NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Investor Advisory Group meeting on October 10, 2023 that relates to the standard-setting project, and related subject matter, discussed at PCAOB Docket 041: Firm and Engagement Metrics. The other topics discussed during the October 10, 2023 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-october-2023.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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WEDNESDAY
OCTOBER 10, 2023

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The Advisory Group met via Video-Teleconference, at 12:30 p.m. EDT, Saba Qamar and Amy McGarrity, Co-Chairs, presiding.

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ALSO PRESENT:

PREETI CHOUDHARY
BOB CONWAY
STEVEN YANG

CONTENTS

Lynn.

MR. TURNER: Thank you Amy. The firm and engagement performance metrics, or as I prefer to call it AQIs, audit quality indicators, really got a life of its own back during the work of the U.S. Treasury Advisory Committee on the Auditing Profession. As one of the members of that Committee, we were charged with taking a look at what would improve the sustainability of the auditing profession.

And during that part of our discussion, we centered on audit quality because as a committee we felt that the thing that would perhaps most help the sustainability of the firms was if they were putting out a high quality product. Along those same lines then, in a 2018 CFA Institute member survey, the analysts in the CFA were surveyed and they came back and said that developing actionable audit quality indicators that enable effective monitoring of auditor effectiveness is a high priority.

So it's clearly an issue that is

important to the firms, is important to investors and quite frankly is very important to the capital markets, because it's that audit -- trust in the audit that gives people the ability to trust the numbers they're using to make investment decisions.

But along those lines first, before I get going too far here, I'd like the panelists to just let everyone know a summary of bios, especially as it relates to this issue of audit quality. So Preeti, could you start and then Bob, and if we get Steve to join us, we'll ask Steve to chime in too.

MS. CHOUDHARY: Good morning. My name is Preeti Choudhary. I am professor at the Dhaliwal-Reidy School of Accountancy at the University of Arizona. I'm a former academic fellow at the PCAOB, and in that capacity I have done some research and analysis using some of the PCAOB's data to evaluate some of the AQIs that we're going to talk about today.

MR. TURNER: And Preeti, did you work

at a firm or are you an IT auditor? Did you have a position in a firm?

MS. CHOUDHARY: I did have a prior position at a firm many, many years ago, but not for very long. I think I stayed there about an year and a half, and then I worked as an internal auditor at the Washington Post Company.

MR. TURNER: Okay, and Bob, you of course had a long career at KPMG. Could you tell us about that?

MR. CONWAY: Sure. I was -- I'm a retired KPMG audit partner. I was there for 27 years, 17 years as an audit partner. After retiring, I joined the PCAOB. I spent nine years leading inspections. I was also the office leader for the Southern California offices of the PCAOB.

More recently, I've been the last four years doing expert witness work involving auditing and accounting matters, and during the pandemic, one of the silver linings was it gave me some time to write a book about the profession called The Truth About Public Accounting. I also, part of the reason I'm here is I wrote a letter, a public comment to the ACAP Committee back in 2007 that I think, you know, helped start in motion this whole idea about providing more transparency to how audits are conducted.

MR. TURNER: I think it's fair to say that if we can blame this whole project on Mr. Conway, because he wrote an absolute fabulous letter to the ACAP group, and that allowed us to focus on the audit issue and he is -- what he had to say in the letter resonated with all the 20-some people on the committee.

We've got a third panelist that we're having issues getting online, but his name is Steven Yang. Steven was with KPMG for a couple of years, and then with EY in the tax area, as I recall. So Steven did do audits. He focuses, if I recall right, in the health care area and he has served as an analyst with a couple of investment funds.

So has audit background combined with

investment decision-making. So if we can get him on, he'd be a -- he's fascinating to listen to. So but with that, let me go back to Bob. Bob, of course, you started us off so to speak, and so could you give us, give the group just a little bit of historical perspective on how we've gotten to where we are and what that looks like?

MR. CONWAY: I would be glad to, Lynn. Just to hit some of the high points, to me one of the big things that came out of the Advisory Committee on the Auditing Profession, it confirmed something that I had suspected, and that was that audit committees have very limited information to base their auditor retention decision on.

If you think about it, you've got a proposal. It's got a fee estimate in it. It's got some information about the engagement team members, and beyond that, it's a lot of promises about what the firm will do. What we're trying to do with this initiative is move away from promises to okay, what do the firms have to say, to show in terms of their actual experience, particularly on the human capital side but there are other aspects of it that are important.

So that I thought was a big, a big launching point for the interest in this initiative. During the proceedings, Don Nicolaisen, former SEC Chief Accountant, he was the co-chair of ACAP along with Arthur Levitt. He made an observation that I thought was really attention-getting.

He said the firms compete primarily on the basis of cost. That's been the history of the profession, and it's been disastrous for investors and for the firm. So to me that's a real, a real attention-getter. In 2015, as you all know, the PCAOB issued a concept release on audit quality indicators. In 2016, the Center for Audit Quality followed with a pilot testing of AQIs using real audit committee members and, you know, the sharing of AQI data.

It stimulated a lot of good discussion. The output from that effort, the CAQ thought there was widespread support for audit quality indicators. The only issue that came up was the audit committee members needed more context. I raise that, because I think there's a very simple solution here.

If you have engagement performance metrics at the engagement level, it's very simple to add those metrics for all the public company audits in one office, and you've got, you know, office-wide engagement performance metrics. So if you're an audit committee member and you're looking at the metrics of your incumbent auditor, you can then compare those metrics to the other competing auditors in the same geography.

So that's what gives you the context, and that's what I think will begin to drive competition on things that are think are pretty important and able -- in order to be able to conduct a good audit. Another item caught my attention, a November 2022 SEIA team meeting, Dane Mott, who's a member of that group. He's an analyst at the Capital Group. He's a CFA and

CPA.

And I found it interesting to learn that he devotes quite a bit of his time trying to identify elements about the auditor that would be useful to factor into the investment decision. And you know, he expressed, you know, a strong need for more information. In his enthusiasm, he said that in so many words, you know, don't worry about what the -- you define the audit quality indicators. Just give us the data and we'll figure it out.

I'm not sure that that's the solution, but what my point is there is a real thirst for information there, and I thought that was compelling to think that it really drove home the fact that investors, you know, do have an interest in this information.

I want to finish with just a level set, because I talk about the audit firm staffing model a lot. In a nutshell, and I'll back it up with some statistics here in a minute, but in a nutshell at the staff level you've got heavy workloads. That drives high turnover. That drives experience levels down.

It also reduces year over year continuity on individual audits, which you'll hear in a little bit is an important factor. And then at the partner level, they've got heavy workloads. I thought it was interesting in the last discussion Jennifer Joe mentioned that in the Marcum situation, you know, heavy workloads being an issue.

