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# Center for Audit Quality

PCAOB Engagement Metrics Report -  
Investors

July 2024

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# OBJECTIVES & METHODOLOGY



As part of the CAQ's efforts to engage a broader array of stakeholders of company-prepared information and serve as a prominent voice for the audit profession, KRC Research is conducting quarterly research to inform the research team on topics of interest related to what active institutional investors think about the audit process and assurance on other corporate reporting and other audit firm related matters.

The survey research is primarily designed to:

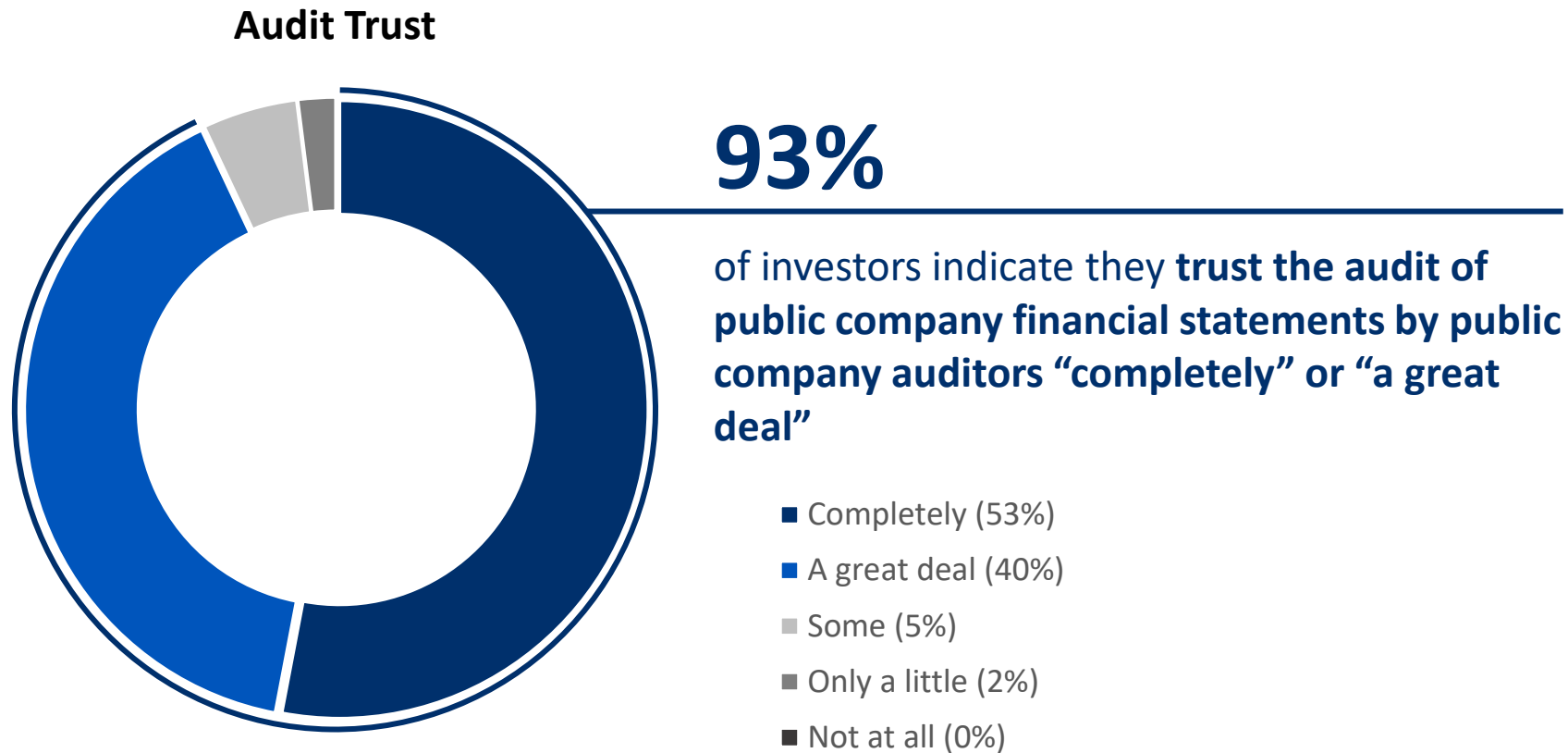
- Assess the information available to investors allowing them to evaluate the quality of the audit of a publicly traded company they invest in or follow
- Gauge knowledge and use of Form AP, Form 2, and Form 3
- Assess investor awareness of recent PCAOB proposals and quality of the organization's standard setting agenda



