

Via Email

May 30, 2024

Ms. Phoebe W. Brown  
Office of Secretary  
Public Company Accounting Oversight Board  
1616 K Street, NW  
Washington, DC 20006-2803

***PCAOB Rulemaking Docket Matter No. 041, Firm and Engagement Metrics and PCAOB Rulemaking Docket Matter No. 055 Proposing Release: Firm Reporting.***

Dear Secretary Brown:

The Council of Institutional Investors (CII) appreciates the opportunity to share its views and provide input on the Public Company Accounting Oversight Board’s (PCAOB or Board) on the PCAOB’s “Firm and Engagement Metrics” (F&EM Proposal)<sup>1</sup> and “Proposing Release: Firm Reporting” (FR Proposal)<sup>2</sup> (collectively, the Proposals).

CII is 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 \$5 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 fifteen million participants – true “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4.8 trillion in assets, and a range of asset managers with more than \$55 trillion in assets under management.<sup>3</sup>

The remainder of this letter begins with a discussion of CII’s membership-approved policies that we believe are relevant to the issues raised by the Proposals. The letter then applies those policies and related public positions to select provisions of the FR Proposal and then to select provisions of the F&EM Proposal. Both the FR Proposal and F&EM Proposal discussions begin with a bullet point summary of CII views followed by a more detailed discussion in response to select categories of issues raised by the respective Proposals.

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<sup>1</sup> Firm and Engagement Metrics, PCAOB Release No. 2024-002 (Apr. 9, 2024), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket\\_041/2024-002-firm-and-engagement-metrics.pdf?sfvrsn=f98148f\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-002-firm-and-engagement-metrics.pdf?sfvrsn=f98148f_2).

<sup>2</sup> Proposing Release: Firm Reporting, PCAOB Release No. 2024-003 (Apr. 9, 2024), <https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-055/2024-003-firmreporting.pdf>.

<sup>3</sup> 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>.

## CII Policies

As the leading U.S. voice for effective corporate governance and strong shareholder rights, CII believes that accurate and reliable audited financial statements are critical to investors in making informed decisions, and vital to the overall well-being of our capital markets.<sup>4</sup> That belief is reflected in the following CII membership-approved policy on the **Independence of Accounting and Auditing Standard Setters**:

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, 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. . . .

. . . .

. . . [I]nvestors are the key customer of audited financial reports and, . . . therefore, the primary role . . . should be to satisfy in a timely manner investors’ information needs . . . .”<sup>5</sup>

In addition, CII’s membership-approved policy on **Audit Committee Responsibilities Regarding Independent Auditors** states, in part, that:

The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company’s independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. . . . [And the audit committee should evaluate a number of factors when overseeing the independent auditor, including:]

- the experience, expertise and professional skepticism of the audit partner, manager and senior personnel assigned to the audit, and the extent of their involvement in performing the audit
- the incidence and circumstances surrounding a financial restatement, whether at the company or at another company audited by the same firm

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<sup>4</sup> CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), [http://www.cii.org/policies\\_other\\_issues#indep\\_acct\\_audit\\_standards](http://www.cii.org/policies_other_issues#indep_acct_audit_standards).

<sup>5</sup> *Id.*

- the clarity, utility and insights provided in the auditor’s report and the auditor’s letter to management in relation to the audit
- the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm
- enforcement actions (in process or completed), inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators . . . .<sup>6</sup>

CII also has a membership-approved policy on **Shareowner Votes on the Board's Choice of Outside Auditor**.<sup>7</sup> That policy states:

Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. In practice, if the board's selection fails to achieve the support of a significant majority, such as 80%, of the for-and-against votes cast, the audit committee should: (1) solicit the views of major shareowners to determine why a meaningful minority of shareowners dissented from ratification and (2) take the shareowners' views into consideration and reconsider its choice of auditor.<sup>8</sup>

CII also has a membership-approved policy on the **Board’s Role in Strategy and Risk Oversight**.<sup>9</sup> That policy states in relevant part:

In assessing the company’s risk profile, the board should consider company-specific dynamics as well as risks across the industry and any systemic risks. Material risks can stem from many aspects of the business, including, but not limited to, the management of: capital structure, human capital, supply chain relationships, executive compensation, cybersecurity and climate change. While boards organize and divide the risk oversight function in a variety of ways, all directors share ultimate responsibility for effective risk oversight. The board must evaluate the company’s strategy, taking account of material risks, and be willing to take corrective action if . . . performance . . . is inadequate.<sup>10</sup>

Finally, CII has a long-standing, membership-approved policy on **Financial Gatekeepers**.<sup>11</sup> That policy explicitly identifies auditors as “financial ‘gatekeepers.’”<sup>12</sup> The policy indicates that it is imperative that auditors be subject to “[r]obust oversight and [have] genuine accountability

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<sup>6</sup> CII, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (last updated on March 6, 2023), [https://www.cii.org/corp\\_gov\\_policies](https://www.cii.org/corp_gov_policies).

<sup>7</sup> CII, Policies on Corporate Governance, § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor.

<sup>8</sup> *Id.*

<sup>9</sup> CII, Policies on Corporate Governance, § 2.7 Board’s Role in Strategy and Risk Oversight.

<sup>10</sup> *Id.*

<sup>11</sup> CII, Policies on Other Issues, Financial Gatekeepers (adopted Apr. 13, 2010), [https://www.cii.org/policies\\_other\\_issues#fin\\_gatekeepers](https://www.cii.org/policies_other_issues#fin_gatekeepers).

<sup>12</sup> *Id.*

to investors. . . .”<sup>13</sup> The policy also states that the “Sarbanes-Oxley Act of 2002 . . . bolstered the . . . oversight and accountability of accounting firms . . . [and that] [c]ontinued reforms are needed to ensure that the pillars of transparency, independence, oversight and accountability are solidly in place.”<sup>14</sup>

## **FR Proposal**

### Summary of CII’s Views

CII generally supports the FR Proposal which implements a long overdue 2008 recommendation of the U.S. Department of Treasury Advisory Committee on the Auditing Profession (ACAP Report) to require audit firms to uniformly disclose certain information about their organization and operations and for larger audit firms to issue audited financial statements. We believe the FR Proposal could produce significant benefits to investors by providing information they currently don’t have access to that could assist them in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies. For those benefits to be fully achieved, we strongly recommend that the proposed requirement that larger audit firms produce financial statements be revised to require that those financial statements be (1) audited and (2) issued publicly.

A more detailed discussion of our views on the FR Proposal categorized by subject matter follows:

### Proposed Revisions to Annual Report Form (Form 2)<sup>15</sup>

CII generally supports the proposed revisions to Form 2 to require more information from audit firms regarding a number of matters.<sup>16</sup> Three of the most significant proposed revisions to Form 2 relate to: (1) audit firms providing governance information;<sup>17</sup> (2) the largest auditing firms confidentially submitting financial statements to the PCAOB on an annual basis; and (3) a statement on firms’ policies and procedures to identify and manage cybersecurity risks. As indicated by PCAOB Chair Erica Y. Williams, the first two proposed revisions “were called for in the . . . [ACAP Report] and . . . have been recommended by the PCAOB’s Investor Advisory Group [(IAG)] and Emerging Issues Advisory Group.”<sup>18</sup> The ACAP Report recommendation states:

Urge the PCAOB to require that, beginning in 2010, larger auditing firms produce a public annual report incorporating (a) information required by the EU’s Eight

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<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> See PCAOB Release No. 2024-003 at iv-ix (“Form 2 – Annual Report Form”).

<sup>16</sup> *Id.*

<sup>17</sup> See *id.* at vi (“Item 1.4”).