A heavy workload can undermine the audit partners' ability and need to conduct, you know, get his nose in the work papers, conduct a thorough review. When I look at this model, what strikes me is I think it's really a mismatch when you think about the level of complexity that auditors are expected to master to do good audits.

You've got complex accounting rules, complex auditing rules, complex methods of commerce, complex legal elements, not to mention the international dynamic. And so I just think its existing model is a mismatch for what is really needed out there, and I think the audit quality indicators might be a pathway to improve that situation.

I'll finish with just a couple of quick statistics. These come out, came out in the PCAOB's proposed quality control standard, providing some background information about the profession, and academia contributed a survey that said that audit staff report working on average 72 hours per week during the busy season.

Another report from academia, you know, identified a threshold at which when the workload goes beyond that threshold, audit quality begins to suffer. And the data was suggesting that, you know, auditors on average are five hours per week beyond that threshold. That might not seem like much, but it said sometimes that number moves up to 20 hours per week past the threshold where they feel audit quality begins to deteriorate.

So these are real issues, and there's

a risk that, you know, that auditors start to fatigue and deadlines creep up that, you know, less than optimal decisions will be -- judgments will be made about should I do more, you know. What should I do given findings, etcetera. So that's my nickel's worth.

MR. TURNER: Let me say that when I started doing work on the panel, I went back through the auditing standards and what the profession has done on this in the past. And up until 1974, not much had been done at all, and then because of Congressional investigations and hearings, the profession issued their first auditing standard on quality assurance at the end of '74, beginning of '75.

And but the interesting thing about that and the subsequent updates, and there's been a few updates since then, as well as the profession developed a couple of years later their standards on quality assurance. But in all of those and really up to this date in the U.S., there's never been a definition of what is a quality audit.

They've not defined what a quality audit is, nor have they really laid out the factors that go into a quality audit. We sent around a letter that the Financial Reporting Council developed in the UK in that respect, and it's quite good and helpful, and also Sandy Peters sent around a definition from I believe England on audit quality that looks quite good.

But here in the U.S., nothing has defined it and one of the things we're going to do is come back and poll everyone on the IAG as to whether or not you believe the PCAOB, if and when it does a proposal in this area, should they define what audit quality is. To that point, Preeti, can I ask you how you look at and consider audit quality?

MS. CHOUDHARY: Sure. Thanks Lynn. That's a great question and it's a tough question to answer. I think about audit quality as comprising three primary components. The first is whether the auditor is performing the necessary processes and procedures to be in compliance with the auditing standards. This more or less what the inspection process largely focuses on, and certainly what the Part 1 findings focus on.

A second component is, you know, how or whether the auditor has used sound and appropriate judgments, because there's a lot of areas within the standard that don't specify XYZ steps. They're more principle-based, and this is a little bit of challenging to evaluate. It's more beauty is in the eye of the beholder there, because it's, it's a judgment.

And unfortunately, the PCAOB does not really focus on this aspect of audit quality when they write their Part 1 findings. So in my opinion, that makes the Part 1 findings somewhat of an imperfect assessment of audit quality.

And then I think there's a third component that's probably very relevant to investors, and that is whether the audit standards themselves actually cover the appropriate audit procedures that investors really want and desire them to cover.

I kind of think of this third component as the expectations gap of where the audit is and where we would like the audit to be. So I think if the PCAOB is going to tackle this difficult task of defining it, it may be helpful to think about these three aspects.

MR. TURNER: Thank you Preeti. I think that's right on target. I do think there's the question of has audit been performed in accordance with the standards, and then not only did they comply with the standards, but how was the quality of the work that was done to meet the standards, was it sufficient as well and was the performance good. And then as you mentioned, the expectation gap, which has been discussed a lot.

But in the Cowen Commission report some time ago, they said it's not so much an expectation gap as a performance gap, that the auditors have not preformed up to the level required by the standards, and then that gets into Preeti's last point, that there's probably some belief amongst investors that the standards don't ask the auditors to do what investors would like to see done.

So but that takes us then to our third question. First, let me just introduce Steve Yang and Steve, thank you very much for joining us. Greatly appreciate that. I asked Bob and Preeti just give a brief background of themselves and their experience in this area of auditing and investing. Could you take just a minute or two and just give us your background?

MR. YANG: Okay, thank you very much and everyone, hi. Nice meeting everyone. Just my name is Steven Yang. It's not Steven Aquila. Aquila is the firm that I work with and for, and I was actually slotted into the observer room, and then so got moved here.

Anyways, my background. I am a CPA as well as CFA. I come from a long line of accountants. My mom, my mother's side of the family are all either controllers, CFOs and I started my career at KPMG doing audit work and transitioned. Worked in corporate accounting and then transitioned. Now I'm at a firm that covers -- I cover high yield as well as equity, so has a little bit of a hybrid role.

And I've been doing -- I've been in the investment industry for about 15-20, 15 years plus. I also participate with FASB, helping them set accounting standards. So really passionate about working with the accounting regulatory bodies, and meeting everyone here. So that's my background.

MR. TURNER: Thanks, Steven. Let me move on to the question then for all three of you, if you will. Maybe you could start, Bob. I think you've already touched on some of these, but what in your views are the main ingredients or the factors that result in a quality audit?

MR. CONWAY: Well I -- you know, to keep it simple, it's complicated. But I really boil it down to three different buckets. The first one, you know, very important focus of a lot of my work is the human capital bucket. Auditing is labor intensive. Like any job, you need time, experience, knowledge and supervision.

Yeah, then there's a middle bucket. I'll call that methodologies, policies, controls, procedures, training. Just sort of the how you, how you operate. You know, this is an area that I think the PCAOB looks at closely as part of its inspections.

And then the last bucket is very intangible. I call it the fortitude to do the right thing bucket. I think it's important to understand what I'm painting here is a spectrum. On one end, the human capital part. That can be measured and in fact the firms, you know, measure it regularly as part of their operations, you know, things like turnover, experience levels, workloads, etcetera.

When you get to the other end of the spectrum, you know, the fortitude to do the right thing, here's where it gets complicated and it gets very intangible. It's much more challenging to measure. It's important to understand that there are an array of pressures that are eating away at audit quality.

The biggest one, which is really kind of the core independence issue, it has to do with the tension between audit quality and client retention. The reality is that partner workloads are really key to partner job security. If you've got a big, large book of business, you've got good security.

Nobody wants to be the partner that loses a big account. Nobody wants to be the partner that sees their book of business evaporate. So unfortunately, there are some issues there that weigh on audit partners' minds when it comes time, that moment of truth to have the fortitude to do the right thing.

