Public Company Accounting Oversight Board ("PCAOB")   June 7, 2024

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC. 20006-2803

Firm and Engagement Metrics: PCAOB Release No. 2024-002[1]
PCAOB Rulemaking Docket Matter No. 041
Submitted electronically to comments@pcaobus.org

The Institute for Agriculture and Trade Policy ("IATP")[2] appreciates the opportunity to comment on the Firm and Engagement Metrics. IATP is a member of Americans for Financial Reform and a signatory to the AFR Education Fund's ("AFREF") June 7 letter to PCAOB in support of the Release No 2024-002 ("Release").

In support of AFREF recommended improvements to the Release

The AFREF letter states, "There is nothing in the current required [Securities and Exchange Commission] disclosure regime for proxy statements that provides shareholders with useful information concerning the quality of the audit or the audit firm." Because shareholders cannot cast reasoned votes without trust in the audit informing the proxy statement and, in the firm providing that audit, the metrics proposed in the release will assist both shareholders and audit committees to ratify the audit and the auditing firm.

As the Release notes, "Some of the most important elements of a high-quality audit, such as application of due care and professional skepticism, cannot be measured and quantified directly. The proposed metrics employ proxies, such as years of experience, auditor workloads, and percentage of audit hours attributable to more senior members of the audit team, which can only partially capture these concepts." (p. 6) Despite the limits of these

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[1] https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-002-firm-and-engagement-metrics.pdf?sfvrsn=f98148f_2

[2] The Institute for Agriculture and Trade Policy is a 501(c)3 non-profit organization headquartered in Minneapolis, MN, with offices in Washington, D.C. and Berlin, Germany. IATP is a member of Americans for Financial Reform (AFR) and has signed on to several AFR letters to the Securities and Exchange Commission's concerning the SEC's Proposed Rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors." Independently, we also submitted two letters on the Proposed Rule. IATP is a member of the Commodity Futures Trading Commission's Technology Advisory Committee, which on May 2 approved a subcommittee report on the use and risk of artificial intelligence in derivatives markets.
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metrics, when combined with search results from PCAOB's recently enhanced AutoSearch, they can provide investors, the audit committee and other stakeholders with important and timely information, e.g. "starting from the Form AP dataset, users may perform further research on the other accounting firms that participate in an audit, such as whether those firms are registered with the PCAOB, whether they have any publicly available disciplinary history, whether they have been inspected, and, if so, the results of those inspections." (p. 18) Combined with AutoSearch results, the metrics proposed, with suggested improvements in the AFREF letter, will allow shareholders to compare the quality of audits and auditing firms in voting whether to ratify the auditor of an SEC registrant.

Comments on three AFREF recommendations

There are three AFREF recommendations that IATP regards as particularly important to well-informed shareholder decision-making. First is this recommendation: "Include hours spent on the audit by the Engagement Quality Review (EQR) partner and any specialist "engaged but not employed" in total audit hours; exclude or separately show hours spent on interim reviews under AS 4105." It is important for shareholders to understand the accountability structure of the audit, as indicated by the supervising EQR partner and the specialist/s "engaged but not employed."

A specialist who is "engaged but not employed" can be more readily contracted to perform specific tasks supervised by the EQR partner. However, such specialists can also be more readily dismissed during the auditing process, if the results of the specialist's auditing are not consistent with the EQR partner's auditing design and objectives. For example, if a specialist has been engaged to help conduct an audit of a SEC registrant's reported climate related financial risks and opportunities, the specialist's hours dedicated to that task should be disaggregated from the EQR partner's auditing hours, including those hours supervising the engaged specialist's work. If a specialist's contract is to provide the substantive basis for providing an attestation or determination of limited assurance or reasonable assurance of an SEC registrant's climate related financial risks, opportunities and risk management plans, shareholders and the auditing committee will benefit by knowing how much time the specialist dedicated to these tasks and how much time the EQR partner spent in supervising and reviewing the specialist's work.