<sup>18</sup> Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams’ Statement on Firm Reporting Proposal (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/chair-williams--statement-on-firm-reporting-proposal#:~:text=For%20the%20second%20time%20today,committees%20with%20consistent%2C%20comparable%20information.>

Directive, Article 40 Transparency Report<sup>19</sup>] deemed appropriate by the PCAOB, and (b) such indicators of audit quality and effectiveness as determined by the PCAOB in accordance with Recommendation 3 in Chapter VIII of this report. Further, urge the PCAOB to require that beginning in 2011, the larger auditing firms file with the PCAOB on a confidential basis audited financial statements.<sup>20</sup>

### *Governance Information*<sup>21</sup>

The proposed revisions to Form 2 on audit firm governance information are similar to some of the public disclosures long required by the European Union Eight Directive, Article 40 Transparency Report (EU Report) contained in the ACAP Report recommendation.<sup>22</sup> More specifically, the EU Report includes disclosure requirements about a description of the legal structure and ownership; and where the audit firm belongs to a network, a description of the network and the legal and structural arrangements in the network.<sup>23</sup>

The ACAP Report found that “[a]uditing firms and investors . . . expressed support for requiring U.S. auditing firms to publish reports similar to the . . . [EU Report].”<sup>24</sup> And it referenced

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<sup>19</sup> DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, Official J. of the Eur. Union, ch. XX, art. 40 (May 17, 2006), <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A32006L0043#d1e1520-87-1> (“1. Member States shall ensure that statutory auditors and audit firms that carry out statutory audit(s) of public-interest entities publish on their websites, within three months of the end of each financial year, annual transparency reports that include at least the following:

- (a) a description of the legal structure and ownership;
- (b) where the audit firm belongs to a network, a description of the network and the legal and structural arrangements in the network;
- (c) a description of the governance structure of the audit firm;
- (d) a description of the internal quality control system of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;
- (e) an indication of when the last quality assurance review referred to in Article 29 took place;
- (f) a list of public-interest entities for which the audit firm has carried out statutory audits during the preceding financial year;
- (g) a statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
- (h) a statement on the policy followed by the audit firm concerning the continuing education of statutory auditors referred to in Article 13;
- (i) financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services;
- (j) information concerning the basis for the partners' remuneration”).

<sup>20</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:20 (Oct. 6, 2008) (on file with CII).

<sup>21</sup> See PCAOB Release No. 2024-003 at vi (“Item 1.4 Audit Firm Governance Information”).

<sup>22</sup> See DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, Official J. of the Eur. Union, ch. XX, art. 40.

<sup>23</sup> *Id.*

<sup>24</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:21.

supporting statements, including that of James S. Turley, the then chair and CEO of Ernst & Young LLP.<sup>25</sup>

In 2018 we endorsed the ACAP Report recommendation in a comment letter to the Securities and Exchange Commission (SEC) in response to “Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships”<sup>26</sup>(June 2018 Letter).<sup>27</sup> The June 2018 Letter referenced our policy on **Financial Gatekeepers** and recommended “the SEC *require* that, beginning in 2019, the larger U.S. auditing firms . . . [produce public reports that include, among other disclosures, a discussion of:] How they define the U.S. firm’s relationship with foreign affiliates . . . [and] [h]ow they have designed the firm’s governance and structure . . . .”<sup>28</sup> The June 2018 Letter concluded by stating that “[w]e believe these long overdue improvements to audit firm governance would supplement the SEC’s auditor independence rules and improve the efficient functioning of the U.S. capital markets.”<sup>29</sup>

In 2020 we referenced our policies on **Independence of Accounting and Auditing Standard Setters, Audit Committee Responsibilities Regarding Independent Auditors, and Shareowner Votes on the Board's Choice of Outside Auditor** in a comment letter to the PCAOB in response to the “Concept Release, Potential Approach to Revisions to PCAOB Quality Control Standards”<sup>30</sup> (March 2020 Letter).<sup>31</sup> The March 2020 Letter included a reiteration, with some minor modifications, of the recommendation contained in the June 2018 Letter.<sup>32</sup>

Generally consistent with the views expressed in the June 2018 Letter and the March 2020 Letter, we support the proposed revisions to Form 2 regarding “Audit Firm Governance Information.”<sup>33</sup>

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<sup>25</sup> See *id.* at VII:21 n.91 (“suggesting the PCAOB require auditing firms to publish transparency reports like the European Union’s Article 40 Transparency Report”).

<sup>26</sup> Auditor Independence With Respect to Certain Loans or Debtor-Creditor Relationships, Securities Act Release No. 10,491, Exchange Act Release No. 83,157, Investment Company Act Release No. 33,091, Investment Advisor Act Release No. 4,904, 83 Fed. Reg. 20,753 (proposed May 8, 2018), <https://www.gpo.gov/fdsys/pkg/FR-2018-05-08/pdf/2018-09721.pdf>.

<sup>27</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Brent J. Fields, Secretary, Securities and Exchange Commission 5-7 (June 28, 2018), [https://www.cii.org/files/June%2028%202018%20letter%20to%20SEC%20\(finalJPM\).pdf](https://www.cii.org/files/June%2028%202018%20letter%20to%20SEC%20(finalJPM).pdf).

<sup>28</sup> *Id.* at 9-10.

<sup>29</sup> *Id.* at 10.

<sup>30</sup> Concept Release, Potential Approach to Revisions to PCAOB Quality Control Standards, PCAOB Release No. 2019-003 (Dec. 17, 2019), <https://pcaobus.org/Rulemaking/Docket046/2019-003-Quality-Control-Concept-Release.pdf>.

<sup>31</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB 1-2, 8 (Mar. 19, 2020), [https://www.cii.org/files/issues\\_and\\_advocacy/correspondence/2020/March%2019%202020%20PCAOB%20Letter.pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/2020/March%2019%202020%20PCAOB%20Letter.pdf).

<sup>32</sup> See *id.* at 7 (“Our 2018 recommendation outlining the proposed requirements is set forth below with minor modifications, including the addition of the AQI’s referenced in our response to question 21 above.”).

<sup>33</sup> PCAOB Release No. 2024-003 at vi.

We generally agree with the PCAOB:

[That the existing] . . . voluntary transparency reports have not resolved the present opacity with respect to audit firm structure, governance, and operations [and the proposed revisions] . . . can mitigate the lack of transparency through enhanced governance reporting requirements, which would also increase standardization of the information available.<sup>34</sup>

We also generally agree with the PCAOB:

[T]hat enhanced governance information would allow *investors*, audit committees, and other stakeholders to better understand the practices of firms and differentiate among firms with respect to, for example, leadership, oversight of the audit practice, oversight of auditor independence practices, and board of directors composition, including independence of directors. Governance reporting would provide more information to allow stakeholders to understand internal firm processes and priorities that may influence a firm’s provision of audit services. For example, independent governance of registered firms has long been suggested as a means of improving audit quality. In that context, disclosure of the . . . firm’s audit oversight function would therefore inform stakeholders of a governance mechanism that they may consider relevant to audit quality, which would align with our goal of improving the ability of stakeholders to understand an audit firm and assess its services. Governance information would also provide a more comprehensive lens through which to view and understand other, more granular firm and engagement-level metrics including those being proposed in the PCAOB’s [F&EM Proposal] . . . project. In addition, requiring this information through a reporting requirement would increase the standardization, and therefore comparability, of information available to *investors*, audit committees, other stakeholders, and the PCAOB.

. . . .

. . . Moreover, public reporting on governance processes may lead to increased engagement between audit firms and audit committees, *investors*, and other stakeholders, which may similarly influence a firm’s approach to governance.<sup>35</sup>

### *Financial Statements*<sup>36</sup>

At the outset, we note that proposed revisions to Form 2 requiring certain large audit firms to “confidentially file with the Board financial statements[] for the fiscal year”<sup>37</sup> is generally consistent with the ACAP Report recommendation requiring that “beginning in 2011, the larger auditing firms file with the PCAOB on a confidential basis audited financial statements . . . .”<sup>38</sup>

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<sup>34</sup> *Id.* at 28-29.

<sup>35</sup> *Id.* at 30-32 (emphasis added & footnotes omitted).

<sup>36</sup> *See id.* at i-ii (“Rule 2208”).

<sup>37</sup> *Id.* at viii.