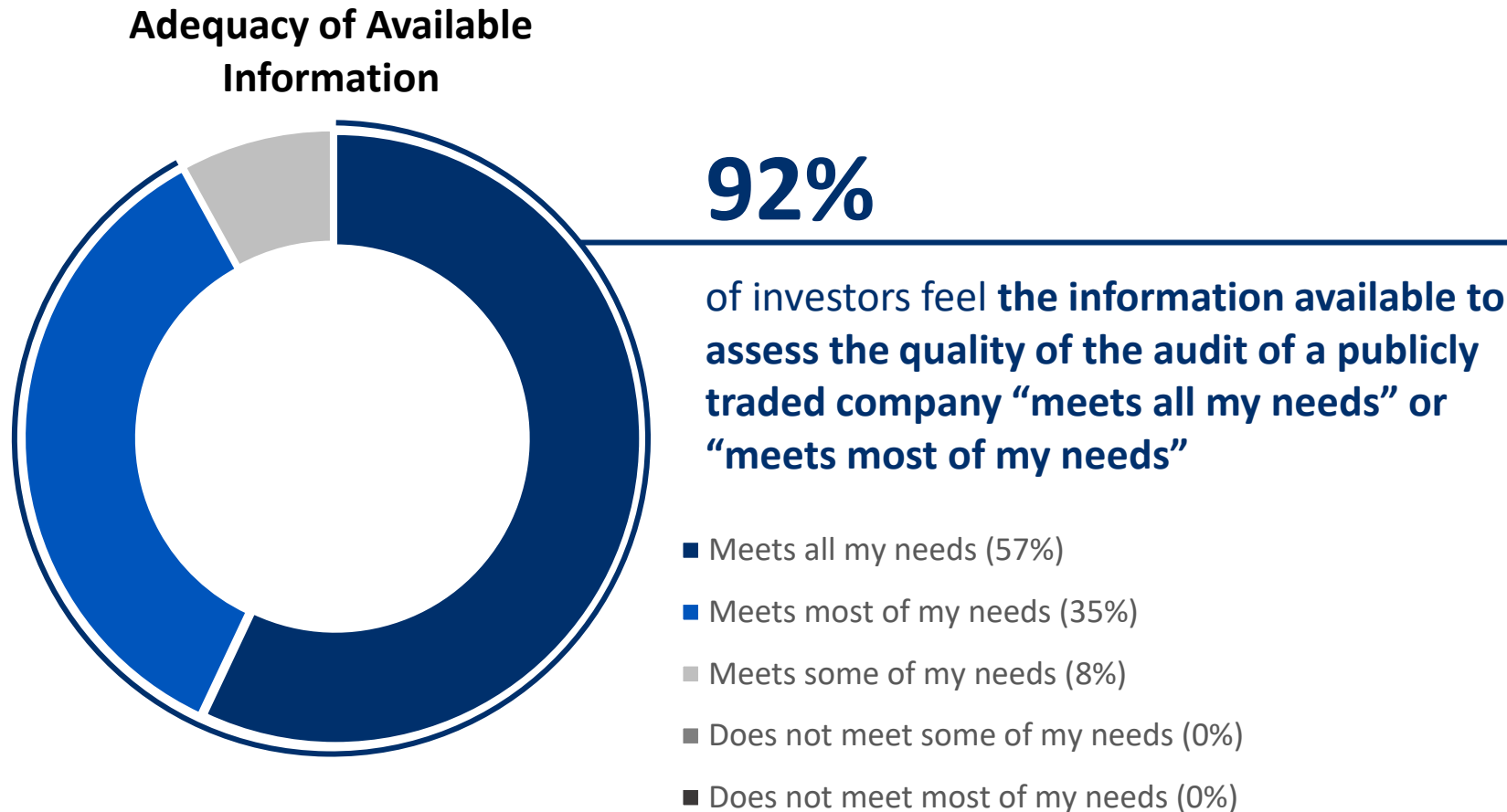
The survey research was conducted online from May 15 – 22, 2024 among 100 U.S. institutional investors.

All qualified respondents were screened to ensure they are professional investors employed at companies with a minimum of \$500M in assets under management, have appropriate job titles, and serve at the Director level or higher with at least 5 years of experience.

# Almost all trust the audit of public company financial statements by public company auditors, over half trust the audit completely.



# 9 in 10 investors say the information currently available to assess audit quality meets most or all their needs.



# The auditor's opinion, Audit Quality reports, and the reputation of the audit firm are the top ways investors evaluate the quality and reliability of the audit.

## Top Ways to Evaluate Quality of Financial Statements



Q3. What are the top three ways that you evaluate the quality and reliability of the audit of financial statements of publicly traded companies you invest in or follow? Please choose up to three. (Base: All respondents, n=100)



# Nearly half of investors want to see more information about the auditing process of a publicly traded company they invest in or follow.

