Council of Institutional Investors®
The voice of corporate governance

Via Email

October 20, 2022

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

Re: Request for Information and Comment on the Application and Use of the PCAOB Interim Attestation Standards

Dear Madam Secretary:

The Council of Institutional Investors (CII) appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (PCAOB or Board) in response to the Request for Information and Comment on the Application and Use of the PCAOB Interim Attestation Standards (RFC).[1]

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 $4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $4 trillion in assets, and a range of asset managers with more than $40 trillion in assets under management.[2]

Those CII policies that we believe may be most relevant to the PCAOB and issues raised by the RFC include the following:

CII Policies

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

[1] *See* PCAOB, Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards (Sept. 26, 2022), https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/standards/staff-request-for-comment/rfc-application-use-interim-attestation-standards.pdf?sfvrsn=fd791256_2.
[2] 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.

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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. The result should be timely, transparent and understandable financial reports.

The Council of Institutional Investors has consistently supported the view that the responsibility to promulgate . . . auditing standards should reside with independent organizations.

. . . .

In order to be high quality, . . . auditing standards must be seen as meeting the needs of the investing public, and the standard[-]setting process must be independent and free from undue influence. Attributes that underpin an effective . . . auditing standard setter include:

- **Recognition of the Role of Reporting** – A recognition that . . . the quality of auditing . . . is a public good, necessary to investor confidence in individual enterprises and the global capital markets as a whole; . . .
- **Accountability to Investors** – A clear recognition that investors are the key customer[s] of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs (this includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups);
- **Due Process** – A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards; . . .[3]

Statement on Corporate Disclosure of Sustainability Performance

Investors increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures in order to better understand how nonfinancial metrics can impact business and profitability. CII believes that independent, private sector standard setters should have the central role in helping companies fill that need. Market participants, non-governmental organizations and governments can aid the success of these standard setters by supporting their independence and long-term viability, attributes of which include: stable and secure funding; deep technical expertise at both the staff and board

[3] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.

> levels; accountability to investors; open and rigorous due process for the development of new standards; and adequate protection from external interference.
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> CII encourages companies to disclose standardized metrics established by independent, private sector standard setters along with reporting mandated by applicable securities regulations to better ensure investors have the information they need to make informed investment and proxy voting decisions. CII believes those standards that focus on materiality, and take into account appropriate sector and industry considerations, are more likely to meet investors' needs for useful and comparable information about sustainability performance. CII also believes that over time, companies should obtain external assurance of the sustainability performance information they provide.[4]

In light of these and other membership-approved policies and related CII public positions, we offer the following comments in response to the RFC:

At the outset, CII applauds the PCAOB for "requesting information and public comment on matters relating the application and use of the Board's interim attestation standards."[5] We believe the RFC is responsive, at least in part, to the following views expressed in our comment letter in response to "Request for Public Comment – PCAOB Draft Plan 2022-2026":[6]

> We are pleased that the Board "expect[s] to propose and adopt numerous amendments and new standards over the coming years, in accordance with [its] . . . standard-setting and research agendas [and] . . . plan[s] to evaluate certain existing standards to determine whether they are outmoded." Consistent with our policy on Independence of Accounting and Auditing Standard Setters, we agree with Securities and Exchange Commission (SEC) Chair Gary Gensler's recent remarks about PCAOB standard setting:
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>> First, the Enron crisis revealed a key problem: the quality of auditing standards.
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>> Candidly, the relationships between issuers and auditors, between standard-setters and auditing firms, were too clubby.
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>> It matters who sets the standards. It matters who "audits the auditors."

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[4] Council of Institutional Investors, Policies on Other Issues, Statement on Corporate Disclosure of Sustainability Performance (adopted Sept. 22, 2020), https://www.cii.org/policies_other_issues#sustainability_disclosure.
[5] PCAOB, Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards at 3.
[6] Request for Comment, Draft 2022-2026 PCAOB Strategic Plan, PCAOB Release No. 2022-003 (Aug. 16, 2022), https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/2022-003-rfc-draftstrategicplan.pdf?sfvrsn=fdc9859a_4/%202022-003-RFC-DraftStrategicPlan.pdf; PCAOB, Strategic Plan, 2022-2026, Draft for Comment (Aug. 2022), https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/draft-2022-2026-strategic-plan.pdf?sfvrsn=65f830db_4/%20Draft-2022-2026-Strategic-Plan.pdf.

> Auditing standards were set by the American Institute of Certified Public Accountants (AICPA), a professional association. The profession was writing its own rules. That's an inherent conflict.
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> . . . .
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> To correct course, the Sarbanes-Oxley Act established the Public Company Accounting Oversight Board (PCAOB), an independently funded board under the regulatory oversight of the SEC.
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> The PCAOB is tasked with setting enhanced auditing standards. For practical purposes, Congress permitted the then-new PCAOB to carry over existing AICPA standards on an interim basis. The expectation was that the Board would produce a more appropriate set of standards going forward.
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> Historically, though, the PCAOB has been too slow to update auditing standards.
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> Twenty years later, most of those interim standards remain.
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> In May 2022, the PCAOB announced that it plans to update almost all of the remaining interim standards. I look forward to these critical auditing standard updates.