<sup>38</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:21.

And we generally agree with the PCAOB’s proposed definition of a larger firm to include one “that has issued more than 200 audit reports for issuers and has more than 1,000 personnel during the preceding Form 2 reporting period”<sup>39</sup> “because the role those firms play in the audit market and the value of having their financial statements available . . . for . . . use . . . such as . . . detectable unexplained changes in a firm’s financial health.”<sup>40</sup> We, however, respectfully request that the proposed revisions be amended in at least two ways, both of which are generally consistent with the following views in the June 2018 Letter and the March 2020 Letter: (1) requiring the financial statements to be audited; and (2) requiring the audited financial statements to be made publicly available.<sup>41</sup>

*(1) Audited*

In support of our first proposed revision, we note that the ACAP Report’s recommendation explicitly required “audited” financial statements. And many prominent investors supported the ACAP Report’s recommendation on this point including Dennis Johnson, then senior portfolio manager, corporate governance, California Public Employees’ Retirement System; Paul G. Haaga, Jr., then vice Chair, Capital Research and Management Company; and John Biggs former CEO and Chairman, TIAA-CREF.<sup>42</sup>

In addition, as described in the FR Proposal, members of the PCAOB’s IAG have long expressed support for the ACAP Report recommendation and at a 2017 meeting of the IAG, the “members recommended by unanimous consent that the Big Four provide annual *audited* financial statements.”<sup>43</sup> This information is relevant to CII’s analysis of the application of our policies, particularly those on **Independence of Accounting and Auditing Standard Setters and Audit Committee Responsibilities Regarding Independent Auditors**, to the proposed financial statement provisions of the FR Proposal.

*(2) Publicly Available*

In further support of our first proposed revision and in support of our second proposed revision, we note that for more than a dozen years auditing firms in the United Kingdom (UK) have publicly issued annual reports containing audited financial statements. One recent example we

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<sup>39</sup> PCAOB Release No. 2024-003 at i.

<sup>40</sup> *Id.* at 86.

<sup>41</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Brent J. Fields, Secretary, Securities and Exchange Commission at 9 (“Produce public annual reports incorporating:[] Audited financial statements of the firm prepared in accordance with U.S. generally accepted accounting principles . . . .”); Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB at 7 (recommending public annual reports containing “[a]udited financial statements of the firm prepared in accordance with U.S. generally accepted accounting principles . . . .”).

<sup>42</sup> See Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:22 n.93.

<sup>43</sup> Steven B. Harris, Board Member, PCAOB, Address at the 2017 International Institute on Audit Regulation: Audit Industry Concentration and Potential Implications (Dec. 7, 2017), [https://pcaobus.org/news-events/speeches/speech-detail/audit-industry-concentration-and-potential-implications\\_674](https://pcaobus.org/news-events/speeches/speech-detail/audit-industry-concentration-and-potential-implications_674) (emphasis added).



reviewed was the PricewaterhouseCoopers LLP UK publicly issued “financial statements for the financial year ended 30 June 2023”<sup>44</sup> audited by “Crowe U.K. LLP.”<sup>45</sup>

We believe that many investors would find that some aspects of the audited financial statements and related footnotes of PricewaterhouseCoopers LLP UK provide useful information when making proxy voting decisions or in exercising their oversight responsibilities of public company audit committees. We also believe many investors would find that some aspects of the accompanying independent auditor’s report provide useful information when making proxy voting decisions or in exercising their oversight responsibilities of public company audit committees, including the report’s discussion of “*materiality*”<sup>46</sup> and the key audit matters on “*Revenue recognition and the valuation of contract assets*”<sup>47</sup> and “*Provisions for claims and regulatory proceedings*”<sup>48</sup> and the related findings of Crowe UK LLP.

We also note that the “Co-Chairs Statement” contained in the ACAP Report penned by former SEC Chairman Arthur Levitt, Jr. and former SEC Chief Accountant and Senior PricewaterhouseCoopers LLP Partner Donald T. Nicolaisen endorsed a revised version of the ACAP Report recommendation to “require that at least the largest auditing firms . . . make *audited* financial statements available . . . to . . . *the investing public*.”<sup>49</sup> In support of their recommendation, the former SEC Chairman and SEC Chief Accountant explained:

The largest auditing firms play a vital role in ensuring the integrity of our capital markets and fairness requires that if a handful of these firms dominate the public company audit market, they should be transparent and provide a level of financial reporting that is generally comparable to that of the public companies they audit.<sup>50</sup>

In the June 2018 Letter, we explicitly agreed with the recommendation and reasoning of Levitt and Nicolaisen<sup>51</sup> and in the March 2020 letter we reiterated our support for that recommendation.<sup>52</sup>

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<sup>44</sup> UK Annual Report 2023, PricewaterhouseCoopers LLP, Members’ Report on Financial Statements for the Financial Year Ended 30 June 2023 at 1 (2023), <https://www.pwc.co.uk/annualreport/assets/2023/pwc-uk-financial-statements-2023.pdf>.

<sup>45</sup> *Id.* at 8.

<sup>46</sup> *Id.* at 5.

<sup>47</sup> *Id.* at 6.

<sup>48</sup> *Id.*

<sup>49</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at II:9 (emphasis added).

<sup>50</sup> *Id.*

<sup>51</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Brent J. Fields, Secretary, Securities and Exchange Commission at 7, 9 (referencing to and agreeing with the joint statement of the “Co-Chairs of the ACAP” regarding making audited financial statements available to the investing public).

<sup>52</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB at 7 (recommending public annual reports containing “[a]udited financial statements of the firm prepared in accordance with U.S. generally accepted accounting principles . . .”).

*Cybersecurity Risks*<sup>53</sup>

We support the proposed revision to Form 2 requiring a “Statement on Policies and Procedures to Identify and Manage Cybersecurity Risks.”<sup>54</sup> We believe the proposed revision reflects the importance our members assign to cybersecurity risk as evidenced by our policy on **Board’s Role in Strategy and Risk Oversight** and as reflected in our May 2022 comment letter to the SEC in support of their “proposed new rules . . . on cybersecurity risk management, strategy, governance and incident disclosure.”<sup>55</sup>

We agree with the PCAOB that “reporting of such information would inform . . . *investors*, audit committees, and other stakeholders of critical information regarding the potential for disruptions of audit firm operations that may impact the provision of audit services and indicate potential compromises of individual or issuer information, and information regarding the audit firm’s management of cybersecurity risk that would inform decision-making and risk assessment.”<sup>56</sup>

We also agree with the PCAOB:

[T]hat *investors*, audit committees, other stakeholders, . . . would benefit from information regarding a firm’s policies and procedures related to cybersecurity risks. Such information would allow all parties to assess and understand a firm’s vulnerability to cybersecurity incidents that may ultimately: (1) expose issuer data to third parties and/or bad actors, and/or (2) impact audit firm operations or audit quality.”<sup>57</sup>

Finally, we also agree with the PCAOB:

The proposed disclosures . . . would provide *investors* and audit committees with information to understand efforts taken to protect an issuer’s confidential data. The proposed disclosures would also facilitate differentiation among firms based on information that could help *investors* and audit committees assess a firm’s vulnerability to cyberattacks, which could impact a firm’s operations and ability to continue delivering quality audit services.<sup>58</sup>

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<sup>53</sup> See PCAOB Release No. 2024-003 at vi (“Item 1.5”).

<sup>54</sup> *Id.*

<sup>55</sup> Letter from Tracy Stewart, Director of Research, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission (May 9, 2022), [https://www.cii.org/files/05\\_09\\_22\\_SEC\\_cyber\\_letter.pdf](https://www.cii.org/files/05_09_22_SEC_cyber_letter.pdf).

<sup>56</sup> Release No. 2024-003 at 18 (emphasis added).

<sup>57</sup> *Id.* at 40 (emphasis added).

<sup>58</sup> *Id.* at 75 (emphasis added & footnotes omitted).