**What additional information would you like to see about the audit of a publicly traded company you invest in or follow to evaluate the quality of the audit?**

|   | Total % |
|---|---------|
| Auditing process                                | 46%     |
| Transparency                                    | 35%     |
| Scope of the audit                              | 25%     |
| Any amendments made to financial statements     | 24%     |
| Team specifics                                  | 20%     |
| Detailed report / Everything up front           | 18%     |
| Risk / Investment risk                          | 15%     |
| Potential conflicts of interest                 | 13%     |
| Auditor team qualifications                     | 13%     |
| Previous problems or disputes with auditor team | 11%     |
| Efficiency of audit team                        | 7%      |
| Clear audit report                              | 5%      |
| Conclusion of audit                             | 5%      |
| Other mentions                                  | 15%     |
| Nothing / None                                  | 17%     |



Q4. What additional information would you like to see about the audit of a publicly traded company you invest in or follow to evaluate the quality of the audit? Please be as specific as possible. If there is no additional information you would to see type "none". (Base: All respondents, n=100)

# Surprisingly, investors say they are less likely to seek out firm-level metrics they find extremely helpful and more likely to seek out information they find comparatively less helpful.

| Audit Firm-Level Metrics   | Helpful | Extremely...       | Δ   |
|--|---------|--------------------|-----|
|  |         | Likely to Seek Out |     |
| Information about the firm's system of quality control/management              | 50%     | 41%                | -9  |
| External review findings   | 49%     | 35%                | -14 |
| Audit firm internal monitoring*  | 45%     | 45%                | -   |
| Industry experience of audit personnel*  | 44%     | 44%                | -   |
| Quality performance ratings and compensation*                                  | 44%     | 41%                | -3  |
| Experience of audit personnel*   | 43%     | 36%                | -7  |
| The firm's commitment to DEI initiatives                                       | 41%     | 39%                | -2  |
| Cybersecurity policies   | 41%     | 46%                | +5  |
| The firm's commitment to audit quality and how this commitment is communicated | 38%     | 46%                | +8  |
| Fees (e.g. audit, non-audit, public company vs. private)                       | 37%     | 48%                | +11 |
| Partner and manager involvement*   | 36%     | 34%                | -2  |
| Workload*  | 36%     | 41%                | +5  |
| Firm governance  | 36%     | 38%                | +2  |
| Use of auditor's specialists and shared service centers*                       | 35%     | 48%                | +13 |
| Allocation of audit hours (e.g., milestones)*                                  | 35%     | 34%                | -1  |
| Network arrangements   | 35%     | 36%                | +1  |
| Retention and tenure*  | 33%     | 43%                | +10 |

Q5. How useful would each of the following firm-level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q6. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?



# Most investors are unlikely to seek out engagement-level metrics they find most helpful.

| Audit Engagement-Level Metrics                           | Helpful | Extremely...       | Δ   |
|--|---------|--------------------|-----|
|  |         | Likely to Seek Out |     |
| Partner experience level                                 | 50%     | 31%                | -19 |
| Years on the engagement of key audit team members        | 45%     | 40%                | -5  |
| Partner and manager involvement*                         | 44%     | 36%                | -8  |
| Workload*  | 42%     | 45%                | +3  |
| Audit milestone completion information                   | 41%     | 39%                | -2  |
| Auditor judgment   | 40%     | 36%                | -4  |
| Experience of audit personnel*                           | 40%     | 42%                | +2  |
| Retention and tenure*                                    | 40%     | 43%                | +3  |
| Allocation of audit hours (e.g., milestones)*            | 38%     | 35%                | -3  |
| Industry experience of audit personnel*                  | 37%     | 41%                | +4  |
| Use of auditor's specialists and shared service centers* | 34%     | 42%                | +8  |
| Audit hours and risk areas*                              | 34%     | 34%                | -   |
| Professional skepticism                                  | 31%     | 35%                | +4  |

Q7. How useful would each of the following engagement level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q8. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?



# Majority of investors feel that audit committees have necessary knowledge needed to select the auditor.

## Agreement with Some Standardized Information

Strongly / Somewhat agree



Q9. How strongly do you agree or disagree with the following statements about mandated disclosures of firm and engagement-level metrics? (Base: All respondents, n=100) \*Only showing values greater than 4%



# Most agree that performance metrics need context and mandated public disclosure of engagement level metrics could have unintended consequences, should be voluntary.

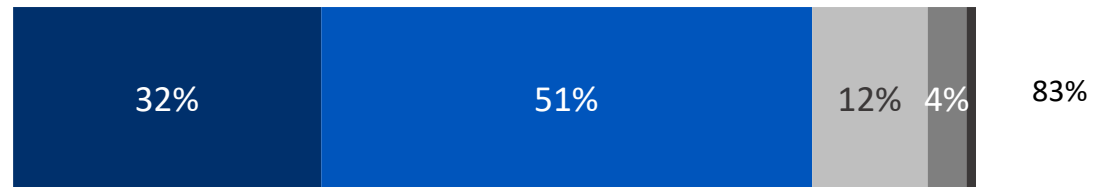
Strongly / Somewhat agree

Performance metrics alone (firm and engagement level) without context cannot adequately communicate factors relevant to a particular audit engagement or firm.



80%

Mandated public disclosure of engagement-level performance metrics could lead to unintended consequences and as such should be voluntary.



