



June 7, 2024

VIA EMAIL

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

Re: PCAOB Rulemaking Docket Matter No. 41: Proposing Release: Firm and Engagement Metrics

Dear Office of the Secretary:

On behalf of the Colorado Public Employees' Retirement Association (Colorado PERA or PERA), thank you for the opportunity to file this public comment regarding the Public Company Accounting Oversight Board's (Board or PCAOB) proposed release, Firm and Engagement Metrics (F&EM). Colorado PERA has long supported the PCAOB's efforts to implement the recommendation of the Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP) to develop key indicators of audit quality and effectiveness and require auditing firms to publicly disclose those indicators¹. We will take this comment opportunity to highlight areas of the proposal that are particularly beneficial to investors, where we have concerns, and recommendations for metrics not proposed.

Our comments reflect the fiduciary duty we owe the members and beneficiaries of Colorado PERA. Colorado PERA is the state's largest public pension plan, managing approximately \$61 billion in assets under the obligation to enhance the retirement security of nearly 700,000 current and former public employees and their beneficiaries. In fulfilling our fiduciary duty, we prioritize maximizing risk-adjusted returns to the portfolio, while focusing on the long-term financial sustainability of the fund.

PERA broadly supports the PCAOB's F&EM proposal that would require certain PCAOB-registered public accounting firms to publicly report specified metrics relating to audit engagements and practices. We believe industries deliver the best value to customers when there is appropriate competition. By adopting F&EM, the audit industry's competitive focus will gravitate more towards audit quality. We believe this increased competitive focus will lead to greater audit quality, creating value for investors and the capital markets.

Additionally, the F&EM would provide investors with decision-useful information that would assist them in making decisions about audit-related matters, such as ratifying the auditor or voting for reelection of members to a company's audit committee.

¹ United States Department of the Treasury, Final Report, Advisory Committee on the Auditing Profession VIII:14 (Oct. 6, 2008), <https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=1701&context=yvfs-documents>.

Proposed Metrics We Strongly Endorse

We believe the following proposed metrics are beneficial to investors:

Restatement History

We strongly support the proposed restatement history metrics. Restatements due to errors are commonly viewed as an indication of possible issues within certain aspects of a firm's auditing procedures. This proposed firm-level metric would require firms to report restatements of financial statements and management reports on Internal Control over Financial Reporting (ICFR) that the firm audited over the past five years.

Partner and Manager Involvement

We believe that disclosure of hours worked by senior professionals relative to more junior staff across the firm and on the engagement level is valuable. Insufficient supervision heightens the risk of less effective audit procedures, particularly when there's a lower ratio of senior engagement team time to staff time.

Workload

We support implementing this proposed metric to ensure appropriate attention and focus on audit engagements. Heavy workloads may hinder the engagement partner's ability to dedicate sufficient focused attention to an audit engagement.

Experience of Audit Personnel

This proposed metric would require the average number of years worked at a public accounting firm by senior professionals across the firm and on the engagement, which we believe is appropriate.

Industry Experience of Audit Personnel

We believe that it is critical for auditors to have a high level of industry-specific knowledge. This proposed metric would require the average years of experience of senior professionals at the firm level and the engagement level.

Audit Firms' Internal Monitoring

We support the audit firms' internal monitoring metric. The proposed metric would provide useful information into understanding firms' monitoring procedures and outcomes, facilitating comparisons regarding the quantity and types of engagement deficiencies detected.

Operational Narrative Disclosure

We fully support the PCAOB's proposal to allow firms to include a brief narrative disclosure alongside their firm-level and engagement-level metrics. This will ensure stakeholders have access to a more comprehensive understanding of the reported metrics by providing contextual information. Given the importance of this information, we would support modifying the proposed "no more than 500 characters per metric" limitation to "no more than 1,000 characters per metric".

Metrics Not Proposed and Other Recommendations

In addition to the proposed metrics, PERA recommends the Board consider the following additional metrics, alternative reporting, and post-implementation analysis:

Percentage of Firm Revenues Invested in Technology and Training and Development

We recommend including metrics that provide the percentage of firm revenues invested in (a) technology and (b) training and developing to upskill the workforce. We believe these metrics could offer useful information to investors about the firm's commitment to building and maintaining auditor competence and its ability to adapt to future challenges.

PCAOB Inspection Results

We recommend adding a metric to report the percentage of the PCAOB Part 1.A infractions relative to the total inspections. This percentage serves as a key indicator of the audit firm's quality and effectiveness. Although this information is already public, including it with other required metrics would highlight its importance and provide valuable information. Increasing the visibility of the PCAOB's inspection results will increase the importance of the results of the inspection process to audit firms, which we believe will lead to an improvement in overall audit quality.

Inclusion of Proposed Metrics in Audit Reports

We support the PCAOB's alternative of including the proposed metrics in the audit report, in addition to Form AP and Form FM. We agree that this approach offers several benefits to investors, such as reducing the costs of gathering information, providing immediate access to metrics from the auditor's opinion, allowing firms to offer critical context through narratives, and enhancing the metrics' usefulness without impairing their disclosure through other forms.

Data Accessibility

We recommend that data be easily digestible for investors and data aggregators such as academics, proxy advisors, and other vendors.

Post-Implementation Validation of Audit Quality Indicators

We recommend that, following implementation, PCAOB staff conduct analyses to validate the F&EM as true indicators of audit quality. The standard should require a review within three years to allow for the PCAOB to modify the F&EM to utilize the measures that best lead to audit quality.

The PCAOB has recently implemented several new regulations, but there are some concerns that hastily introduced standards may face rapid reversal if they lack thorough consideration, broad support, or clear benefits. We suggest that the PCAOB take sufficient time to develop such crucial rules, as in the case of F&EM, and recommend an extension of the comment period to get the perspective of a broad set of stakeholders.

Furthermore, concerns have been raised about the potential impact of escalating audit fees for small companies. We believe the Board should consider the implications for small firms and

explore methods to mitigate the cost impact for smaller reporters. The PCAOB should also consider that the adoption of F&EM could place smaller audits in a position of competitive disadvantage. If we enter an environment where firms are investing heavily in audit quality, scale could become an even bigger advantage. Extending the implementation period would allow smaller firms to adapt incrementally, ensuring they are not disproportionately affected by the new requirements. Similarly, the PCAOB could identify certain reporting requirements within the proposed F&EMs that could be made optional for smaller firms, without making the entire package optional. We suggest the PCAOB refer to recent SEC rules that include an extended phase-in period and additional optionality for some reporting requirements for smaller firms as a guide.² Another suggestion would be to provide additional training and resources specifically tailored to smaller firms. This could include workshops, online tutorials, and detailed guides that help smaller firms understand and implement the new metrics more efficiently.

In closing, we again thank the PCAOB for proposing the Firm and Engagement Metrics. On behalf of the public employees we serve, we appreciate the Board's consideration of our perspective as an institutional investor prioritizing our fiduciary responsibilities.

Sincerely,

Amy C. McGarrity
Chief Investment Officer / Chief Operating Officer
Colorado Public Employees' Retirement Association

² See for example: Securities and Exchange Commission (SEC). (2024). Enhancement and Standardization of Climate-Related Disclosures for Investors. Final Rule, Release No. 33-11275, 34-99678, File No. S7-10-22. Federal Register, 89 FR 21668, March 28, 2024, <https://www.sec.gov/files/rules/final/2024/33-11275.pdf>