Another is this conflict between audit quality and profitability. Not everybody, you know, gets to the same balance point. It can be a very, you know, personal kind of thing. But again, this is why we have the PCAOB, to make sure nobody's cutting corners.

I always say auditors are not like -- engagements are not like going to McDonald's or Hertz Rent-A-Car or Hilton Hotels, where you understand, you know, what the service level is, what the expectations are.

Audit engagements are very unique. They vary considerably from team to team. Part of it is the team composition, which is the human capital element. But then, you know, part of it are these intangibles. Not all partners do the same depth of work paper review. Some have their noses more in the work papers than others.

I think, you know, that can be part of the root cause analysis that the PCAOB advocates. Partners are not uniform in, you know, when they seek to consult. There are required consultations, but then there's a kind of a gray area. Some partners are more consultative than others.

The last one would be the degree to which the partner welcomes problems, issues and contrary views. Some audit partners create a very open, yeah let me tell you about the problems.

If you have a differing view, speak up, I want to know. I want to follow the firm policies and procedures for resolving these sort of things. Other partners can apply undue influence over the staff, and that can undermine good audit quality.

So that's just -- you know, similar to congruent I think with the things that Preeti talked about, but I wanted to emphasize there's -- part of it is very manageable, that's the human capital part. Part of it is very intangible. But I think there's a lot of benefit to measuring and reporting that, which does lend itself to measurement.

MR. TURNER: Preeti or Steve, do you got anything you'd like to add to that?

MS. CHOUDHARY: Steve, you want to go first?

MR. YANG: Yeah, sure. Definitely as

investors, you know, any relevant and consistent information would be appreciated on audit quality. But it's important to acknowledge that a lot of investors, while they understand general accounting principles, many are not accounting majors or have formal trainings in auditing.

So they don't really have as much knowledge base. So it's important to make sure that information is provided in a sort of relevant, as well as consistent factors for the user financial statements. And then that there's some sort of reliability in the financial statement. So that's --

MS. CHOUDHARY: That's a great point, Steve. I think it's correct that one concern about metrics is possibly to make sure that they're reliable. And so it would be best if the PCAOB could clearly define how they should be calculated, and even better if they can review that process or the calculations as part of their inspection process, to ensure that firms are consistently reporting. So that makes the metrics as comparable as possible.

I think another issue that we are sort of dancing around is the relevance of the various metrics, and there's certainly a challenge out there that there's limited data about how various metrics, what they may look like and how they may tell us something or not tell us something about measures around quality.

But I think we're going to have to be comfortable about this process. It's going to have to evolve over time, and investors are going to learn how to use the metrics and in what situation specific metrics will be better or more helpful in indicating audit quality versus others.

MR. TURNER: The point Steve and then Preeti just made I think are key. That is there is not really much data out there for investors, that's provided to investors today. When I ran the research group for Glass Lewis, and we provided research to many funds, both large and small, they did want to get the data, but it's just not something you could capture or was captured, or was coming out of the firm.

So in the ACAP hearings, we inquired of the firms about this and delved into it with them. It was abundantly clear that not only was there not data out there for investors, but there wasn't a host of data internally in the firms that was being measured either. Of course, there's the old axiom you manage what you measure, and there was not the measurement going on not only on the outside, but on the inside.

Given this is so important that the firms have high quality audits to be sustainable, it's certainly an item that should be on the agenda of the PCAOB and it's going to have to be thought through without a doubt. But in light of that, there's a question as to then what is the motivation for disclosure? Preeti, what's your thoughts on that?

MS. CHOUDHARY: So Lynn, I think that right now what investors can see is basically a binary pass/fail audit opinion, right, and then because the SEC doesn't really accept qualified opinions, it's more of a pass/pass situation. And so this results in cost competition, because there's limited ability to even compete on quality given it's not really visible.

And so auditors can compete by making the audit less costly, by making salaried employees work more, as Bob pointed to earlier. That's going to increase the profitability of the audit, and of course the profits of the auditor are shared by the partners.

Then a further point that Bob brought up earlier is that because the client picks the auditor, right, then the auditor's more likely to retain the client if, you know, you curry favor to them at least some of the time rather than playing hardball.

And that's important because a big part of audit profitability is driven by auditing the same client year after year. The audit becomes a lot more profitable, you know, when you have this continuity. And so the question is, you know, where is the incentive to deliver the high quality, that aspect coming from?

And assuming that in the market we're not going to make any major changes like, you know, assigning auditors to firms or, you know, mandatory rotation, which may or may not be a good idea. I'm not saying it is. But if we're not going to make these kinds of major changes, then investors have to be able to see something that tells them about the audit process, in order for the firms to have some competition on quality.

And so -- and that information in these metrics is not only going to be helpful to investors, but most importantly for the audit committee that directly has oversight over the auditor, over picking the auditor and also prodding the auditor to do what they think is necessary.

So I think it's going to result in better monitoring. So you know, if we want to change the game from a cost minimization game to a quality competition, then we have to have some more information in order for that to happen. That's my view.

MR. TURNER: Steve, let me come back to you. Is there anything that the Board or people, investors need to be thinking about in terms of disclosure of these indicators of quality? You mentioned in that not all the funds and quite frankly maybe not even a majority of the funds have a group that delves in and does research on the financial statements as we've talked about.

Obviously Capital Group has that type of team. Certainly at the Kynikos Fund, Jim Chanos, Muddy Waters. Those all have that type. But that, that may not be the typical normal situation. Any thoughts from your perspective as to if these disclosures are going to be things that the Board needs to be thinking about when making those disclosures?

MR. YANG: Yes. Like you said, you know, there's different types of investors out there. There's quantitative, you know, investors. There's companies that focus on factors, you know. Even nowadays, EPS, right, basically what's in the benchmark, what the EPF holds. So there's different investors. So it's for us. But one common thread is that everyone uses the financial statements, right?

A lot of people use the financial statements, whether it's banks, as well as the, you know, creditors, as well as equity investors. So it is important to give assurance that these financial statements are -- you know, what are they supposed to show? So you know, an area that I focus on is that there's enough checks and balances and oversight, and I don't know the metrics that could go into this.

But this, you know, right now we're seeing a lot of the financial statements are just, you know, FTX issues, you know. You don't-know who's checking these balance sheets. You know, there's no oversight. Are you getting arm's length transactions that are, you know, properly accounted for? So some of these, these are some of the items.

But for me, you know, really understanding some sort of oversight or metrics around that is important in that area.

MR. TURNER: Excellent, thank you. Bob, do you have anything to chime in there?