83%

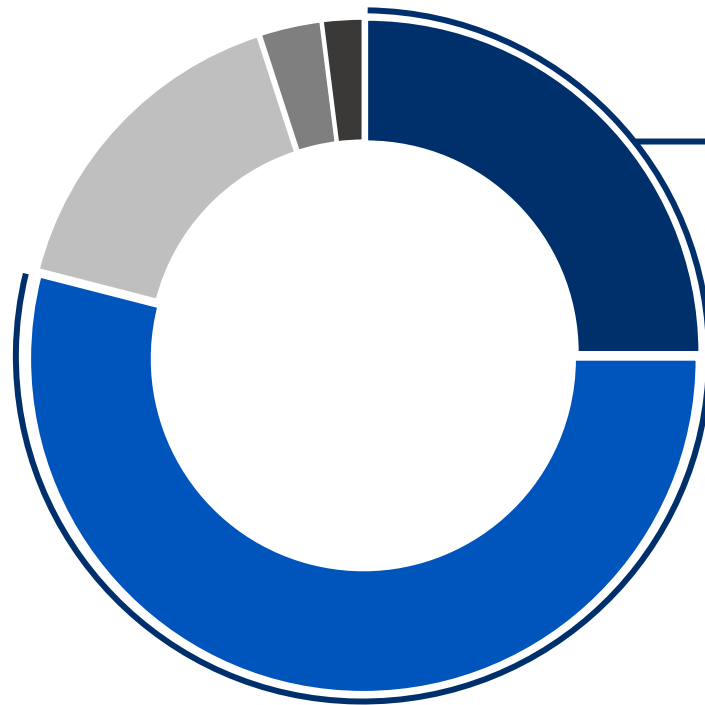
■ Strongly agree ■ Somewhat agree ■ Neither agree nor disagree ■ Somewhat disagree ■ Strongly disagree

Q9. How strongly do you agree or disagree with the following statements about mandated disclosures of firm and engagement-level metrics? (Base: All respondents, n=100) \*Only showing values greater than 4%



