Consumer Federation of America

July 1, 2024

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549–1090

Re: Release No. 34-100276; File No. PCAOB-2024-01, Notice of Filing of Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards; and
Release No. 34-100277, File No. PCAOB-2024-02, Notice of Filing of Proposed Rules on a Firm's System of Quality Control and Related Amendments to PCAOB Standards

Dear Secretary Countryman:

I am writing on behalf of the Consumer Federation of America (CFA)[1] in response to the above captioned PCAOB amendments to audit quality control standards and general responsibilities of the auditor in conducting an audit. While far from perfect, these amendments are an improvement from the existing PCAOB standards and we expect that they will enhance the quality of audits, raising the level of trust and confidence investors can place in the accuracy and reliability of public company financial disclosures. Accordingly, CFA supports the Commission's approving these amendments.

Current quality control systems at many firms are not achieving an even minimally acceptable level of audit quality, let alone the high level of audit quality that investors have a right to expect and on which the reliability of our financial reporting system depends. Perhaps most disturbing is the regularity with which the PCAOB inspection staff finds deficiencies related to auditor independence and professional skepticism, the fundamental foundations on which audit quality depends. It is also disturbing how frequently weaknesses in quality control exist at the highest leadership levels of the firm. Current quality control standards do not ensure that financial statements are free of material misstatements, that issuers maintain effective internal controls over financial reporting, or that firm personnel comply with applicable professional and legal standards.

These amendments would enhance quality control standards, thereby improving firms' quality control systems, to the benefit of investors. Among the important improvements to existing standards, the amendments require firms to—on an ongoing basis—assess risk, monitor performance, and remediate deficiencies within their quality control systems. This ongoing feedback loop will help firms to proactively spot and remediate deficiencies, driving continuous improvement in firms' quality control systems and, as a result, the accuracy and reliability of financial reporting. In addition to requiring firms to evaluate their quality control systems on an

[1] CFA is a non-profit association of more than 250 national, state, and local pro-consumer organizations. It was established in 1968 to advance the consumer interest through research, advocacy, and education.

ongoing basis, the amendments require firms to test the quality of their audits that are in process, which should help firms to identify deficiencies before they adversely affect the quality of financial reports and cause harm to investors.

Second, the amendments require firms with a particularly extensive PCAOB audit practice (i.e., those that issue audit reports for more than 100 issuers per year) to be subject to enhanced requirements. This makes sense, given such firms' greater involvement in U.S. capital markets and their impact on investors. In particular, the amendments require these firms to have an external oversight function for their quality control system, composed of one or more persons who do not have any other relationship with the firm that would interfere with the exercise of independent judgment with regard to quality control-related matters. While we think having more than one person in such an oversight function would be more appropriate, we appreciate that these amendments stress the independence of the external oversight function.

We also appreciate that the amendments make clear that the firm's principal executive officer, irrespective of whether that person is an audit practitioner, is ultimately responsible and accountable for the firm's quality control system. We believe that this accountability mechanism will lead to more vigorous oversight of the firm's audit practice, benefiting investors who rely on the firm's work.

Finally, we appreciate that the PCAOB has proposed in a separate release to require certain audit firms to publicly report specified metrics relating to their audits and their audit practices.[2] It is critical that firms have quality controls with sufficient rigor, transparency, and measurability to ensure firms are engaging in high quality audits and other engagements. To do so, audits must be backed by concrete analysis of the results on audit quality and that analysis must be made publicly available, thereby enabling investors to assess the effectiveness of firms' control systems system. Audit quality indicators (AQIs) can help to provide that data. If AQIs are developed and publicly disclosed, audit committees will have important information to factor into their selection of audit firms, shareholders will have data they can use to hold audit committees accountable for those selections, and firms will have an incentive to develop and maintain rigorous quality control systems in order to be able to compete more effectively on quality.

In sum, while these amendments do not go as far as we would have liked, we nonetheless expect that they will benefit investors. However, we think the PCAOB should conduct a post-implementation review of the amendments to assess whether they have met their stated objectives and resulted in higher quality audits. To the extent they do not, the PCAOB should revisit these standards to ensure they meet the intended goal of ensuring a consistently high quality of audits and other engagements under PCAOB standards that investors can place their trust and confidence in.

Regarding the General Responsibilities of the Auditor in Conducting an Audit, we support the PCAOB's reaffirming and modernizing the general principles and responsibilities of

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[2] Firm and Engagement Metrics, PCAOB Release No. 2024-002, April 9, 2024, https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-002-firm-and-engagement-metrics.pdf?sfvrsn=f98148f_2

the auditor to ensure that the foundation continues to be sound and appropriate for performing high-quality audits. Among the important general principles and responsibilities that the amendments reaffirm are reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment. In addition, the amendments clarify that the engagement partner's responsibility to exercise due professional care related to supervision and review of the audit, and the auditor's responsibility to evaluate whether the financial statements are "presented fairly."

Importantly, the amendments reaffirm the auditor's fundamental obligation to protect investors through the preparation and issuance of informative, accurate, and independent auditor’s reports. In addition, the amendments make clear that the objectives of the auditor are to:

1) in an audit, obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and to issue an auditor's report that expresses an opinion about whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework;
2) in an audit of internal control over financial reporting, obtain reasonable assurance about whether material weaknesses exist as of the date specified in management's assessment, and to issue an auditor's report that expresses an opinion on the effectiveness of the company's internal control over financial reporting; and
3) communicate externally, as required by applicable professional and legal requirements.

Overall, these amendments should help to improve firms’ quality control systems, increasing the quality of firms’ audits and the accuracy and reliability of public company financial disclosures, which will benefit investors. Accordingly, we support the Commission’s approval of these amendments.

Respectfully submitted,

Micah Hauptman

Micah Hauptman
Director of Investor Protection