



## Members of the Investor Advisory Group

Via email

October 21, 2022

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

***Reference: Request for Information and Comment on the Application and Use of the PCAOB's Interim Attestation Standards***

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Investor Advisory Group<sup>1</sup> appreciates the opportunity to comment upon the Board's "Request for Information and Comment on the Application and Use of the PCAOB's Interim Attestation Standards" (RFC).<sup>2</sup> We applaud the PCAOB for "requesting information and public comment on matters relating the application and use of the Board's interim attestation standards."<sup>3</sup>

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<sup>1</sup> This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of all of its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see <https://pcaobus.org/about/advisory-groups/investor-advisory-group>.

<sup>2</sup> 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](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).

<sup>3</sup> *Id.* at 3.

We believe the RFC is responsive, at least in part, to the following recommendation contained in our comment letter in response to “Request for Public Comment – PCAOB Draft Plan 2022-2026”:<sup>4</sup>

We know that auditors have been working with long-standing “interim” standards since the PCAOB’s inception and their modernization is long overdue – yet there is no timeline or date goal set for their replacement, or even various stages of replacement. Setting dates for completion – and achieving them – establishes accountability for the PCAOB.

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... We recommend that the Board prioritize modernization of interim auditing standards in this five-year plan, with the scalability of standards as a secondary priority.<sup>5</sup>

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.<sup>6</sup>**

Public company investors do not have much interaction with attestation reports. For certain situations, the AT 201, 301, 401, 601, and 701 attestation reports<sup>7</sup> are likely important, but we believe improving the fundamental standard, AT 101,<sup>8</sup>

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<sup>4</sup> 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/%2022-003-RFC-DraftStrategicPlan.pdf](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](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).

<sup>5</sup> Letter from Members of the IAG to Office of the Secretary, Public Company Accounting Oversight Board 2 (Sept. 15, 2022), [https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2022/10\\_iag.pdf?sfvrsn=f24d0e63\\_4](https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2022/10_iag.pdf?sfvrsn=f24d0e63_4).

<sup>6</sup> PCAOB, Request for Information and Comment, The Application and Use of the PCAOB’s Interim Attestation Standards at 6 (emphasis added).

<sup>7</sup> See *id.* at 4-5.

<sup>8</sup> See *id.* at 4; PCAOB, Attestation Standards, AT Section 101 (last visited Oct. 17, 2022), <https://pcaobus.org/oversight/standards/attestation-standards/details/AT101>; see also Dan Goelzer, In Search of a Purpose—The PCAOB’s Attestation Standards Review, Audit Blog (Oct. 20, 2022), <https://medium.com/the-audit-blog/in-search-of-a-purpose-the-pcaobs-attestation-standards-review-ea632fcc9bda> (“AT 101 is generic or foundational — it does not deal with the procedures appropriate for any particular type of attestation engagement.”).

should be the initial focus of the 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.<sup>9</sup>**

We note that AT 101 is an interim standard developed by the American Institute of Certified Public Accountants (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; providing a "reasonable" level of assurance to be a "high level" of assurance; and providing that the level of evidence obtained needs to be persuasive for reaching a conclusion with respect to the assurance provided. An AT 101 update should 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.

In connection with the PCAOB's update of AT 101, we believe the Board should also consider developing and issuing attestation guidance or standards that covers least two topic areas: (1) Non-GAAP financial measures (NGFM) and (2) sustainability disclosures.

NGFM

Many investors believe NGFM's are a key risk to the capital markets.<sup>10</sup> The PCAOB should consider developing an optional attestation guidance or standard for reviewing the reasonableness of NGFM.

For example, attestation guidance or standards could be designed to help audit committees execute their oversight of NGFM by assessing the consistency of the

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<sup>9</sup> PCAOB, Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards at 6 (emphasis added).

<sup>10</sup> See INVESTOR USES, EXPECTATIONS, AND CONCERNS ON NON-GAAP FINANCIAL MEASURES, CFA Institute 9 (2016), <https://www.cfainstitute.org/-/media/documents/support/advocacy/investor-uses-expectations-concerns-on-non-gaap.ashx> ("Although many investors find NGFMs useful, there are concerns about particular trends in the reporting of these measures, and there is an associated risk of investors' over-reliance on them as measures of performance, liquidity, or financial position."), <https://www.cfainstitute.org/-/media/documents/support/advocacy/investor-uses-expectations-concerns-on-non-gaap.ashx>.

calculations, reviewing the calculation inputs, and confirming the calculations are in accordance with any existing company policies.<sup>11</sup>

An NGFM attestation guidance or standard could allow investors to pressure audit committees for more assurance when their NGFM deviated significantly from GAAP metrics. And if the Securities and Exchange Commission ever decides to require NGFM attestation, the PCAOB will have already tested a roadmap for the implementation process.