# Eight in ten investors say they often navigate to the Auditor Search tool on the PCAOB's Form AP website.

Frequency Visiting Auditor Search



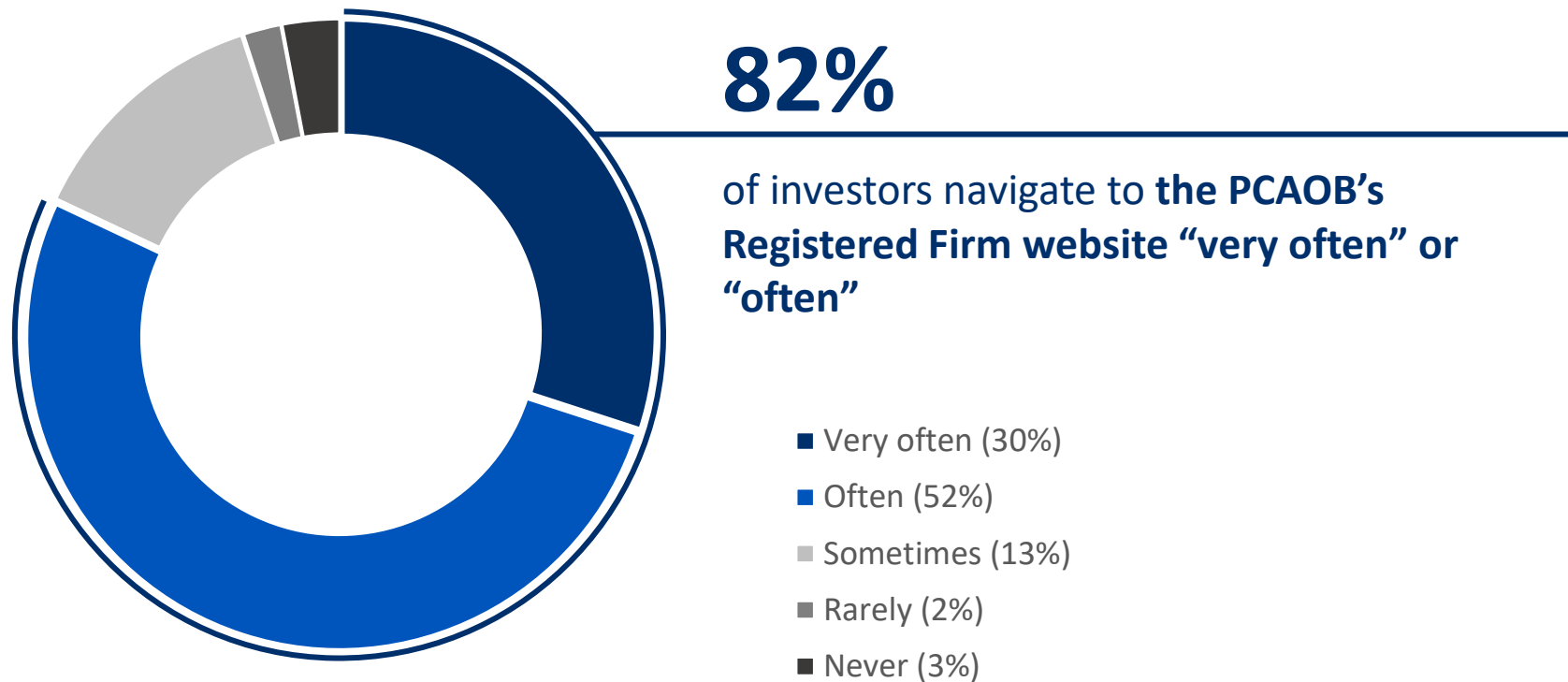
79%

of investors navigate to the Auditor Search on the PCAOB's Form AP, Auditor Reporting of Certain Audit Participants website "very often" or "often"

- Very often (25%)
- Often (54%)
- Sometimes (16%)
- Rarely (3%)
- Never (2%)

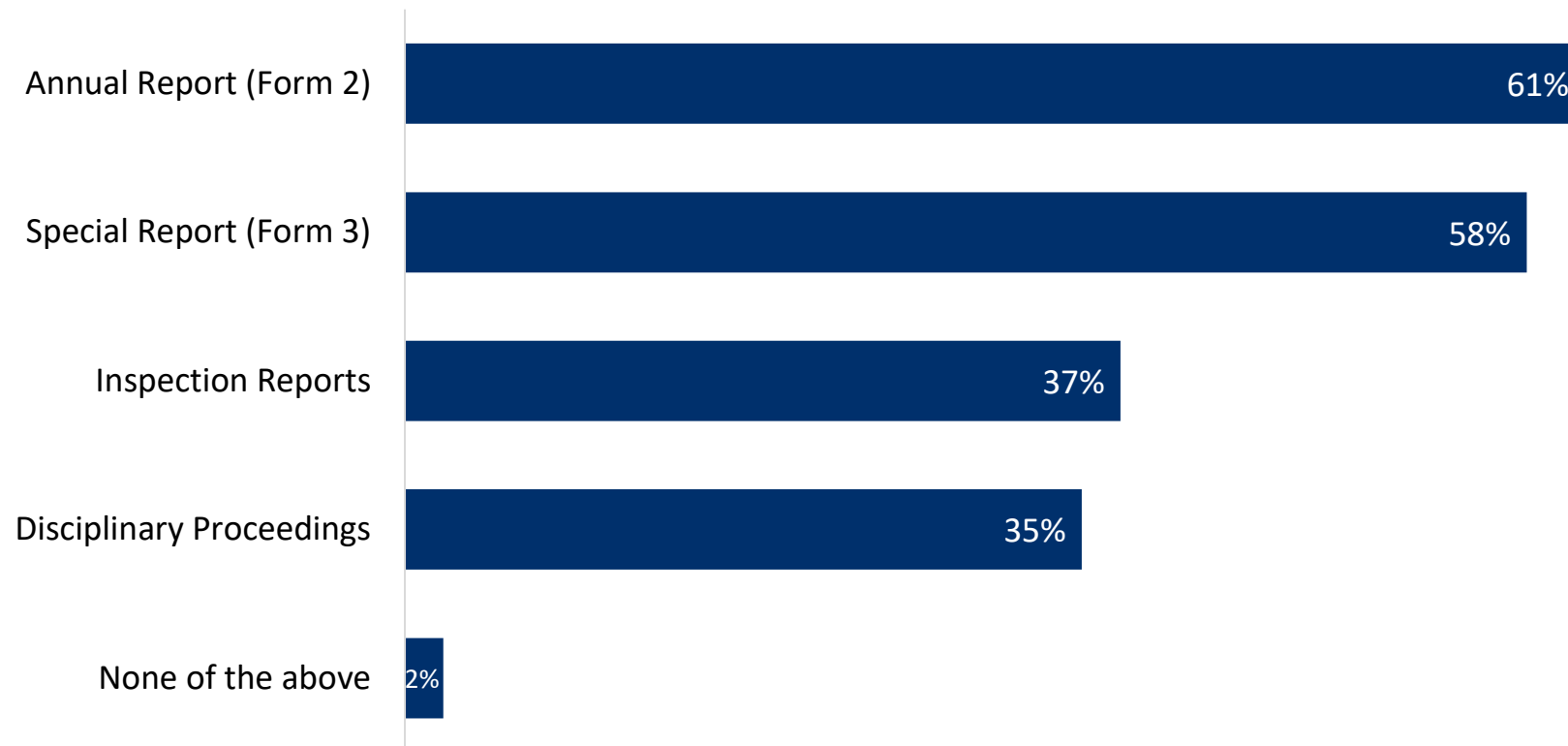
# Most investors also say they often navigate to the PCAOB's Registered Firm website.

