

Via Email

February 16, 2023

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

Re: PCAOB Rulemaking Docket No. 028: Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards¹

Dear Secretary Brown:

The Council of Institutional Investors (CII) appreciates the opportunity to share our views and provide input on the Public Company Accounting Oversight Board’s (PCAOB or Board) Release No. 2022-009, *Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards* (Proposal).²

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.³

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.⁴ That belief is

¹ Proposed Auditing Standard – The Auditor’s Use of Confirmation, and Other Proposed Amendments to PCAOB Standards, PCAOB Release No. 2022-009 (Dec. 20, 2022), https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/rulemaking/docket_028/2022-009-confirmation.pdf?sfvrsn=d3d14ede_2.

² *Id.*

³ 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>.

⁴ 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.

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.⁵

This policy establishes the principle that “investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors’ information needs.”⁶ Our membership reaffirmed that principle in our policy on **Auditor Independence**.⁷ That policy, as revised, includes the following additional provisions that we believe may be relevant to issues raised by the Proposal:

Audit Committee Responsibilities Regarding Independent Auditors: 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. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

-
- the quality and frequency of communication from the auditor to the audit committee
-
- 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
-

⁵ *Id.*

⁶ *Id.*

⁷ CII, Policies on Corporate Governance, § 2.13 Auditor Independence (updated Sept. 21, 2022), https://www.cii.org/corp_gov_policies.

Investors are the “customers” and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.⁸

Shareowner Votes on the Board’s Choice of Outside Auditor: Audit Committee charters should provide for annual shareowner votes on the board’s choice of independent, external auditor.⁹

The Proposal

In CII’s September 2020 letter in response to the Request for Public Comment, *Draft 2022-2026 PCAOB Strategic Plan*,¹⁰ we requested that the Board prioritize “as requested by [Securities and Exchange Commission] Chair Gensler, the Board’s standard setting project on ‘Interim Standards’”(September Letter).¹¹ Our prioritization of the interim standards was based, in part, on our policy on the **Independence of Accounting and Auditing Standard Setters** that reflects the view that auditing standards should be the product of an independent standard setting process that focuses on investors’ information needs.¹²

We applaud the Board for issuing the Proposal because it would replace interim standard AS 2310, *The Auditor’s Use of Confirmation* (AS 2310).¹³ As described by Soyoung Ho of *Thomson Reuters*: “AS 2310 is an old [American Institute of Certified Public Accountants] AICPA standard that became effective in 1992”¹⁴ By replacing AS 2310, we believe the Proposal would generally be responsive to the recommendation in our September Letter.

⁸ § 2.13a Audit Committee Responsibilities Regarding Independent Auditors.

⁹ § 2.13f Shareowner Votes on the Board’s Choice of Outside Auditor.

¹⁰ 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/defaultsource/about/administration/documents/strategic_plans/2022-003-rfc-draftstrategicplan.pdf?sfvrsn=fdc9859a_4; PCAOB, Strategic Plan, 2022-2026, Draft for Comment (Aug. 2022), https://pcaob-assets.azureedge.net/pcaob-dev/docs/defaultsource/about/administration/documents/strategic_plans/draft-2022-2026-strategic-plan.pdf?sfvrsn=65f830db_4/%20Draft-2022-2026-Strategic-Plan.pdf.

¹¹ Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, PCAOB 5 (Sept. 15, 2022), [https://www.cii.org/files/issues_and_advocacy/correspondence/2022/September%2015,%202022%20PCAOB%20letter%20\(final\).pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/2022/September%2015,%202022%20PCAOB%20letter%20(final).pdf).

¹² *Id.* at 4 (referencing our policy on Independence of Accounting and Auditing Standard Setters in support for Securities and Exchange Commission Chair Gary Gensler’s statement regarding the need for the Public Company Accounting Oversight Board to update the “interim standards”).

¹³ AS 2310: The Confirmation Process, PCAOB (last visited Feb. 10, 2023), <https://pcaobus.org/oversight/standards/auditing-standards/details/AS2310>.

¹⁴ Soyoung Ho, PCAOB Issues Second Proposal to Modernize Rules on Audit Confirmation Process, Thomson Reuters (Dec. 20, 2022), <https://tax.thomsonreuters.com/news/pcaob-issues-proposal-to-modernize-audit-confirmation-process/#:~:text=PCAOB%20Issues%20Second%20Proposal%20to%20Modernize%20Rules%20on%20Audit%20Confirmation%20ProcessSoyoung%20Ho%20Senior&text=More%20than%20a%20dozen%20years.issue%20another%20proposal%20for%20comment>.

We note that the Proposal explicitly directs one question to investors. That question and our response thereto follows:

2. Would investors find it useful in making investment decisions to have more information about the auditor’s use of confirmation in the audit of an issuer’s financial statements? If so, what type of information would be useful to investors and how might it be provided?¹⁵

Generally consistent with our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, CII believes that investors would find it useful in making investment or proxy voting decisions, including decisions about the **Shareowner Votes on the Board’s Choice of Outside Auditor**, if investors have more information from the auditor about the auditor’s use of confirmation in the audit of an issuer’s financial statements.

Information that we believe would generally be useful to investors includes disclosure about “instances where the auditor has determined that the presumption to confirm accounts receivable has been overcome.”¹⁶ We understand that the Proposal already requires that the auditor provide this information to the audit committee.¹⁷ We, however, believe that many of the reasons the Board cites as a basis for providing the information to the audit committee may be equally valid for requiring that the information be provided by the auditor to investors. Those reasons include that the information “may reinforce the auditor’s obligation to exercise due professional care before determining that the presumption to confirm accounts receivable has been overcome.”¹⁸ The need for this reinforcement and its potential benefit to investors and the capital markets is amply illustrated in the Proposal’s detailing of recent “PCAOB inspections of registered public accounting firms, and [] enforcement actions relating to deficient confirmation procedures . . .”¹⁹

Finally, we do not express a view on “how might” information from the auditor about the auditor’s use of confirmation in the audit of an issuer’s financial statements be provided to investors. In that regard, we would respectfully request that the Board issue supplemental materials to the Proposal describing the various options of how might the information be made available to investors within the PCAOB’s existing authority, and the advantages and disadvantages of each. CII commits to reviewing and promptly responding to the supplemental materials and addressing in more detail the “how might it be provided” element of the above referenced question.

¹⁵ PCAOB Release No. 2022-009 at 16 (emphasis added).

¹⁶ *Id.* at 24.

¹⁷ *Id.* ¶ 14 at A1-3 (“The auditor should communicate to the audit committee instances in which the auditor has determined that the presumption to confirm accounts receivable has been overcome and the basis for the auditor’s determination.”).

¹⁸ *Id.* at 25.

¹⁹ *Id.* at 11.

Page 5 of 5
February 16, 2023

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

Sincerely,

A handwritten signature in blue ink that reads "Jeff Mahoney". The signature is written in a cursive style with a long, sweeping underline.

Jeffrey P. Mahoney
General Counsel