Proposed New Form “Update to the Statement of Applicant’s Quality Control Policies and Procedures”<sup>59</sup> (Form QCPP)<sup>60</sup>

We support the proposed new Form QCPP. As indicated in the March 2020 Letter, “we believe a future PCAOB QC standard should require public disclosure by firms about their QC systems.”<sup>61</sup> Similarly, in 2023 we referenced CII policies, including our policies on **Independence of Accounting and Auditing Standard Setters, Audit Committee Responsibilities Regarding Independent Auditors, and Shareowner Votes on the Board’s Choice of Outside Auditor**, in a comment letter to the PCAOB in response to “A Firm’s System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms”<sup>62</sup> (January 2023 Letter).<sup>63</sup> The January 2023 Letter states:

- We believe there is plenty of information in the QC Form that would be beneficial to investors for investment or proxy voting decisions even if all information about deficiencies was omitted;
- We observe the Proposal purports to “be in the interest of investors” by denying them information they have asked for and cites no basis in support for that point of view;
- We believe the logic of the Proposal’s approach is circular: It creates a QC Form, includes information subject to mandatory confidentiality obligations, then uses those obligations to justify non-disclosure to investors;
- We believe the Proposal’s approach appears inconsistent with the practice of the PCAOB in other areas, including inspection reports which specifically acknowledge the incompleteness of the information and caution against excessive reliance;
- We believe the overall benefits of the Proposal would be reduced without public issuance of the QC Form to investors because, in part, the PCAOB would already be aware of deficiencies in the firm’s QC systems and of related firm remediation efforts prior to the release of the Form QC.

In our view, public disclosure of incomplete information to investors about the firms’ QC systems is superior to no disclosure . . . .<sup>64</sup>

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<sup>59</sup> *Id.* at 6.

<sup>60</sup> *See id.* at xvi-xviii.

<sup>61</sup> Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB at 6.

<sup>62</sup> A Firm’s System of Quality Control And Other Proposed Amendments to PCAOB Standards, Rules, and Forms, PCAOB Release No. 2022-006 (Nov. 18, 2022), [https://pcaob-assets.azureedge.net/pcaob-dev/docs/defaultsource/rulemaking/docket046/2022-006-qc.pdf?sfvrsn=b89546e2\\_2](https://pcaob-assets.azureedge.net/pcaob-dev/docs/defaultsource/rulemaking/docket046/2022-006-qc.pdf?sfvrsn=b89546e2_2).

<sup>63</sup> *See* Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB 1-5 (Jan. 19, 2023), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/5\\_cii.pdf?sfvrsn=69b3e6bd\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/5_cii.pdf?sfvrsn=69b3e6bd_4).

<sup>64</sup> *Id.* at 14-15 (footnotes omitted).

We generally agree with the PCAOB that:

[I]t is important that firms update the statement regarding their quality control policies and procedures, originally made in connection with their registration application, to reflect the changes to their policies and procedures made in response to the new quality control standard. . . . [And] it would increase transparency to *investors* . . . who could then evaluate whether and how firms are addressing QC 1000.<sup>65</sup>

### Proposed Economic Analysis<sup>66</sup>

CII generally believes the economic benefits of the FR Proposal to investors exceed the costs. As indicated, we believe the proposed disclosures would provide significant benefits to investors by providing them with information they currently don't have access to.<sup>67</sup> And we believe that information could assist investors in making more informed voting decisions about whether to approve the ratification of the auditor as recommended in the ACAP Report<sup>68</sup> and supported by our policy on **Shareowner Votes on the Board's Choice of Outside Auditor**, or the election or reelection of the audit committee chair or members. The proposed disclosures, as amended, would also benefit investors in exercising their oversight responsibilities of public company audit committees as supported by our policy on **Audit Committee Responsibilities Regarding Independent Auditors**.

We generally agree with the PCAOB that the FR Proposal required disclosures:

[W]ould facilitate better-informed appointment decisions and monitoring by audit committees and better-informed appointment ratification decisions and monitoring by *investors* because the disclosures would enhance audit firm transparency with a cost-effective source of standardized information across firms and over time. To the extent that firm operating characteristics provide *investors* and audit committees with information to assess a firm's capacity, incentives and constraints, the proposed disclosures would serve as a potential resource for more reliable audit

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<sup>65</sup> PCAOB Release No. 2024-003 at 42 (emphasis added).

<sup>66</sup> *See id.* at 42-86.

<sup>67</sup> *See, e.g.*, Kara M. Stein, Board Member, PCAOB Open Board Meeting, Building Transparency about Factors Influencing Audit Performance: Proposal to Require Reporting of Firm and Engagement Metrics (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/building-transparency-about-factors-influencing-audit-performance--proposal-to-require-reporting-of-firm-and-engagement-metrics> (“It is often said that auditing is a ‘credence good,’ that is, its operation and qualities are hard to observe [and] [t]his is because investors . . . lack the information available to auditors, and the companies they audit, about what auditors do and how they do it.”).

<sup>68</sup> *See* Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:20 (recommending adoption of shareholder ratification of public company auditors by all public companies and noting that “[e]ven though ratification . . . is non-binding . . . experts consider this a best practice serving as a ‘check’ on the audit committee”).

committee appointment of the firm and *investor* ratification of the appointment proposal.

. . . [W]ould benefit [investors] by being enabled to more efficiently and effectively evaluate firms.

. . . Standardization of the proposed disclosures would decrease *investors'* and audit committees' search costs and monitoring costs.

. . . In addition to assisting *investors* with their appointment ratification votes and monitoring an audit firm, the proposed disclosures would assist *investors* in monitoring and evaluating the audit committee. The audit committee is responsible for overseeing the firm and the proposed disclosures may assist *investors* in determining whether the audit committee is effective in this role . . . . Enhanced *investor* monitoring of the audit committee could improve audit committee effectiveness.

. . . [E]ither individually or taken together with other factors, . . . [the proposed disclosures] enhance the information environment for *investors* and audit committees.<sup>69</sup>

In addition, we generally agree with PCAOB Chair Williams that the FR Proposal would benefit investors in the following ways:

[It would] strengthen the PCAOB's ability to protect *investors*, while also providing *investors* with additional data to inform their own decisions and empowering audit committees with consistent data to analyze and compare as they are selecting and monitoring audit firms.<sup>70</sup>

Similarly, we generally agree with PCAOB Board Member, Kara M. Stein who stated that the FR Proposal "will provide information that *investors*, audit committees, and others in the financial markets can better understand and evaluate their auditor and the audit process."<sup>71</sup>

Finally, we also generally agree with PCAOB Board Member, Anthony C. Thompson, that:

[I]*investors* and other stakeholders, including audit committees, will have more information to consider in their evaluation of firms. This is particularly important

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<sup>69</sup> PCAOB Release No. 2024-002 at 62-64 (emphasis added & footnotes omitted).

<sup>70</sup> Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams' Statement on Firm Reporting Proposal (emphasis added).

<sup>71</sup> Kara M. Stein, Board Member, PCAOB Open Board Meeting, Investor Protection and Understanding Audit Firms: The Proposal to Enhance Firm Reporting (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/investor-protection-and-understanding-audit-firms--the-proposal-to-enhance-firm-reporting> (emphasis added).

in the common public company process that leads to the appointment of an audit firm, and then *shareholder* vote on ratification of such appointment.<sup>72</sup>

## **F&EM Proposal**

### Summary of CII's Views

CII generally supports the F&EM Proposal which, like the FR Proposal, implements a long overdue 2008 recommendation of the ACAP Report to provide investors with decision-useful metrics about audit firms and individual audits. We believe the proposed metrics would provide significant benefits to investors by providing information they currently don't have access to. And we believe that such information could assist investors in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies.

We recommend several improvements to the F&EM Proposal for the Board's consideration, including:

- Requiring a metric not proposed: Percentage of PCAOB Part 1.A infractions of the total tested.
- Requiring metrics to be disclosed in both the Form AP and Form FM *and* in the auditor's report.
- Amending the proposed audit firm's voluntary narrative disclosures from no more than 500 words per metric to no more than 1,000 words per metric.
- Post-implementation actions:
  - Providing high quality tools to search and analyze the metrics;
  - Conducting and releasing research on the metrics to show how they might be used by investors; and
  - Establishing a process of periodic reviews to allow for potential improvements to the metrics.