MR. CONWAY: You know, just kind of big picture here. You know, I've been in this profession for 45 years, and I can tell you consistently from the beginning of my profession, my start in the profession to today, there's been this constant pressure on productivity and cost reduction.

I'll point to the offshoring effort is the most recent element to roll out, and you know, within a range. I think, I think some of it makes sense. But I see it more importantly as a red flag of how much of the firms really being under stress and, you know, audits unfortunately are falling victim to that.

I think the commodity pricing audit is

a credence good. It's hard to tell the value of what you're getting is the culprit here, and you counter that by getting information out there. People have frequently said, you know Bob, you just think audit partners should make less. And I say no, that's not the case at all.

I think there's another equilibrium point here, where if the firms make the investment in better workloads, staff retention, better salaries, there are other things that play out that will be to the firm's benefit. Number one, if you have better continuity you'll have all kinds of efficiencies. The way it is right now with heavy turnover, yeah those efficiencies are out the door on a regular basis.

And you know, you look at the money that's spent on that audit quality, you know, legal fees, settlements, you know, adjudicated claims, enormous amounts of money. If you can drive that down, that will be to the benefit of the firms. And then if you do a better job at retaining, you won't have to spend nearly as much money on recruiting and training.

And so I think there's a better equilibrium point. We just need to free up the competition to get to that point.

MR. TURNER: Alrighty. Let's move on to then what might be considered the key issue at hand, and that is what audit quality indicators do you think should be disclosed. When the PCAOB put out their release in 2015, they came up with a list of 28 indicators that I thought were well done.

But obviously different people have different thoughts on that. In my mind, you have to look at both firm-wide indicators, for example is compensation at the top tied to the quality of the audits that are underneath their supervision and being performed. So in a way, I think the same things that we have ongoing at probably companies in terms of good governance, independent governance, transparency in financial reporting and important metrics in the firms.

I was a partner leading one of the

business units inside my old firm, and we knew that investment in personnel was going to be about 40 percent, and that was a key metric. It also gave you some indication as to where you were investing versus other firms investing and who was and who wasn't investing in personnel.

So those type of firm-wide metrics to the point Steven was just making, what type of oversight in the quality assurance function is going on inside a firm. That's key. But then there's also metrics that Bob was talking about at the engagement level in terms of continuity of personnel, experience of the people on the job.

Typically audit partners put in five percent of the total audit hours, the manager 10 percent to 15 percent, and then the rest will be the senior who's the key player, and then the staff and what's the experience of all those people. So there's metrics at different functions or levels in the firm that can provide you some indication of what the quality of the audit is that's going on.

So with that, let me come back and, as we think about that, let me ask each of the three of you, what are some of the audit quality indicators that you think would be useful in assessing the quality of an audit, and why? And let's start with the firm-wide level. Bob.

MR. CONWAY: Well, definitely agree that there's a lot of firm-wide information that's relevant. I think it's, you know, the things that come to mind, again I go back to the cost of poor audit quality, crisp reporting on settled claims. I mean some of these things are already required by the various stock exchange listing standards.

But I, you know, the notice, the notion of, you know, linking performance to audit quality, you know, very important. Things like audit opinions issued and a clean opinion, but the issuer fails within 12 months of the report date. I think there are a lot of good things to be captured. My focus has been more on the human capital element, which I hope and trust we'll get to in just a second.

But I think, I think you need a mix of both, you know, the big picture and then the engagement level, and again to some degree office level.

MR. TURNER: Preeti.

MS. CHOUDHARY: Though I share Bob's enthusiasm for the engagement level data, I think also there could be a role for having some data at the firm-wide level. As I turn to some research, I think there's some research; there's not a lot, because there's not a lot of data that's been shared with researchers.

But there's some out there that suggests some firm-wide issues could affect audit quality. So one paper that comes to mind is Daniel Aobdia's 2020 paper published in Management Finance, where he also had access to the PCAOB data, and he studies Part 2 findings, which are a proxy for the quality control of the audit firm.

They're basically generated either

from aggregating patterns across Part 1 findings, or the PCAOB's specific review of the audit firm's quality control system. Basically he finds that the worse QC in audit firms is associated firm-wide with poor audit quality via restatements, and also associated with non-audit services, which suggests perhaps they're serving as a distraction in some cases from audit quality.

He finds that worse QC, quality control is also negatively associated with audit profitability. So that kind of gets to the point Bob was saying before, there might be a better equilibrium. It's not necessarily that we're trying to hurt the firm's profitability. These actually may improve the profitability of the firms and their ability to retain people as a respect of that.

In my co-author paper with Professor Jade Chen, I found some evidence that audit quality is associated with firm governance. There's also some limited evidence out there on the value of training. Of course theoretically, compensation and incentives should definitely affect audit behavior. So anything at the firm level about those would certainly be appreciated. I did give Lynn kind of a short list of some research papers on some of these metrics.

I don't know if he shared that with you all, but certainly if you're interested, either him or I can send that out to you. It's not meant to be an exhaustive list, but just to give you some idea of what the research has covered and what they're basically saying.

But so far, what little research we can find about these, some of these firm-wide topics certainly does point to the value and importance of them, and their association with audit quality.

MR. TURNER: Anything you'd like to add Steven?

MR. YANG: Yeah. One thing I'd like to add is just, you know, as an investor, we typically -- I think it's the way the structure is. You know, as investor analysts, we're typically grouped in industries. So I would cover industrials or banking, another person would cover banking.

And most audit firms are more regional-based, right? You know, you've got KPMG Akron, you know, or Cleveland that does all the clients in that region. So for me, I think a firm-wide review would actually, you know, some sort of metrics give me assurance, because I look across different financial statements and it's noticeable when one financial statement is done a little bit different than another within the same sectors.

So some sort of metrics, firm-wide review, would be appreciated. Secondly, you know, as the world gets a little more complex and there's international arm's length transactions. That's something that's important for me, because you're relying on, you know, KPMG in Japan or Europe doing the audits, and some sort of metrics to help me better understand, or give me some sort of level of comfort in the financial statements would be helpful so --

MR. TURNER: Interesting you bring that up. About two weeks ago, I had a conversation with one of the senior leaders in one of the big firms, and that person was telling me that one thing very few, almost no investors are aware of is the amount of the audit that is actually outsourced overseas to a service center, and that most if not literally 99.9 percent of investors don't realize that a very significant, you know, maybe a third of the audit work is being done out of one of these service centers.

Which raises a question of well, how much of the audit work are sending to the service center, and then how is that service center overseeing and what's the level of expertise and supervision there, especially if it's, for example, a group in India working on an audit of a company in Canada or the U.S.

