

Via Email

October 28, 2021

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

Re: PCAOB Rulemaking Docket Matter No. 042

Dear Madam Secretary:

I am writing on behalf of the Council of Institutional Investors (CII), a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4 trillion in assets, a range of asset managers with more than \$40 trillion in assets under management, the five largest accounting firms and the Center for Audit Quality.¹

The purpose of this letter is to respond to the Public Company Accounting Oversight Board (PCAOB or Board) request for “additional comment on proposed amendments to its auditing standards related to the supervision of audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report” (Proposed Amendments).²

CII membership approved policies reflect the view that:

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality,

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

² Second Supplemental Request for Comment: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm, PCAOB Release No. 2021-005 at 1 (Sept. 28, 2021), https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/rulemaking/docket042/2021-005-other-auditors-ssrc.pdf?sfvrsn=6000f093_4.

comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.³

Generally consistent with our policy, we share the view of Megan Zietsman, former Board member, that the Proposed Amendments, "if adopted, will improve how auditors plan and supervise audits that involve other auditors; which in turn will enhance audit quality and protect the interests of investors"⁴

We note that the Proposed Amendments include only one "Request for Comment" that is explicitly directed at investors.⁵ That request for comment states: "The Board requests further comment, including any available empirical data, on how the proposed amendments discussed in this release would specifically affect audits of [Emerging Growth Companies (EGCs)]⁶ EGCs and on whether the proposed amendments would protect investors and promote efficiency, competition, and capital formation."⁷ In response to this question, CII shares the PCAOB's view that "if [the Board] . . . adopts the proposed amendments, it will request that the [U.S. Securities and Exchange] Commission determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, *to apply the amendments to audits of EGCs.*"⁸

³ Council of Institutional Investors, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** (Adopted, Mar. 10, 2020), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.

⁴ Megan Zietsman, Board Member, Statement in Support of the Issuance of a Supplemental Request for Comment on Proposed Amendments to Auditing Standards Related to the Auditor's Supervision of Other Auditors (Sept. 28, 2021), <https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-the-issuance-of-a-supplemental-request-for-comment-on-proposed-amendments-to-auditing-standards-related-to-the-auditor-s-supervision-of-other-auditors>; see Duane M. DesParte, Acting Chairperson, Statement on Second Supplemental Request for Comment: Proposed Amendments to Auditing Standards Related to the Supervision of Audits Involving Other Auditors (Sept. 28, 2021), <https://pcaobus.org/news-events/speeches/speech-detail/statement-on-second-supplemental-request-for-comment-proposed-amendments-to-auditing-standards-related-to-the-supervision-of-audits-involving-other-auditors> (commenting that "investor protection can be further enhanced by increasing the required involvement of lead auditors in planning and supervising the work of other auditors.").

⁵ PCAOB Release No. 2021-005 at 66 (emphasis omitted).

⁶ See, e.g., U.S. Securities and Exchange Commission, Small Business, Emerging Growth Companies (last visited Oct. 26, 2021), <https://www.sec.gov/smallbusiness/goingpublic/EGC> ("A company qualifies as an emerging growth company if it has total annual gross revenues of less than \$1.07 billion during its most recently completed fiscal year and, as of December 8, 2011, had not sold common equity securities under a registration statement.").

⁷ PCAOB Release No. 2021-005 at 66.

⁸ *Id.* (emphasis added).

Our support for the Board's view that the Proposed Amendments should be applied to the audits of EGC's is based on the following factors:

- Our agreement with the Board finding that commentators to prior iterations of the Proposed Amendments "generally supported applying the proposed amendments to audits of EGCs, citing benefits to users of EGC financial statements."⁹
- Our agreement with the Board finding that "the benefits to audit quality achieved through improved planning and supervision of audits involving other auditors may be especially significant for EGCs."¹⁰
- Our agreement with the Board finding that the "proposed amendments for audits involving other auditors, which are intended to enhance audit quality, could contribute to an increase in the credibility of financial reporting by EGCs."¹¹

Acting Chairperson Duane M. Desparte has stated that "it is . . . imperative that [the PCAOB] . . . finish this important project . . . to better ensure the lead auditor plays a central role in determining the scope of audit procedures and in coordinating and supervising effective execution of such procedures by other audit firms on the engagement . . . [and, thereby] drive improved audit quality and investor protection."¹² CII agrees.

We appreciate your consideration of our comments. Please let me know if you have any questions.

Sincerely,



Jeffrey P. Mahoney
General Counsel

⁹ *Id.* at 63.

¹⁰ *Id.* at 65.

¹¹ *Id.*

¹² Duane M. DesParte, Acting Chairperson, Statement on Second Supplemental Request for Comment: Proposed Amendments to Auditing Standards Related to the Supervision of Audits Involving Other Auditors.