A second recommendation is "Include procedures designed to uncover fraud in the areas of significant risk; require hours for fraud detection to be disaggregated." One of the use cases for Artificial Intelligence ("AI") applied to financial markets is for fraud detection and prevention in risk management.[3] Although AI product promoters advertise an AI capacity to detect fraud "in seconds," they don't advertise how many hours are dedicated to coding "areas of significant risk" into data surveillance algorithms that AI modifies. Nor, of course, do they advertise fraud detection errors nor the time required to change the AI models in response to those errors and other factors.

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[3] E.g., "Treasury Announces Fraud Recovery Process Using AI Recovers $375 Million in Fiscal Year 2023," February 28, 2024. U.S. Department of Treasury. https://home.treasury.gov/news/press-releases/jy2134

In a survey of why auditors have been reluctant to use AI, even for the most repetitive, though necessary, auditing tasks, one unanticipated (to us) reason was "Inability to access usable client data."[4] Although most auditing firms are likely to begin their use of AI by engaging specialists, it is the EQR partner who will have to persuade clients to make their data both accessible and usable to the auditor, and not just for purposes of fraud detection either within the client's operations or that of its customers and counterparties. Shareholders and auditing committees will appreciate the hours reported by the EQR partner and the specialist regarding data surveillance for possible fraud, even if data surveillance reveals no evidence of fraud within the client's operations or that of its customers and counterparties. The EQR partner will consult with the auditing committee about the procedures used to detect fraud and should also disaggregate hours worked on that facet of fraud detection.

A third recommendation is "Require Form AP and Form FM to be filed using XBRL." Shareholders and auditing committees will appreciate the efficiency and coherence of reporting auditor filings in the machine-readable Extensible Business Reporting Language ("XBRL") rather than the auditing firm used and also machine-readable Extensible Markup Language ("EML"). Filing in one machine language will allow shareholders to compare more efficiently and comprehensively the audit results with reporting in the SEC registrant filings. The comparisons will be useful both for investment decision making and for shareholder voting on whether to retain the auditor. Auditing firms are likely to oppose having to pay for the new software and training personnel to file in a new language. Although auditing firms can pass the software costs on to their clients, training personnel is not just a matter of cost but also of time and experience. If PCAOB decides to adopt this recommendation for its rule, there should be a short phase-in for auditing firm compliance of no more than two years.

Conclusion

The Release notes, "Sarbanes-Oxley authorizes the PCAOB to inspect firms for the purpose of assessing compliance with certain laws, rules, and professional standards in connection with a firm's audit work for issuers, brokers, and dealers. Firms that issue audit reports for more than 100 issuers per year are inspected annually... The PCAOB provides each inspected firm with a report summarizing any deficiencies identified through the inspections process." (p. 16) The Release and the AFREF proposed recommendations, if adopted, will enable more standardized and comparable inspections. The application of Firm and Engagement Metrics to the inspections should assist PCAOB staff to more efficiently and effectively inspect auditing firms with the help of the Metrics and to report firm deficiencies with reference to the Metrics framework. With the aid of PCAOB search engine enhancements and a single machine-readable language, users will not only be able to "analyze and compare more than 3,700 inspection reports" (footnote 36, p. 16) –they will be able to cross reference those inspections with the audited SEC registrants' financial statements and Form 10-K reporting. .

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[4] Anita Dennis, "What AI can do for auditors," *Journal of Accountancy*, February 1, 2024.
https://www.journalofaccountancy.com/issues/2024/feb/what-ai-can-do-for-auditors.html

The Release implements the Sarbanes-Oxley authorities by rulemaking that considers the auditing firms' challenges to and opportunities for using new technologies to present comprehensive, accurate and comparable audits to shareholders and auditing committees. Furthermore, the project history detailed in the Release represents an integration of research and stakeholder consultation that will benefit the auditing community, as well as shareholders and auditing committees. IATP commends the PCAOB and its staff for work very well done.

Respectfully submitted,

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