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<sup>72</sup> Anthony C. Thompson, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm Reporting (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-reporting-proposal-thompson> (emphasis added).

A more detailed discussion of our views on the F&EM Proposal categorized by subject matter follows:

### Proposed Metrics

In 2008 the ACAP Report included the following recommendation relating to firm and engagement metrics:

Recommend the PCAOB, in consultation with auditors, investors public companies, audit committees, board of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators. Assuming development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.<sup>73</sup>

The recommendation was based on the ACAP Report’s findings that the public disclosures of key indicators could enhance “the ability of smaller auditing firms to compete with larger auditing firms, auditor choice, *shareholder* decision-making related to ratification of audit selection, and PCAOB oversight of registered auditing firms.”<sup>74</sup>

As indicated in the F&EM Proposal, the IAG has a long history of supporting PCAOB action to implement the ACAP Report recommendation.<sup>75</sup> That history, which is relevant to CII’s analysis of the application of our policies, particularly those on **Independence of Accounting and Auditing Standard Setters** and **Audit Committee Responsibilities Regarding Independent Auditors**, to the proposed metrics of the F&EM Proposal includes:

- “At its October 2013 IAG Meeting, the IAG working group on audit quality indicators made recommendations for the PCAOB to prescribe informative, forward-looking disclosures and indicators intended to measure the quality of audits and enhance auditor accountability. They argued that investors and audit committees generally care more about the quality and credibility of audit work on specific engagements—the companies in which they have invested or were considering investing, or the company on whose board of directors they served—rather than firms’ more general efforts to improve quality. Accordingly, in addition to disclosures and metrics to be reported at the firm level, they also recommended disclosures and metrics to be reported at the engagement level.”<sup>76</sup>

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<sup>73</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:14.

<sup>74</sup> *Id.* at VIII:15 (emphasis added).

<sup>75</sup> See PCAOB Release No. 2024-002 at 9-12; George R. Botic, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm and Engagement Metrics Proposal (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-and-engagement-metrics-proposal> (“Our . . . IAG . . . have discussed the topic at multiple meetings and provided valuable input and perspectives [and] [t]hat history, as acknowledged in the release, underscores how strongly investors and other stakeholders have sought this type of information”).

<sup>76</sup> PCAOB Release No. 2024-002 at 9 (footnote omitted).

- “At the October 2017 IAG meeting, an IAG working group discussed three topics: (i) why audit quality and AQIs [audit quality indicators] matter to investors, (ii) the PCAOB’s authority and efforts to date to enact AQIs, and (iii) audit quality initiatives in other jurisdictions. The 2017 working group also endorsed the 2013 AQI working group’s recommendations.”<sup>77</sup>
- “[At the] October 2022 . . . IAG meeting[], several members indicated that stakeholders continue to be interested in firm and engagement metrics. Some members of the IAG . . . requested increased information at the firm and engagement levels through easily accessible and quantified metrics, potentially with accompanying context provided by the auditors.”<sup>78</sup>
- “Additionally, in a January 2023 comment letter on the PCAOB’s proposed quality control project [(January 2023 IAG Letter)],<sup>79</sup> members of the IAG advocated for ‘a minimum requirement of eight indicators.’ These eight indicators were (i) staffing leverage; (ii) partner workload; (iii) manager and staff workload; (iv) audit hours and risk areas; (v) quality ratings and compensation; (vi) audit fees, effort, and client risk; (vii) audit firm’s internal quality review results; and (viii) PCAOB inspection results.”<sup>80</sup>

Like the IAG, CII has a long history of supporting PCAOB action to implement the ACAP Report recommendation regarding firm and engagement reporting metrics.<sup>81</sup> That history began with CII’s September 2015 comment letter to the PCAOB in response to the “Concept Release on Audit Quality Indicators”<sup>82</sup> (September 2015 Letter).<sup>83</sup>

The September 2015 Letter referenced CII policies on **Independence of Accounting and Auditing Standard Setters, Audit Committee Responsibilities Regarding Independent Auditors, and Shareowner Votes on the Board's Choice of Outside Auditor**<sup>84</sup> in “strongly

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<sup>77</sup> *Id.* (footnote omitted).

<sup>78</sup> *Id.* at 11.

<sup>79</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB 5 (Jan. 13, 2023), [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/4\\_iag.pdf?sfvrsn=1941e7c0\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/4_iag.pdf?sfvrsn=1941e7c0_4).

<sup>80</sup> PCAOB Release No. 2024-002 at 11-12 (footnote omitted).

<sup>81</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board 4 (Sept. 17, 2015),

[https://www.cii.org/files/issues\\_and\\_advocacy/correspondence/2015/09\\_17\\_15\\_PCAOB\\_letter.pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/2015/09_17_15_PCAOB_letter.pdf) (“Generally consistent with our policies, CII strongly supports the Board’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 requiring auditing firms to publicly disclose those indicators [AQI’s].”); Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB at 4-5 (referencing the “ACAP” recommendation and CII’s “2015 Letter”); Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 4-5 ((referencing the “ACAP” recommendation and CII’s “2015 Letter”).

<sup>82</sup> Concept Release on Audit Quality Indicators, Notice of Roundtable, PCAOB Release No. 2015-005 (July 1, 2015), [http://pcaobus.org/Rules/Rulemaking/Docket%20041/Release\\_2015\\_005.pdf](http://pcaobus.org/Rules/Rulemaking/Docket%20041/Release_2015_005.pdf).

<sup>83</sup> Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 6-10 (discussing “ACAP” recommendation relating to audit quality indicators).

<sup>84</sup> *Id.* at 1-4.



support[ing] the Board’s efforts to implement the recommendation of [ACAP Report] . . . .”<sup>85</sup> The September 2015 Letter also expressed general support for six firm and engagement metrics including: “Partner Workload,”<sup>86</sup> “Experience of Audit Personnel,”<sup>87</sup> “PCAOB Inspection Results,”<sup>88</sup> “Frequency and Impact of Financial Statement Restatement for Errors,”<sup>89</sup> “Timely Reporting of Internal Control Weaknesses,”<sup>90</sup> and “Results of Independent Surveys of Audit Committee Members.”<sup>91</sup>

The March 2020 Letter again referenced CII policies on **Independence of Accounting and Auditing Standard Setters, Audit Committee Responsibilities Regarding Independent Auditors, and Shareowner Votes on the Board's Choice of Outside Auditor** and reiterated the September 2015 Letter’s support for the ACAP Report recommendation.<sup>92</sup> The March 2020 Letter also stated that “[w]e also believe that, at a minimum, two performance measures . . . should be required: (1) a ‘workload’ measure; and (2) an ‘experience’ measure.”<sup>93</sup>

Finally, the January 2023 Letter also included references to CII policies on **Independence of Accounting and Auditing Standard Setters, Audit Committee Responsibilities Regarding Independent Auditors, and Shareowner Votes on the Board's Choice of Outside Auditor** and the March 2020 Letter.<sup>94</sup> The January 2023 Letter stated:

[W]e would also respectfully request that . . . performance metrics should, at a minimum, include (1) a “workload” measure; and (2) an “experience” measure. It is our expectation that additional measures will be added following the completion of the Board’s current project entitled “Firm and Engagement Performance Metrics.”<sup>95</sup>

Generally consistent with the above referenced CII policies and the September 2015 Letter, the March 2020 Letter, the January 2023 Letter, and the January 2013 IAG Letter, we support the following seven proposed metrics and one metric not proposed:

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<sup>85</sup> *Id.* at 4.

<sup>86</sup> Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, PCAOB at 7 (footnote omitted).

<sup>87</sup> *Id.* at 8 (footnote omitted).

<sup>88</sup> *Id.* at 9 (footnote omitted).