How do you make sure that those people are trained on and are aware of what the rules are in the country that the public company is domiciled in? And on governance, it's kind of the same type of thing, you know. What is the composition of the board and are there anyone on that board that's overseeing anything? Do we have the same type of independent board members that oversee compensation and setting a compensation as you see with other public companies?

So and I think -- well, I did send around to a bunch of you the public transparency reports of a number of the firms. But when I read through those reports, I find those reports tend to be more marketing type documents rather than really substantive documents that delve into the audit quality. So have you got any thoughts on that Preeti?

MS. CHOUDHARY: I share that view. I've read a few of them and they give you a little of insight into how the audit firms are governed, you know, internally. But they are not very specific. They're very inconsistent from year to year.

They're certainly very inconsistent across firms, and they might tell you something like, you know, we reviewed X number of engagements for independence, but then we don't hear anything about well here's how many violations there were versus how many, you know, were clean and here's what we did about those violations.

So they kind of give you a very limited view of what's happening. But if we turn to the firm-specific metrics, which I think Bob and I both share a lot of enthusiasm for those, specifically related to human capital in particular, you know, I've had the opportunity to look across some of the PCAOB data that they've gathered across a large number of inspections, and more commonly around the larger eight audit firms.

But I share the view that this human capital quality or aspect of managing human capital within the audit firm seems to be pretty important. So we found some evidence in one of our papers that's recently published in Tar, that retaining an engagement team is significantly associated with audit quality via lower propensities to restate and lower propensities to have Part 1 findings.

In particular, we find that the retention at the level of manager and senior manager is particularly important. So we didn't even just look across the whole engagement team, but specifically at some of the different groups or levels of experience. We're finding that the manager and senior manager are most crucial, whereas the audit partners', you know, retention and experience is less, which is not surprising given they are required to rotate, right?

So we also find in another working paper I have with Jake Sigler that also uses PCAOB data, we find similar evidence that manager and senior managers' contribution to the IT audit is also particularly important and their experience and retention is quite valuable and associated high quality, specifically when the IT environment is more complex.

There's other research out there that finds, in the lists I gave when -- that finds evidence that heavy workloads and less supervision is associated with poor audit quality, consistent with the comments that Bob has given from his experience. And also some evidence that offshoring can reduce audit quality, another point that we've talked about just now.

So there's certainly a variety, or let's say there's a large amount of differences possibly across these audit firms in terms of how they're executing the audit, and it's not necessarily the case that, you know, if you just don't have, you know. There could be substitution effects is what I'm getting at.

You know, maybe if I have less experience from, you know, a manager or senior manager, I make up with that with more review or something like that, and that's totally possible.

But unfortunately we just can't see it. It's not externally visible, and so being able to see some of those tradeoffs is part of the learning process of using the data.

MR. TURNER: Thank you, Preeti. The issue of then AQIs at a specific engagement level is certainly something that the CFA Institute in its survey highlighted on. Any thoughts from either of the three of you with respect to one specific audit engagement AQIs you would use? Again, the PCAOB put together a pretty good list in their list of 28 in their release.

But any thoughts on those and equally important, why you think that would be useful to put in the hands of investors, and I guess Bob, you've talked about a number of these on a human resource level.

MR. CONWAY: Uh-huh.

MR. TURNER: Anything you'd add to what you've already said?

MR. CONWAY: Well, you know, I think the idea here is to get the audit firms competing on, you know, things that have something to do with quality, and clearly the human capital element is an important part of that. What I'd also like to see is the audit firms competing for people, you know, using these metrics. You know, we've got this pipeline issue out there, and I think pay is part of it.

But I think, you know, the environment. Word gets back to the college campuses pretty quickly about auditing being a tough road to go, and so that's why enrollments are down. That's why I think part of the reason we have the pipeline problem, I think they -- is an issue too, and then that kind of intersects with the, you know, the cost pressures.

And so I think these metrics can move the needle. But the fastest-moving component of the needle might be the competition for people. I think, you know, nobody wants to go to work for the firm that has the heaviest workloads, the poorest levels of supervision, you know, highest turnover.

You know, people want to go where they can flourish. So that's, that's kind of my dream. I've got my list of metrics. Maybe there's a way we can submit that under separate cover, or I could just run through them real quickly, either way.

MR. TURNER: Why don't we get you to write us a letter?

MR. CONWAY: Sure.

MR. TURNER: I know you've sent in a couple of letters to the PCAOB, and maybe that would give you a little more time to put them together, and also a discussion of why those things and -- are important to get disclosed.

MR. CONWAY: I'd be happy to do that.

MR. TURNER: Steven, anything specific? You mentioned a few things already. Anything that you want to add?

MR. CONWAY: No. I think, I think for me just, you know, when I look at data, there's three key factors I typically focus on. Typically, you know, understanding where the source and how the data is gathered. Secondly, is it consistent and is it comparable? A lot of times as analysts we look at things year over year.

So we always compare what's, you know, what was done the prior year, and the last thing is relevance, right? Are you able to make some sort of informed judgment from the data and the metrics? So that's -- these are the three key areas.

MR. TURNER: Okay. I've got a couple of things. Independence, I think is, and I think you might have mentioned this Steven. Independence is a critical factor.

MR. YANG: Right.

MR. TURNER: And we know that there's been many violations of the independence rules and we're finally, thank you Ms. Williams, starting to see that in the inspection reports. I know you were -- that's a key item near and dear to your heart Board Member Stein.

So I think it's important that the

firms have to come back and tell us whether or not they've complied with the rules or not, and this notion of well, if we haven't complied but we can get the audit committee to approve it, then we don't have to tell anyone. That's extremely problematic.

So a strong indicator is have they complied with the rules or not, just that simple, because at the top of their report, they said "Report of Independent Auditor," and all too often that's not true. And we need to know if they have violated the rules.

The other thing is the, something about the assessment of client risk, which is noted in the PCAOB report or proposal. It's important because a lot of the audits that the PCAOB inspection reports address seem to be high risk, and you would think that if they were high risk audits, they'd be putting their very best people on them, rather than seeing the high rates of deficiencies that we're seeing, they'd be low rates because their very best possible on supposedly on these high risk audits.

The firms go out and argue that the deficiency rate is abnormal because the PCAOB is picking high risk audits, and if that's the case, then why don't we have the best people on them? If we do, then how are we still having these defects with the very best people on those?

So I think the client risk thing is very important. The last thing I'll mention, and this goes back to the ACAP report, under SOx, you have to rotate the audit partner and quality control review partner and the manager every five years. It's usually a huge red flag when they rotate the manager or any of those people in less than five people.

That raises a question as to why someone's getting rotating off an audit, and all too often in the past it's been because the management team wanted someone else assigned to the audit.