> [CII supports] . . . prioritizing, as requested by Chair Gensler, the Board's standard setting project on "Interim Standards," . . . .[7]

We note that the RFC explicitly directs two questions to investors. Those two questions and our responses thereto follow:

3. What attestation reports do investors find to be most useful in making investment decisions? Please provide details.[8]

Public company investors do not have much interaction with attestation reports. For certain situations, the AT 201, 301, 401, 601, and 701 attestation reports[9] are likely important, but we believe improving the fundamental standard, AT 101,[10] should be the initial focus of the

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[7] Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Office of the Secretary, PCAOB 4-5 (Sept. 15, 2022), https://www.cii.org/files/issues_and_advocacy/correspondence/2022/September%2015,%202022%20PCAOB%20letter%20(final).pdf.
[8] PCAOB, Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards at 6 (emphasis added).
[9] *See id.* at 4-5.
[10] PCAOB, Attestation Standards, AT Section 101 (last visited Oct. 17, 2022), https://pcaobus.org/oversight/standards/attestation-standards/details/AT101.

PCAOB's modernization efforts. From an investor's perspective, AT 101 appears too vague and lacks concrete requirements for an attestation engagement.

4. Could changes to PCAOB attestation standards help to inform or protect investors? Please provide details.[11]

We note that AT 101 is an interim standard developed by the AICPA over thirty years ago. It is an auditor-derived standard and is clearly in need of an update focused on modern practices and investors' interests.

An update of AT 101 might include, for example, consideration of: the need for testing as opposed to just inquiry; coordination with the audit of the financial statements; and whether the level of evidence obtained needs to be persuasive for reaching a conclusion with respect to the assurance provided. An updated AT 101 might also provide consistency with PCAOB auditing standards with respect to documentation, evidence, and an understanding of the matter assurance is being provided for with respect to, among other factors, the business, staffing, supervision, and audit findings.

As part of the PCAOB's update of AT 101, we believe the PCAOB should also consider developing and issuing attestation guidance or standards that would cover voluntary sustainability disclosures. We note that the most recent Center for Audit Quality (CAQ) analysis of sustainability related reporting and attestation at S&P 500 companies found that approximately 93% of S&P 500 companies reported sustainability disclosures for periods ending in 2020.[12]

More than 60% of the 2020 companies obtained assurance over some of the sustainability information.[13] Of those 288 companies that obtained assurance, 43 obtained assurance from public company auditors and 245 obtained assurance from other assurance/verification providers.[14] This is an increase from a similar analysis conducted by the CAQ of the most recent publicly available sustainability reports as of June 18, 2021, that showed that only 264 companies obtained assurance.[15] Of those companies, only 31 obtained assurance from a public company auditor and 235 obtained assurance from other assurance or verification providers.[16]

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[11] PCAOB, Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards at 6 (emphasis added).
[12] *See* Center for Audit Quality, S&P 500 ESG Reporting (Oct. 2022), https://www.thecaq.org/sp-500-and-esg-reporting/ ("93% of companies issued an ESG report using at least one framework or standard").
[13] *Id.* ("60%+ of companies obtained assurance over some ESG information").
[14] *Id.* ("Of the companies that obtained assurance, 43 obtained assurance from public company auditors and 245 obtained assurance from other assurance/verification providers.").
[15] *Id.* ("A similar analysis conducted by the CAQ of the most recent publicly available ESG reports as of June 18th, 2021 (which consisted largely of 2019 and 2020 ESG reports), showed that 264 companies obtained assurance."); *see* Center for Audit Quality, Publications, S&P 500 and ESG Reporting (Aug. 9, 2021), https://www.thecaq.org/sp-500-and-esg-reporting-2019-2020/ ("More than half of S&P 500 companies (264 companies) had some form of assurance or verification over ESG metrics.").
[16] *See* Center for Audit Quality, Publications, S&P 500 and ESG Reporting (*"*Approximately 6% of companies had assurance from a public company audit firm and 47% of companies had assurance from an engineering or consulting firm ('other provider') that was not a CPA firm.").

Leading companies who used public company auditors to provide assurance over certain sustainability information include: Google, Netflix, Salesforce, Kinder Morgan, Coca Cola, Verizon, UPS, and Johnson & Johnson. And the public company auditor firms primarily used the AICPA attestation standards.[17]

We believe that generally consistent with our Statement on Corporate Disclosure of Sustainability Performance, over time investors are likely to increase their demand for sustainability disclosure attestation services.[18] And generally consistent with our policy on Independence of Accounting and Auditing Standard Setters, we believe the Board should be responsive to that demand from their key customer by considering the development and issuance of attestation guidance or standards for voluntary sustainability disclosures. In our view, such guidance or standards could better ensure that investors receive accurate sustainability information. And we also believe that without such guidance or standards, investors could be subject to heightened risks with respect to the credibility of the sustainability information they receive.

Finally, we note that most investors have little knowledge of attestation reports, and even fewer have ever read through the requirements of AT 101. The lack of auditing knowledge among investors remains high. We, therefore, recommend the PCAOB focus more of its resources and collaborate with professional investor organizations and academic institutions to help the investor community improve their understanding of auditing and the audit process.

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CII appreciates the opportunity to submit comments on this important matter and is available to provide any additional information the PCAOB requests.

Sincerely,

Jeff Mahoney

Jeffrey P. Mahoney
General Counsel

[17] Center for Audit Quality, S&P 500 ESG Reporting ("Public company auditors primarily used the American Institute of Certified Public Accountants (AICPA) Attestation Standards (including AT-C section 105 *Concepts Common to All Attestation Engagements*, AT-C 205 Examination Engagements and AT-C section 210 *Review Engagements*).").
[18] *See, e.g.,* Kenneth P. Pucker, Sustainable Business Practices, Overselling Sustainability Reporting, Harv. Bus. Rev. (May – June 2021), https://hbr.org/2021/05/overselling-sustainability-reporting ("although 90% of the world's largest companies now produce CSR reports, a minority of them are validated by third parties [and] [a]s a result, a lot of the input data is misleading and incomplete").