## Frequency Visiting PCAOB's Registered Firm Website



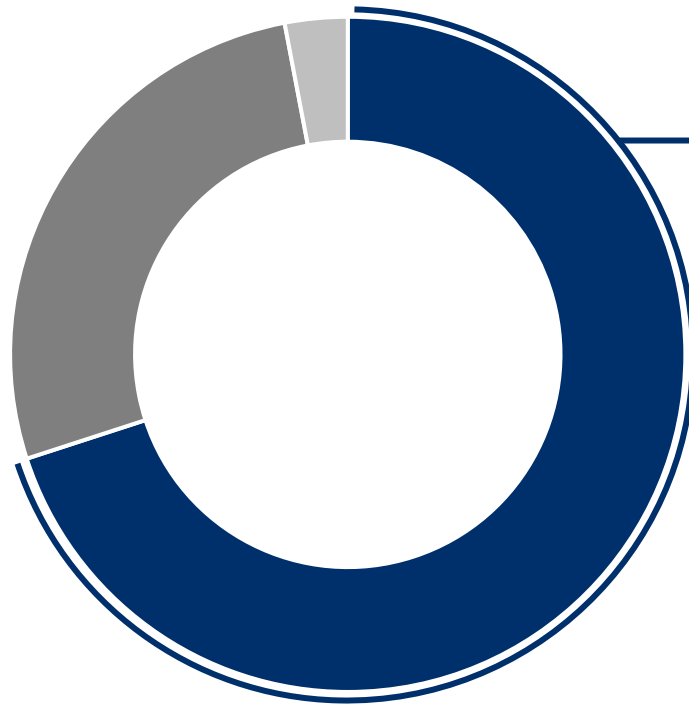
# Six in 10 investors say that Form 2 and/or Form 3 provides useful information to them.

What information do you find useful on the PCAOB's Registered Firms website?



# Seven in 10 investors are aware of PCAOB's recent proposals on Firm and engagement performance metrics and Firm reporting.

Were you aware of the PCAOB's recent proposals on Firm and engagement performance metrics and Firm reporting?