So it would be great both at the audit and at the firm-wide level to have information that tells us how often on an audit or if it occurs on an audit, but also within the firm then, how often were the partners rotated before they were able to fulfill their full five year commitment on that audit? So I would add that thing into it.

One of the big questions we had though was there is a -- there is data here, a fair amount of data and the question becomes, and I'll throw this one in your direction Preeti. If you're going to put this data out there, what format and I'll throw it to you too Steven.

What format do you want to receive that in? If it was me, I don't want to see another Form AP that's a PDF that's non-searchable and all. How, how can we best deliver this information to the capital markets and investors?

MS. CHOUDHARY: That's a great point, because just having the information only gets us part of the way, right? Ideally, we want like a website where you can aggregate the information that permits like, you know, massive downloads of the data, and that way people can aggregate, you know, if they want to look at the office level, if they want to look at the firm level, if they want to look at the region level, or as Steven mentioned before if they want to look at the industry level.

There are different ways to aggregate the data. So making it sort of detailed but with an ability to do a large download will kind of make it the most accessible to a variety of constituents. If there is even a way to have it give you averages or sums across, like I said, industry, audit firm or audit office, that would be even better.

But even you don't do that, I think if it's downloadable, then people should be able to do that kind of simply in Excel or something like that.

MR. TURNER: Steven, you have to deal with bundles of data?

MR. YANG: Yeah, no. A lot of times

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MR. TURNER: What would work well for you?

MR. YANG: Yeah. A lot of times, you know, when I go to find out any information for a company, I go to their Investor Relations website, right? And you know, the information could be gathered from there as a resource. You know, we talked a little bit about maybe there's also in a qualitative commentary, like in part of the MD&A, talking about changing auditors if it's done with, you know, within the parameters of national office.

That's another potential, but those are areas where we typically gather. You know, when I look at digging information for the -- I always go straight to the website for the Investor Relations, for any information.

MR. TURNER: Okay. One last question that I'd received was this data will always be historical in nature. You do the filings in February or March each year for a public company, and the reports, audit reports are filed at that point in time. Any thoughts on getting the data out on a timely basis to investors? What would be a reasonable expectation with respect to how quickly the PCAOB requires this information on a specific engagement? Should it be like 90 days after the audit is complete on a firm-wide level? Should it be once a year? Any thoughts on that from the three of you?

MR. CONWAY: You know, if I -- you look at the normal cycle, it might surprise a lot of people to know that as soon as you finish an audit, the next thing you do is work on the engagement letter and fees for the next audit, and part of what's driving that is the need to retain an auditor. So then the auditor selection can be, you know, built into the proxy.

So ideally, it would be nice to have that information right away, so that informed decisions can be made about auditor retention and auditor ratification. I would like to believe that, you know, a lot of these metrics can be reported rapidly, you know. There may be some fuss about that, but I -- for the information to be useful it needs to be, you know, pretty timely.

And if you can go through the exercise of, you know, producing a 10-K that's signed off as part of an audit, I don't think it's that much more to ask about at least some of these human capital-related metrics be published timely.

MR. TURNER: Okay. Preeti?

MS. CHOUDHARY: Well, I can't speak to how quickly that can be done, but I certainly -- if you take the investors' standpoint, it seems like if you can tell me the CAMs and you can sign off on the audit opinion, I'd like to see if it's in time.

I don't see why it shouldn't be, and specifically about the CAMs, I would hope that then firms might re-think how they do the CAMs in light of the metrics, because maybe the CAMs would give an opportunity to explain, you know, the more complex areas of the audit.

So when you were talking about you'd like to see the best people staffed on the hardest or most complicated audit, and I would like to see some sort of match between how complex, you know, these critical audit matters are and then map into the engagement metric. So it would be nice to have those kind of side by side personally.

MR. TURNER: Okay. Well, we've only got ten minutes left here, so let me throw a couple of questions out. Hey David, I see your question. You've got a question. Go ahead.

MR. PITT-WATSON: Just, just Lynn, just a comment on just the last bit of the discussion. In the UK, we have audit quality reviews, and they are influential. There's some very good things about it and there's some -- there's some issues about them as well. But they really focus the minds of the audit firms if they were getting low marks.

But it wasn't because the investors were going to vote against them on the reappointment of the auditor. It was because when they went for the next bid, the audit committee said that you've got a lower AQR score than the other person. And so I think that was why it was focusing them.

So it's actually played to that commercial nexus that everyone was talking about Lynn, which is that the audited entity is the one that is appointing the auditor, and which is where a lot of the issues arise from. But actually I think the AQRs were hitting that point, and were influential as a result.

I don't think that that's the answer to every problem, but I think it plays a part.

MR. TURNER: Okay. Who is next? Hal? You were pretty quick to the trigger.

MR. SCHROEDER: Thanks, Lynn. I did have one question in this education. These audit quality metrics that we're talking about, are they risk-adjusted? We've talked about different audits having different levels of risk. Are they, are they risk-adjusted, and I'm going back to Bob's earlier comments that talked about we could aggregate audit quality indicators by office.

But then that would favor some offices over others, based on the level of risk for the audits that that particular office was conducting. So I'm just curious as to the degree of difficulty adjustment, if anything?

MR. CONWAY: Yeah. I think that's a good, good question. Yeah, tricky to incorporate, but I think this gets back to the notion that when the metrics are published, I think the firm -- just like issuers do in MD&A, they should, you know, provide some color around the numbers. An important part of that context would be, you know, the risk of the engagement. So I do think it's a good point.

MR. SCHROEDER: Yeah. Bob, I know that I played around with this in some internal data when I was at my old firm, and it was really interesting to see the performance of various engagements some risk metrics that we had developed internally. It was very insightful, and we ended up dropping some clients as a result of it. But I was curious as to whether or not we had factored that in, but thank you.

MR. TURNER: Yeah. How we --

MS. QAMAR: Jennifer is next, and then --

MR. TURNER: Oh.

MS. PETERS: Saba, can I ask my question, because I've had my hand up since the middle of the conversation and it goes sort of hand in hand with what Hal had said, and it's really directed to something that Steven said quite a while ago.

You know, there's a lot of objection to providing engagement level metrics, because you know, the systems are different between the firms and, you know, the network firms collect different data and they don't necessarily talk to each other, and you know, it's impossible to compare one engagement to the other, which gets to Hal's point, right?

What I've said when people have told me that is that, you know, investors are used to adjusting. I mean we're experts at non-GAAP measures and KPIs, and key performance indicators now. I guess I wanted -- Steven made a comment with respect to other metrics, sort of like or by industry. I forget exactly what he said at the time.

