendments to AU  
Sec. 380**

Dear Board Members:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's proposals regarding auditing standard related to communications with audit committees; related amendments to PCAOB standards; and transitional amendments to AU Sec. 380, dated December 20, 2011.

By way of background, Hermes is a leading asset manager in the City of London. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from across the world, all of which invest in companies whose audits are subject to PCAOB oversight. In all, EOS advises clients with regard to assets worth more than \$140 billion.

We welcome the proposed changes by the PCAOB as these not only endeavour to enhance the quality of information exchanged between auditors and audit committees, but most importantly because they foster appropriate behavioural and cultural changes for both parties. These newly proposed standards increase the accountability of auditors to audit committees and vice versa, which in turn ought to result in the audit committees' improved oversight of the production of accurate and transparent financial reports. We welcome the PCAOB's ongoing focus on the interactions between the parties active in the corporate financial reporting process, because we firmly believe that by enhancing these interactions the level of oversight and challenge arising from the audit process can be enhanced. Audit quality will thus advance, the quality of the numbers reported to investors will improve, and most importantly market confidence in those numbers will increase.

We are particularly encouraged by the PCAOB's new proposed requirement for the auditors to inform the audit committee of significant unusual transactions and of the auditors' interpretation of how these impact the company's normal course of business. We believe that this contributes to address the ever-controversial issue of identifying and reporting 'material events/transactions' whose impact on financial reports is often



underestimated and sometimes overlooked. We would regard noting such transactions as a central part of audit scepticism and we believe that auditors and audit committees will only be performing effectively their respective roles if they have direct dialogue about those issues which are a matter of audit scepticism. When such issues are brought to the surface of dialogue between these two parties, the need for and value of scepticism will be more apparent to all.

We also find that the proposed standard to align communication requirements with risk assessment standards encourages auditors and audit committees to engage in dialogue that transcends the mere production of financial reports; it encourages both sides to better understand the processes behind the production of such reports and to incorporate information that is material to the company. The better understanding of these processes together with more material information should help to cut down the use of irrelevant standardized, boiler-plate reporting and contribute to more effective risk mapping for both auditors and audit committees.

In closing, we applaud the PCAOB's proposed enhancements to the communication requirements between auditors and audit committees, given their overall aim to provide greater transparency of information and additional emphasis on identification of risks and material information. By seeking to emphasise the need for auditor scepticism and enhance dialogue which will improve the behaviours in and around the audit, we are confident that these improved standards will directly contribute to greater accountability to shareholders by their board representatives as well as by their auditors.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'M. Isaza', with a stylized flourish at the end.

Manuel Isaza  
Senior Associate