<sup>89</sup> *Id.* (footnote omitted).

<sup>90</sup> *Id.* at 10 (footnote omitted).

<sup>91</sup> *Id.* (footnote omitted).

<sup>92</sup> *Id.* at 4.

<sup>93</sup> *Id.* (footnotes omitted).

<sup>94</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 2-4, 12.

<sup>95</sup> *Id.* at 12.

*Partner and Manager Involvement*<sup>96</sup>

We support the proposed partner and manager involvement metrics. We believe, generally consistent with the September 2015 Letter,<sup>97</sup> the March 2020 Letter,<sup>98</sup> the January 2023 Letter,<sup>99</sup> and the January 2023 IAG Letter,<sup>100</sup> that the proposed disclosure of hours worked by senior professionals relative to more junior staff across the firm and on the engagement level is valuable. We agree with the PCAOB that “[l]ess extensive supervision raises the risk of less effective audit procedures [and] [w]ith a lower ratio of senior management team time to staff time, the risk may be greater that partners and managers may not have sufficient time to supervise and review staff work and evaluate audit judgments.”<sup>101</sup>

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<sup>96</sup> See PCAOB Release No. 2024-002 at A1-5 (“Total audit hours for partners and managers on the engagement team as a percentage of total audit hours for all issuer engagements for which the Firm issued an audit report during the 12-month period ended September 30.”); *see id.* at A2-6 (“Total audit hours for partners and managers on the engagement team as a percentage of total audit hours.”).

<sup>97</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 7 (generally agreeing that “[t]he figures generated by [a similar metric] . . . can help . . . aid understanding of the implications of division of a partner’s attention among several audit clients and competing deadlines.”).

<sup>98</sup> See Letter from Jeffrey P. Mahoney, General Council to Office of Secretary, PCAOB at 5 (“Generally consistent with the view of CAQ and the recent comment letter of Robert A. Conway, we believe an appropriate determination and quantification of a workload measure for the achievement of quality objectives could be the amount of hours incurred over 40 hours per week as a percentage of total hours incurred for partners and each level of the engagement team staff.”).

<sup>99</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 12 (noting “that the Board acknowledges in the Proposal that . . . ‘research finds that a heavier workload in the fieldwork phase of the audit is negatively associated with proxies for audit quality and that high levels of time pressure are positively associated with audit quality threatening behaviors’”).

<sup>100</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting “[t]he ‘staffing leverage’ indicator measur[ing] the time of experienced senior personnel relative to the volume of audit work they oversee”).

<sup>101</sup> PCAOB Release No. 2024-002 at 38.

### *Workload*<sup>102</sup>

We support, again generally consistent with the September 2015 Letter,<sup>103</sup> the March 2020 Letter,<sup>104</sup> the January 2023 Letter,<sup>105</sup> and the January 2023 IAG Letter,<sup>106</sup> implementing the proposed workload metrics to ensure appropriate attention and focus on audit engagements. We agree with the PCAOB that “in general, the greater the workload, the greater the likelihood that members of the engagement team may have insufficient time to appropriately perform the necessary audit procedures and make the appropriate judgments that an audit requires.”<sup>107</sup>

### *Experience of Audit Personnel*<sup>108</sup>

The proposed experience of audit personnel metrics 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. We support, generally consistent with the

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<sup>102</sup> See *id.* at A1-5-A1-6 (“Average weekly hours worked by the Firm’s (i) engagement partners and (ii) partners (excluding engagement partners preceding 12-month period ended September 30 (e.g., September 30, 20XX, June 30, 20XX, March 31, 20XX, and December 31, 20YY).”); see *id.* at A2-6 (“Average weekly hours worked (i) the engagement partners and (ii) partners (excluding engagement partner), managers, and staff, on the core engagement team, calculated for each of the preceding three fiscal quarters up to the *issuer’s* fiscal year end and the portion of the final fiscal quarter of the engagement through the issuance of the audit report.”).

<sup>103</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 7 (noting “that the Center for Audit Quality . . . appears to support requiring the disclosure of a partner workload AQI, explaining: ‘Workload related indicators could assist . . . in better understanding whether engagement teams have appropriate time to perform the audit, review and supervise the audit work, and address difficult issues, if and why they arise.’”).

<sup>104</sup> See Letter from Jeffrey P. Mahoney, General Counsel to Office of Secretary, PCAOB at 5 (noting “the linkage between a workload measure and audit quality is supported by academic research indicating that concerns can arise when senior managers work long hours.”).

<sup>105</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 12 (noting that “four of the eight metrics proposed by the MIAG focus on workload or experience metrics consistent with our recommendation . . .”).

<sup>106</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting a “‘partner workload’ indicator generat[ing] data about the level of work for which the audit engagement partner is responsible and the number of claims on his or her attention” and an “indicator [that] would provide information about the workload of audit managers and audit staff.”).

<sup>107</sup> See PCAOB Release No. 2024-002 at 41.

<sup>108</sup> See *id.* at A1-6 (“Average experience at a public accounting firm for the Firm’s (i) engagement partners and (ii) partners (excluding engagement partners) and managers, as of September 30.”); see *id.* at A2-9 (“Experience of Audit Personnel for the following individuals and groups: (i) Total experience at a public accounting firm of the engagement partner; (ii) Total experience at a public accounting firm of the engagement quality reviewer, and (iii) Average experience at a public accounting firm of the core engagement team who are partners (excluding the engagement partner) and managers”).

September 2015 Letter,<sup>109</sup> the March 2020 Letter,<sup>110</sup> and the January 2023 Letter,<sup>111</sup> implementing the proposed experience of audit personnel metric.

We generally agree with the PCAOB that the “auditor’s years of experience at a public accounting firm may provide useful information about how the auditor approaches the audit.”<sup>112</sup> And “requiring [a] metric on years of experience at a public accounting firm may provide incremental information by providing a uniform method of calculating and enabling comparisons across firms and engagements.”<sup>113</sup>

#### *Audit Hours and Risk Areas*<sup>114</sup>

We support, generally consistent with the January 2023 IAG Letter,<sup>115</sup> the proposed audit hours and risk areas metric on an engagement-only basis. We generally agree with the Board that “this metric would provide information regarding the extent to which partners and managers focused on areas that present a higher overall risk of material misstatement to the financial statements.”<sup>116</sup>

#### *Quality Performance Ratings and Compensation*<sup>117</sup>

We support, generally consistent with the January 2023 IAG Letter,<sup>118</sup> the proposed firm level only quality performance ratings and compensation metrics. We agree with the PCAOB that “comparing the relationship between internal firm quality performance ratings and changes in

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<sup>109</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 8 (“We generally agree with the Release that: ‘Auditors with relevant experience, both in general and with a particular client, may be able to approach the audit in a more knowledgeable and effective manner.’”).

<sup>110</sup> See Letter from Jeffrey P. Mahoney, General Council to Office of Secretary, PCAOB at 5 (“the potential benefits of an experience measure to the achievement of quality objectives was also recognized by the ACAP in the development of its recommendation . . .”).

<sup>111</sup> See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 12 (“We . . . note that the Board acknowledges in the Proposal that . . . the ‘experience . . . of engagement partners . . . could impact the risks of noncompliance with applicable professional and legal requirements associated with an engagement, either positively or negatively.’”).

<sup>112</sup> PCAOB Release No. 2024-002 at 56.

<sup>113</sup> *Id.* at 57.

<sup>114</sup> See *id.* at A2-12 (“The sum of total audit hours incurred in areas of significant risk, critical accounting policies and practices, and critical accounting estimates, by all partners and managers on the engagement team as a percentage of total audit hours incurred by partners and managers on the engagement team.”).

<sup>115</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an “indicator [that] measures the time spent by members of the audit team at all levels on risk areas identified by the firm during audit planning.”).

<sup>116</sup> PCAOB Release No. 2024-002 at 80.