I guess my question to you Steven is do you believe that investors can over time adjust for what's necessary to understand these, and that we shouldn't seek perfection in the pursuit of pretty good?

MR. YANG: Yeah, yeah. I think investors will be able to adjust certainly, you know. That's why it's important for me to have some sort of consistent information or metrics so we are familiar with it, and I think we would do, you know. It's not, nothing is going to be perfect in this world, right, because there's a lot of immaterial information as well.

So but to your, you know, the first

part of your question, I do think investors will be able to understand more and adjust to that.

MS. PETERS: Yeah. I want to use the analogy of EBITDA, right? Everybody defines it differently, but investors seem to be able to navigate their way through it with some explanation. I think the same is true here. So you know, I was just curious to see your reaction about whether investors could interpret that. Thank you.

MR. YANG: Yes.

MR. TURNER: Who's next? Saba, who's next?

MR. YANG: So next is Jennifer, then Nemit. I also saw Alicia's hand.

MR. TURNER: Jennifer.

MS. JOE: Yes, thank you. So Bob, thank you for the comments you made about focusing on the members of the audit team, and the issue with the staffing of auditors to address the concerns about equality because like you, I think audit quality is strongly connected to the accounting pipeline challenge. So thank you, and I look forward to your comments on that.

And a question that I have for Steven is the role of investors in demanding higher audit quality and greater commitment from auditors to providing real quality and more informative audits, which you probably could give clearer data than I can on what is the value of firms.

Specifically the total assets, total revenues for FCC filings are in the billions of dollars. Audit fees on the average for SEC filings, registrants, is approximately $3 million less. So here the audit is a credence good because investors are demanding a credence good. If investors wanted more detailed audits and, you know, more information, why aren't we seeing action and activity from investors demanding more information on audit quality and higher quality audits?

There are investor initiatives for a vast array of, you know, things like ESG and different things like that, but I have not seen to date, and I could be wrong -- but I have not seen investor initiative or action on the matter of audit quality disclosures.

MR. YANG: Yeah. Certainly, you know, one of the things I do think the auditors are akin to sort of voices (phonetic), right? So if nothing, you're not seeing bankruptcies or et cetera, you're probably not going to, you know, everything is fine. But as the recent banking crisis have, you know, come into fruition, then people are starting to demand hey, why aren't these information provided?

And it's not -- so my point is that, you know, there will be, you know, as the economy starts to get weak and there's some questionable auditing practices, and you may see more activism in that area. So that might -- hopefully that answers your question.

But it's very difficult, you know. Investors typically focus on one area. Right now, you know, all of last week was focused on interest rates, right, and they kind of moved from certain sectors intention from one area to another, you know. I remember at this time last year, everyone's focused on the Ukraine War, then there's ESGs, you know. Now it's on this interest rate and what sort of concerns about banks.

So but the investors are just, I guess, a nervous Nelly group, and typically. And you know, we always rely on these financial statements as consistent and like to have an unbiased view of these financial statements.

MS. JOE: So to continue, you know, you said that you rely on the financial statements, and investors demanded CAM disclosure. The CAM disclosures have been boilerplate, and yet we haven't seen investor activism pushing back on this. So I just, you know, I know you can't speak for all investors.

MR. YANG: Right.

MS. JOE: But one of the issues I think that is being left out of the conversation is this, you know, that the investors have the strongest bully pulpit, you know, in terms of demanding, right? The PCAOB can act in terms of supplying and enforcing the supply, but the people who are in the power seat for the demand really are you, the shareholders.

MR. TURNER: Jennifer, let me react to that in a couple of ways. First of all, investors like Steve and Amy and Mary here are extremely busy people. They've got portfolios of companies to track, there's phenomenal information on those companies that they have to track throughout the year, because they all report and reach out to management also.

An area like the audit, where the financial statements are quite frankly assumed to be correct because the auditor is putting that report on top of them, and they've got a regulator as well actually to the SEC and the PCAOB in this case, there's somewhat of a notion of prioritizing what you've got to really spend most of your time on. In this area, it's never been that the investors have gone out there wholeheartedly and delved into it, because the data isn't available.

That's what the ACAP came to the conclusion of. Until you get the data out there, you're never going to have this switch from competition on cost to competition on quality, because there's no information about quality out there. And even in the biggest funds like Amy, the security laws are set up that under the notion that they are all big and almighty and they can get whatever information they want out of other private equity funds or whatever.

That just isn't the truth. The people who have the data control the data, and a lot of times you basically have to set off hand grenades and dynamite to get those data out of those places. And so you know, as busy as these people are, the reality is don't expect that to happen and happen all the time. It just isn't going to.

MS. PETERS: Can I add something to that Lynn, just goes from the UK experience and in Europe, post-Carillion and post-Wirecard. If you look at the process, I've devoted substantial time to in the UK to absolutely no avail. I mean we've been hearing that ARG (phonetic) is going to happen for three, four years, right.

And it gets stuck in the political process. We have written letters to BAYS (phonetic) and Jeff joined me in asking for internal, audits of internal control.

(Audio interference.)

MS. PETERS: And so it's just that it takes too long, and sometimes that's not a bug, that's a feature of the process, and investors move on to other things. So and I've had people, I've had people say to investors in the -- or directors and audit committee chairs in the UK, say well investors don't ask many questions about the audit, and I said "but you don't give them anything to ask about."

PARTICIPANT: Exactly.

MS. PETERS: Right? So it's like you need to give them something to ask about and you need to be willing to answer the question. So anyway just, I just had to add to that. Sorry.

(Simultaneous speaking.)

MS. QAMAR: I just want to make sure that we have -- we give others the opportunity to ask questions.

MR. TURNER: Yeah. We'll get back to Nemit here. Real quick if -- Jennifer, if you go back and look at the transcripts of the public hearings on the ACAP, you will see that there was a consistent message from institutional investors that they did want this quality information, and that's why it's in that report.

ACAP recommendations were issued 15 years ago, which goes to Sandy's point of this takes all too long to get this in place, and investors just can't be spending all their time on this. In fact, they're so busy, they've got little time to spend on this, especially when there's no data provided to them. Nemit.

MR. SHROFF: Yeah. Just one quick thing to add with respect to what Jennifer said.

Part of it is also that investors, especially the extremely large ones, are highly diversified. So the risk of fraud for any one company in that portfolio, a few companies in that portfolio is just not, not enough for them to use their capital to actually request information about audits.

But coming to the this panel, I thought it was a great discussion, and like I found myself agreeing many times with a lot of the comments that came out. One thing is given that there are only four audit firms that audit the vast majority of the market cap of U.S. companies, I just -- like I question the value of having indicators, human capital indicators, incentive indicators at the firm level.