### 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.<sup>12</sup>

More than 60% of the 2020 companies obtained assurance over some of the sustainability information.<sup>13</sup> Of those 288 companies that obtained assurance, 43 obtained assurance from public company auditors and 245 obtained assurance from other assurance/verification providers.<sup>14</sup> 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.<sup>15</sup> Of those companies, only 31 obtained assurance from a public company auditor and 235 obtained assurance from other assurance or verification providers.<sup>16</sup>

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<sup>11</sup> See Center for Audit Quality, *The Role of Auditors in Non-GAAP Financial Measures and Key Performance Indicators: Present and Future* 13 (Sept. 2020), [https://www.thecaq.org/wp-content/uploads/2020/09/2020\\_09\\_caq-role-of-the-auditor-non-GAAP-and-KPIs.pdf](https://www.thecaq.org/wp-content/uploads/2020/09/2020_09_caq-role-of-the-auditor-non-GAAP-and-KPIs.pdf) (“For example, auditors could be engaged to perform attestation services to help audit committees execute their oversight of non-GAAP financial measures or KPIs by assessing the consistency of the calculations, reviewing the calculation inputs, and confirming the calculations are in accordance with any existing company policies.”).

<sup>12</sup> 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”).

<sup>13</sup> *Id.* (“60%+ of companies obtained assurance over some ESG information”).

<sup>14</sup> *Id.* (“Of the companies that obtained assurance, 43 obtained assurance from public company auditors and 245 obtained assurance from other assurance/verification providers.”).

<sup>15</sup> *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.”).

<sup>16</sup> 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.<sup>17</sup> And the public company auditor firms primarily used the AICPA attestation standards.<sup>18</sup>

We believe that over time capital market participants, including investors, are likely to increase their demand for sustainability disclosure attestation services.<sup>19</sup> And consistent with the charge to the PCAOB in the Sarbanes-Oxley Act of 2002,<sup>20</sup> we believe the Board should consider developing and issuing attestation guidance or standards for voluntary sustainability disclosures.<sup>21</sup> In our view, such guidance or standards could better ensure that investors receive accurate sustainability information. And we note that without such guidance or standards, investors could be subject to heightened risks with respect to the credibility of the sustainability information they receive.<sup>22</sup>

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

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<sup>17</sup> *Id.* (“Leading companies who used public company auditors to provide assurance over certain ESG information include: Google, Netflix, Salesforce, Kinder Morgan, Coca Cola, Verizon, UPS, and Johnson & Johnson.”).

<sup>18</sup> 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*).”).

<sup>19</sup> See Dan Goelzer, In Search of a Purpose—The PCAOB’s Attestation Standards Review, Audit Blog (“Investor demand for reliable corporate environmental, social, and governance disclosures is increasing rapidly, and many companies are engaging auditors or other experts to provide assurance on their ESG disclosures [and] [a] PCAOB attestation standard aimed specifically at U.S. public company ESG disclosures would meet a market need.”); see also 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”); 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](https://www.cii.org/policies_other_issues#sustainability_disclosure) (“CII also believes that over time, companies should obtain external assurance of the sustainability performance information they provide.”).

<sup>20</sup> See Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, § 101(c)(2) (July 30, 2002), *available at* <https://www.congress.gov/bill/107th-congress/house-bill/3763/text> (“Duties of the Board.—The Board shall, subject to action by the Commission under section 107, and once a determination is made by the Commission under subsection (d) of this section—. . . (2) establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, in accordance with section 103 . . .”).

<sup>21</sup> See, e.g., Dan Goelzer, In Search of a Purpose—The PCAOB’s Attestation Standards Review, Audit Blog (“The PCAOB could make an important contribution to investor protection by using its review of the interim attestation standards as a springboard for the development of a general standard on ESG attestation . . .”).

<sup>22</sup> *Id.* (“A PCAOB attestation standard that specifically addressed U.S. public company voluntary ESG disclosures, such as those made under the disclosure standards of the new International Sustainability Standards Board, could bring increased comparability to ESG assurance and strengthen investor confidence in the credibility of these types of disclosures.”).

October 21, 2022

Page 6 of 6

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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If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at [amcgarrity@copera.org](mailto:amcgarrity@copera.org).

Sincerely,

*Members of the Investor Advisory Group*

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