<sup>117</sup> See *id.* at A1-12 (“Provides the potential correlation between the Firm’s partner quality performance ratings and annual compensation adjustments based on the Firm’s most recent annual performance evaluation and compensation adjustment process completed during the reporting period.”).

<sup>118</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an “indicator [that] measures the potential correlation between high quality ratings and compensation increases and the comparative relationship between low quality ratings and compensation increases or decreases.”).

compensation levels could provide evidence of the extent of any correlation between quality performance ratings and compensation, and thereby provide an important signal of the value of a quality commitment for the firm.”<sup>119</sup>

#### *Audit Firms’ Internal Monitoring*<sup>120</sup>

We support, generally consistent with the January 2023 IAG Letter,<sup>121</sup> the proposed audit firms’ internal monitoring metric. We generally agree with the PCAOB that “this metric would provide useful information to assist in understanding firms’ monitoring processes and results and would also allow for comparisons regarding the volume and nature of engagement deficiencies identified.”<sup>122</sup>

#### *Restatement History*<sup>123</sup>

We support, generally consistent with the September 2015 Letter,<sup>124</sup> the proposed restatement history metric. We generally agree with the Board that this firm-level only metric “would provide a strong measure against which other metrics may be identified in the future.”<sup>125</sup>

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<sup>119</sup> PCAOB Release No. 2024-002 at 87.

<sup>120</sup> *See id.* at A1-13-A1-14 (“Provide, for the Firm’s most recent internal monitoring cycle completed during the reporting period, (i) the period covered by such internal monitoring cycle, (ii) the percentage of *issuer* engagements that were selected for internal monitoring in the cycle, and (iii) the percentage of internally inspected issuer engagements where the Firm identified an engagement deficiency.”); *see id.* at A2-14 (“Identify whether a previous engagement for this issuer was selected for internal monitoring in the firm’s most recently completed internal monitoring cycle and, if so, provide (i) the year end of the engagement monitored and (ii) whether the firm identified any engagement deficiencies [and] [i]f any engagement deficiencies were identified, identify (iii) the nature of the deficiencies (i.e., (a) whether the engagement deficiency relates to a financial statement line item, a disclosure, or other noncompliance with applicable professional and legal requirements, (b) the area of noncompliance, and (c) the type of deficiency (e.g., control design or effectiveness testing, test of details, or the applicable professional or legal requirement with which noncompliance was identified).”).

<sup>121</sup> *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an “[i]ndicator [that] contains information about the internal quality reviews conducted by each audit firm”).

<sup>122</sup> PCAOB Release No. 2024-002 at 94.

<sup>123</sup> *See id.* at A1-15 (“For each of the last five 12-month periods ended September 30, provide the following: (i) The number of audit reports initially issued by the Firm during that 12-month period, in connection with which any of the following subsequently occurred: (a) revision restatement of the financial statements for errors (b) reissuance restatement of the financial statements for errors (c) reissuance of management’s report on ICFR disclosing an additional material weakness or additional elements to a previously disclosed material weakness[] (ii) Total issuer engagements for which the Firm initially issued audit reports during that 12-month period[] (iii) Total issuer engagements for which the Firm initially issued audit reports expressing an opinion on internal control over financial reporting during that 12-month period.”).

<sup>124</sup> *See* Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 9 (“We generally agree with the Release that: ‘The number and impact of restatements for errors . . . are generally considered a signal criterion of potential difficulties in at least parts of an auditor’s practice and approach to auditing.’”).

<sup>125</sup> PCAOB Release No. 2024-002 at 101.

### *Additional Metric CII Supports*

In addition to the proposed metrics, we respectfully recommend the Board consider an additional metric that was not proposed: The percentage of PCAOB Part 1.A infractions to the total tested. We understand that this information is already publicly available,<sup>126</sup> but we believe, generally consistent with the September 2015 Letter<sup>127</sup> and the January 2023 IAG Letter,<sup>128</sup> that including this metric with the other required metrics would appropriately increase the prominence of this valuable information.

### Proposed Public Reporting

As indicated, the CII and the IAG have long histories of supporting PCAOB action to implement the ACAP Report recommendation that explicitly calls for “requiring auditing firms to *publicly* disclose . . . [firm and engagement metrics].”<sup>129</sup> We generally agree with the PCAOB that there are a number of reasons why the proposed metrics should be required to be disclosed publicly, including the following:

- They “would advance *investor* protection and promote the public interest by enabling stakeholders to make better-informed decisions, promoting auditor accountability and ultimately enhancing capital allocation and confidence in our capital markets.”<sup>130</sup>
- They “would create a useful dataset available to *investors* and other stakeholders for analysis and comparison.”<sup>131</sup>
- They “would provide *investors*, audit committees, and other stakeholders with information that would otherwise be difficult or impossible to obtain.”<sup>132</sup>

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<sup>126</sup> See PCAOB, Firm Inspection Reports (last visited May 25, 2024), <https://pcaobus.org/oversight/inspections/firm-inspection-reports#:~:text=One%20filtering%20option%20available%20below,appeared%20that%20the%20firm%2C%20at> (“One filtering option available below is for ‘Part I.A deficiency rate[.]’ [and] [t]his data point indicates, as a percentage of the number of audits reviewed in a particular inspection, the number of audits with respect to which the inspection identified audit deficiencies of such significance that it appeared that the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer’s financial statements and/or internal control over financial reporting.”).

<sup>127</sup> See Letter from Jeff Mahoney, General Counsel, CII to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 9 (“We generally agree with the Release that: ‘[PCAOB Inspection results] can provide insight, in their Part I findings . . . about breakdowns that may cause audit deficiencies.’”).

<sup>128</sup> See Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an “indicator [that] contains information about PCAOB inspection results relating to the engagement or the audit firm involved.”).

<sup>129</sup> Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:14 (emphasis added).

<sup>130</sup> PCAOB Release No. 2024-002 at 3 (emphasis added).

<sup>131</sup> *Id.*

<sup>132</sup> *Id.* at 23 (emphasis added).

- They would “[c]ollectively, . . . when used in conjunction with other publicly available data . . . facilitate stakeholders’ ability to assess the audit and hence the credibility of financial reporting.”<sup>133</sup>
- They would “provide *investors* and other stakeholders with useful information about auditors, and will provide a basis of comparison for the . . . metrics.”<sup>134</sup>
- They “would further the public interest and would serve to inform *investors* and other stakeholders.”<sup>135</sup>
- They “would be directly responsive to [the PCAOB’s] . . . statutory mandate to ‘further the public interest in the preparation of informative . . . audit reports.’”<sup>136</sup>
- They would “result[] [in] comparability [that] would further aid *investor* and audit committee decision making.”<sup>137</sup>
- They would “advance a fundamental purpose of this rulemaking—public disclosure of new information about audits and auditors [and] . . . public disclosure is consistent with Sarbanes-Oxley.”<sup>138</sup>

Finally, we generally agree with the PCAOB that “[b]ecause these proposed metrics would be public, the increased reputational risk they bring for auditors may, in turn, create incremental incentives for auditors that would be subject to the proposed requirements to maintain their reputation, or face a loss of business, thereby increasing accountability.”<sup>139</sup>

#### Proposed Audit Firms to Report

We generally support the following proposed requirements for certain audit firms to report the proposed metrics:

- “Requir[ing] reporting of firm-level metrics annually on a new Form FM, *Firm Metrics*, pursuant to a new Rule 2203C, *Firm Metrics*, [<sup>140</sup>] for firms that serve as lead auditor for at least one accelerated filer or large accelerated filer; [and]
- Requir[ing] reporting of engagement-level metrics for audits of accelerated filers and large accelerated filers on a revised Form AP, which would be renamed “Audit Participants and Metrics’ . . . .”<sup>141</sup>

We generally agree with the PCAOB on focusing “reporting requirements on situations where . . . additional perspective about the audit and the auditor would be most likely to inform the

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<sup>133</sup> *Id.* at 24.

<sup>134</sup> *Id.* at 110 (emphasis added).

<sup>135</sup> *Id.* at 115 (emphasis added).

<sup>136</sup> *Id.* at 113.