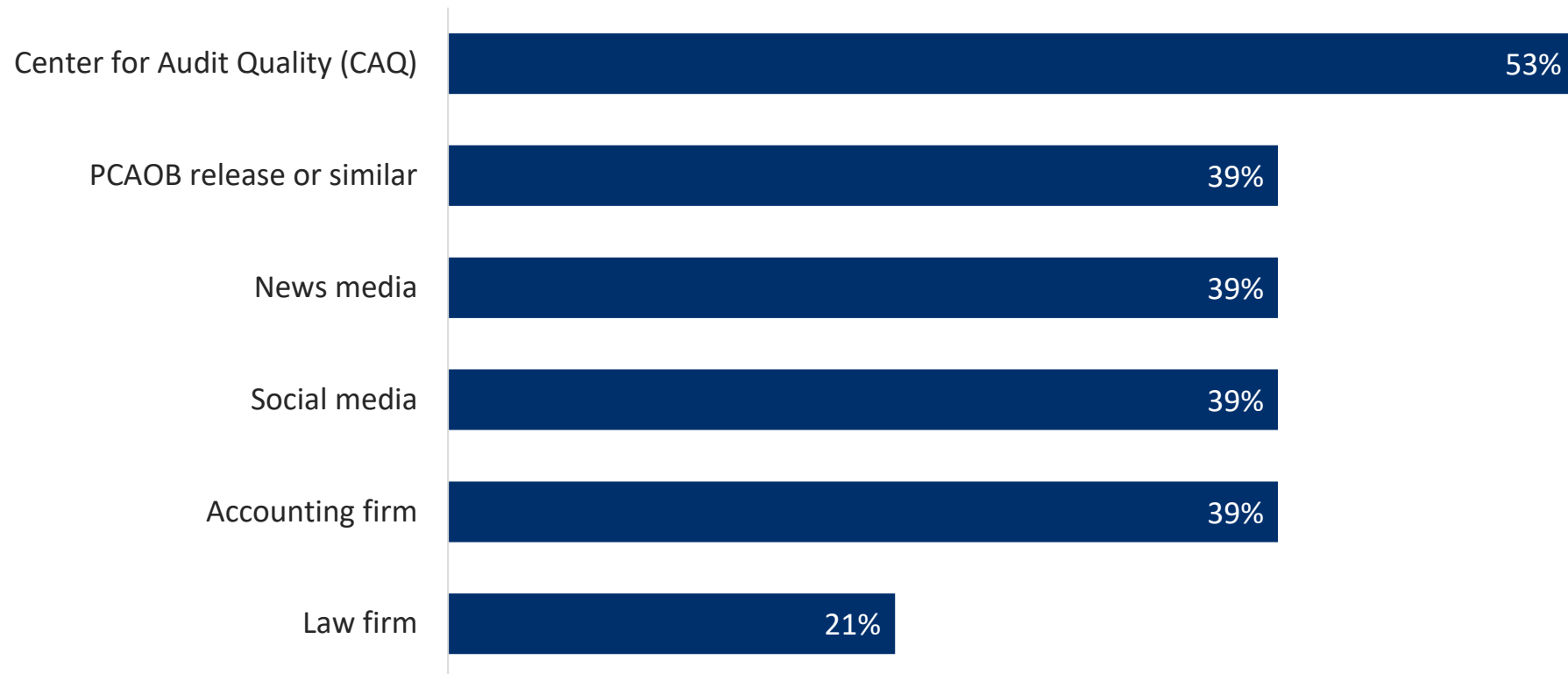
70%

of investors say they were already aware of the PCAOB's recent proposals on Firm and engagement performance metrics and Firm reporting

- Yes (70%)
- No (27%)
- Not sure (3%)

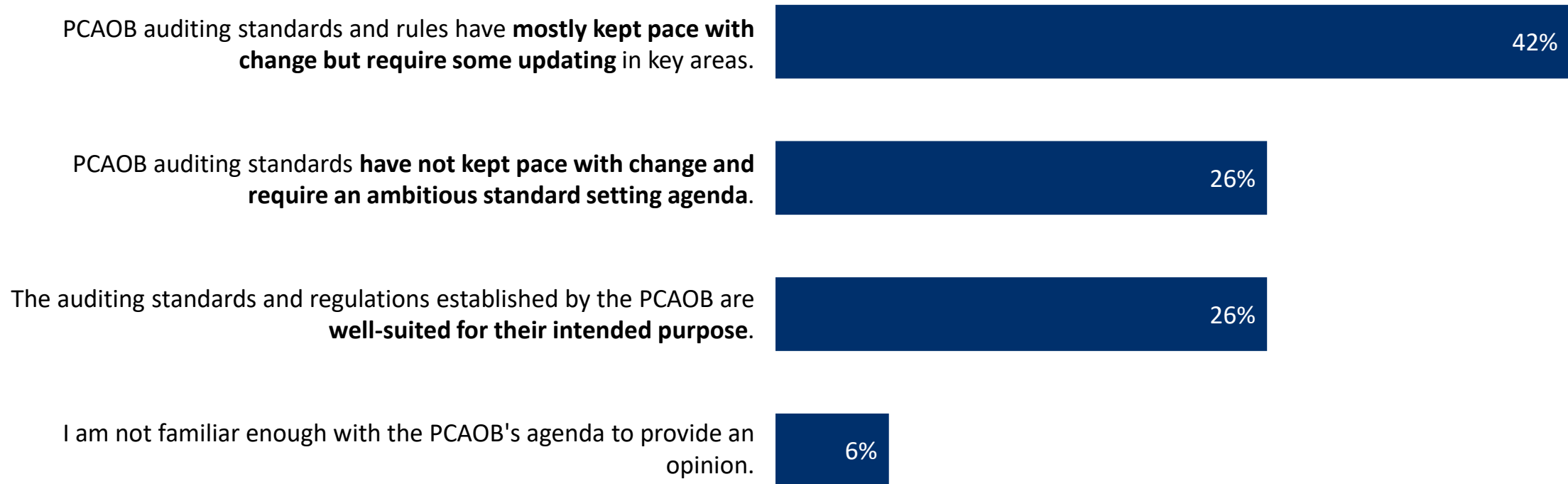
# Investors heard about the PCAOB's proposals from a variety of sources.

How did you hear about the PCAOB's proposals?



# Four in 10 investors feel PCAOB auditing standards and rules have mostly kept pace with change but need updating in key areas.