If the audit quality indicators were even provided at the audit office level, I think it would have more bite and it could be more useful than the information at the firm level. I mean if the panel can weigh in on that, I think that would be helpful.

MS. CHOUDHARY: I think Nemit we all agree with you, that engagement level metrics are certainly important. But those would be different metrics. they would be, you know, more of the human capital type metrics and things like that.

But you know, I think you know, Daniel's work, he does an excellent job of making the case of looking firm-wide is still also valuable. That's part of what the PCAOB does with our Part 2 findings, and I think that that is very valuable. So I don't think it should be one or the other. I think it should be both.

MR. SHROFF: No, the engagement level I agree is different, but if you cannot get information at the -- if there's pushback, if there's certain information that's not available at the engagement level and the audit office level is another level of granularity that I think where the information would be more useful.

And I'm very familiar with Daniel's work, as you know, right? With some of the descriptive evidence, there is a problem of causality, right? So talking exactly what's causing what, this is relevant. To the extent we're fighting this battle, I think providing information at something that's slightly more granular than the audit firm level, I think, would be a big win.

MR. TURNER: Nemit, you might recall that Elizabeth Mooney from Capital had the same comment about getting data at the office level. I would ask you if when you get a chance, take a look at those quality and transparency reports I sent you. In one of those, there was some what I thought some good data on human capital and training at the firm-wide level.

I'd be very interested in knowing your thoughts on if you see in any of those reports data that you think would be useful. I'd love to hear from you on that once you've had a chance to look at them.

MR. SHROFF: Can I add just one more point to this? Some of this information is already public in terms of Linked In profiles. In academic studies, people have used Linked In profiles to actually reconstruct what the audit teams look like for different, for different firms or even for different audit offices.

If that can be done in a more structured way, you know, using even publicly available data and made available to a broad, to a broad group of investors, I think that also is an avenue to consider.

MR. TURNER: Okay. Sandy, Rich?

MR. RICH: I'd like to follow up on Nemit's conversation. The investment world is not monolithic. 50 percent is passively invested. The remainder of the 50 percent largely is wildly diversified. I mean we are, we are protected far more in our asset allocation than we are from auditors. To be brutally honest, SVB is a perfect example. We lost $600,000. We have 5,000 individual equity positions. We would pay $105 per company to protect us from that loss, and no one's going to give us that underwriting liability. No one will do that.

So I think, you know, you have to be careful about making broad statements about the investment population of these tools. The vast population of investors has no use for them, to be brutal. I would raise the question on AQIs. I think they're very valuable. I'm an audit committee chair. I've been an audit committee chair at multiple public companies. I used them.

But we are, we are a delegated society, right? Investors delegate through their proxy to the directors and the audit committee. Audit committee makes the decisions, and the company deals with the feedback, and we have the PCAOB to watch our, to watch our auditors for us.

You know, not that AQIs are bad. They're good, they're good, we use them. I think it's a lot to ask an investor to review 28 new data points and expect them to integrate it into a fundamental decision, which is overwhelmingly driven by the strategy of the company they're examining.

I was also a PM for 20 years, so I mean I did this. I was with Steven. I was a junk bond guy. So I think it's -- yeah, okay. That's enough.

MR. TURNER: Okay. I think --

MS. DAMLEY: Lynn, Lynn? Lynn, may I add to that please, because you know, I think the data matters and I think what the PCAOB is beginning to provide broadly to the public, ideally in a searchable database format, will be very, very valuable.

But if I think about the ability to influence, the data from the PCAOB is pretty much telling us that all of the top four audit firms plus at least two or three of the next level down, they've all got issues. So if I put my audit committee hat on, I'm looking at this and I'm thinking, well if there's no differentiation, from a commercial perspective, am I not better served to drive the fee down and use the differential in the fee for next year, to add to my insurance coverage?

I think that's a very realistic consideration here, right? So while the tracking is important, absolutely it is in order to be measured. The outcomes, the impact and the outcomes vis-a-vis the audit firms is just as important, and there's a large adjustment process that likely is going to take a little bit of time to come through, as was alluded to or actually explicitly stated in one of the previous presentations we just heard today.

(Simultaneous speaking.)

MS. DAMLEY: So each of these components, each of these are important components, but they can't be viewed as silos. They're not silos. They've got to interact with each other in order for it to be useful. And to think that an investor, whether you're running a $5 billion fund or a $100 million fund, you get to the CEO to talk to them.

I've never, as an investor, had an opportunity to talk to someone on the audit committee, let alone the audit committee chair, to be able to ask some of these questions, right? The expectation is that the audit committee, the audit committee is doing their job, and the board as a whole is doing their job. The financial statements and the discussion around the financial statements typically stops at the CEO and the CFO level. Thank you.

MR. TURNER: Thank you Alicia, but I've got a white paper out there and in fact got a call from a U.S. Senator in the last couple of weeks on it, where I propose that we modify the security laws and drop the requirement for an audit, so it's not government mandated.

And instead, the investors would vote once every three to five years, and if they approve having an audit, they'd have an audit. If they don't want an audit, they don't have to have an audit, but instead the government, the government making that decision, it would be the investors and therefore you'd get a direct link between the investors working for -- or the auditors working for the investors, rather than for management.

But when you talk to investors about dropping the requirement for an audit, they go crazy. So this audit is oh, not so important until all of a sudden if you don't have it, God has just struck lightening, and then all of the sudden you've got their attention like never before. So their behavior doesn't always reflect thoughtful, reasoned approach to things.

Again, they're thinking about their rate of return and to Sandy's point, especially if you've got an indexed type fund, you know, the audit just isn't as important to an indexed fund as some of the other things, and that's what they focus on. That doesn't mean it's actually not as important. In fact, it's darn important and when you start telling them they may not have one unless they vote for it, they've got a different view.

MS. McGARRITY: And it's Amy. I'm sorry, I think we've got to move on. But this has been a really fun, enlightening presentation and panel. So thank you Lynn, Bob, Preeti and Steve. It's really, really helpful and I'm sure it provided plenty of information and ideas for the Board to consider.

So next on our agenda is the IAG's Recommendation to Improve Critical Audit Matters Disclosures. The recommendations follow the IAG discussion on this topic during the June 7th meeting. The purpose of the session was to explore investors' perspectives on the effectiveness of CAMs since its implementation in 2019. Sandy Peters, who is a valued member of the IAG, will provide the recommendations. Sandy, I will give the floor over to you.

MS. PETERS: Great. Someone was asking questions; I was just fielding them for myself. That's good. I talk fast. So as Amy said, the June meeting is what led to our sort of listening to these items, considering some other items and pulling together what we think are recommendations for the PCAOB as it relates to