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 114.

<sup>139</sup> *Id.* at 135.

<sup>140</sup> *Id.* at A1-1.

<sup>141</sup> *Id.* at 5.

investment and proxy voting decisions that *investors* are called upon to make.”<sup>142</sup> We also agree with the PCAOB that the proposed requirements would appropriately apply to the audits, and auditors, of companies that account for the overwhelming majority of U.S. public company market capitalization, and . . . would capture the situations where investment and proxy voting decisions would be most likely to benefit from additional information about the audit and the auditor.”<sup>143</sup>

We also generally support the proposed provision “[a]llow[ing], but not requir[ing], limited narrative disclosures on both Form FM and Form AP to provide context and explanation for the required metrics.”<sup>144</sup> We believe this provision is generally consistent with the March 2020 Letter<sup>145</sup> and could be a critical element of the proposal because it provides the audit firms the opportunity to ensure that investors have access to a potentially more comprehensive understanding of the reported metrics by providing contextual information. More specifically, we generally agree with the PCAOB that this proposed voluntary audit firm disclosure could:

- “[G]ive firms the ability to provide any context they thought necessary for an appropriate understanding of the reported metrics”<sup>146</sup> and
- “[S]erve as a prime opportunity for the firm to communicate critical context through narratives that might be beneficial for *investors* in reviewing the proposed metrics.”<sup>147</sup>

Given the potential importance of this proposed provision, we would not object if the Board revised the proposed “no more than 500 characters per metric”<sup>148</sup> limitation to “no more than a 1,000 characters per metric.”

Finally, we would generally support the PCAOB’s alternative of requiring the proposed metrics to be included in the audit report, *in addition to*, the proposed Form AP and Form FM.<sup>149</sup> We note that this approach is generally consistent with language in our policy on **Audit Committee Responsibilities Regarding Independent Auditors**. And we generally agree with the PCAOB that this alternative has a number of potential benefits to investors, including:

- “Costs incurred by *investors* and audit committees when gathering information to inform their decision-making could be further reduced.”<sup>150</sup>
- “*Investors* would be able to look down from the auditor’s opinion and immediately review the proposed metrics.”<sup>151</sup>

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<sup>142</sup> *Id.* (emphasis added).

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

<sup>145</sup> See Letter from Jeffrey P. Mahoney, General Council to Office of Secretary, PCAOB at 8 (proposing that the public “[d]isclosure of required and voluntary . . . key indicators [include] . . . [r]elated qualitative information”).

<sup>146</sup> PCAOB Release No. 2024-002 at 29.

<sup>147</sup> *Id.* at 178 (emphasis added).

<sup>148</sup> *Id.* at 29.

<sup>149</sup> See *id.* at 178.

<sup>150</sup> *Id.* (emphasis added).

<sup>151</sup> *Id.* (emphasis added).



- “[The alternative] . . . would serve as a prime opportunity for the firm to communicate critical context through narratives that might be beneficial for *investors* in reviewing the proposed metrics.”<sup>152</sup>
- “The disclosure of the proposed metrics in the audit report would not impair the usefulness of their disclosure through Form AP and Form FM.”<sup>153</sup>
- “[S]uch additional reporting may enhance their usefulness by setting the proposed metrics within the full context of the issuer’s financial reporting.”<sup>154</sup>
- “There likely would not be appreciable costs associated with this additional reporting, outside of costs to include the report in the filing of the audit opinion.”<sup>155</sup>

### Proposed Economic Analysis

We generally believe the economic benefits of the F&EM Proposal to investors, including after adopting our proposed amendments, exceed the costs. We generally agree with the PCAOB that:

The proposed metrics would enhance (1) audit committees’ ability to efficiently and effectively monitor and select auditors as well as (2) *investors*’ ability to efficiently and effectively make decisions about ratifying the appointment of their auditors and allocating capital. Moreover, there would likely be improvements to the PCAOB’s oversight programs (i.e., selection of firms, engagements, and focus areas for review), as well as to policy research. As an important indirect benefit, the proposal could further spur competition to the benefit of *investors*. These impacts could improve audit quality.<sup>156</sup>

We also generally agree with PCAOB Chair Williams that the benefits of the F&EM Proposal to investors includes:

- “Consistent, comparable information about audit firms and the issuers they audit [that] bolsters confidence, strengthens oversight, and empowers *investors* and audit committees to make more informed decisions and help drive audit quality forward.”<sup>157</sup>
- “Collectively, these metrics would help *investors* make more informed decisions . . . [a]nd they would provide audit committees with consistent data to analyze and compare as they are selecting and monitoring audit firms.”<sup>158</sup>

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<sup>152</sup> *Id.* (emphasis added).

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *Id.* at 137 (emphasis added).

<sup>157</sup> Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams’ Statement on Firm and Engagement Metrics Proposal (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/chair-williams--statement-on-firm-and-engagement-metrics-proposal> (emphasis added).

<sup>158</sup> *Id.* (emphasis added).

We also generally agree with PCAOB Board Member George R. Botic that the benefits of the F&EM Proposal to investors:

- “[C]an be boiled down to one concept: a need for increased transparency into the audit process. This means transparency for *investors*, for audit committee members, and for other users of financial statements. This transparency, in turn, fuels trust in those financial statements, in their audits, in the auditor, and ultimately in the auditing profession.”<sup>159</sup>
- “[E]xtend to other areas within our larger mission of *investor* protection and the public interest. Those benefits will evolve over time.”<sup>160</sup>

We also generally agree with PCAOB Board Member Stein that the benefits of the F&EM Proposal to investors include that:

- “[I]t is a crucial step in increasing transparency for *investors* . . . and the capital markets overall.”<sup>161</sup>
- “[The] recommendation . . . will:
  - provide information that will strengthen *investor* protection,
  - promote better informed decisions in the oversight of auditors by their clients,
  - increase auditor accountability, and
  - enhance confidence in our public capital markets.”<sup>162</sup>
- “[I]*investors* and other stakeholders lack the information available to auditors, and the companies they audit, about what auditors do and how they do it.”<sup>163</sup>
- “[A] data-driven understanding of the conditions for auditing can benefit . . . *investors* and . . . [i]t will put everyone on a more equal footing in exercising their responsibilities and understanding the audit environment.”<sup>164</sup>

Finally, we generally agree with PCAOB Board Member Anthony C. Thompson that the benefits of the F&EM Proposal to investors include:

*Investors* would now be able to horizontally compare metrics across engagements and firms. This is a level of insight not currently available in the market. These metrics, in particular at the engagement level, would bring a new level of

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<sup>159</sup> George R. Botic, Board Member, PCAOB Open Board Meeting, Statement in Support of Firm and Engagement Metrics Proposal (emphasis added).

<sup>160</sup> *Id.* (emphasis added).

<sup>161</sup> Kara M. Stein, Board Member, PCAOB Open Board Meeting, Building Transparency about Factors Influencing Audit Performance: Proposal to Require Reporting of Firm and Engagement Metrics (emphasis added).

<sup>162</sup> *Id.* (emphasis added).

<sup>163</sup> *Id.* (emphasis added).

<sup>164</sup> *Id.* (emphasis added).

transparency allowing firms to publicly demonstrate the level of audit quality they profess to provide.<sup>165</sup>

### Post-Implementation

We believe that following the implementation of a final standard on F&EM, the PCAOB staff should consider a number of ways to amplify the value of the new metrics resulting from the standard by:

- (1) providing high quality tools to search and analyze the metrics;
- (2) conducting and releasing research on the metrics to show how they might be used by investors; and
- (3) establishing a process of periodic reviews of the metrics to allow for potential improvements.

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We appreciate the opportunity to provide CII's investor-focused perspective on the Proposals. Please let me know if you have any questions about the content of this letter.

Sincerely,



Jeffrey P. Mahoney  
General Counsel

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<sup>165</sup> Anthony C. Thompson, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm and Engagement Metrics Proposal (Apr. 9, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-and-engagement-metrics> (emphasis added).