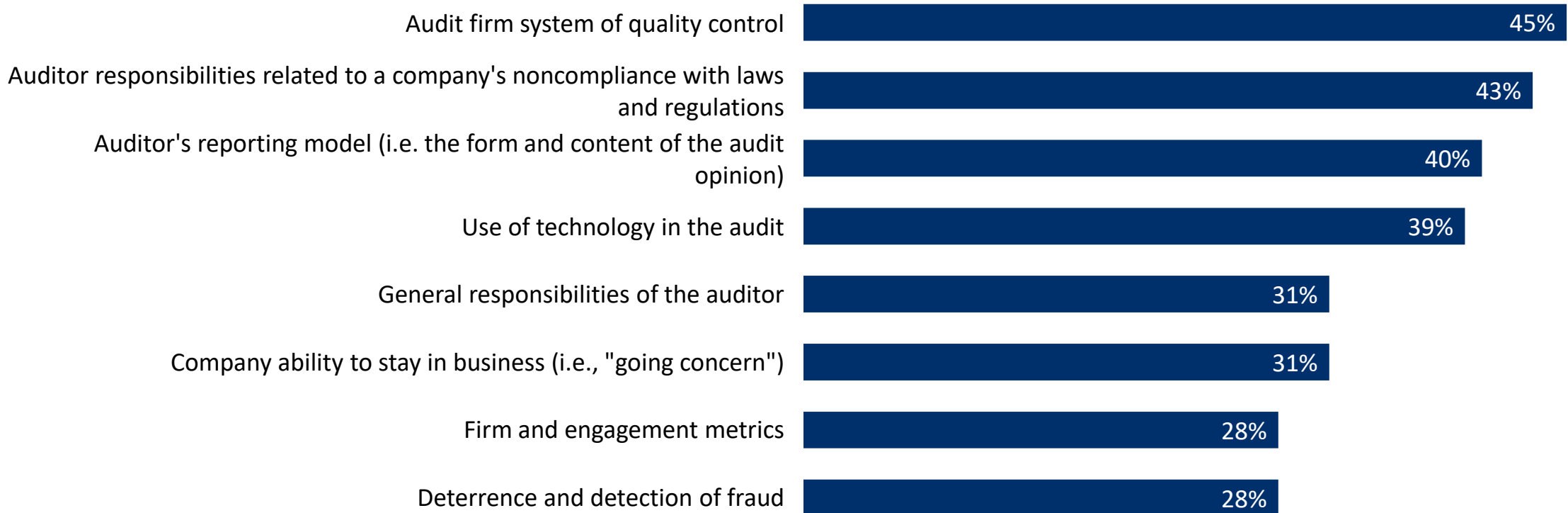
Which of the following statements most accurately align with your view of the PCAOB's standard setting agenda?





# Quality control and responsibilities related to noncompliance are the top areas in which investors would like to see modernizations.

What are the top three areas where you would like to see the PCAOB modernize auditing standards?



# Survey Respondent Profile

## Job Level

|                               |     |
|-------------------------------|-----|
| C-Suite / President / Partner | 39% |
| Senior Vice President         | 15% |
| Vice President                | 31% |
| Senior Director               | 15% |

## Investment Experience

|                    |     |
|--------------------|-----|
| 6 – 10 years       | 34% |
| 11 – 15 years      | 42% |
| 16 – 20 years      | 17% |
| More than 20 years | 7%  |

## Age

|                    |     |
|--------------------|-----|
| Under 30 years old | 2%  |
| 30 – 39            | 28% |
| 40 – 49            | 51% |
| 50 – 59            | 17% |
| 60+                | 2%  |

## Assets Managed

|                              |     |
|------------------------------|-----|
| \$500mil to less than \$1bil | 10% |
| \$1bil to less than \$5bil   | 49% |
| \$5bil to less than \$10bil  | 23% |
| \$10bil to less than \$50bil | 7%  |
| \$50bil or more              | 11% |

## Focus of Investment Portfolio

|  |     |
|--|-----|
| Large Acceleration Filers (LAF)                      | 8%  |
| Accelerated Filers (AF)                              | 8%  |
| Both Large Accelerated Filers and Accelerated Filers | 80% |
| Do not primarily invest in these types of companies  | 3%  |
| Not sure   | 1%  |

## Gender

|        |     |
|--------|-----|
| Male   | 51% |
| Female | 49% |

S6. Which of the following comes closest to your level in your company? / S7. Which of the following represents the total assets your company has under management? / S8. Which of the following does your investment portfolio focus on? / S9. How many years of investment experience do you have? / S11. What is your gender? / S12. What age category are you? (Base: All respondents, n=100)



# Survey Respondent Profile

## Company Representation

|                             |     |
|-----------------------------|-----|
| Investment Bank             | 38% |
| Commercial Bank             | 33% |
| Credit union                | 15% |
| Insurance Company           | 5%  |
| Venture Capital Funds       | 3%  |
| Mutual Funds                | 2%  |
| Other Investment Mgmt. Firm | 2%  |
| Foundation or Endowment     | 1%  |
| Family office               | 1%  |

## Job Description

| Commercial Banking                      |     | Insurance            |     |
|---|-----|----------------------|-----|
| Investment Banking                      | 42% | Risk Management      | 20% |
| Asset Management                        | 38% | Asset Management     | 20% |
| Commercial Lending                      | 15% | Actuary              | 20% |
| Compliance                              | 4%  | Product Development  | 20% |
| Risk Management                         | 2%  | Compliance           | 20% |
| Investment Banking                      |     | Other Types of Roles |     |
| Chief Risk Officer                      | 58% | Equity Analyst       | 33% |
| Credit or Risk Analyst                  | 24% | Risk Management      | 33% |
| Senior Banker                           | 13% | Investment Analyst   | 22% |
| Debt Capital Market Originator/Arranger | 3%  | Other                | 11% |
| ECM (Equity Capital Market)             | 3%  |                      |     |

S1. What type of organization/company do you work for?

(Base: All respondents, n=100) / S2-5. Which of the following comes closest to your job title or description? (Base varies by company-specific question: Commercial Banking, n=39; Investment Banking, n=26; Insurance, n=23; and Other Types of Companies, n=12)

